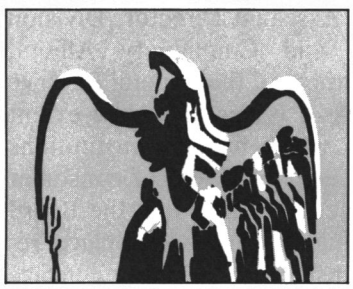
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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, WASHINGTON, D.C.

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411 E. Gerald Corrigan, President, Federal Reserve Bank of New York, presents his views on the Administration's proposals to modify the current restrictions on the abil-

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430 Chairman Greenspan discusses two banking reform bills, S.543, the Comprehensive Deposit Insurance Reform and Taxpayer Protection Act of 1991, and S.713, the Treasury's proposed Financial Institutions Safety and Consumer Choice Act of 1991, and says that the Board strongly supports both bills in their approach to deposit insurance and supervisory procedures and similarly strongly supports the thrust of the Treasury bill to authorize new activities and interstate branching, before the Senate Committee on Banking, Housing, and Urban Affairs, April 23, 1991.

443 Governor LaWare presents the views of the Board on the proposed Fair Trade in Financial Services Act of 1991 and says that the proposed act would replace the U.S. policy of national treatment with a policy of reciprocal national treatment and that the Federal Reserve believes strongly that there are better ways to encourage other countries to open their markets, before the Subcommittee on Economic Stabilization of the House Committee on Banking, Finance and Urban Affairs, April 24, 1991.

446 Chairman Greenspan discusses three banking reform bills, H.R.6, the Deposit Insurance and Regulatory Reform Act of 1991, H.R.15, the Depositor Protection Act of 1991, and H.R.1505, the Treasury's proposed Financial Institutions Safety and Consumer Choice Act of 1991, and says that modifications of the deposit insurance system are necessary, but the Board strongly prefers the comprehensive approach to banking reform that the Treasury bill offers, before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the House Committee on Banking, Finance and Urban Affairs, April 30, 1991.

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Issues in Labor Supply

Janice Shack-Marquez, of the Board's Division of Research and Statistics, prepared this article.

The supply of labor resources bears importantly on a wide variety of economic and social policy issues. Debates about unemployment and other macroeconomic problems often involve questions about individuals' choices between labor and leisure; debates about the social security system, welfare, minimum wages, and the income tax system inevitably involve questions about work incentives; and debates about child care and elder care involve questions about individuals' availability to work. Each person, influenced by the economic incentives of wages and the availability of jobs, as well as by social customs, tastes, and ability, must decide how much time and effort to allocate to the labor market. Those choosing to work must then decide on a career and a style of working life. Such decisions by all individuals determine the aggregate amount of labor available to the economy, which in turn is a key determinant of the level and growth of the economy's productive capacity.

THE DETERMINANTS OF LABOR SUPPLY

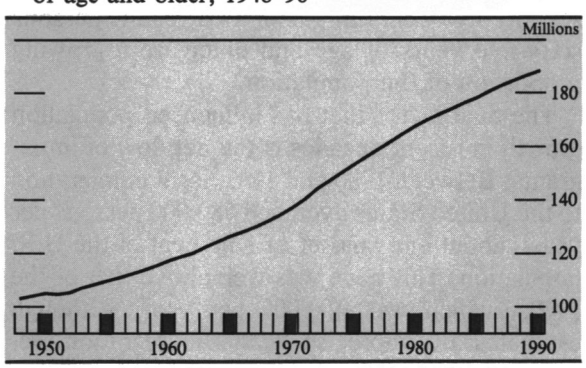
In an accounting sense, the supply of labor available for the production of goods and services depends on the size and the composition of the population, the proportion of the population working or looking for work (the rate of labor force participation), the number of hours worked each week, and the number of weeks worked each year.[1] Over the past four decades, these determinants have affected the supply of labor in various ways.

Population

The size and composition of the population is the first major building block of the labor force. Over the past forty years, the working-age population of the United States (that is, noninstitutionalized civilians sixteen years of age and older) has grown significantly: At the end of 1990, it stood at 189 million (chart 1), 84 million more than its level in 1950. Three sources of change determine the pattern of growth in the population: births, deaths, and net immigration.

During the 1960s and 1970s, the growth of the working-age population was influenced mainly by the sharp rise in birth rates from the end of World War II to the early 1960s—the period of the so-called baby boom. As the large baby-boom cohort reached working age between 1961 and 1979, the overall working-age population grew 1.9 percent per year, and the number of inexperienced workers seeking jobs bulged (chart 2). For example, sixteen to twenty-four year olds, who had accounted for 18 percent of the working-age population in the 1950s, made up nearly 22 per-

1. Civilian noninstitutional population, sixteen years of age and older, 1948–90



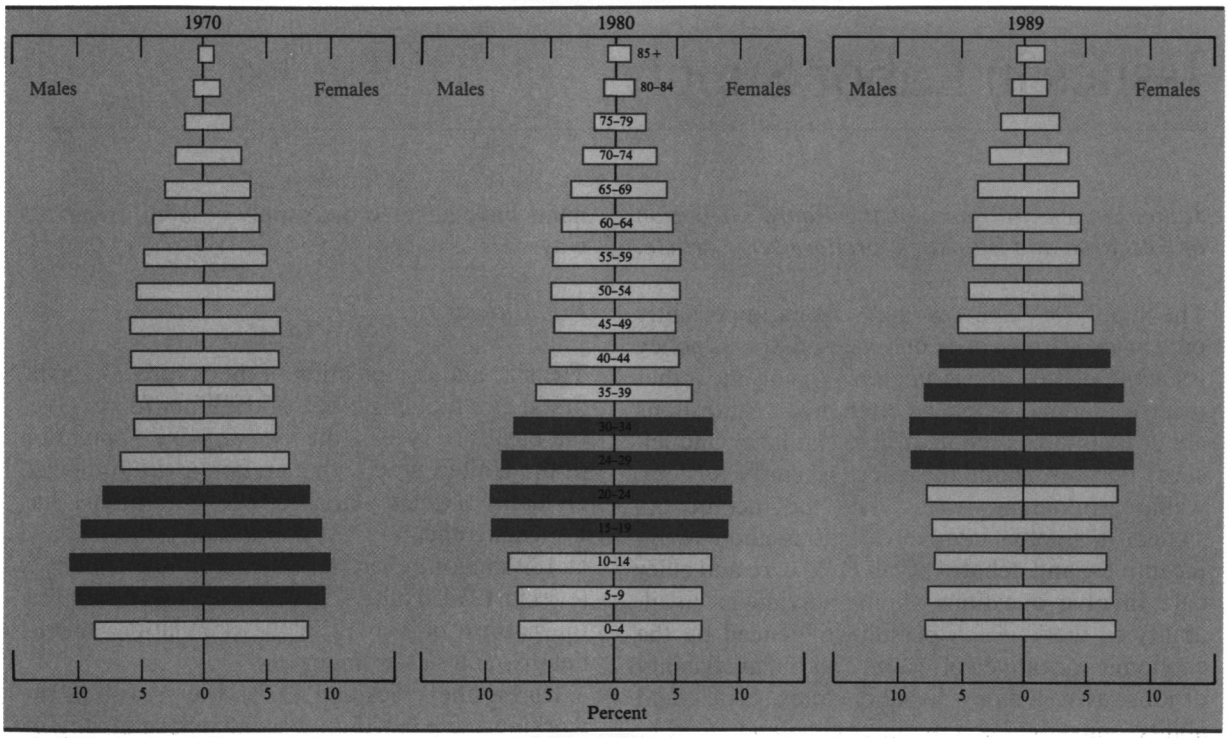
SOURCE. U.S. Bureau of Labor Statistics.

1. See the box at the end of the text for definitions of many terms used throughout this article.

The intensity of work effort and the education and training of the work force will help determine how productively the available supply of hours will be translated into the output of goods and services. These issues are beyond the scope of this article.

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2. Age structure of the U.S. population[1]



1. Solid color bars indicate the baby-boom cohort.
SOURCE. U.S. Bureau of the Census.

cent of the working-age population by 1970. In contrast, the baby bust, which began in the early 1960s, slowed the pace of growth of the working-age population to about 1 percent in the 1980s; and the proportion of sixteen to twenty-four year olds in the working-age population shrank back to 17 percent by 1990.

The average lifespan, the second determinant of population trends, has lengthened because of advances in health care. Average life expectancy has increased from seventy years in 1960 to seventy-five years in 1989. As a result, persons sixty-five years of age and older are a growing proportion of the population.

The final factor that has influenced population growth in recent decades is the net flow of immigrants. Between 1980 and 1989, legal immigration to the United States averaged 580,000 persons per year—about one-quarter of 1 percent of the U.S. population. This pace was well above that of the 1970s, which was 450,000 per year. Although estimates are imprecise, illegal immigration, according to the Immigration and Naturalization Service, probably has added another 100,000 to 300,000 per year to the total of legal immigration.

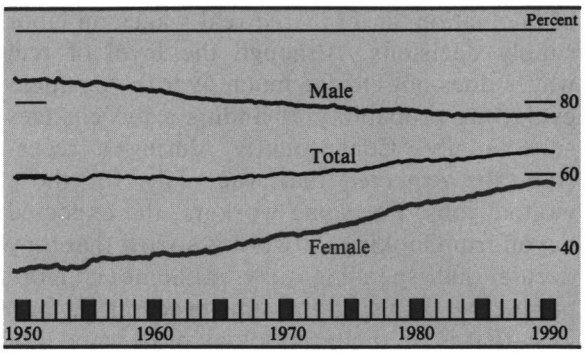
Recently, new laws have resulted in large fluctuations in the flow of immigrants. Efforts to control illegal immigration led to the Immigration Reform and Control Act of 1986, which attempted to restrict the employment opportunities of illegal aliens by imposing penalties on employers who hired them. However, the recent Immigration Act of 1990 works in the opposite direction: It allows for an increase in total immigration, for an increase in the immigration of individuals with skills that are in short supply, and for the admission of immigrants from underrepresented countries. The Immigration and Naturalization Service estimates that this act could increase legal immigration from roughly 600,000 in 1989 to as much as 800,000 annually over the next several years.

Labor Force Participation

Besides sizable increases in the working-age population, the proportion of the working-age popu-

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3. Rates of labor force participation, 1950–90



SOURCE. U.S. Bureau of Labor Statistics.

lation that is either working or looking for work has been on an upward trend throughout the past four decades (chart 3). In the early 1950s, the rate of labor force participation averaged roughly 59 percent; by 1990, the rate had risen to more than 66 percent.

Perhaps the most noteworthy change that has taken place in the labor market over the past forty years is the vast increase in the proportion of women in the civilian labor force. As chart 3 shows, increasing participation among women has more than accounted for the overall rise in the labor force participation rate. As late as 1950, only 34 percent of women were in the labor force. By 1980, women's participation rate had risen to 52 percent; and by 1990, it had moved up to 58 percent.

Rising participation among women has occurred in most age categories (chart 4), with the greatest increases evident for women of childbearing age. The participation rate for women twenty to twenty-four years of age increased from 46 percent in 1960 to 69 percent in 1980 and now stands at nearly 72 percent. For women twenty-five to thirty-four years of age, the participation rate has more than doubled, from 36 percent in 1960 to 74 percent in 1990. Indeed, the jump in the labor force participation rate of married women with children under the age of six has been dramatic, tripling from 19 percent in 1960 to 59 percent in 1990.

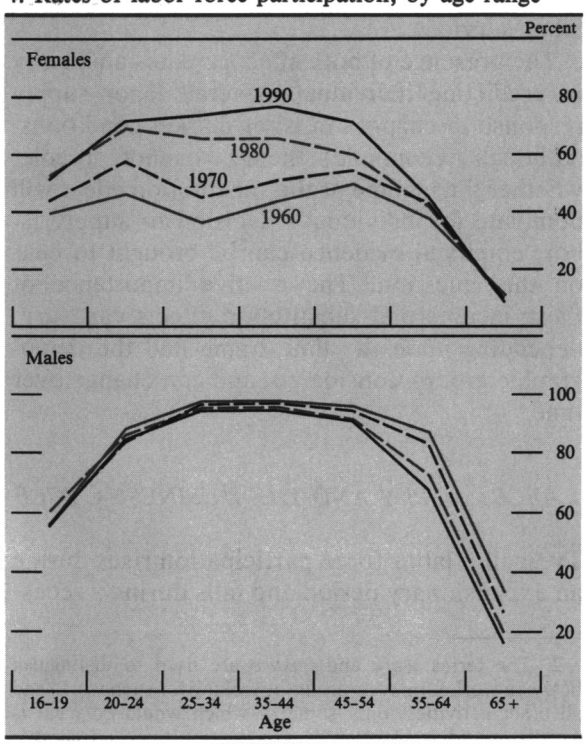
In contrast, participation rates among men generally have declined over the past three decades. The most substantial decreases have been among men from fifty-five to sixty-four years of age, whose rate fell from 87 percent in 1970 to 68 percent in 1990; the participation rate for men over sixty-five years of age also has dropped significantly from 33 percent in 1970 to 16 percent by 1990. These declines reflect a trend toward earlier retirement. In contrast, participation rates for men from twenty-five to fifty-four years of age have declined only slightly.

The dramatic demographic shifts associated with the baby boom and the baby bust and the secular changes in various social and economic conditions have influenced individuals' decisions about how much labor to supply to the market. The following section lays out a conceptual framework for analyzing individual labor supply. Subsequent sections use the framework to analyze shifts in labor supply in the short and the long terms.

Labor Supply Decisions: A Conceptual Framework

The basic framework for analyzing an individual's decision to participate in the labor market

4. Rates of labor force participation, by age range



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is a model of the allocation of time between work and leisure.[2] The model describes the factors that will influence an individual's response to an increase in the wage rate and, in particular, identifies two opposing influences—the substitution effect and the income effect. As the wage rate goes up, the opportunity cost of leisure rises—that is, the income forgone by not working rises as the wage rate rises. The substitution effect is the tendency for individuals to allocate their time away from leisure and toward more work when the wage rate rises—that is, substitute work time for leisure time. In contrast, the income effect assumes that leisure is like most goods: As income rises, individuals want to purchase more leisure. Thus, an individual can be expected to allocate a portion of the increase in potential income associated with a hike in wage rates to acquiring more leisure; this allocation can offset part or all of the substitution effect associated with the higher wage or can more than offset it. In summary, with an increase in wage rates, the substitution effect reduces desired leisure and increases the amount of labor services an individual wants to offer to the labor market, whereas the income effect increases desired leisure and decreases labor services.

The presence of both effects creates ambiguity in predicting individuals' overall labor supply response to changes in labor market conditions. Although economic theory cannot predict whether the income or the substitution effect will dominate an individual's decision to supply labor, empirical evidence can be brought to bear on this question. The relative importance of these income and substitution effects can vary, depending upon the time frame and the demographic groups considered, and can change over time.

Labor Supply and the Business Cycle

Typically, labor force participation rises during an expansionary period and falls during a recession. This relation occurs because of the effects of fluctuations in *expected* real wages on labor supply decisions. Although the level of real wages does not change much over the business cycle, the probability of finding a job changes substantially. Consequently, during a recession, the *expected* real wage falls for those without jobs. For some workers, the expected payoff from looking for work is so low that they decide that spending time at home is more productive than spending time in searching for a job—that is, in the terminology of the model of the allocation of time presented in the preceding section, the substitution effect dominates. This result is referred to as the *discouraged worker effect*. However, if labor supply decisions of family members are interdependent, the need to maintain living standards during a recession can draw other workers into the labor force despite the low expected real wage. For example, if one family member loses his or her job during a recession, the family may decide that another family member should enter the labor market. This response is referred to as the *added-worker effect*.

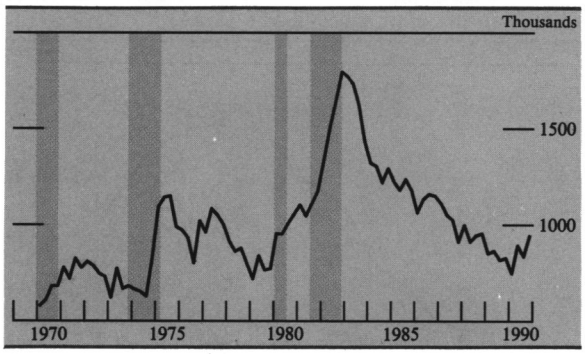
Of course, the added-worker and the discouraged-worker effects can coexist because the added workers and discouraged workers will be different groups of people. Which group dominates is an empirical issue. Research has indicated that in the aggregate the discouraged-worker effect dominates the added-worker effect: More households are affected by the decline in expected real wages during a recession than are induced to enter the labor force by the layoff of a family member.[3] In addition, the increased attachment of women to the labor force has diminished the potential importance of the added-worker effect as the pool of nonparticipating women has shrunk. Thus, the number of discouraged workers clearly increases during economic downturns and declines during expansions; or stated another way, the rate of labor force par-

2. The terms *work* and *leisure* are used to distinguish between work for pay or profit (or looking for such work) and all other activities, only some of which would be what is usually considered leisure.

3. See, for example, Jacob Mincer, "Labor Force Participation of Married Women: A Study of Labor Supply," *Aspects of Labor Economics* (Princeton University Press for the National Bureau of Economic Research, 1962), pp. 63–97; and Shelly Lundberg, "The Added Worker Effect," *Journal of Labor Economics*, vol. 3 (January 1985), pp. 11–37.

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5. Discouraged workers, 1970–90[1]



The shaded areas denote recessions as defined by the National Bureau of Economic Research.

1. Discouraged workers are those individuals who reported that they were not searching for work because they believed no jobs were available.

SOURCE. U.S. Bureau of Labor Statistics.

ticipation tends to rise more rapidly during expansions than during recessions (chart 5).

LABOR SUPPLY OVER THE LONGER RUN

These income and substitution effects are important over longer periods as well. Broadly speaking, hourly wage rates tend to be relatively low when young people first enter the work force and are learning new skills. Wage rates rise until they peak, typically when workers are around forty-five to fifty-five years of age, and then they decline. The so-called life-cycle model of labor supply predicts that the labor supply of individual households will change as the members of the household age.[4] In particular, workers are assumed to participate most heavily during the period of their life cycle when their expected wages are highest and to substitute leisure for work when expected wages are low.

The rates of men's participation in the labor force over the past three decades appear to be consistent with this view, as they rise from men's teenage years into middle age and then fall off in their later years (chart 4). The rates of labor force participation for women in 1960 and 1970 were broadly consistent with the life-cycle model, although participation among women of childbearing age tended to drop off sharply. By 1990, however, the profile of labor force participation rates for women had essentially the same shape as that for men.

As previously discussed, over the past few decades movements in labor supply for men and women have diverged: The participation of women in the labor force has risen sharply, while the participation of men has trended down. The life-cycle model alone does not fully explain these long-term trends in labor force participation. Other economic forces that underlie these developments include demographic changes in the labor force as well as shifts in social customs and tastes that have influenced changes in relative income, fertility patterns, attachment to the labor force, and retirement decisions.

Relative Income Effects

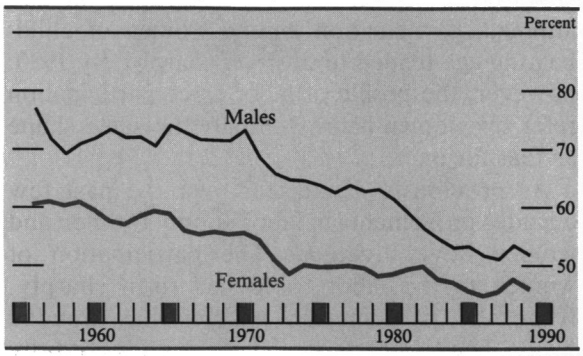
One way that demographic changes can affect participation decisions is through their influence on the relative incomes of various age groups.[5] Over the past three decades, relative income effects have been most pronounced for younger workers. The income of year-round, full-time workers aged fifteen to twenty-four years (the best available proxy for the wage rate), relative to that of men aged forty-five to fifty-four years, began to decline sharply in the mid-1960s and continued falling through the 1970s and into the 1980s (chart 6). The decline coincided with the influx of young workers into the labor market (chart 7). Relative income flattened out for young men and women in the second half of the 1980s, as the small current generation of youth (the baby-bust generation) replaced the baby-boom generation, although reduced demand for lower-skilled workers ap-

4. For an illustration of the importance of intertemporal substitution in labor supply see Gilbert Ghez and Gary Becker, *Allocation of Time and Goods over the Life Cycle* (Columbia University Press for the National Bureau of Economic Research, 1975); and James Heckman and Thomas MaCurdy, "A Life Cycle Model of Female Labour Supply," *Review of Economic Studies*, vol. 47 (January 1980), pp. 47–74.

5. For a more complete discussion of demographic effects on relative income, see William Wascher, Susan Burch, and John Goodman, Jr., "Economic Implications of Changing Population Trends," *Federal Reserve Bulletin* (December 1986), pp. 815–26; and Michael L. Wachter, "Intermediate Swings in Labor Force Participation," *Brookings Papers on Economic Activity*, vol. 1 (1977), pp. 545–76.

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6. Relative income of full-time workers, fifteen to twenty-four years of age, 1955–90[1]



1. Relative income is defined as the ratio of the median income of all full-time workers aged 15 to 24 to that of full-time male workers aged 45 to 54.
SOURCE. U.S. Bureau of the Census, *Current Population Reports*, Series P–60, various issues.

parently prevented a reversal of the earlier decline.

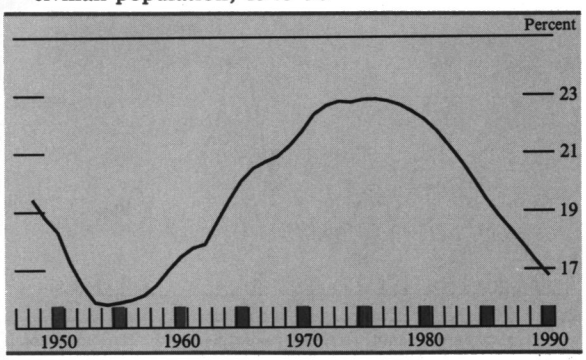
The changes in the relative wage levels for young men and women affected the labor supply decisions of individual young people in two ways: first, through changes in their own relative wage and, second, through changes in the relative wages of their spouses or other family members. For young women, econometric evidence suggests that the effect of the declines in their own relative wages, which ordinarily would have reduced labor supply, was more than offset by the positive influence on participation of the potential drop in family living standards associated with the decline in the relative wage of young men.[6] In contrast, the econometric evidence suggests that these effects are about offsetting for the participation decisions of young men.

Fertility and Home Responsibilities

Women's decisions to participate in the labor force and to have children are not independent. For example, a woman's decision to increase the size of her family may be affected by the level of her family's income and by the wage she expects to receive by entering the labor market. At the same time, a woman's decision to participate in the labor force may be affected by whether she has young children. In the 1960s and the first half of the 1970s, the birth rate fell sharply (chart 8). For the next ten years, birth rates flattened out and then in the late 1980s began to increase.

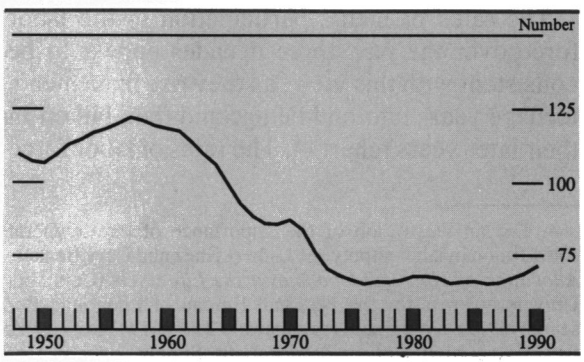
The lower birth rates probably were closely related to the sharp rise during the 1970s in the participation rate of women twenty-five to thirty-four years of age. Of course, the importance of the birth rate to levels of labor force participation is influenced by changes in the availability, cost, and quality of child care and the propensity for mothers of young children to work outside the home. Currently, the proportion of mothers of young children who are in the labor market is at a historic high. This finding suggests that child-rearing and young women's participation in the labor force are more compatible than in the past.

7. Sixteen to twenty-four year olds as a percent of civilian population, 1948–90[1]



1. Civilian population aged sixteen years and older.
SOURCE. U.S. Bureau of Labor Statistics.

8. Births per thousand women, ages fifteen to forty-four, 1948–90



SOURCE. U.S. National Center for Health Statistics.

6. See Wachter, "Intermediate Swings in Labor Force Participation" and Robert S. Gay and William Wascher, "Persistence Effects in Labor Force Participation," *Eastern Economic Journal*, vol. 15 (October–December 1989), pp. 177–87.

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The trend toward increased labor force participation by women is mirrored in the data on individuals who are out of the labor force. Data on the trends in nonparticipation have been tabulated since the mid-1970s (tables 1 and 2). Between the late 1970s and the 1980s, the downward trend for younger women in the category of keeping house apparently slowed. These data are consistent with the small increase in the birth rate shown in chart 8. For adult women, increasing labor force participation continued to shrink this category of nonparticipation well into the 1980s.

1. Civilian population aged sixteen years and over, not in the labor force, by activity, 1977–90[1]

Thousands

Age and activity	1977–79 (average)	1980–89 (average)	1990
	Male		
16–19 years old			
Keeping house	2.9	.7	11.0
Attending school	−24.2	−14.4	52.2
Unable to work	2.2	−.9	15.7
Other	−24.5	−11.5	40.4
20–24 years old			
Keeping house	4.6	1.8	7.9
Attending school	−4.6	−5.9	89.0
Unable to work	−1.9	2.0	−4.2
Other	26.2	−5.1	−39.7
25 years and over			
Keeping house	23.7	13.8	45.3
Attending school	4.6	6.7	−.3
Unable to work	−11.5	18.9	155.0
Other	325.2	330.9	163.9
	Female		
16–19 years old			
Keeping house	−90.0	−23.0	.7
Attending school	−78.0	−25.2	200.1
Unable to work	−1.9	.4	.9
Other	16.4	−11.3	−37.1
20–24 years old			
Keeping house	−72.8	−70.0	−65.8
Attending school	−11.0	1.4	27.0
Unable to work	4.8	−.6	6.4
Other	19.8	5.1	−4.7
25 years and over			
Keeping house	−527.1	−522.4	−236.6
Attending school	18.4	22.0	63.0
Unable to work	46.4	42.2	170.9
Other	358.6	491.8	524.0
Total not in labor force	3.8	245.4	1186.3
Keeping house	−662.8	−616.2	−207.5
Attending school	−86.4	−12.2	372.0
Unable to work	33.0	62.0	349.0
Other	720.0	811.8	672.8
MEMO			
Civilian labor force	2940.4	1850.9	492.0
Civilian population	2944.2	2096.3	1678.3

1. Change in level from four quarters earlier. Civilian population equals "labor force" plus "not in the labor force."

2. Civilian population aged sixteen years and over, not in the labor force, by reason, 1971–90[1]

Thousands

Reason	1971–79 (average)	1980–89 (average)	1990
	Male		
Wants a job now	59.9	3.6	159.1
Going to school	17.1	−14.5	44.9
Ill health	14.0	8.3	27.5
Thinks cannot get job	7.8	7.6	6.3
Other	21.0	2.2	80.5
Does not want a job now	418.0	332.7	379.5
Family/home	8.6	17.5	20.7
Going to school	−3.8	−5.9	168.5
Ill health	50.1	−5.3	198.5
Retired	276.4	327.3	84.8
Other	86.6	−.8	−93.0
	Female		
Wants a job now	93.0	−30.5	254.7
Family/home	37.0	−3.9	−98.7
Going to school	22.2	−11.5	125.7
Ill health	14.4	3.4	21.5
Thinks cannot get job	1.9	−3.3	141.1
Other	17.4	−15.1	65.2
Does not want a job now	25.7	−60.5	393.0
Family/home	−343.8	−564.6	−251.6
Going to school	11.2	13.4	195.0
Ill health	33.5	24.4	206.4
Retired	219.7	443.6	298.6
Other	105.1	22.7	−55.3
Total not in labor force	596.6	245.4	1186.3

1. Change in level from four quarters earlier at an annual rate.

Retirement

An important element of the slow decline in labor force participation rates for men is a trend, beginning as early as the 1930s, toward earlier retirement.[7] Between 1960 and 1990, labor force participation rates for men fifty-five and over fell substantially; and despite an increase in participation among women twenty to fifty-four years of age, participation rates for women fifty-five and over dropped to rates similar to those for men (chart 4). Data on nonparticipation also show the trend toward early retirement for men between the late 1970s and 1980s (table 2).

Participation rates for older men reached historically low levels in the mid-1980s and since

7. See Donald O. Parsons, "The Decline in Male Labor Force Participation," *Journal of Political Economy*, vol. 88 (1980), pp. 117–34; Laurence J. Kotlikoff and David Wise, *The Wage Carrot and the Pension Stick* (W. E. Upjohn Institute for Employment Research, 1989); and Gary S. Fields and Olivia Mitchell, *Retirement, Pensions, and Social Security* (MIT Press, 1985).

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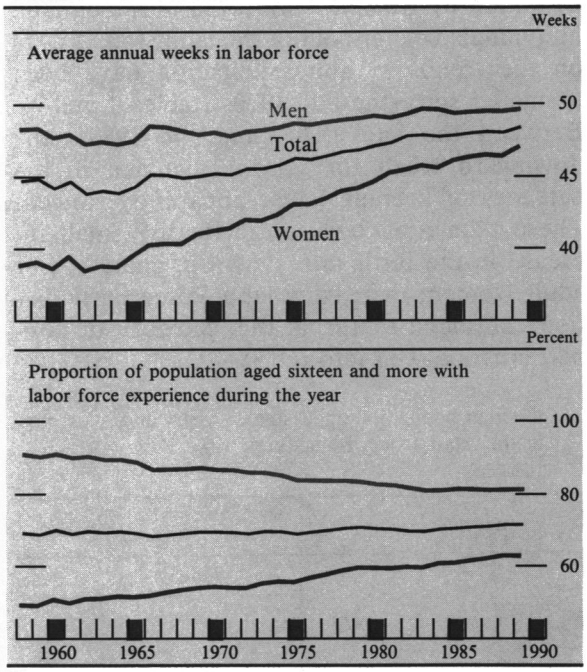
then have changed little. Factors contributing to the decline in participation include wider coverage of the labor force by social security, the extension of old age assistance to persons sixty-two to sixty-four years old, the greater availability of social security and other types of disability payments, the greater prevalence of pension plans, the provision of early retirement benefits in many pension plans, and efforts by employers to cut back payrolls by inducing early retirement. These factors dramatically lowered the cost, in terms of forgone earnings, of retirement. In addition, as lifetime incomes rose, individuals substituted away from work to leisure in their later years. In recent years, the enactment of laws prohibiting mandatory retirement may have been a factor working to stem the decline in participation among older men.

The cause of increased retirement among women is somewhat different (table 2). From 1960 to 1990, among women in their preretirement years (forty-five to fifty-four years of age) labor force participation increased markedly (chart 4). Consequently, in 1990 a larger proportion of women fifty-five years of age and older were eligible for retirement than had been eligible in earlier years. Nevertheless, the finding that the rate of labor force participation for these women has remained fairly steady since 1960 suggests that factors favoring retirement have influenced women as well as men.

Labor Force Attachment

The rise in participation rates among women is also due to a greater attachment to the labor force of women who are currently working. If all labor force participants stayed in the labor force for the entire year, the annual average labor force participation rate would be a direct measure of annual labor force experience. However, some individuals will be out of the labor force for part of the year. Consequently, to study the effect of changing patterns of work experience on labor force participation, annual participation rates are divided into two components: the proportion of the population that worked or looked for work at some time during the year and the mean number

9. Work experience, 1958–89



SOURCE. U.S. Bureau of Labor Statistics.

of weeks those individuals spent in the labor force.

The labor force participation rate provides a snapshot of labor force attachment, and data on the cumulative experience of individuals in the labor market over an entire year provide a more comprehensive view of changing trends in labor force activity. The Work Experience Surveys conducted with the March Current Population Survey summarize the cumulative employment and unemployment experience of respondents for the preceding year.[8] These data can shed light on the extent to which changes in the labor force participation rate reflect changes in the number of participants in the labor market each year as opposed to changes in the number of weeks during the year workers participate in labor market activity.

The two panels of chart 9 show the trends in the two components of labor force participation between 1958 and 1989, the last year for which the

8. The Current Population Survey is also the source of data on labor force participation rates and the unemployment rate.

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work experience data have been tabulated. The average number of weeks worked annually by men who were in the labor force at any time during the year has drifted up slightly over the thirty years to just under fifty weeks. This finding reflects the fact that most men with labor market experience work at full-time, year-round jobs or, if unemployed at some point in the year, that they remain active in searching for work. However, the proportion of men with labor force experience during the year has shrunk slowly over time because of the trend toward early retirement.

For women, the average number of weeks worked has steadily increased from thirty-nine weeks in 1958 to more than forty-seven weeks in 1989. This finding highlights the extent to which, over time, women have developed firmer attachments to the labor market. This trend has occurred as women's exits from jobs, or from a search for a job, to nonparticipation each year have become less frequent. Indeed, by the late 1980s, the average amount of time women spent in the labor force had moved to within three weeks of the average for men. At the same time, the proportion of women with some labor market activity during the year has trended higher, this trend further boosting the participation rate of females in the labor force.

The relative contributions of the two components to the overall rise in the female labor force participation rate have shifted over time. Between 1958 and 1964, all of the increase in the participation rate reflected growth in the proportion of women with labor market experience. Over the subsequent decade or so, however, the rise in the number of weeks spent working or looking for work each year and the rise in the proportion of women with labor market experience contributed in equal proportions to the sharp acceleration in the participation rate for women. The growing attachment of women to the labor force, as measured by the average weeks of experience, continued into the mid-1980s, even though the rise in incidence of women with labor market experience slowed.

Although many jobs place constraints on the number of hours per week worked by employees, employees can, in effect, exercise some choice over their hours of work by choosing their type of employment. Those who choose part-time schedules because they do not want full-time work or are unavailable for full-time work are considered voluntary part-time workers. Those individuals who work short hours because of slack work, the inability to find a full-time job, or for other reasons related to the demand for their labor are considered involuntary part-time workers.

3. Part-time work as a percentage of total employment, 1968–90

Percent

Age group and reason for part-time work	1968–69 (average)	1970–79 (average)	1980–89 (average)	1990
All workers	15.2	17.3	18.8	18.0
Voluntary	12.7	13.7	13.6	13.6
Involuntary	2.6	3.7	5.3	4.5
Workers 16 to 19 years	51.7	54.6	63.0	64.9
Voluntary	45.7	46.0	51.2	55.0
Involuntary	6.0	8.6	11.8	10.0
Men, 20 years and older	5.4	6.8	8.7	8.7
Voluntary	3.8	4.3	4.8	5.2
Involuntary	1.7	2.5	3.9	3.5
Women, 20 years and older	23.5	24.9	24.9	23.8
Voluntary	20.2	20.5	18.9	18.8
Involuntary	3.2	4.4	6.0	5.0

Part-time employment has made up a growing share of all jobs over the past four decades. The fraction of employed workers who voluntarily work part time rose from 13 percent in the late 1960s to 14 percent in the 1970s and accounted for the trend in total part-time work over this period (table 3). The increase occurred partly because employers sought to accommodate the preferences for short hours of students and housewives, the fastest growing groups in the labor force in the 1970s. However, voluntary part-time work has remained a fairly constant proportion of total employment since the 1970s. Instead, involuntary part-time employment has propelled the upward trend in total part-time work since the early 1970s, largely because employers view part-time work as a means to cut labor costs, and not because workers want shorter schedules.[9] With a sizable proportion of the workforce holding part-time jobs, it would seem that the aggregate amount of labor supplied could be increased by lengthening the workweek

9. See Chris Tilly, "Reasons for the Continuing Growth of Part-time Employment," *Monthly Labor Review* (March 1991), pp. 10–18.

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of those working part time. However, many workers hold more than one part-time job and thus essentially work full-time schedules.

Indeed, a final way that employees can exercise choice over their hours of employment is to work at more than one job. Between 1970 and the middle of the 1980s, the percentage of workers holding two or more jobs showed no apparent trend, with the proportion fluctuating around 5 percent (table 4). Historically, most holders of multiple jobs were men working a second job to supplement income from a primary, full-time job. However, while the aggregate multiple-job-holding rate held fairly steady over this period, the rate for men moved down from 7 percent in 1970 to around 6 percent by the mid-1970s, where it stayed through the middle of the 1980s. At the same time, the rate for women moved up from 2¼ percent in 1970 to 4¾ percent in 1985.

Between mid-1985 and mid-1989, the number of persons holding more than one job increased nearly 1½ million, and the proportion of multiple-job holders climbed substantially from 5½ percent in 1985 to 6¼ percent in 1989. Women accounted for nearly two-thirds of the increase in multiple-job holding over this period. Multiple-job holding for men continues to be a way of supplementing income from a full-time job with work after hours. In contrast, nearly one-third of the female multiple-job holders work at more than one part-time job; they work, on average, nearly fifty hours per week.

4. Percentage of workers holding more than one job, 1970–89[1]

Year	Total	Men	Women	Women as proportion of all holders of multiple jobs	Memo: Total employed[2]
1970	5.2	7.0	2.2	15.7	78,358
1971	5.1	6.7	2.6	19.0	78,708
1972	4.6	6.0	2.4	19.5	81,224
1973	5.1	6.6	2.7	20.3	83,758
1974	4.5	5.8	2.6	22.3	85,786
1975	4.7	5.8	2.9	24.4	84,146
1976	4.5	5.8	2.6	23.1	87,278
1977	5.0	6.2	3.4	27.2	90,482
1978	4.8	5.8	3.3	28.5	93,904
1979	4.9	5.9	3.5	29.8	96,327
1980	4.9	5.8	3.8	32.5	96,809
1985	5.4	5.9	4.7	38.3	106,878
1989	6.2	6.4	5.9	43.0	117,084

1. Based on special survey data from the Current Population Survey, Bureau of Labor Statistics.

2. Numbers in thousands. Household employment adjusted to a payroll concept. Adjusted household employment equals household employment minus self-employed workers minus unpaid absences minus private household workers plus agricultural service workers.

All told, more women are participating in the labor force than at any time in the past four decades, and those women who are participating work more hours per week and more weeks per year. In many ways, women's labor supply decisions are more and more resembling those of men.

The Slowdown in 1990: Permanent or Transitory?

The overall rise in labor force participation over the past three decades has not been smooth. In numerous episodes, participation stopped increasing for a time or even declined slightly.

The steady upward movement in labor force participation rates after 1982 stopped suddenly in 1990. In some respects, a flattening in the participation rate seems a natural reaction to the recent slowing in the growth of employment opportunities. Over the four quarters of 1990, employment, as measured by the current population survey, was down about 270,000—the first decline in eight years. Also during 1990, the labor force participation rate declined, and the civilian labor force increased only ½ percent—the smallest annual gain in almost thirty years.

Apparently, the halt in labor force growth in 1990 reflected both cyclical and secular developments. In response to slowing economic growth, the number of discouraged workers rose, although the number remains well below that seen early in the 1980s (chart 5 and table 2).

The pickup in nonparticipation in 1990 also reflected increased school attendance for the younger age groups (table 1). If jobs are scarce, schooling is a natural alternative for the young. But rising school enrollment rates may reflect the increasing returns to higher education over the 1980s as well.[10]

The larger number of young nonparticipants in 1990 who reported school as their major activity and as their reason for nonparticipation is mir-

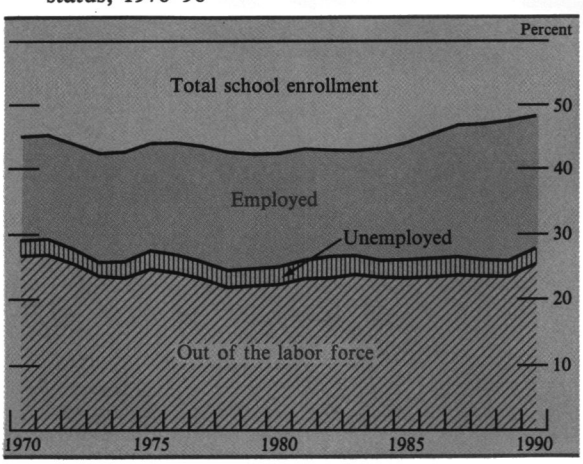
10. See Lawrence Katz and Kevin Murphy, "Changes in Relative Wages, 1963–87: Supply and Demand Factors," unpublished manuscript, April 1990.

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rored in the school enrollment rate for sixteen to twenty-four year olds (enrollees as a proportion of the population of sixteen to twenty-four year olds), which has increased steadily in recent years (chart 10). Through 1989, the distribution of school enrollment by employment status had remained fairly constant. Between 1989 and 1990, the proportion of school enrollees who reported themselves as out of the labor force (the bottom slice of chart 10) jumped from 23 percent to 25 percent. In other words, full-time students now make up a larger share of all school enrollees.

For adult women, the increase in labor force participation continued at the expense of the number keeping house—at least through the end of the 1980s. However, some reversal may have occurred in 1990. That is, the number of women leaving housework to enter the labor force may not be dropping as fast as it had previously. This reversal may reflect, in part, the recent increases in the birth rate (chart 8). As fertility has increased, the availability of child care has become an important factor in decisions about labor force participation, especially for women. Also, as the population ages, the care of elderly parents and spouses may become a limiting factor on labor supply decisions of individuals. Indeed, a moderate decline among adult men in total participation in 1990 relative to the mid-1980s is attributed to more men reporting that they are keeping house. This decline may reflect that a growing number of men are caring for young children and ailing spouses.[11]

10. School enrollment as a percent of population of sixteen to twenty-four year olds, by employment status, 1970–90



SOURCE. U.S. Bureau of Labor Statistics.

Taken together, these data do not unambiguously point to the increase in nonparticipation as being either a permanent or temporary phenomenon. If, for example, the increase in the number of young women who are staying out of the labor force because of home or family responsibilities persists, the 1990 slowdown in participation may last for a number of years. However, the rise in the number of discouraged workers, albeit moderate, combined with several other factors suggests that some of the increase in nonparticipation may be transitory or cyclical in nature. In particular, the substantial increase in school enrollment has occurred among nonparticipants who are devoting themselves full time to education, rather than among participants who are dividing their time between schooling and the labor force. These students may be choosing more intensive schooling as an alternative to what they perceive to be a poor labor market. In any case, this increase in school enrollment is not a negative development for the long-term growth of the economy. These young people are investing in their human capital and are likely to move into the labor force when their schooling is completed. Also, greater schooling at this time may result in stronger labor force attachment later in their careers. Consequently, their increase in nonparticipation is not necessarily indicative of a permanent, secular decline in labor force growth. It appears rather to be a transitory phenomenon that should be reversed over the medium term.

The Longer-Term Outlook

The gap in work experience patterns of men and women has significant implications for the outlook for further increases in labor force participation. The difference in the proportions of men and women with some labor market experience

11. The distinction between discouraged workers and other nonparticipants is fuzzy given that the classification of respondents is based on self-reporting. For example, an individual who is truly discouraged may choose to report housekeeping as the reason for nonparticipation if he or she views discouragement as an admission of failure.

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during the year has shrunk considerably over the past thirty years, but it remains sizable: In 1958, about 50 percent of all women aged sixteen years and over worked or looked for work at some time during the year, compared with more than 90 percent of men aged sixteen years and over. By the mid-1970s, the proportions were 57 percent and 84 percent respectively; by 1989, they were 64 percent and 81 percent. Thus, considerable room exists for more women to enter the work force, although home and family responsibilities may be a constraint on how high the proportion of women will go.

Similarly, the average number of weeks of labor market experience for men (which has been relatively stable at approximately fifty weeks per year) may be viewed as an effective ceiling for women. Under this assumption, closing the remaining gap for women has the potential of adding only another 3 percentage points to their labor force participation rate. How fast that gap may disappear is unclear; between 1986 and 1988, when labor market conditions were generally favorable, the average weeks of experience for women were little changed. If no further increase in weeks of work experience were to occur, the upward trend in the labor force participation rate for adult women would be reduced by about 1½ percentage points per year. Alternatively, if that gap were to continue to close at the same rate as over the 1976–88 period and if the proportion of women participating in the labor force were to continue to rise at the same rate as during the 1980s, growth in the female labor force participation rate would remain at the 1980–90 average of 1½ percentage points per year for another decade. Thereafter, however, the contribution of growing labor force attachment to the rise in the labor force participation rate for women would be exhausted.

As indicated in the preceding section, trends in labor force participation show no clear signs of a sharp structural break, despite the drop in late 1990. Nevertheless, the increase in the rate of participation for women is likely to slow gradually as it nears the rate of participation now experienced by men. As formal child care has become more affordable and more accessible, the effect of fertility on labor force decisions has been muted. Expanded access to child care may weaken this relationship further.

Past experience suggests that the participation rates of young people are likely to be affected by movements in their relative incomes. The relative income of young people is likely to rise for the next several years as the baby-bust cohort continues to move into the labor force. This higher relative income may place less pressure on young families to have dual careers. Although a greater emphasis on educational attainment may depress labor force participation rates for the next several years, it could boost long-term labor force attachment by increasing the expected wages of school enrollees over their lifetimes.

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Glossary

The data in this article derive from the Current Population Survey (CPS), a monthly survey that the Bureau of the Census conducts for the Bureau of Labor Statistics. The CPS, collected from a probability sample of approximately 60,000 households, provides statistics on the employment status of the civilian population.

The term *civilian labor force* refers to all persons sixteen years of age and older who are either working for pay or profit or looking for work. *Unemployed* refers to persons who are not working but are available and looking for work. Thus the labor force consists of the employed and the unemployed. The *labor force participation rate* represents members of the civilian labor force as a percent of the civilian noninstitutional population of persons sixteen years of age and older, or the *working-age population.* The *unemployment rate* represents the number of unemployed as a percentage of the civilian labor force.

All civilians sixteen years of age and older who are not classified as employed or unemployed are defined as *not in the labor force.* These persons are classified further, the classification depending upon two sets of questions asked of all respondents to the CPS. The first set (see table 1) asks respondents about their major activity during the survey period. Possible answers include "in school," "keeping house," "unable to work because of long-term illness," or "other." The second set of questions (see table 2) asks persons not in the labor force the major reason for their lack of participation. Respondents are split into those who would like a job now and those who would not. These questions, tabulated separately for men and women, provide a richer classification of respondents.

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Bank Holding Company Investments for Community Development

Kenneth P. Fain and Sandra F. Braunstein, of the Board's Division of Consumer and Community Affairs, prepared this article.

Since 1971, the Federal Reserve has permitted bank holding companies to invest, under certain guidelines and limitations, in projects primarily benefiting economically disadvantaged communities. Through subsidiaries, limited partnerships, and other business ventures, bank holding companies have used this limited authority to help provide housing and job opportunities for low- and moderate-income persons, assist in the development of small and minority businesses, and provide essential services to otherwise deprived communities.

These activities have been approved by the Federal Reserve, under its Regulation Y, with certain constraints needed to protect the safety and soundness of the holding companies and ensure that required public benefits result. This article explores the concept of community development and examines the mechanisms used by bank holding companies to undertake community development investment activities under Regulation Y. It suggests that bank holding companies making limited but focused use of equity investments for community welfare purposes can stimulate the economic revitalization of neighborhoods and communities.

Background

Through their traditional, conventional functions, financial institutions have always played a role in the economic growth of the communities they serve. Conventional mortgages, home improvement loans, and financing for businesses and public facilities all create development opportunities for others and in turn help fuel housing development, job creation, and economic growth in general.

Over the past two decades, financial institutions also have been asked to help address the special financing needs of lower-income families and economically distressed neighborhoods and communities. Hence, many banks and other holding company subsidiaries now originate loans guaranteed or subsidized by government for housing and business. Financial institutions also purchase community development loans from other lenders, provide technical and loan-packaging assistance to nonprofit groups, and participate in state and local government programs aimed at housing, business development, and economic revitalization in distressed urban and rural communities. In recent years, an increasing number of financial institutions have established specialized lending units that focus on community development finance.

Although these activities are specialized, they are still well within the traditional, primary function of financial institutions: the allocation of capital in the form of debt financing. In performing this function, institutions must wait for their customers to initiate projects and commit equity capital before loans can be made.

The Federal Reserve has recognized that traditional bank and holding company activities may be insufficient to support the revitalization of some economically distressed communities. Lack of interest by conventional investors has severely limited the capacity of financial institutions to originate loans on a safe and sound basis in lower-income areas. The shortage of equity capital is often the critical factor in the continued economic stagnation or decline of certain urban neighborhoods and rural areas.

Beginning in the 1960s, local nonprofit groups created a new type of institution, the community development corporation, or CDC, to generate investment in economically weak neighborhoods. The CDCs had a dual character as community-based organizations dedicated to the advancement of local economic activity and as corporate entities able to invest successfully in housing and other business ventures. This dual character made the CDCs especially effective in helping focus government,

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private, and local resources on grass-roots solutions to neighborhood problems. CDCs became important catalysts for community revitalization.

Regulation Y

In viewing the problems of low-income communities and the contribution of the CDCs of the 1960s, the Board of Governors of the Federal Reserve System determined that equity investments by bank holding companies could be a useful community-development tool that could directly benefit low- and moderate-income persons and areas. The 1970 amendments to the Bank Holding Company Act gave the Board the flexibility it needed to include community development in Regulation Y, which specifies the nonbanking activities considered proper and permissible (subject to individual applications) for bank holding companies. The 1971 change in Regulation Y, now contained in section 225.25 (b)(6), defines the term *community development* as follows:

> Making equity and debt investments in corporations or projects designed primarily to promote community welfare, such as the economic rehabilitation and development of low-income areas by providing housing, services or jobs for residents.

In the remainder of this article, the use of the term *equity investment* will be used to refer to equity investments for community development in the sense just defined.

The Federal Reserve Board views equity investments in CDCs or other qualifying ventures as important, flexible tools that bank holding companies can use to stimulate and supplement (but not replace) their nonequity programs to finance community development.[1] Through such investments, bank holding companies can play a direct role in public–private partnerships for community revitalization and job creation. And by leveraging other public and private funds, these investments can help community-based organizations undertake key projects as well as provide the capital and expertise to support other, more traditional forms of bank financing.

Federal Reserve Policies for Community Development Investments

The Federal Reserve allows bank holding companies some latitude to tailor their investments to meet the disparate needs of disadvantaged communities. However, the Federal Reserve does examine all community development proposals to determine whether the planned investment meets the "community welfare test," whether the size of the investment is appropriate to its purpose and prudent for the institution, and whether there is community involvement in the project or organization supported by the investment.

Community Welfare Test

The definition of community development in Regulation Y refers to "investments . . . designed primarily to promote community welfare." Board decisions have generally held that an investment that directly and primarily benefits economically disadvantaged persons and communities meets the community welfare test. Usually, such benefits are in the form of new or rehabilitated housing, jobs created through a variety of commercial and industrial developments, or health and educational services, all targeted on low- and moderate-income persons and areas.

The Board has made clear, however, that investments to build or rehabilitate upper-income housing or to develop any facilities not explicitly designed to create improved job opportunities for lower-income persons are presumed not to benefit the public welfare under Regulation Y even if they may entail some such benefit. For example, investments to develop upscale housing in an economically distressed community might indirectly benefit some low- and moderate-income persons through resulting construction jobs or through an increased tax-base that could help finance enhanced local services to low-income groups. But without strong evidence to the contrary, such benefits would be insufficient to

1. Bank holding companies may prefer to initiate and manage equity investments for community development through one or more bank subsidiaries rather than through the holding company itself. In such cases, each bank should seek authorization for such investments from its primary supervisory agency.

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merit Federal Reserve approval of a community development activity under the community welfare standard of Regulation Y.

Nevertheless, recognizing that the size, population mix, community needs, and economic condition of communities vary, the Federal Reserve has demonstrated flexibility in applying the standards of Regulation Y to holding company applications for community development activities. In particular, it has given holding companies some latitude regarding profit goals and geographic scope when planning their community development investments.

Profits and Dividends. A bank holding company may invest in CDCs, projects, and other business ventures meeting the community welfare test on either a for-profit or nonprofit basis. The Federal Reserve sets no explicit limits on the amount or rate of profit that may be generated, although significant profits are generally not to be expected. Moreover, profits or dividends from a CDC or venture may be provided to the holding company at any time. This flexibility is often necessary to attract capital from other nonbank investors.

The majority of holding company CDCs and other equity investments have been for-profit ventures. Although the capacity to obtain immediate returns on investments may be important in principle to holding companies and participating nonbank investors, in practice most holding companies choose to reinvest profits in the CDC or in additional projects that benefit the community welfare.

Geographic Scope. The Federal Reserve does not limit the geographic scope of community development investments. Thus, bank holding companies can and do make their investments in the market areas served by their subsidiary banks, whether those areas are in one community or several states.

Some holding companies, anticipating expansion across state lines, obtain approval for a nationwide scope of community development investments so that they can assist newly acquired subsidiaries wherever they may be located. So long as the activities in new locations meet the community welfare test and are consistent with the approval received, this approach allows a holding company or its CDC to make community development investments in new areas served by subsidiary banks without having to seek additional approvals.

Capital Investment

The size of community development investments by a bank holding company will vary substantially according to the community needs to be addressed and the holding company's objectives, financial capacity, and geographic scope of operations. Many bank holding companies have chosen to capitalize CDC subsidiaries with small initial investments, adding needed capital as projects reach the development stage. In other cases, such as investments in limited partnerships that develop or own lower-income housing, the partnership agreements often have required phased payments of capital by bank holding companies and other investors over a period of years.

In light of the diversity of community development activities, the Federal Reserve takes a flexible approach in its evaluation of equity commitments. Although the Board sets no minimum or maximum levels for capital investment by holding companies, it does expect that the financial commitment will be appropriate to the nature and scope of anticipated investment activities and prudent with respect to the size, financial condition, and capitalization of the holding company.

The extent to which public sector funds are available for community revitalization will have a bearing on the magnitude of a financial institution's equity investment. Where public funds are present, financial institutions can focus on providing supplementary equity capital to fill financial gaps in projects. If public sector funding is inconsistent or uncertain, bank holding company CDCs may have to invest additional equity capital and significantly greater planning and managerial resources in projects. They also may have to rely more on additional private sector sources of subsidized capital, such as foundation grants, corporate and individual donations, and voluntary "sweat equity" contributions.

Community Involvement

Community development is a process that, almost by definition, involves the participation of a variety of public and private organizations. Efforts to revitalize economically disadvantaged areas and meet the housing and employment needs of low- and

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moderate-income persons can rarely occur or be truly successful without effective community involvement in the planning and financing processes.

The Federal Reserve does not require or specify any particular approach to ensuring public involvement in the community development investments of bank holding companies. Nonetheless, bank holding companies contemplating community development investments are encouraged to seek and consider the views of the affected parties – neighborhood development organizations, community advocacy groups, local government officials and agencies, small businesses, merchant associations, and other business organizations, depending on the nature and location of a project. Such consultations help investors identify worthwhile projects; establish cooperative working relationships with public agencies, development groups, and potential investors; and facilitate the marketing of completed projects to those most in need. Many holding company CDCs have community representatives on their boards of directors. Others have established community advisory committees in each community where projects are considered, or they use outreach mechanisms already established by their subsidiary banks.

Mechanisms for Community Development Investments

Bank holding companies may invest in both nonprofit and for-profit ventures, and they may structure their investments in a variety of ways. The most commonly used structures are subsidiary CDCs, partnership in a CDC or investment pool, investments in a limited partnership, and investments in a single project or business. Each approach has advantages and disadvantages, depending on the holding company's size and objectives and the nature of the local community.

Subsidiary Community Development Corporations

Generally, any holding company that regularly receives requests from affiliate banks, government agencies, and community groups to help finance community development projects, or that wishes to engage in community development activities on a long-term basis, might find it advantageous for several reasons to create a wholly owned CDC subsidiary.

First, the revitalization of declining communities almost always requires a long-term commitment of resources on several fronts. In that context, a bank holding company that creates a subsidiary CDC makes an institutional commitment that enables both the company and its affiliate banks to take extended action on many different types of community development projects with the maximum flexibility. The subsidiary CDC may develop its own projects, form or invest in joint ventures and limited partnerships, invest in small businesses, or provide gap equity and financing for single-purpose community development projects developed by others. Moreover, holding company CDCs may specialize solely in housing or small business investment, or they may invest in a wider range of community development projects.

Second, community development finance in general and equity investment in particular are unique activities requiring knowledge that may not be present in traditional banking organizations. A subsidiary CDC, like a specialized bank lending unit, can be a corporate focal point that enables the holding company to centralize community development expertise.

Third, with a CDC, a holding company can leverage its capital for investment in disadvantaged communities while limiting its exposure to the associated risks. As a corporate entity, a CDC can leverage its capital with loans and reinvest its income in additional projects without requiring additional financial resources from its parent. The CDC corporate structure can help shield the parent institution from exposure to potential liabilities associated with real estate development or business ventures.

Finally, a CDC subsidiary is often useful in helping bank affiliates pursue their own community development programs by providing, for example, technical assistance, advisory services, equity investments, or debt financing. In this way, the CDC can enhance the performance and image of affiliate banks in their respective communities.

The activities of bank holding company CDCs have been as varied as the needs of their communities. Although most CDCs have focused on lower-income housing or on business development that

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creates jobs for lower-income persons, CDC projects also have included, in one case, the creation of a test farm to support experimentation on crops that would help diversify a local rural farm economy and, in another instance, rehabilitation of a medical clinic in a small community seeking to attract doctors. In each case, benefits for low- and moderate-income persons were clearly demonstrated.

CDCs have proved to be useful mechanisms for both small and large holding companies. For example, the CDC of one small bank holding company makes debt and equity investments through limited partnerships in low-income housing projects, primarily in smaller communities. The CDC also has served as a general partner in a limited partnership to develop 166 units of low- and moderate-income housing. Another small holding company formed a CDC to promote industrial development and job creation for lower-income residents in a small rural county.

The CDC of a larger, regional bank holding company has made development investments in several states. With a capitalization of almost $10 million, the CDC has provided equity and debt financing for housing rehabilitation and new construction of rental housing projects for low- and moderate-income families. In addition, this CDC is an investor in a statewide equity fund that provides capital for the acquisition and renovation of housing for low- and moderate-income areas.

Consortium CDCs and Equity Pools

Using another major approach to community development, a bank holding company may join with several other financial institutions or with nonbank investors to create a CDC or an equity pool. Such ventures, commonly called consortium CDCs, allow institutions to share community development resources as well as risks and are especially well suited for a holding company that lacks the capital or expertise to address multiple community needs or larger, more complex projects on its own.

Most consortium CDCs have been organized to provide housing for low- and moderate-income persons or to address the needs of small and minority businesses. Their geographic scope has ranged from the neighborhood to the nation. Other investors in consortium CDCs have included national banks, state banks (where authorized by state law and permitted by their primary regulator), thrift institutions, utilities, insurance companies, and other local corporations, businesses, and individuals. Where statutes allow, state and local government redevelopment agencies and quasi-public development corporations may invest in consortium CDCs.

An important advantage to a consortium CDC is its ability to tap the expertise and resources of its investor organizations to help manage CDC operations. Executives with a variety of skills and professional backgrounds can serve on the CDC board and investment and loan review committees or help manage the CDC's day-to-day operations. And, if necessary, a consortium CDC can raise the funds needed to hire full-time management and staff with expertise in community development finance without undue burden on any one investor.

For some holding companies, consortium CDCs may present drawbacks. First, the CDC's investment decisions may not always match the holding company's priorities or preferences. Second, the consortium approach may limit the ability of a multibank holding company to assist its affiliate banks, often located in different communities and states. For example, if a consortium CDC's projects are not located in the community delineated for purposes of evaluating a bank's CRA performance, the CDC projects may not be counted in that bank's CRA evaluation. For that reason, some holding companies may wish to help capitalize consortium CDCs in the communities of their affiliate banks.

Third, investment returns must be shared with other investors, as must public recognition for the support given to the CDC's revitalization activities. And finally, depending on how it is structured, the consortium may prevent a holding company from receiving any of the tax advantages flowing to the CDC from its project investments.

Profit Considerations of the CDC Form

Bank holding companies should carefully consider their option to invest in CDCs and consortium CDCs on a for-profit or nonprofit basis. Each approach has advantages and disadvantages.

The Nonprofit Form. An advantage of nonprofit organizations is their eligibility to receive grant

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money directly from many foundations and government agencies. In the case of rental or for-sale housing, such grants help reduce the cost of debt service, thereby allowing rents or sale prices to be set at levels affordable to low-income persons. Also, because a nonprofit community development venture must reinvest its earnings in other development projects, its nonprofit status emphasizes community benefit, not direct financial gain, as its primary purpose. By conveying this message, a financial institution's community development activity may achieve increased community support and credibility.

A drawback is that community-based nonprofit groups could perceive a nonprofit CDC that is controlled by a financial institution as an advantaged competitor for scarce, hard-to-obtain government and foundation grants. A nonprofit CDC also may have difficulty attracting funds from those who would prefer to earn a return on their investment. This problem is especially significant in the case of consortium CDCs or partnerships, which may need to attract significant capital from a variety of corporate and individual investors so that they may undertake larger revitalization projects.

The For-Profit Form. The for-profit approach often is more acceptable to the management and boards of directors of would-be investors because it places community development in a business context that conveys seriousness of purpose and organizational discipline. In addition, the potential for investment returns (including in some cases, tax benefits) attracts investments from others in a community who share an interest in community revitalization. Successful for-profit CDCs and ventures help demonstrate to other developers and businesses that community development work can be profitable and rewarding.

For some bank holding companies, the for-profit approach may have some disadvantages. Community and neighborhood groups may perceive a for-profit CDC as more risk-averse and less willing to pursue difficult projects in low-income areas even though these may be most needed. Also, some community organizations may prefer to see potential net earnings from any community development project used to reduce project costs, rents, or sale prices rather than passed back as profits to the financial institution sponsors. Thus, a for-profit CDC or investment may not be viewed by the community as providing the maximum benefits to low- and moderate-income persons.

Most bank holding companies choose the for-profit form for their CDC investments, finding that many of the advantages of nonprofit operations can be obtained through partnerships with existing nonprofit community organizations.

Limited Partnerships

The advent of a federal tax credit for business investment in low-income housing has made this type of investment more attractive to businesses and corporations. As a result, a growing number of limited partnerships invest exclusively in qualified low-income housing projects. The limited partnerships are formed by a *general partner*—usually a private developer, nonprofit organization, or government-sponsored housing finance corporation—which in turn sells shares to the *limited partners*.

Limited partners are essentially passive investors and risk losing their limited liability status if they participate in managing or directing the partnership's investment activity. Consequently, the financial strength, experience, and character of the general or managing partner is of utmost importance and must be assessed carefully by any holding company considering the purchase of shares as a limited partner. For this reason and because limited partnership arrangements often involve complex legal and accounting issues, investors often must incur significant costs for "due diligence" investigations before making any investment decision.

Generally, limited partnerships for low-income housing come in two varieties: operating limited partnerships and master limited partnerships. Both types can provide direct investment returns and tax benefits to the limited partners while limiting their exposure to many of the liabilities associated with direct real estate development.

For example, one bank holding company has committed equity investments of almost $5 million to limited partnerships that developed 12 housing projects with a total of more than 500 housing units for lower-income families and the elderly. One was a master limited partnership that developed 340 housing units in 8 projects located in smaller, rural communities.

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Operating Partnerships. Operating partnerships usually are created for a particular housing project, although some partnerships invest in several. The equity investments generated by an operating partnership reduce significantly the amount of debt needed to finance the project. Hence, the debt service that the rents must support is also lower, allowing for reduced rents that are affordable even to families with very low incomes.

A bank holding company may be the sole limited partner or be one of many. The partnership owns the housing project, and the limited partners benefit from any net income and tax credits generated by the project in proportion to their ownership interest.

Master Limited Partnerships. Master limited partnerships are formed to purchase shares in operating limited partnerships, particularly for low-income housing. They are usually created by national or statewide groups such as housing finance agencies and nonprofit or quasi-public corporations, but some are based locally. Equity funds or equity pools for low-income housing are often organized as master limited partnerships; others may employ the corporate form and operate as consortium CDCs.

Direct Investments

Instead of forming or joining a CDC or investing in limited partnerships, a bank holding company may invest directly in community development projects. For example, it may provide additional equity for a neighborhood housing project or commercial redevelopment venture, making it possible for the sponsor to qualify for debt financing and move forward. Bank holding companies using the direct investment approach usually have preferred to enter into a joint venture with a local developer or nonprofit development corporation that initiates and manages the project.

A direct project investment may be useful in helping the holding company respond to a specific and immediate community need—the investment can be made without incurring the delays and costs associated with incorporation of a CDC or formation of a limited partnership. On the other hand, a single-purpose investment may spark requests for participation in many other projects located throughout the institution's trade area. And a CDC could accommodate an expansion of the institution's territory.

Management Considerations

The complexities of the community development process demand that investment organizations exercise careful management and oversight. The level of commitment of management resources may vary considerably, however, depending on the type of investments. For example, CDCs that focus on venture capital investments in small and minority business will require a relatively large commitment of staff to monitor the progress of the businesses assisted.

The level of management resources committed may also vary according to the investment mechanism being used. For example, a subsidiary CDC involved in several projects and regularly adding more may require a full-time chief executive officer and other staff members to conduct community outreach, review project proposals, manage the investment approval process, and monitor investments once made. On the other hand, a CDC that makes only occasional project investments as needs or opportunities arise can be managed effectively by its board of directors with part-time support from the staff of the holding company or affiliate bank. Most CDCs also form an investment committee of bank or holding company officers and other real estate development experts.

Limited partnership investments require far less management than a CDC. Indeed, as limited partners, holding companies that engage in activities that might constitute "management" of the partnership risk exposure to potential liabilities as a general partner. Nonetheless, limited partnership investments may be extremely labor intensive during the period when the holding company is considering purchase of partnership shares and reviewing partnership documents. Having invested, holding companies will need to review the project and the activities of the general partner to ensure that their interests are protected and that any tax benefits promised the limited partners are in fact provided.

The Benefits to Financial Institutions

When making equity investments, financial institutions have usually focused on housing and on the

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commercial revitalization of neighborhoods, both for the benefit of low- and moderate-income families, and on the development of small and minority businesses in distressed areas. Such investments can benefit the institutions in a variety of ways, including a return on the investment, the development of new market opportunities, a gain in leadership stature and competitive advantage in the community, the protection or enhancement of the value of the institutions' assets that already exist in the community, and support of the subsidiary banks' performance under the Community Reinvestment Act.

Development of New Market Opportunities

In both new and existing markets, active participation in community development helps an institution create new business opportunities. Equity investments can help generate additional deposits and increased demand for bank loans or other services in markets previously perceived as weak. Construction or rehabilitation of low- and moderate-income housing, for example, can reestablish neighborhoods and help create local demand for shopping and other business services. Similarly, projects for commercial revitalization or industrial redevelopment that provide jobs for unemployed and underemployed persons can lead directly to new or expanded banking relationships.

Community Leadership and Competitive Advantage

Rather than wait for other private investors to commit capital, a holding company itself can make the commitment, an action that can increase community confidence and help attract the interest of other private investors. In thus becoming a catalyst for additional investment, the institution also becomes a leader in the overall revitalization process.

In a financial services marketplace that is highly competitive, such leadership demonstrates an institution's commitment to the economic well-being of its community and local markets and helps the institution distinguish itself from its bank and nonbank competitors. Such leadership also helps cement business relationships with decisionmakers in government and business and with consumers who view community support as an important factor when they select a financial institution.

Investment Return

When properly conceived and structured, equity investments in projects designed to benefit lower-income persons and areas may yield direct capital gains or after-tax profits. Although the profitability of community development investments will vary with the type of project, the capacity to earn a return could make holding-company participation as an equity investor in community-welfare projects more attractive than charitable contributions and grants for essentially the same purposes.

Enhancing CRA Performance

A bank holding company's equity investments for community development do not relieve its affiliate banks from their responsibilities under the Community Reinvestment Act (CRA). But a holding company's strategic use of such investments can help strengthen its banks' CRA performance. For example, the investments, made directly by the holding company or through its CDC, may help community projects qualify for development loans from the holding company's subsidiary banks. Or a holding company's CDC may provide technical assistance that will help subsidiary banks identify appropriate projects and package safe and sound community development loans.

Conclusion

Community development investments may not be suitable for every bank holding company. The option has, however, generated interest among banks and holding companies seeking new ways to support the revitalization of distressed communities.

The extent to which a bank holding company is willing to approach community development through equity investments depends on many corporate and community factors, each of which may vary over time. The nature and required extent of the investment activity and the availability of holding company capital and other resources for community

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development purposes are some key considerations. Also important is the extent to which a holding company and its subsidiary banks have effective, ongoing community relationships; these relationships can aid the institution in identifying projects that both need equity capital and meet the needs of lower-income persons and areas.

The holding companies that have made community development investments, whether through CDCs, limited partnerships or other ventures, have found them to be valuable supplements to those products and services that are more traditionally employed to help meet community reinvestment needs. ☐

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The analyses and conclusions set forth are those of the author and do not necessarily indicate concurrence by the Board of Governors, by the Federal Reserve Banks, or by members of their staffs.

Single copies of the full text of each study are available without charge. The titles available are shown under "Staff Studies" in the list of Federal Reserve Board publications at the back of each BULLETIN.

STUDY SUMMARY

A REVIEW OF CORPORATE RESTRUCTURING ACTIVITY, 1980–90

Margaret Hastings Pickering—Staff, Board of Governors

Prepared as a staff study in early 1991

After running at an extraordinary pace in 1988 and 1989, corporate restructuring activity and the associated retirement of equity fell sharply in 1990. The remarkable strength in the final two years of the 1980s occurred despite measures, taken at the federal and state levels, to discourage takeover activity. Reflecting restructuring activity, net retirements of equity by nonfinancial corporations surged to a record $130 billion in 1988 and receded only slightly in 1989 to $124 billion.

Presaged by the collapse of the proposed union-led leveraged buyout of United Air Lines and the financial hemorrhaging of the Campeau retailers, the 1990 retreat of corporate restructuring activity occurred as financing costs rose sharply and prices for asset sales weakened. Nonetheless, the volume of mergers and acquisitions was substantial, as reflected in the $63 billion total of net equity retirements, which vastly exceeded that of any year prior to 1984, when the current merger wave began.

This study has two purposes. One is to discuss these recent developments more fully by placing them in the context of the merger activity that occurred in the 1980s. The second is to present aggregate estimates of merger and acquisition activity that form the basis of net equity retirements published in the Federal Reserve flow of funds accounts. Throughout the study, the focus is on the nonfinancial corporate sector. Moreover, the estimates of merger activity deal only with transactions by the nonfinancial corporate sector that result in the retirement of equity. An appendix contains a detailed description of these estimates and of some other measures of merger and acquisition activity; it also includes information on the largest individual transactions that have occurred in recent years.

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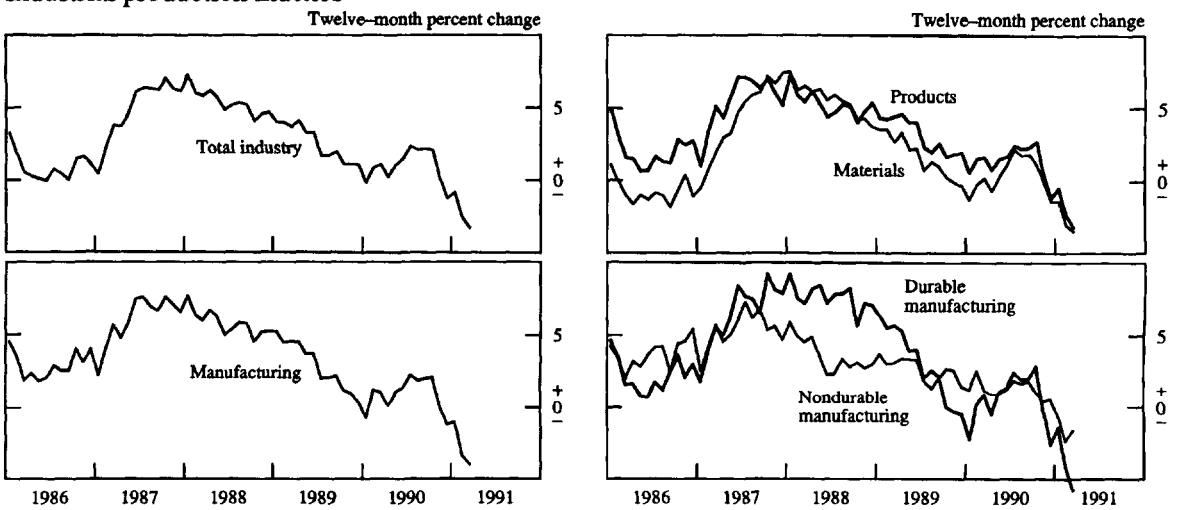
Industrial Production and Capacity Utilization

Released for publication on April 16

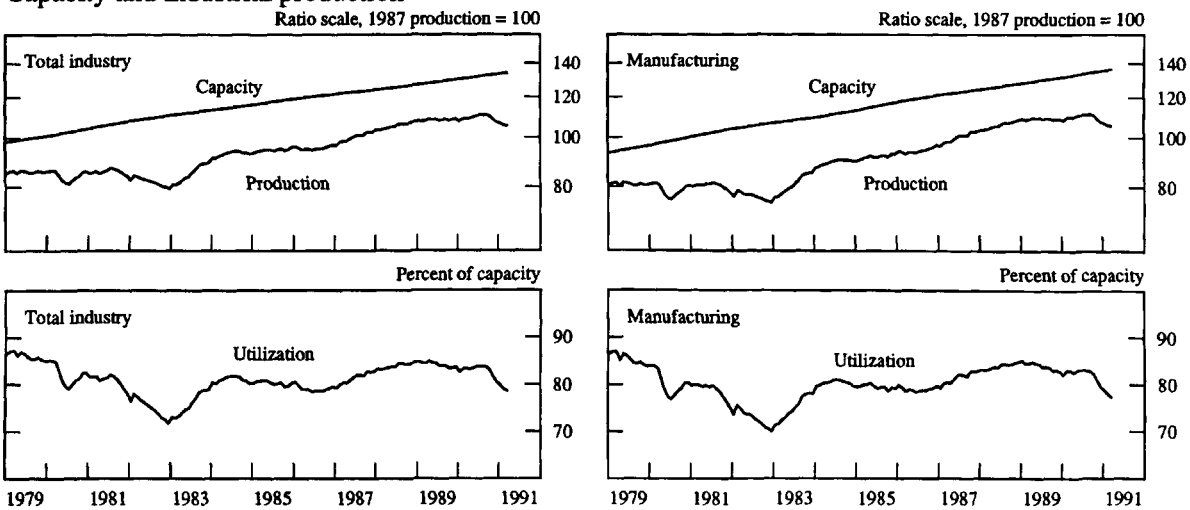
Industrial production decreased 0.3 percent in March after declines of 0.9 and 0.5 percent respectively in February and January. The decline in output in March mainly reflected continued weakness in business equipment, construction supplies, and durable materials; production of motor vehicles rose about 2½ percent as a further decline in autos only partially offset a sharp rise in trucks. Total industrial capacity utilization dropped 0.4 percentage point in March to 78.7 percent, its lowest level since September 1986, when the rate was 78.6 percent.

For the first quarter as a whole, industrial production declined at an annual rate of about

Industrial production indexes



Capacity and industrial production



All series are seasonally adjusted. Latest series, March.

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Industrial production	1987 = 100				Percentage change from preceding month				Percentage change, Mar. 1990 to Mar. 1991
	1990	1991			1990	1991			
	Dec.r	Jan.r	Feb.p	Mar.p	Dec.r	Jan.r	Feb.r	Mar.p	
Total index	**107.2**	**106.6**	**105.7**	**105.3**	**−1.0**	**−.5**	**−.9**	**−.3**	**−3.3**
Previous estimates	107.2	106.6	105.7	...	−1.1	−.5	−.8	...	...
Major market groups									
Products, total	**108.4**	**107.8**	**106.8**	**106.6**	**−.8**	**−.5**	**−.9**	**−.2**	**−3.2**
Consumer goods	105.7	105.5	104.5	104.9	−.8	−.2	−.9	.4	−2.4
Business equipment	121.2	121.8	121.1	120.5	−1.4	.6	−.6	−.5	−1.4
Construction supplies	101.0	97.6	96.3	94.8	−.8	−3.3	−1.3	−1.6	−11.7
Materials	105.3	104.7	103.9	103.4	−1.4	−.6	−.8	−0.4	−3.5
Major industry groups									
Manufacturing	107.5	107.0	106.0	105.5	−1.4	−.5	−.9	−.5	−4.0
Durable	107.5	107.0	106.2	105.5	−2.1	−.5	−.8	−.6	−5.7
Nondurable	107.4	106.9	105.7	105.5	−.4	−.5	−1.1	−.2	−1.6
Mining	103.4	101.9	103.8	102.9	.1	−1.4	1.8	−.8	1.8
Utilities	108.8	107.8	104.2	105.7	1.7	−.9	−3.3	1.4	−.5

Capacity utilization	Percent of capacity								Capacity growth, Mar. 1990 to Mar. 1991
	Average, 1967–90	Low, 1982	High, 1988–89	1990	1990	1991			
				Mar.	Dec.r	Jan.r	Feb.r	Mar.p	
Total industry	**82.2**	**71.8**	**85.0**	**83.4**	**80.6**	**80.0**	**79.1**	**78.7**	**2.5**
Manufacturing	81.5	70.0	85.1	83.0	79.4	78.9	77.9	77.4	2.9
Advanced processing	81.1	71.4	83.6	82.0	78.5	78.2	77.5	77.0	3.2
Primary processing	82.4	66.8	89.0	85.3	81.5	80.4	78.9	78.4	2.2
Mining	87.4	80.6	87.2	87.6	90.8	89.7	91.4	90.6	−1.6
Utilities	86.8	76.2	92.3	84.1	85.1	84.2	81.4	82.4	1.6

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NOTE. Indexes are seasonally adjusted.

9¼ percent, after having fallen 7 percent in the previous quarter. At 105.3 percent of its 1987 annual average, total industrial production in March was 3.3 percent below its year-ago level.

In market groups, excluding motor vehicles, the production of consumer goods rose slightly in March after having declined in each of the four preceding months. Among the major components, the output of food and consumer energy products, particularly electricity for residential use, posted gains in March after having declined for several months; however, the output of clothing and goods for the home, such as appliances, carpeting, and furniture, remained depressed. The production of business equipment excluding autos and trucks decreased again last month and has fallen about 2½ percent since its peak in September of last year. Over this period, the output of industrial equipment has dropped sharply; in contrast, the production of commercial aircraft has increased, and the output of information processing equipment, which includes computers, turned up during the first quarter after having weakened late last year.

Among materials, the output of durables declined again as production of parts for consumer durable goods and equipment were curtailed further. The output of nondurable materials, such as textiles, paper, and chemicals, was little changed last month following a sharp drop in February. The production of energy materials decreased again, owing, in part, to a decline in coal.

In industry groups, manufacturing output fell 0.5 percent in March, reducing the factory utilization rate to 77.4 percent, its lowest rate since August 1983. Operating rates were down 0.5 percentage point for both primary and advanced processing industries. In the six months since last September, the utilization rate for primary processing industries has fallen 6.7 percentage points, while the rate for advanced processing industries has fallen 4.8 percentage points. Out-

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side manufacturing, the operating rate at utilities rose sharply in March, but the rate for mining fell.

The largest declines in utilization for primary processing industries in March were in stone, clay, and glass products, and in fabricated metals. Production of stone, clay, and glass products has fallen dramatically during the past year; its operating rate in March is 10 percentage points below its level a year earlier. Similarly, utilization in lumber, another construction-related industry, is off 13 percentage points from a year earlier. On the positive side, utilization rates in petroleum and primary metals advanced for a second month. Among the advanced processing industries, utilization in motor vehicles and parts increased slightly in March, but the operating rates for most other industries declined.

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Statements to the Congress

Statement by Ellen Maland, Assistant Director, Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System, before the Subcommittee on General Oversight and Investigations of the Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives, presented in Boston, Massachusetts, April 8, 1991.

Thank you for this opportunity to address issues about the extent and manner in which financial institutions evaluate the creditworthiness of consumer credit cardholders. I am pleased to be here, in my capacity as Assistant Director of the Division of Consumer and Community Affairs, to provide background information on this issue and to discuss how laws administered by the Federal Reserve Board relate to this practice. The division's responsibilities include writing regulations for several consumer credit statutes, including the Equal Credit Opportunity Act and the Truth in Lending Act. In addition, the division oversees consumer compliance examinations of state member banks conducted by Federal Reserve examiners.

I would like to provide a brief review of the practice that has prompted you to hold this hearing. During the early months of 1990, a large issuer of bank credit cards noticed a significant increase in bankruptcy filings among its credit cardholders in several Northeastern and mid-Atlantic states. In August 1990, before the time it would have conducted a standard review of the accounts, the bank analyzed the financial circumstances of its credit card customers residing in a nine-state area to determine whether they posed a high level of risk. Consumers who had been delinquent in making payments to the bank over the previous fourteen months, or who were over their credit limit when the review was undertaken, were evaluated by the use of scoring models. As permitted by the credit agreement with the consumer, the bank then closed or reduced the credit limit on accounts that, in its view, posed a risk of loss. It is my understanding that the bank sent a notice to each cardholder before terminating the consumer's account or reducing the credit line.

You have inquired whether other financial institutions have engaged in a regional evaluation of credit cardholders in this manner. The Board does not collect data that would provide this information. A review of consumer complaints about our state member banks for 1989 and 1990 did not reveal that consumers have raised this issue, although they are probably unlikely to know if an institution has engaged in a regional evaluation of its cardholders. Based on informal inquiries, we do not believe it is common for institutions to undertake any early or special review of *existing* credit card customers based on the state of residence or the region of the country in which the cardholder resides. Even assuming that this practice has not been common, however, it may well be changing, as regional variations in economic health have become more pronounced and as sophisticated credit evaluation systems have become more common. Indeed, based on our inquiries, it is clear that institutions do take different approaches in evaluating *applicants* for credit cards depending on the region of the country in which the applicants reside.

Risk Evaluation

Some institutions have adopted aggressive marketing campaigns to offer their credit products to a wide array of potential customers. Over the past several years there has been a tremendous increase in the availability of credit cards. Since 1985 the number of credit cards issued by banks has risen from 161 million to more than 218 million. (This number is in addition to the approximately 28 million travel and entertainment

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cards in circulation in 1990.) Similarly, new competitors have expanded credit opportunities for consumers. For example, a new national credit card was introduced in 1985 and has since grown to more than 21 million accounts.

In soliciting potential new customers, in evaluating applicants for credit, and in reviewing existing accounts, financial institutions establish a level of acceptable risk for the credit they offer. The standards of creditworthiness used by an institution to determine who will be offered credit is one element of risk. Financial institutions seek to maintain a balance between offering credit widely and limiting the risks that may accompany an extension of credit. Where that balance is struck varies among institutions and is subject to change as their experience varies over time. Some institutions have more flexible credit standards than others and grant credit to individuals who might not qualify for credit from other institutions. The credit standards of such institutions may entail a higher degree of risk. This approach may produce a greater number of consumers with accounts at that institution but also may produce, in the aggregate, more consumers who have problems making timely payments or more accounts that are charged off if consumers fail to repay their debts.

Institutions also try to ensure that the level of risk for their current credit card accounts—as with other types of credit—remains acceptable and that charged-off accounts do not increase to too high a level. Too many charge-offs may lead an institution to try to recoup losses through the imposition of higher interest rates or fees, a reduction of benefits or enhancements, or a tightening of credit availability standards. Competitive concerns, however, may limit the ability of an institution to increase fees or interest rates or reduce existing benefits. Thus, an institution may seek to control risk and losses associated with its credit card accounts by evaluating the financial circumstances of its current account holders. Such a practice may work to limit credit card charge-offs by identifying potential problems before consumers are in serious default on their accounts. This type of evaluation, within the boundaries of federal (and state) law, is a prudent banking practice. Through such a review the institution ensures that creditworthy consumers continue to receive credit and further ensures that the credit card accounts of the institution remain a source of revenue and strength for the institution. In addition, reviewing an account can sometimes provide benefits to the consumer. A creditor may increase the credit limit available to the consumer upon a favorable examination of the account. Similarly, additional credit or other financial products may be offered to consumers who receive favorable evaluations.

Credit Card Review Policies

Besides monitoring accounts on an ongoing basis to ensure that timely payments are made, institutions typically review their credit card accounts when the card is scheduled for renewal. Whether at the scheduled renewal or at an earlier date, a card issuer may use a scoring model to determine if the consumer's financial circumstances have changed since the last review.

A review of an institution's credit portfolio in response to an increase in credit problems is an appropriate practice to ensure repayment of debt. Of course, institutions conducting such a review should seek to ensure that creditworthy borrowers in any region served by the institution continue to have access to credit, consistent with prudent lending practices. It appears that, in the present case, the institution did not shut off credit to sound borrowers. Indeed, no adverse action was taken on more than 99 percent of the accounts initially reviewed.

Credit Scoring

Credit-scoring systems have been used by institutions for many years to evaluate whether to extend credit. (A credit-scoring system uses a statistical methodology to assign values to certain characteristics of applicants that have been shown to predict whether they will repay the credit extended to them. The characteristics scored do not cause repayment or nonpayment; they are simply predictive.) In 1989, more than 50 percent of commercial banks with $1 billion or more in assets used some type of credit-scoring

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system in examining applications for bank credit cards.

It is important to recognize that credit-scoring models both for applicants and for existing customers usually are developed for particular creditors, and for particular regions, because a factor that is predictive in one area may not be predictive in another. Typically, a sample of accounts from the creditor's own records is used to evaluate account behavior. A scoring model will analyze accounts of consumers who have paid in accordance with the terms of the account and those who have been delinquent. To forecast future payment performance, many factors will be examined, including both factors related to the account (such as past delinquencies, the relation of the account balance to the credit limit, and the age of the account) and attributes of the borrower (such as occupation and employment history). Credit-scoring models may incorporate different factors in different regions of the country since factors can vary in their predictive value. For example, a factor such as whether you own or rent your dwelling will have different predictive value depending on the region in which you reside. In an area where homeownership is very common, it may not be as effective a predictor as it is in other areas where homeownership is less common. In addition, card issuers may require consumers to meet higher or lower cutoff scores in different regions in accordance with the level of risk they find acceptable. Similarly, a card issuer may change the cutoff score it has established for granting or continuing credit if it determines that higher-than-acceptable losses are resulting from its prior level.

Financial institutions may increasingly turn to credit-scoring systems to evaluate the risks not only of potential but also of existing customers. There are two factors that explain why an institution may be more inclined to engage in an early review of credit card accounts using such techniques (rather than waiting for the normal review time): The analytical tools are more available and the need for closer scrutiny has increased. So-called "bankruptcy scoring" and "behavioral scoring" models have become more readily available to institutions in the past few years to predict potential problem accounts. Some models are designed by using information drawn solely from a creditor's own account files, while other models use data contained in credit reports. Models can be designed to predict whether a delinquent account will likely become more delinquent or whether the account will return to a satisfactory performance level. While our inquiries indicate that, in evaluating *existing* credit card accounts, institutions generally have not utilized these models on a regional basis, because of the increased availability of these systems regional examination may become more common. Indeed, institutions have a financial reason to do so. Obviously, if an institution is experiencing a higher degree of problems in a certain region, it is more cost effective to conduct a review only of the accounts in that region rather than of all its accounts.

Credit Card Problems

There appear to be compelling reasons for institutions to give greater scrutiny to their credit card accounts. Data show that nonbusiness bankruptcy filings have increased over the last several years. For example, in 1984, more than 284,000 nonbusiness bankruptcies were filed. By 1989, the number had more than doubled to more than 616,000. And, in 1990, more than 718,000 nonbusiness bankruptcies were filed, an increase of 16 percent over 1989. Some states have experienced even more dramatic increases, particularly between 1989 and 1990. For example, in the nine-state area reviewed by the bank in the present case, nonbusiness bankruptcy filings increased 69 percent between 1989 and 1990. Moreover, nationwide evidence suggests that credit card losses are increasingly due to bankruptcies. For example, Visa reports that in 1988, bankruptcies accounted for 32 percent of total bank card losses; in 1989 41 percent of losses were due to bankruptcies. In addition, some data suggest that older, established accounts are not immune to bankruptcy. For example, in 1988, 22 percent of the accounts included in nonbusiness bankruptcy filings were at least five years old. This figure rose to 32 percent for the same class of accounts for nonbusiness bankruptcies filed in 1989.

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Industry trade data also show that credit card delinquency rates have climbed over the past several years, even as outstanding debt has increased. For bank credit cards, in 1984, 3.3 percent of outstanding debt ($1.77 billion) was thirty or more days delinquent. In 1988, the figure had risen to 3.95 percent ($4.48 billion); and by 1989 4.16 percent of outstanding bank credit card debt was delinquent ($5.55 billion).

All of these factors acting in concert present a forceful argument for institutions to evaluate their credit card portfolios in a manner that will best ensure that losses are kept at an acceptable level.

Equal Credit Opportunity Act and Fair Credit Reporting Act

While these review policies are beneficial from an institution's point of view, any of these evaluations can obviously create hardship for individual consumers. For better or worse, some consumers may rely on bank credit cards as an important part of their overall financial planning strategy. Consumers experiencing financial difficulties may have their credit lines reduced—or their credit privileges eliminated—just at the time when they may be inclined to rely more on these credit accounts than usual because of loss of employment or other adverse circumstances.

The Equal Credit Opportunity Act, which is implemented by the Board's Regulation B, provides certain protections when an "adverse action" is taken on an account—such as reducing the credit limit or terminating a credit card. In addition, the Fair Credit Reporting Act applies in certain circumstances to these situations. The Equal Credit Opportunity Act (ECOA) prohibits creditors from discriminating against credit applicants or existing customers because of factors such as race, color, religion, gender, or marital status. While a creditor may not consider factors such as these, conducting a review of an account because the consumer resides in a specific region of the country does not violate the ECOA. In enacting the ECOA, the Congress sought to prohibit creditors from evaluating consumers differently due to immutable characteristics such as race, color, or gender. A practice of evaluating—on a nonprohibited basis—a population of consumers who reside in a certain region of the country does not raise the same issues of equal treatment as those that led the Congress to enact the ECOA.

The ECOA provides certain rights for all credit applicants when credit is denied. Lenders must notify the applicant or customer within thirty days of the adverse action. Thus, a refusal to grant credit or a reduction of a credit line will require that the lender send a notice to affected consumers. The consumer is entitled to the specific reasons for the decision. Neither the ECOA nor Regulation B, however, requires a notice if the applicant is *currently* delinquent or in default when the action is taken. The reason for this exception is that the Congress believed a notice was not needed in these cases since it should be evident to the consumer that termination is due, for example, to a failure to make timely payments. If the termination is due to *past* delinquency and the consumer is currently up to date, however, the law does require notice to be given.

If information in a report from a credit bureau is used as a basis for the creditor's decision, the Fair Credit Reporting Act (FCRA) requires that the consumer be told and be given the name and address of the credit bureau whose report was used. In such cases, the FCRA provides that the consumer is entitled to obtain a copy of the credit report without charge, and, if the information was incorrect, the consumer has a right to request that the matter be investigated and the information corrected. The consumer may then request that the card issuer reconsider its decision in light of the corrected information.

Truth in Lending

The Truth in Lending Act and the Board's implementing Regulation Z require lenders to disclose the specific terms of credit card accounts to consumers when the account is opened. In general, the regulation also requires creditors to provide a fifteen-day advance notice if any of those terms are later changed. The statute itself does not require this notice. The provision, which the Board established by regulation, has been in effect since 1969.

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There are several exceptions to this requirement, however, and they encompass the situations involved here. The change in terms notice applies only to items required to be disclosed when the account is opened. Thus, technically, since the credit limit is not a feature required to be disclosed initially, a change in terms notice need not be given if that limit is changed. In addition, the regulation does not require an advance notice if the consumer is in default, for the same reason mentioned with regard to the ECOA—it should be evident to consumers that the change is due to the failure to make timely payments on the account.

Regulation Z does not require an advance notice if an account is terminated. If a creditor decides to terminate an account, for example, due to the use of a credit-scoring model that predicts that the account is a high-risk one, an advance notice need not be given. This exclusion was prompted by the belief that providing an "adverse action" notice, as required by Regulation B, would provide sufficient protection to the consumer. Of course, failure to give consumers an advance notice could result in some consumers learning of a termination decision at an inopportune time. It is my understanding, however, that many institutions—including the bank whose actions are being reviewed today—provide some advance notice of cancellation for most account holders.

Conclusion

In summary, consumers, financial institutions, and the financial system as a whole are best served when institutions are able to monitor and quickly respond to the increased risk of losses for consumer credit card accounts. The Board believes it would be unwise to place restraints on an institution's ability to engage in a regional evaluation of its credit card portfolio, particularly when increased problems and risks are identified in that area. In the case discussed earlier, the evidence indicates that the institution generally continued to make credit available to creditworthy borrowers in the region examined, consistent with sound banking practices.

I appreciate this opportunity to speak to the subcommittee and would be happy to answer any questions you may have. □

Statement by John P. LaWare, Member, Board of Governors of the Federal Reserve System, before the Subcommittee on Consumer Affairs and Coinage of the Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives, April 10, 1991.

I am pleased to appear before this subcommittee on behalf of the Federal Reserve Board to discuss the potential impact on consumers of H.R. 1505, the Treasury's proposed Financial Institutions Safety and Consumer Choice Act of 1991. While I will be limiting my comments to issues most directly related to consumer benefits and risks, the subcommittee should know that a majority of the Board strongly supports the thrust of this bill. We believe that H.R. 1505 constructively addresses evolving difficulties with the safety net and offers important and constructive measures to strengthen bank supervision and to modify the operating framework that limits the ability of U.S. banks to compete effectively on both cost and service grounds.

But this subcommittee, in particular, should know that the Board's support for the bill is not keyed solely to any benefits that might accrue to banks. The objective of public policy is not to enhance the profits of one group of businesses relative to another. The Board generally supports this bill because it would result in better and cheaper services to consumers and other users of financial services, while at the same time it restricts the further extension of the federal safety net.

Additional Consumer Services and Protections

For example, the bill would permit financial services holding companies with exceptionally well-capitalized bank subsidiaries to provide,

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through separately capitalized affiliates, money market mutual funds, other securities investments, and insurance services. Like H.R. 192, the bill introduced by Congressman Barnard, H.R. 1505, recognizes that allowing banking organizations to provide a full range of financial services will not only help to improve the condition of our banks but also improve service to the consumer. The Board believes that consumers would benefit from the convenience and competition that would result from having a wider range of financial services products easily accessible from banking organizations. Banking organizations would only be successful in marketing new financial products if they were able to offer greater convenience and better rates and prices to the public.

The administration's proposal would regulate and supervise the expanded activities through functional regulation that would provide consumers the same protection they enjoy when dealing with an independent provider of financial services. For example, consumers buying securities from bank affiliates would be protected by the same regulatory and statutory standards and the same regulator—the Securities and Exchange Commission (SEC)—as when the securities are purchased from independent broker–dealers. Additional protections for consumers already exist in laws prohibiting most tie-in sales that require consumers to buy another product to obtain access to bank credit or other essential bank services. Even if there were no statutory constraints, the large number of competing banks and other providers of financial products would severely limit the ability of banks successfully to require any tie-ins in most markets.

H.R. 1505 would permit the sale on bank premises of mutual fund shares, certain investment securities, and insurance products, with appropriate disclosures designed to inform the consumer that these products are not covered by the federal safety net. Such a delivery system would allow maximum synergy between the bank and its affiliates, providing benefit and convenience to both the buyer and seller. Whether purchased on bank premises or elsewhere, the bill would require that customers purchasing nondeposit products from banks and bank affiliates be alerted to the lack of federal insurance by signing documents indicating in plain words that the products were not federally insured. Consumer confusion about such claims has been a continuing problem, and the bill addresses it directly.

INTERSTATE BRANCHING

The Treasury's proposed bill would repeal the Douglas Amendment to the Bank Holding Company Act, to permit banking companies to operate subsidiary *banks* in all states, and would amend the McFadden Act, to permit banks to operate *branches* of their banks in all states. Branching within a state after the first interstate branch is opened would be subject to the same state restrictions placed on locally headquartered banks. A majority of the Board strongly supports the proposal to permit full interstate banking by any vehicle that a banking organization chooses. We are encouraged to see that this proposal already has support within the full committee: Congressman Wylie's bill, H.R. 15, Congressman Schumer's bill, H.R. 624, and Congressman Neal's bill, H.R. 1480, all of which would also allow interstate branching.

Only Hawaii and Montana have not yet passed legislation to permit interstate banking in some form, reciprocal, regional, or without limit. Virtually all states, however, require the interstate presence to be in the form of separate subsidiary banks of the parent holding company, each with its own board, management organization, and capital. A majority of the Board believes that cost savings could occur in some banking organizations just from the conversion of existing bank subsidiaries to branches of the lead bank. Through competition, such cost reduction would be reflected in more and lower-priced consumer services. The lower cost of branching across state lines would also induce more banks to engage in interstate banking, further enhancing competition and consumer choice.

Over the years, there has been opposition by some consumer and other groups to interstate branching. It is important that their concerns be discussed.

The first concern is that interstate branching would result in undue concentration—and ultimately higher loan rates and lower deposit

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rates—as large out-of-state banks drive smaller in-state banks out of business. In-state market evidence simply does not support that contention. All of the evidence—we know of no studies reaching the opposite conclusion—is that small banks generally survive out-of-market bank entry by large banks and are subsequently more profitable than the entrant. Similar evidence indicates that, whether de novo or by acquisition, new large bank entrants to local markets are able to expand market share by only modest amounts, if at all. In the 1970s, for example, when statewide branching was authorized in New York State, several large New York City banks sought an upstate presence by acquiring small banks in these markets. By 1983, the acquired banks had gained on average less than 1 percentage point in market share, with the largest gain less than 3 percentage points. The acquired banks or branches continue to have small market shares, or they have been sold to local banks, as the New York City banks have exited the market.

Besides their difficulties in winning customers away from existing banks, entrants by acquisition often are soon confronted with competition from a de novo bank organized by local citizens, at times led by the former managers of the acquired bank. The potential for entry—both de novo and by acquisitions by other banks outside the market—plus evidence of continued small bank success, substantially lessens the potential that consumer harm will result from interstate branching. It is well to remember that in the decade just passed, while about 5,300 banks were absorbed by merger, about 2,700 new banks were chartered, and while 6,700 branches were closed, 16,500 new ones were opened. Local banking markets in the United States are incredibly dynamic and sensitive to consumer demand, and interstate banking seems likely to make it only more so.

Another concern of some is that new entrants will vacuum up local deposits and channel them to out-of-market loans or that managers brought into local markets will be insensitive to, or have no authority to adjust to, local demands. However, it is important to recall that a bank must fulfill its Community Reinvestment Act (CRA) responsibilities in all the markets in which it operates. Moreover, the ease of entry, just discussed, should soften such concerns that out-of-market entrants will ignore local customers. If a local branch does not meet the demands of the community, it will not succeed and it will attract a rival. Regardless of who owns a bank or branch—local or out-of-market capital—market realities drive the bank to seek local loans both to attract and maintain deposits and to earn a profit.

Finally, large banks have higher loan-to-deposit ratios than small banks, an important factor for evaluating the benefit of interstate branching. This factor could imply that large banks entering new markets would make both more in-market loans and out-of-market loans. Many assume that most of the loans would, in fact, be made outside the community. However, as I noted, banks must both meet their CRA requirements and service their customers to remain competitive in the market. It should also be kept in mind that small banks also export funds: They are relatively large lenders to other banks through the federal funds and correspondent deposit markets and purchase relatively more Treasury and out-of-market state and local bonds than large banks.

In sum, the evidence suggests that interstate banking will not lead to the displacement of community banks by large regional or money market rivals, nor will it in the aggregate be a substantial source of additional earnings to out-of-market banks seeking new profits. What interstate banking promises is wider consumer choices at better prices, and, for our banking system, increased competitive efficiency, the elimination of unnecessary costs associated with the delivery of banking services, and risk reduction through diversification. By the record, most community banks are already providing services to their customers so efficiently that they have little to fear from out-of-market rivals. Those that are not *should* worry because interstate banking will—and should—mean their displacement by a more efficient competitor.

CRA Issues

If large regional, or even national, branch networks develop, the Board and the other regulators will have to assure themselves that their CRA examination processes continue to work

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within the new structure. Obviously, some adjustments will be necessary because the present geographic focus of CRA examination reports and ratings will have to be adapted to banks with broader geographical scope. However, it is worth noting that we already review the performance of banks with large intrastate branching systems by examining a sample of branches. We believe that this procedure would be appropriate for larger systems as well.

Under the Treasury proposal, nothing in the process of bank acquisitions or branching would be different for organizations owning banks whose capital is not significantly above the international capital standards. Such entities would continue to be subject to the current full application process for acquisition of banks and the addition of branches, including review of public criticism of their CRA performance. And, a bank—regardless of its capital—would be subject to a full application process, including CRA review, when it opened its initial branch in any new state.

Holding companies whose subsidiary banks meet unusually high capital standards, could under H.R. 1505, acquire additional *banks,* after 1994 in any state, with only a forty-five-day prior notice under a scaled back or expedited review process. These high-capital banks could also branch *within* any state, *subsequent* to opening their first branch in that state, without *any* prior notice, although, of course, they would be subject to state regulations on branching. Some community groups may be concerned that these expedited procedures would not permit them to raise CRA protests at all for some branches and that there would be inadequate time for them to do so for some bank acquisitions. We believe, however, that procedures now in use and the bill itself should soften these concerns.

For example, a bank with unusually high capital must still have at least a satisfactory CRA rating to open an in-state branch without notice or review. For the acquisition of banks by holding companies with well-capitalized bank subsidiaries, the benefits of the acquisition to the local community, including analysis of the bank's performance record under the Community Reinvestment Act, must be explicitly considered by the regulators in the convenience and needs test that would still accompany the expedited review during the forty-five day prior notice interval.

Even with this shortened period, interested parties will be provided an opportunity to comment. In an important way, the agencies have taken a more aggressive role in the CRA examination process to encourage members of the public to submit comments on the bank's CRA performance to the bank at any time. These comments are then reviewed by the examiners as part of the examination process and reflected in the CRA rating given to the bank. Thus, files and ratings, as well as investigations of complaints, should now be more up to date and therefore more consistent with expedited review. This current procedure should be particularly helpful to community groups in having their concerns investigated.

There is always a tension between the banks' desires to have the government review their expansion plans expeditiously and community interests that CRA performance be weighed in the process. The more rapid review in H.R. 1505 is designed to make the maintenance of high capital more attractive, and this goal must be balanced against the greater time pressure put on potential protestants. We believe that public disclosure of CRA ratings and public comments received on a continuing basis will tend to offset, in part, this timing adjustment for community groups.

Deposit Insurance Reform

There is concern about the administration's proposals (1) to limit deposit insurance to $100,000 per person per institution (plus another $100,000 per person per institution for retirement funds), and (2) to study the feasibility of limiting insurance to one $100,000 coverage per person across all institutions. The Board too has some doubts about the administrative cost, potential intrusiveness, and feasibility of the latter proposal but prefers to await the results of the proposed study before taking a position. But, the majority of the Board supports the $100,000 per person per institution limit for each of two classes of accounts and believes that it is not an issue that should affect the average consumer.

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Based on a 1989 survey sponsored by the Federal Reserve and several other agencies, no more than 3½ percent of all households have deposits of more than $100,000 at any one insured depository institution. However, the Treasury bill specifically permits each individual to benefit from $100,000 of deposit insurance at each institution. And almost 60 percent of the households with aggregate deposits in excess of $100,000 at one institution are composed of a husband and wife whose combined deposits could be fully insured at their depository institution by splitting their deposits into two accounts at that institution, each of no more than $100,000. This calculation—which reduces the proportion of all households with uninsured balances under the Treasury bill from 3½ to 1½ percent—even ignores the additional insurance each spouse could obtain from retirement accounts under the administration's proposal. Moreover, the median household net worth for the 1½ percent of households whose deposits at one institution would exceed the $100,000 insurance limit for each spouse is almost $2 million, suggesting little need for the protection of a safety net. The comparable net worth of the households holding fully insured deposits is less than $60,000.

Extending insurance to all consumer deposits to protect the 1½ percent of all households that would have any uninsured balance under the proposal—and to uninsured deposits of small- and medium-sized businesses and nonprofit institutions—is, of course, possible, but would, we believe, be highly undesirable without significant and substantial increases in the minimum capital ratios of banks. Such an approach would attract even more large-balance accounts, further increase the moral hazard risk induced in the banking system, and expand further the potential for taxpayer liability, raising consumer costs in the process. Indeed, the higher bank insurance premiums already levied to avoid taxpayer costs for the current bank insurance problems are reducing bank profits and probably the yield available to consumers on insured-bank deposits, as well as raising their bank loan rates. Increased costs are usually passed through, at least in part, to the customers of any business.

Smaller banks, consumer groups, and others have pointed out that, despite these arguments, risk-averse depositors with balances in excess of deposit insurance limits may be inclined to shift their funds out of smaller banks. Such shifts could be a significant share of total deposits in some communities, leaving insufficient funds to meet local credit demands. Although transfers might be made to other small banks in the community to keep deposits at each institution within insurance limits, the concern is that the shifts will be to market instruments—like Treasury securities or money market mutual funds—or to larger out-of-community banks where the deposits in excess of insurance limits might still be protected by the too-large-to-fail doctrine.

The local credit implications of these arguments are difficult to evaluate. As I have noted, the shifts may be in market with large balances broken into multiple accounts at several local banks, each of less than $100,000. In addition, community banks tend to be the best capitalized, least risky entities, and as a result are perhaps less subject to deposit withdrawals. Indeed, our review of the data did not suggest any special deposit weakness at smaller banks during the period of publicity about bank soundness. Nonetheless, while any local credit market effects are probably modest, one cannot rule out entirely that deposit insurance limits, as called for by H.R. 1505, could cause some balances to shift, possibly to larger entities or out of the banking system. I will return to the longer-term resolution of these concerns in a moment.

The Treasury proposal does call for an exception to the least-cost resolution of a failing bank, which usually implies fully paying depositors only up to the insurance limit. If the Treasury and the Federal Reserve agree that the failure of an insured entity could have systemic risk implications—that is, that its failure with losses to depositors could cause failures to occur at a large number of other entities, or could cause disruption in financial markets generally—the government could then provide special assistance to protect all of its depositors and to maintain the existence of the bank. While this provision of the bill could be used to offset potential regional systemic problems from the possible failure of a number of small or medium-sized banks, it is

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clear that this provision focuses on larger institutions.

No one is comfortable with special treatment for larger banks, and the Treasury proposal does substantially tighten up existing practice. On its face, the too-large-to-fail doctrine is unfair; it tends to induce moral hazard risks at large banks; it may, in certain circumstances, cause a shift of large account balances from small to large banks. Nonetheless, there are circumstances in which there is a need to support large banks to avoid disruption to the economy as a whole. It is for this reason that we reluctantly support this provision and hope that it will have to be used only on very rare occasions. Indeed, H.R. 1505 envisions circumstances in which large banks could fail without undue disruption to financial markets and the economy. Thus, it would be a mistake for the depositors of large banks to assume that all their deposits were protected at all times.

Moreover, the Board believes that other provisions of H.R. 1505 would address both the perceived risk of uninsured depositors at small banks and the future necessity to implement the too-big-to-fail doctrine. The best protection for depositors and the insurance fund is to have strong and safe banks. The Board believes that the bill's emphasis on capital and prompt corrective action policies—as well as the profit opportunities from expanded activities and the greater diversification of risks through interstate branching—will reduce risk in the banking system and soon make the practical implication of deposit insurance limits a much less important consumer issue. Stronger banks also mean a safer Bank Insurance Fund and less need for potential taxpayer assistance. Prompt corrective action, expanded activities, and interstate branching are consumer benefits—directly through more convenient choice and indirectly through a stronger system.

Other Issues

Your invitation to testify also requested Board comment on the adequacy of fire walls and commercial ownership of banks. I shall address these issues briefly.

H.R. 1505 imposes no cross-marketing fire walls among affiliates of holding companies to permit a high degree of synergy among the components of the organization. As I have previously noted, it does require disclosure of the insurance status of deposits and other financial products to inform consumers. Moreover, it provides the agencies with the authority to limit possible conflicts of interest to constrain the risk to the safety net. H.R. 1505 also provides authority for the supervisors to take actions to limit risks that affiliates may create for the insured bank and imposes rules that limit the transfer of funds from the bank to its affiliates. Some tightening of these latter proposals, including some additional specificity regarding the types of transactions the agency may address, would be desirable, but generally their thrust is consistent with the Board's preferences.

The bill would permit the purchase of financial services holding companies—with their bank subsidiaries—by commercial and industrial enterprises. Before the Congress takes what will amount to an irreversible step in this area, the Board believes that the issue of commerce and banking should be carefully studied and should await the absorption of the large number of other reforms contained in the bill.

I have not commented on all provisions of the Treasury bill or the other reform proposals that may have consumer implications. Nor have I addressed the specific consumer provisions in H.R. 6, introduced by Chairman Gonzalez. The Board will be happy to provide its views and assistance on these issues if requested at some later time.

Conclusion

In summary, the administration's proposals would widen and strengthen the ability of U.S. banks to serve the public more effectively, which is why the Board supports their thrust. The possible adjustments to the CRA process that may be necessary for nationwide branch banks and for accelerated acquisitions by the strongest institutions seem to the Board to be manageable.

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Statement by E. Gerald Corrigan, President, Federal Reserve Bank of New York, before the Subcommittee on Telecommunications and Finance of the Committee on Energy and Commerce, U.S. House of Representatives, April 11, 1991.

I am delighted to appear before you this morning to discuss—in accordance with your request—the specific features of the Administration's proposals to modify the current restrictions on the ability of commercial banks to affiliate with both securities firms and commercial entities. Because it is more controversial and because it has more far-reaching implications, I shall concentrate much of my prepared statement on the so-called banking–commerce question.

I should say at the outset that while I do have some differences of view with the Treasury on a few specific points—including the banking and commerce question—I enthusiastically applaud the efforts of Secretary Brady and his associates at the Treasury for putting before the Congress and the nation a truly comprehensive approach to reforming and modernizing the banking and financial system in the United States. Unless this task is successfully completed—and completed soon—I fear we face renewed and more intense stress in our financial system, with all of its implications for strains in the economy at large and a further deterioration in the international competitive position of U.S. financial institutions. Thus, I very much share the view of the Treasury and the President that these issues are a high priority on the national agenda for 1991, and I support the thrust of the great bulk of the approach suggested by the Treasury.

In part, I welcomed this invitation to appear before the subcommittee because it provided me with an opportunity to take a step back and reconsider my personal views on whether the separation of banking and commerce should be continued. In preparing this statement, I have gone to considerable lengths to give the benefit of the doubt to the arguments for permitting commercial firms to control banks. But the more I analyze the issue, the more I am sure that it would be a huge mistake to eliminate the barriers the Congress has constructed between banking and commerce.

Basic reform of the system is needed and needed badly. At the very least, we should put those reforms in place and permit them to run their course before we give any further consideration to permitting commercial firms to own and control banking institutions having access to the public safety net.

The text of this statement obviously is very lengthy. I apologize for that, but its length reflects the fact that the mixing of banking and commerce raises many substantive questions, some of which are quite subtle. Concern about these issues is reflected in the widespread present-day prescriptions against such combinations in the international community as well as in a long-standing Anglo–American caution about such arrangements that reaches back some three hundred years.

The bottom line of the statement is, however, quite clear. I remain opposed to combinations of commercial and banking organizations because of the following:

1. When they are needed most, fire walls will not work.
2. It is inevitable that at least parts of the supervisory system—if not the safety net—will be extended to commercial owners of banks.
3. The risks of concentration of economic resources and power are great.
4. The potential benefits that might grow out of banking–commercial combinations strike me as remote at best and illusory at worse at least under present circumstances.

Definition of Terms

One of the immediate problems that must be confronted in the debate on banking–commerce is the need for a consistent definition of terms within which the debate can be framed. The crucial issue is not whether a manufacturing firm or a retail firm may own or control a company that engages in financial services or even whether an industrial company directly engages in the provision of financial services. Rather, the core question—in the context of other problems associated with banking–commercial combinations—is whether such a business entity should be permitted to own and control financial institutions that, in turn, have direct or indirect access to the federal safety net associated with banking institutions.

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It follows, therefore, that we must have a clear conception of what we mean by the terms "control" and "safety net." The dictionary definition of "control" is a useful starting point in that it stipulates that control means the "power or authority to guide or manage." But even that definition is only a starting point because we all know that in the day-to-day world of corporate affairs it is not always easy to pinpoint the circumstances in which financial or other arrangements produce the result of "control." Fortunately, however, there is a long-established body of banking law and administrative rulings that helps clarify that ambiguity. That history tells us that control is presumed to exist when ownership exceeds 24.9 percent and that control *may exist* when ownership is far less than 24.9 percent. Control is presumed not to exist when ownership is less than 4.9 percent. These parameters strike me as a very reasonable range within which the debate can be framed.

The definition of the safety net is rather straightforward, even though the precise application of that definition to particular cases can be difficult. For these purposes, a financial firm may be said to have access to the safety net if it, directly or indirectly, has deposit insurance, has access to the discount window of the central bank, has access to the account and payment services of the central bank, and is subject to official supervision. The ambiguity that can arise in the application of this definition centers on two main points: first, whether the distinction between direct versus indirect access to the safety net matters; second, whether concerns about access to the safety net apply equally to all of its components or whether one or more elements, such as deposit insurance and access to the discount window, take on special significance in particular applications of the definition.

While the specifics may vary from country to country, the *de facto* presence of an official safety net for banks is universal. The mere presence of a safety net implies something of a covenant between those institutions that are the beneficiaries of the safety net and the society at large. Under the terms of that covenant, the affected institutions agree to conduct their affairs in a safe and impartial manner. As a part of that covenant, such institutions are subject to official regulation, the burden and costs of which are accepted in exchange for the privileges and protections afforded by the safety net. Looked at in this light, one of the key problems facing banking and other financial institutions is that technology and other forces have fundamentally altered the historic balance between the burdens of regulation and the protections and privileges afforded by the safety net. We see this problem quite vividly in the diminished value of the banking franchise.

All of this brings into sharp focus the question of why all nations have a safety net and regulated financial institutions in the first place. In other words, why don't we simply treat banks and other financial institutions the same way we treat gas stations and furniture stores? The fundamental answer to that question lies with the essential functions that banking institutions perform. That is, in the context of market economies, the tasks of mobilizing savings, channeling those savings into the most productive uses, and providing the means through which payment is made are seen as having such unique economic and fiduciary importance as to justify both regulation and the safety net. For example, since these institutions can perform these functions only with someone else's money, and because the risks inherent in the performance of these functions are so obvious, all nations take at least some steps to protect depositors and investors and to regulate some aspects of the credit-origination process.

But, such protections, as important as they are, cannot fully explain the nature of the safety net arrangements in this country, to say nothing of arrangements in other countries that often go further in protecting financial institutions and their customers than is the case in the United States. The missing link is, of course, what central bankers and others call "systemic risk." By systemic risk I mean the clear and present danger that problems in financial institutions can quickly be transmitted to other institutions or markets, thereby inflicting damage on those other institutions, their customers, and, ultimately, to the economy at large. More

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than anything else, it is the systemic risk phenomenon associated with banking and financial institutions that makes them different from gas stations and furniture stores. It is this factor—more than any other—that constitutes the fundamental rationale for the safety net arrangements that have evolved in this and other countries.

Looked at in this light, it seems to me very clear that a society should care, and care a lot, about who it is that controls financial institutions that have access to the safety net. By the same token, I would concede that those public policy concerns are not similarly present in a situation in which an auto manufacturing company or a retailer has a financial subsidiary, so long as neither the auto company nor anyone else has any illusions that it or the financial subsidiary has access to the safety net. Admittedly, I can imagine circumstances in which the sudden and uncontrolled failure of a major financial subsidiary of a manufacturing company could pose significant problems for financial markets and financial institutions more generally. Similarly, I must also admit that the competitive presence of financial subsidiaries of commercial firms—even when operating wholly outside the safety net—has been a factor in undermining the value of the franchise of banks. This may be especially true when the terms of credit or other transactions with the financial subsidiary are heavily subsidized by the parent company.

All of that notwithstanding, the banking–commerce question does not stand or fall on whether commercial firms can provide financial services; it does not even stand or fall on the presence or absence of the Bank Holding Company Act. The key question is whether we, as a society, should care about who owns and controls banking institutions that have access to the safety net and the terms and conditions—if any—under which such arrangements should be permitted.

International Experience

Impressions to the contrary, examples in other major countries in which commercial firms control banking firms (recognizing that in most countries banking and securities firms are one and the same) are *very much* the exception rather than the rule. In fact, I am not aware of a single example in which such a pattern of ownership would apply to a major banking institution, and I can think of only a limited number of cases in which it would apply at all, even though there may very well be some examples that I am not acquainted with.

Having said that, let me quickly state that (1) there are cases abroad in which banks own large stakes in commercial firms; (2) there are many countries in which banks have greater flexibility than in the United States in the scope of their relationships with commercial firms; and (3) there are countries where, as a general matter, ownership interests in banks *and* corporations generally are not as widely distributed as is typical in the United States. But, commercial control of banking institutions having access to the safety net is, by far, the exception, not the rule, even though in a number of countries, including the United Kingdom and Germany, the absence of commercial control of banks occurs by practice and tradition rather than as a matter of strict legal prohibition.

While on this subject of statutory arrangements abroad, I find it interesting that within the very recent past we have had two important countries—Italy and Mexico—that have had experience with commercial and banking combinations and have enacted sweeping new legislation strictly precluding commercial firms from controlling banks in the future. In the case of Italy, ownership of banks in excess of 5 percent is subject to approval by the Bank of Italy, and in no case can a single owner's holdings exceed an absolute ceiling of 15 percent. Mexico's new law limits ownership to 5 percent with an absolute ceiling of 10 percent.

The point of this, of course, is that if the United States were to authorize commercial firms to control banking institutions having access to the safety net, we would be alone among the major countries of the world in permitting such arrangements. Perhaps being alone in that regard should not bother us. But, on the other hand, perhaps experience around so much of the rest of the world is telling us something.

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A Brief History of Banking and Commerce

Those who favor permitting banking–commercial combinations here in the United States often point out that over the broad sweep of the financial history of the United States we have had noteworthy examples of comingling banking and commercial activities. However, such examples are the exception, not the rule. Moreover, the full history of banking in the Anglo–American tradition seems, quite clearly, to point to a public policy bias against such combinations.

The history of the banking–commerce issue over most of the eighteenth and nineteenth centuries must be viewed in the context of prevailing legal and business practices. For example, for most of that period, the corporate form was in a state of evolution as a natural outgrowth of the early and more mature stages of the Industrial Revolution. Thus, most corporations were charted by some political jurisdiction to perform specified functions. Partly for that reason, much of the earlier debate about the banking–commerce issue did not center squarely on the issue as to who should be allowed to own banks. Rather, it centered on the extent to which the charter of banking corporations would permit such an institution to engage in a broad range of activities, including activities that in today's terminology would fit squarely on the "commercial" side of the ledger.

While there surely were examples in which banking and commercial activities were authorized in the same business entity, there is ample evidence that such combinations were viewed with concern as a matter of broad public policy. For example, when the Bank of England was chartered by the British Parliament in 1694, the chartering act contained a clear prohibition against the bank engaging in commerce. Specifically, the act provided:

> And to the intent that their Majesties' subjects may not be oppressed by the said corporation by their monopolizing or engrossing any sort of goods, wares or merchandise, be it further declared. . . that the said corporation. . . shall not at any time. . . deal or trade . . . in the buying or selling of any goods, wares or merchandise whatsoever. . .

Almost one hundred years later, Alexander Hamilton drafted the chartering legislation of the Bank of the United States, which was enacted on February 25, 1791. Hamilton's model for the Bank of the United States was influenced importantly by the charter of the Bank of England, and it contained similar restrictions. Specifically, Section 7, Article X reads:

> The said corporation. . . shall not be at liberty to purchase any public debt whatsoever; nor shall it directly or indirectly deal or trade in any thing, except bills of exchange, gold or silver bullion, or in the sale of goods really and truly pledged for money lent and not redeemed in due time; or of goods which shall be the produce of its lands.

Moreover, Section 8 states:

> And be it further enacted, that if the said corporation, or any person or persons for or to the use of the same, shall deal or trade in buying or selling any goods, wares, merchandise, or commodities whatsoever, contrary to the provisions of this act, all and every person and persons, by whom any order or direction for so dealing or trading shall have been given, and all and every person and persons who shall have been concerned as parties or agents therein, shall forfeit and lose treble the value of the goods, wares, merchandises, and commodities, in which such dealings and trade shall have been;

In drafting the charters of each Bank of the United States, the Congress was sensitive to issues relating to ownership over banks. No individual or partnership could own more than 4 percent of the shares of the First Bank. No individual, company, or corporation could hold more than 0.875 percent of the shares of the Second Bank.

In the period immediately after the chartering of the Banks of the United States, there were some cases in which banking and commercial entities or activities were comingled. Yet, in a number of states and in the charter of the Second Bank of the United States enacted in 1816, the stipulations against such combinations of activities were retained.

Concerns about comingling banking and commercial activities were again recognized in the National Banking Act of 1864, which stipulated that nationally chartered banks would be limited to exercising "such incidental powers as shall be

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necessary to carry on the business of banking." Interpreting this phrase narrowly, the courts subsequently ruled that it would be "ultra vires" (beyond the proper scope or in excess of legal authority) for a bank to carry on a mining, manufacturing, or trading business; to engage in the buying or selling of cattle; or to operate a railway.

While the issues associated with the comingling of banking and commercial activities were very much a part of banking history in the last two centuries, it was not until this century that the question of commercial ownership of banks was joined. The ownership issue began to surface in the legislative debate surrounding the enactment of the Clayton Act. However, it was not until the late 1930s that the debate in today's terms really took shape. In that timeframe, the Federal Reserve Board, among others, began to call for legislation that would curb the growing practice of commercial firms owning banks—a trend that was (perhaps ironically) taking hold in part to save banks from the repercussions of the Great Depression.

The efforts that began in the late 1930s culminated with the passage of the Bank Holding Company Act of 1956. The 1956 act's major restrictions applied only to companies controlling two or more banks. However, in response to the subsequent growing importance and scope of the one-bank holding companies, the 1970 amendments to the act closed the so-called one-bank loophole, although a similar loophole for so-called unitary thrift institutions was left in place and remains to this date.

Much of the legislative debate about the 1970 amendments to the act centered on the distinction between corporate "conglomerates" and "congeneric" corporations. The result of the conglomerate–congeneric debate was the adoption of a limited congeneric proposal—bank holding companies could engage in activities "closely related to banking." Companies engaged in a broader range of activities had a ten-year temporary grandfather period to either divest themselves of their banks or their impermissible nonbanking activities.

To summarize briefly, for the greater part of this nation's existence, the fact that commercial firms did not own and control banks, with some exceptions, was the generally accepted state of affairs. Beginning in the 1930s, commercial firms began to acquire smaller banks. This growing tendency was dealt with in federal legislation in 1933, 1965, and 1970, but the matter was not fully laid to rest. Now that we are at a watershed in terms of structure of our financial system, we once again have an opportunity to get it right.

The Arguments for Combining Banking and Commerce

While contemporary experience around much of the industrial world and the history of banking in the Anglo–American tradition would, taken by themselves, seem to constitute sufficient grounds to go slowly in moving toward permitting commercial firms to control banks, neither that history nor those global practices constitute necessary or sufficient reason to reject banking–commercial combinations out of hand.

Indeed, in a market economy—especially one such as that of the United States, which is so deeply rooted in the tradition of freedom and entrepreneurial enterprise—there is a strong philosophical bias for permitting any institution the right to go into any business, including banking. On the other hand, the very essence of public policy has its roots in the central proposition that the common good can dictate circumstances in which individual prerogatives must be limited. It was precisely this line of reasoning that led Adam Smith to the conclusion that banking had to be regulated when, in the *Wealth of Nations,* he wrote:

> Such regulations may, no doubt, be considered as in some respect a violation of natural liberty. But those exertions of the natural liberty of a few individuals, which might endanger the security of the whole society, are, and ought to be, restrained by the laws of all governments; of the most free, as well as of the most despotical. The obligation of building party walls, in order to prevent the communication of fire, is a violation of natural liberty, exactly of the same kind with the regulations of the banking trade which are here proposed.

Against this background I, for one, do not feel apologetic in taking the position that the case *for*

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permitting commercial firms to control banking institutions should be based on some affirmative public policy reasons to take this step. In those circumstances, I think it only reasonable to ask: First, why would commercial firms want to control banking institutions; second, what public policy ends would be served by such arrangements; and third, how credible are the safeguards against abuse, recognizing that even the most ardent of the proponents accept the fact that such safeguards are necessary?

As to the first of these questions, namely, why would commercial firms want to control banking organizations, I can see several possibilities. First, the commercial firm may conclude that the rate of return on such investments is greater than that available on alternative investments. Second, the commercial firm may conclude that such investments provide a vehicle to diversify its cash flow or its profits. Third, the commercial firm may see synergies between its basic business and one or more aspects of the banking business. Fourth, the commercial firm may see advantages to having indirect access to one or more elements of the safety net. While never stated, I must confess that I wonder at times if another motivation for such combinations might not be a desire on the part of some firms to further leverage their own capital position.

In considering the question of why commercial concerns might wish to make investments in banks, it is important to keep in mind that any commercial firm can make sizable passive investments in one or more banking institutions under existing laws and regulations. Similarly, such passive investments could easily provide major elements of income diversification. On the other hand, if control is sought or achieved, or if the investment is motivated by perceived synergies or by a desire to gain indirect access to the safety net, then it must follow that *concerns* about conflicts of interest, unfair competition, and concentration and the extension of the safety net *must* be present, even if differences of opinion exist as to the nature and depth of those concerns.

Indeed, to my knowledge, all of the proponents of blending banking and commerce recognize that the potential for such problems is present when control of the bank exists. However, in the face of those concerns, the argument is made that allowing such combinations will provide important public benefits that—given appropriate safeguards and fire walls—more than compensate for the risks. The most important public benefit that is cited in this regard is that such arrangements would provide a needed source of fresh capital to the banking system or to individual banks. It is also suggested—though not as forcefully—that commercial ownership of banking organizations will provide, presumably through synergies, greater innovations and efficiencies that will lower costs for financial services to their end users. Finally, it is suggested—drawing on the experience in countries like Germany and Japan—that close linkages between banks and commercial firms will promote greater economic stability.

Regardless of how much weight one puts on the potential benefits associated with permitting commercial firms to control banks, virtually everyone acknowledges that such arrangements must be accompanied by strong regulatory safeguards to protect against potential abuse. While the list of existing or suggested safeguards or fire walls is long, in generic terms they fall into three major categories: first, limits on which banks can be acquired by which commercial firms; second, various fire walls that limit transactions or interaction between the bank and its commercial owner; and third, various arrangements whereby the authorities could force a commercial owner of a bank to take certain actions—including divestiture—if the bank were in jeopardy.

In considering the merits of any or all fire walls, it is important to keep several things in mind: First, fire walls, by their nature must limit synergies. Thus, the higher and thicker the fire wall, the less the synergy. Indeed, if the fire walls are fail-safe, the synergies must all but disappear. Second, fire walls, by their nature, seem inconsistent with the essence of control. If, to use the dictionary definition, the "power or authority to guide or manage" is present, it is very hard to conceive of conditions in which fire walls can be said to be fail-safe. Third, the acid test of fire walls arises in the context of adversity either to the banking institution itself, a cross-stream affiliate, or the parent. That is, in the face of serious problems is it reasonable to conclude,

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based on experience, that the marketplace—here and abroad—will distinguish one entity from another within the framework of a business conglomerate with common ownership of the component parts? Unless one can be quite sure of that result, the obvious danger is that in times of stress, fire walls become walls of fire!

The Risks Associated with Combining Banking and Commerce

From a public policy perspective there are three sets of risks associated with permitting commercial firms to control banks. The first is the historic concerns about conflicts of interest, unfair competition, and concentration. The second is the contagion risks—or the dangers that problems in one part of an overall entity cannot, in market terms, be contained and isolated from other parts of the firm. The third set of risks is those surrounding the potential extension of the safety net—or at least parts of it—to the firms that control the banking organizations.

I do not believe that it is necessary to elaborate in any detail on the nature of the risks regarding conflicts, unfair competition, or excessive concentration that can grow out of situations in which commercial firms control banks. The nature of those potential sources of risk has been recognized for centuries.

While those sources of potential concern have been widely recognized for many years, it should be stressed that they arise because they constitute a threat to what I like to call the impartiality of the credit decisionmaking process. As such, they go right to the heart of one of the most important functions of banking institutions in a market economy.

It should also be stressed that, in the contemporary world of high-speed, high-complexity finance, practices that cross the line between potential problems and actual problems can be very difficult to detect until it is too late. This is especially true if the entity that controls the banking organization is not, itself, subject to direct official supervision or oversight. This is an important point since I suspect that none of the advocates of commerce and banking combinations would favor the extension of the kind of direct and continuing supervision of bank holding companies we now have to commercial owners of banking institutions. Indeed, the nature of government involvement in business that would seem to grow out of such arrangements would, in itself, seem contrary to the role of government in a market economy.

The second set of risks associated with banking and commercial combinations—namely the so-called contagion risks—pose even more difficult problems. By contagion risks I mean, of course, the danger that problems in any one part of a business will adversely affect other parts of the business despite fire walls or legal separations between particular business units within the company as a whole.

The contagion problem is, of course, multifaceted. That is, the concern does not simply center on the relatively narrow question of what happens if the banking entity itself gets into trouble. In fact, the contagion problem can be more difficult to cope with in a situation in which adversity at the level of the parent impairs the well-being of the bank.

In any of these circumstances, the important question relates to how the marketplace and how the owners and managers of such institutions react to adversity. That is, faced with adversity, do the owners and managers walk away from troubled affiliates or do they conclude that reputational and other considerations require that they make efforts to stabilize the troubled affiliate to protect the well-being and the reputation of the entity as a whole? Similarly, and even more important, what does experience tell us about the manner in which the marketplace reacts to these circumstances? That is, in the face of serious problems in one part of a financial entity, does the marketplace continue to deal with the other parts of the entity on a business-as-usual basis or do market participants shy away from the affiliated companies as well as the troubled entity?

On both of these points it seems to me that the evidence is overwhelming that fire walls and corporate separateness do not stand up well in the face of adversity and that the contagion risks are very real indeed. It is noteworthy in this regard that in a recent ruling regarding the relationship between Credit Suisse and Credit-Suisse First Boston, the Swiss Federal Supreme Court

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squarely acknowledged the existence of the contagion problem even in the face of legal separateness. Specifically, the court said:

> The Drexel affair has shown that isolating a company that was in itself solvent could not protect it from a loss of repute. Since the insolvency of one member of a banking and financial group leads to a loss of confidence in the other members, the Federal Banking Commission is justified in requiring evidence that sufficient own funds capital are available within the group as a whole.

This ruling by the Swiss Federal Supreme Court is important not only because it seems to be a common sense affirmation of what experience suggests but also because it tends to reflect the widespread view outside the United States that banking and financial firms are a single entity. This is important because, even if we in the United States can convince ourselves that fire walls and legal separations can be made to stick in any circumstances, it will accomplish little if the international financial community does not accept that view. This is particularly true in a context in which all major U.S. financial firms—and therefore the well-being of the financial system at large—are highly dependent on foreign counterparties for a wide range of activities—including funding.

Looking at experience in the United States and around the world, it seems clear to me that Walter Wriston had it exactly right when, a number of years ago, he said:

> For example, it is inconceivable that any major bank would walk away from any subsidiary of its holding company. If your name is on the door, all of your capital funds are going to be behind it in the real world. Lawyers can say you have separation, but the marketplace is persuasive, and it would not see it that way.

The realities of the contagion problem give rise to the third set of risks associated with banking and commerce combinations, and those risks include, or course, the dangers that such combinations bring with them the likelihood that at least some parts of the safety net will be extended to the commercial owner of banking institutions, especially in times of stress.

However, fully aside from situations involving severe financial strains, it seems clear to me that the mere fact of permitting commercial firms to own and control banking organizations carries with it at least the implicit transfer of some elements of the safety net to such firms if in no other way than through the official sanction of the particular combination in question. For example, I assume that even the proponents of merging banking and commerce would agree that the acquisition of a bank by a commercial company would be subject to some sort of official approval process. I assume that they would also agree that a part of that application process would have to focus on the financial strength of the acquiring firm as well as the regulatory and managerial fire walls that they agree should be constructed. I assume that they would further agree that such applications would be approved while others would be denied and that some form of ongoing monitoring would be necessary. In making this point, it should be emphasized that commercial firms wishing to own banks undoubtedly will not be limited to a few "blue chip" companies. To the contrary, the list of *potential* acquirers will include all comers—something I am convinced we should be especially sensitive to in this era in which the fate of seemingly very strong companies can fall on difficult times so very quickly and irreversibly.

Therein, of course, lies the dilemma. That is, even the official act of approving an application of a commercial firm to acquire a bank seems to carry with it the extension of at least some elements of official oversight to the acquiring firm in a manner that brings with it—at least by implication—an official blessing of the transaction and the relationship. As I see it, this subtle but certain extension of an element of the safety net is not something we should take lightly since we must be prepared to live with its consequences in foul weather as well as in fair.

In considering the potential sources of risk associated with commercial ownership of banks there can be honest differences of judgment as to how great and how clear and present those dangers may be. That is why these risks and potential risks must, in the end, be carefully weighed and balanced against the potential benefits of banking and commercial combinations. That is the task of the next section of this statement.

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Balancing the Risks and the Benefits

It is clear to me that in current circumstances the weight of the arguments against permitting commercial firms to own and control banking institutions is very powerful on several counts. While any one of these factors seems to me persuasive, it is the cumulative weight of all of the arguments that is truly compelling.

First, when they are needed the most, fire walls will not work. This is important not only in its own right but also because, as mentioned earlier, every serious proposal to permit commercial firms to own banks depends—either implicitly or explicitly—on the premise that fire walls are fail-safe and will stand up in the face of stress. Not only is that premise inconsistent with experience, but it also seems to me to be an outright contradiction since the concept of control is incompatible with the concept of fail-safe fire walls. To put it differently, control seems to inescapably entail responsibility. To make matters worse, the very instant that synergies are stipulated—either explicitly or implicitly—the contradiction becomes glaring. If the fire walls are fail-safe, the synergies must disappear, and if the synergies disappear, the central economic agrument that public benefits will flow from such combinations is rendered moot.

I am not suggesting that separately capitalized subsidiaries and fire walls (or, better stated, Chinese walls) may not serve a useful public policy purpose. To the contrary, such arrangements can be a very big help in minimizing problems of potential conflicts of interest and unfair competition. They can also be very helpful in facilitating a sensible system of functional supervision. But it would be a serious mistake to conclude or to assume that fire walls can protect against the contagion problem.

The marketplace views these banking and financial entities as a whole; indeed, that is how these firms typically are managed, and in many cases their integrated nature is a feature of their advertising. To believe things would somehow be different with commercial ownership of such firms seems to me to strain common sense and experience to the limit. Therefore, if we have commercial ownership, there will be an entirely new dimension to the contagion problem—namely, the implication for the banking entity should there be serious problems with the parent. For example, it is worth pondering what would have occurred in 1980 had Chrysler owned a family of banking institutions having access to the safety net. Similarly, what might have happened had Texaco been in a similar position at the time of the Penzoil litigation? It is also worth keeping in mind that the corporate landscape is currently littered with dozens of "fallen angels," many of which might well have owned banks in happier times. Finally, it is also worth noting that if we go back twenty-five or thirty years we can find examples of commercial companies that were seen as financially invincible—and thus strong candidates to own banks—that are today a mere shadow of their earlier profile, if that.

In short, I draw very little comfort from the track record of fire walls, especially their reliability in times of stress. Given that the invincibility of fire walls would be even more important in the case of commercial ownership of banking institutions, the risks associated with such arrangements seem to me entirely too great.

Second, it is inevitable that at least parts of the supervisory system—if not the safety net—will be extended to commercial owners of banks. Partly because it would be so very imprudent to rely on fire walls, permitting commercial firms to control banks would, of necessity, entail at least some elements of the regulatory and supervisory apparatus being extended to the commercial owners of banks. The application process itself guarantees that result, as does even the most subtle imposition of a source of strength doctrine. Similarly, with all or most of the capital of the bank downstreamed from the parent, the supervisor would have to look to the parent to see what lies behind that capital. More generally, the enforcement of fire walls—even those governing transactions flows—would have to entail at least some interaction between the supervisor and the parent. At a minimum, all of this will complicate the already difficult moral hazard problem. At worst, it could entail a greatly expanded role for the government in the affairs of corporate America—a result that I suspect few would welcome.

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But, the even larger question is whether, in the face of adversity, such combinations might result in the *de facto* extension of other aspects of the safety net to the owner of the bank. As I said earlier, the mere fact of official sanction of some such combinations and the denial of others seems to carry with it some elements of that risk. How much further that risk might be extended in the face of serious problems is hard to judge, but it seems clear to me that the best way to avoid that risk is to avoid creating the preconditions under which it could arise.

Third, the risks of concentration of economic resources and power are great. That is, if we were to permit commercial firms to control banks, it is clear that the potential dangers in terms of concentration of economic resources and economic power—with all of the potential implications for compromising the impartiality of the credit decisionmaking process—could be serious indeed. Since this is as much a social and political issue as it is an economic issue, I tend to shy away from placing too much emphasis on this factor. Even though I choose to do that in recognition of the official position I hold, I would be less than candid if I did not acknowledge that I, too, worry about the broad socioeconomic—and perhaps even political—implication of these arrangements that have been raised by Henry Kaufman and others.

It is important to keep in mind that while these concerns may seem remote today, once we start down the very slippery slope of combining banking and commerce we will, in practical terms, have already passed the point of no return. Turning back will not be easy or cheap.

Finally, the potential benefits that might grow out of banking–commercial combinations strike me as remote at best and illusory at worst, at least under present circumstances. The one possible exception to this is the source of capital argument that is discussed further below. However, putting that issue aside for the moment, the two other economic arguments (that is, the efficiency argument and the economic stability argument) just don't strike me as very convincing. For one thing, both depend on synergies that, as outlined earlier, collide head-on with the fire wall problem. But even if we fully ignore the fire wall issue, it seems a major leap to conclude that commercial–banking conglomerates would, in fact, yield sizable efficiencies. Indeed, the history of conglomerates generally is, at best, checkered. Again, putting aside the financial capital issue, the two most obvious sources of such gains in efficiency that are not inherently objectionable would seem to lie in the areas of technology and managerial expertise. However, if better or different technology or management is needed, it can be acquired directly.

With regard to the economic stability argument, it must be acknowledged that in Germany and Japan, in particular, there are closer relationships between banking and industry than is the case in the United States. And, it must also be acknowledged that in recent years the overall economic performance of those two countries has, by many standards, been quite good. However, there are also other countries where banking–commercial relationships are very close, but economic performance has been mixed or worse. What that suggests, of course, is that economic performance is much more a function of the fundamentals of macroeconomic policy than it is a function of national preferences as to industrial structure.

Moreover, even if we were to grant that there is some marginal net benefit to economic performance growing out of these arrangements, the question remains as to whether there may not be costs—either economic or social—growing out of such arrangements that would outweigh those potential benefits. That is probably more a political question than an economic one, so I must leave it to others to consider the possible tradeoffs involved.

There is one final aspect of this issue, and it relates to the motivations for commercial ownership of banks. If the motivation is either a desire to gain access to the safety net or large-scale synergies, the problems are obvious. If it is diversification of income, it is clear that there are all kinds of ways commercial firms can diversify their income, including owning financial subsidiaries that unambiguously do not have access to the safety net. Finally, if the returns in banking are so superior to returns available on alternate

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investments, then it is clear that capital would flow to banking quite freely and naturally with no need for the capital resources of industrial firms to augment traditional sources of capital.

However, as we all know very well, the current situation in banking is not one in which relative returns command that lofty position in the eyes of investors. Indeed, the pattern of price–earnings ratios of even the most successful banking organizations over recent years tells us that in unmistakable terms. Thus, the strains in the banking system and the associated pressures on the financial position of the deposit insurance fund are the major factors that give rise to the suggestion that permitting commercial firms to own banks is desirable on public policy grounds in that such arrangements will provide the needed fresh capital to the banking industry.

While this argument deserves careful attention under current circumstances, I find it unpersuasive. For one thing, as I have said on earlier occasions, it is by no means clear to me that the banking *system* is materially short of capital. The problem may well be too much capital chasing too few *good* loans. Beyond that, there is ample room for commercial firms to make passive investments in banking institutions even under existing rules. Finally, in a market economy, capital is attracted by profits and returns. If an industry cannot compete—especially because of outdated laws and regulations—it will not, and should not, attract capital. On the other hand, if the unnecessary and outdated structural impediments to profitability are removed, capital should flow quite naturally. At the very least, this says to me that, before we as a nation take the essentially irreversible step of permitting commercial firms to own and control banking firms, we ought to put in place the kind of basic reforms the Treasury and others have suggested and see what happens. I, for one, have little doubt that when capital is needed and can serve its purpose, it will be available from conventional sources. As a part of that process, and as I have said on earlier occasions, I would not be allergic at all to providing some greater flexibility regarding commercial firms' ownership stakes in banks and vice versa, so long as the control issue is not breached or threatened.

To summarize, the position I have taken on the banking–commerce question is that, given the obvious risks, the case for permitting commercial firms to own and control banking institutions should rest on some compelling and affirmative public policy reason. In the current circumstances, I simply do not see compelling public policy reasons to follow that course of action. Thus, under present and foreseeable circumstances, I remain opposed to such combinations.

Combinations of Banking and Securities Firms

While I am strongly opposed to combinations of banking and commercial firms, I have been, and remain, in favor of authorizing combinations of banking and securities firms—given, of course, appropriate corporate structure and safeguards. The reasons why I favor such combinations are, in many ways, the mirror image of the reasons I am against banking–commercial combinations. Those factors include the following:

First, unlike banking and commerce, combinations of banking and securities firms are the rule, not the exception, throughout the industrial world. In fact, as things stand now, only Japan and the United States do not permit such combinations. Moreover, in several important countries, securities activities take place directly in the bank and not in an affiliated company.

Second, combinations of banking and securities companies strike me as wholly in keeping with the spirit of congeneric financial corporations. Indeed, even within the narrowly defined limits of Glass–Steagall, banks are actively engaged in a wide range of securities activities. More recently, and reflecting the thrust of competitive and technological developments, banks and securities companies alike have aggressively been moving into each other's traditional lines of business here and abroad. Banking organizations and securities companies now have banks here and abroad. Moreover, there is now a wide range of specific activities in which banking organizations and securities firms compete directly. Examples include the following: foreign exchange;

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the writing and brokering of interest rate and currency swaps; underwriting and trading in a wide range of Euro-currency debt and equity instruments; underwriting and dealing in a wide range of governmental securities, here and abroad; the underwriting or private placement of commercial paper; and, on a limited scale, the underwriting of debt and equity securities here in the United States. Obviously, none of these close parallels in business activities are to be found among banking and commercial firms.

Third, bank holding companies—including such companies that own securities subsidiaries—are and should be subject to official supervision at the level of the holding company. They are also subject to functional supervision at the level of the bank or securities affiliate of the holding company. This means that the official supervisory process does not have to reach into a new segment of corporate America, as would be the case with banking and commercial combinations.

More importantly, it also means that problems at the level of the parent that might adversely affect the bank should be easier to detect and remedy. Indeed, the mere presence of officially promulgated capital standards, consolidated reporting requirements, and periodic inspections at the level of the holding company provide *some greater* assurance against contagion problems coming from any direction. I might add in this regard that the principle of consolidated supervision of banking institutions is the norm throughout the industrial world. This principle is the basic line of reasoning that lies behind the ruling of the Swiss court in the Credit Suisse case that was cited earlier.

Fourth, because some elements of the safety net—in this case, official supervision and regulation—apply to the holding company owners of banks, it does not follow that all other elements of the safety net need, or should, apply to the holding company or to its nonbank subsidiaries. This is surely the case with deposit insurance. On the other hand, in Japan and the United Kingdom, securities firms that are not affiliated with banks do have account relationships with the central bank, and in Japan such firms also have access to the discount window at the Bank of Japan.

Fifth, while there is something to be said for the so-called limited universal bank model, I believe that securities activities (with some exceptions) of banking firms should be conducted in a separately capitalized subsidiary of the holding company and the banking activities of securities firms should be organized similarly. While I am under no illusion about fire walls—especially their ability to deal with the contagion problems—I do believe that so-called Chinese walls can play a very useful role in guarding against conflicts of interest and unfair competition. Such arrangements have, for example, worked well over the years in relationships between trust departments of banks and the bank as a whole. It is also true, as noted earlier, that separately capitalized entities can also facilitate functional supervision. However, functional supervision is not good enough. We also need consolidated supervision at the level of the holding company.

Thus, combinations of banking and securities firms should be permitted so long as appropriate supervisory standards and policies are in place. However, such arrangements can give rise to one major practical problem: There will be a handful of securities firms owned by commercial companies that would not be allowed to own insured depository institutions. That is, securities firms that are not controlled by commercial firms would be free to own insured depositories, but those controlled by commercial firms would not. This rule may seem arbitrary, but it is a natural outgrowth of the argument against the direct or indirect control of banking firms by commercial entities. This rule would not, of course, preclude commercial companies from owning and controlling financial subsidiaries, as is now the case. But it would put a halt to such firms owning and controlling banking institutions with access to all elements of the safety net.

SUMMARY

The long-term implications as to how the United States should best reform and restructure its

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banking and financial system cannot be anticipated with precision. That, inevitably, points to the case for care and caution in the process. The need for caution is at the heart of the reasons why I oppose banking and commercial combinations in the present circumstances.

However, the need for caution cannot be allowed to result in paralysis. Prompt and comprehensive reform of the banking and financial system is long overdue. Therefore, I would urge the Congress to move as promptly as possible toward the enactment of broad-based progressive legislation this year. Few items on today's national agenda strike me as having greater importance and even fewer will have greater importance for the long-term well-being not just of the banking and financial system but also of the economy at large. □

Statement by Alan Greenspan, Chairman, Board of Governors of the Federal Reserve System, before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, April 16, 1991.

I welcome the opportunity to discuss title III of S. 207, the Futures Trading Practices Act of 1991. Although many of the issues presented in this legislation are highly complex, they are important to the competitiveness and soundness of U.S. financial markets. Consequently, I commend the committee for undertaking to explore them fully at this time. There are two provisions of this title that have been of particular interest to the Board of Governors of the Federal Reserve System, those dealing with margins on stock index futures and those dealing with the exclusivity provisions of the Commodity Exchange Act (CEA). As I have noted in previous testimony and congressional correspondence, the Board supports federal oversight of margins on stock index futures, which is provided for in S. 207. While we continue to see good reasons for vesting that authority directly with the Commodity Futures Trading Commission (CFTC) or the Securities and Exchange Commission, we accept the rationale for giving this authority to the Board with the latitude to delegate this authority to the CFTC and, of course, would endeavor to discharge that responsibility in a careful and serious manner.

Of more relevance to the hearing today is the matter of the exclusivity provisions of the CEA. I understand that there are currently three alternative approaches to this issue that may be considered: the approach passed by the Agriculture Committee; another approach offered by the CFTC; and a third offered by Senators Bond and Wirth. Each of these approaches revises the exclusivity provisions of the CEA somewhat differently. I would like to comment on each alternative, but first I would like to review with the committee some of the history of this issue.

Under the so-called exclusivity provisions of the CEA, contracts for sale of a commodity for future delivery are subject to the exclusive jurisdiction of the CFTC. In addition, transactions in, or in connection with, such contracts can only be conducted on, or subject to, the rules of a contract market designated by the CFTC. The CEA defines the term "commodity" broadly to include not only agricultural products and other goods such as oil but also services, rights, and interests. This language has been interpreted to include contracts for the future delivery of financial interests such as the value of Treasury securities or stock indexes. Although the CEA excludes a number of transactions, including contracts for deferred shipment or delivery and transactions in foreign currency, government securities, and mortgages, it nonetheless can be read to be applicable broadly to many types of financial contracts.

In recent years, a wide variety of new products have been developed to serve the investment and risk management needs of the public. Many of these products have had some of the economic attributes of futures, and their legality has been called into question by the exclusivity provisions of the CEA. For example, over the past ten years, the swap markets have developed and grown to involve transactions with $3 trillion in notional principal amount. The vast majority of these transactions involve interest rates or exchange rates, but in recent years a significant number have involved goods such as oil or precious metals. In a swap transaction, the parties agree to make payments to each other based on changes in

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interest rates or the value of oil or other products. Unlike exchange-traded futures contracts, these transactions are customized to the needs of individual customers and are negotiated on a bilateral basis. Thus, they represent important risk-management tools to shield financial institutions and others from fluctuations in interest rates or the prices of the goods or instruments in which they deal. The customizing of these transactions to individual customer needs as to maturity, payment intervals, or other terms can offer significant advantages over standardized exchange-traded products by allowing the customer to adjust its individual risk positions with greater precision.

Nevertheless, the exclusivity provisions of the Commodity Exchange Act have cast a pall over this market, particularly in the area of swaps linked to prices for goods such as oil. Investors and financial institutions have been concerned that such transactions might be interpreted to be the economic equivalent of contracts of sale for future delivery under the CEA and therefore be considered illegal off-exchange futures. Thus, an active market in swaps related to prices of goods did not develop until the CFTC took administrative action to indicate that it would not view them as illegal off-exchange futures. Even with this exemption, there continues to be concern that developments in the swap markets may run afoul.

This specter has almost surely inhibited innovation, not only in the swaps markets but also in other financial markets. As early as 1989, the Board expressed its concern to the CFTC that the provisions of the CEA would prevent financial institutions from developing and offering new instruments to manage risk and reduce the flexibility and competitiveness of U.S. financial markets.

In several administrative actions, the CFTC has taken steps to alleviate some of the problems created by the exclusivity provisions of the CEA. These actions have included a policy statement indicating that the Commission would not consider interest rate swaps and certain commodity swaps to be illegal off-exchange futures. In addition, the Commission adopted rules excluding certain hybrid instruments, including bank deposits, from the CEA provided that these transactions met certain financial tests. While these were constructive steps, for which we commend the CFTC, administrative actions by themselves cannot eliminate the uncertainty created by the exclusivity provisions, and therefore cannot remove the existing impediments to innovation. Administrative actions leave open the possibility that exemptions will be revoked or that private parties will raise the statutory prohibition in an attempt to invalidate specific transactions. This uncertainty impedes the development of new financial products.

S. 207, as passed by the Agriculture Committee, attempts to address these issues but does so in a way that is less than satisfactory. The Agriculture Committee version would provide the CFTC with the authority to exempt certain transactions including swap agreements and deposits from the CEA. To exempt swap agreements, the CFTC would have to find, after notice and the opportunity for a hearing, that the exemption was in the public interest, the transactions are entered into by a limited class of participants, and that they meet several restrictions. The Agriculture Committee version also would provide the CFTC with the authority to exempt bank deposits if it determines, after notice and the opportunity for a hearing, that the exemption would not be contrary to the public interest.

While providing for certain exemptive authority, the Agriculture Committee version would perpetuate impediments to innovation in hybrid instruments and risk management products and would forestall developments in swap markets that could reduce systemic risk. For example, some of the restrictions on the swap exemption included in the Agriculture Committee version have the potential to limit the exemption of some swap agreements currently traded, as well as to inhibit the development of new transactions. The Board also is particularly concerned about the potential of these provisions to impede the development of multilateral netting arrangements that are designed to reduce counterparty credit risk and the resulting systemic risk to the financial markets. The importance of such arrangements was recently recognized in a report released last November by the governors of the central banks of the Group of Ten Countries. Moreover, such restrictions lead to swap activity and any associated netting arrangements moving offshore.

Further, the general exemptive authority in the Agriculture Committee version is narrow; the

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CFTC may not be able to make appropriate exemptions; and the requirement for a hearing would create a burdensome process that would in itself limit the usefulness of the exemptive authority. In addition, the Agriculture Committee version also suggests that the CFTC would have jurisdiction over some depository instruments and lending transactions, even though banks are subject to a comprehensive system of federal regulation designed to ensure the safety of the institutions and to protect their depositors.

The alternative developed by the CFTC goes further in expanding the CFTC's exemptive authority than the provisions of the Agriculture Committee version and might be viewed as an improvement over the current law. Nevertheless, this alternative continues to rely on discretionary, and potentially restrictive, exemptive procedures for dealing with swaps and bank deposits rather than the more certain exclusionary approach of the Bond–Wirth alternative. Further, it does not address lending transactions at all.

The alternative language offered by Senators Bond and Wirth, on the other hand, excludes certain swap transactions as well as certain deposit and lending transactions from the coverage of the CEA altogether, thus avoiding problems that may arise from a cumbersome exemptive process and the potential for revocation of any exemptions that may be granted for these transactions. It also would provide the CFTC with broader discretionary authority to exempt any instrument if the CFTC determines the exemption is consistent with the public interest. The approach taken by this proposed alternative goes further to alleviate the difficulties for the financial markets created by the provisions of the CEA than the Agriculture Committee or CFTC versions and therefore is, in our judgment, preferable, particularly in the areas of swaps, bank deposits, and lending instruments. The exclusion approach also would remove possible conflicts in regulatory jurisdiction that might arise from continued CFTC jurisdiction over swaps. At the same time the limitations on the exclusions ensure that these transactions are subject to federal oversight or are limited to sophisticated investors.

In conclusion, I believe that it is important that the Congress act to clarify the limits of the CEA in a way that permits innovation in U.S. financial markets so that they can continue to be strong and competitive. □

Statement by Richard Syron, President, Federal Reserve Bank of Boston, for the Subcommittee on General Oversight and Investigations of the Committee on Banking, Finance and Urban Affairs U.S. House of Representatives, April 17, 1991.

I am pleased to appear before you to discuss the failure of the Rhode Island Share and Deposit Indemnity Corporation (RISDIC). The situation in Rhode Island is very serious, and it is useful to explore fully why this problem occurred and how similar problems can be avoided in the future. In that effort, I will summarize the impact of the crisis on individual citizens in Rhode Island and on the economy of the state. I will then review actions taken by the Federal Reserve Bank of Boston in response to the financial problems experienced by the loan and investment companies, banks, and credit unions insured by RISDIC. I will conclude with the lessons that should be drawn from this experience.

Impact of the Crisis

Even before the collapse of RISDIC, serious problems were emerging in the Rhode Island economy. Rhode Island, like other New England states, had been suffering an economic decline well before the national recession. The decline began with a prolonged decline in the manufacturing sector, but this weakness radiated to other sectors of the economy. The slow growth in state revenues in Rhode Island, and in other New England states, has forced state and local governments to increase taxes and cut services. These problems were compounded by the collapse of the real estate and construction bubble.

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The rapidly rising real estate prices of the mid-1980s reversed direction and began to fall. The median sales price of an existing single-family home in Providence, which had been $133,000 in the fourth quarter of 1988, had fallen to $120,000 by the fourth quarter of 1990. The falling real estate prices not only eliminated a major source of wealth to consumers but also magnified the effects of the national recession. Employment in construction and real estate-related occupations normally declines during economic downturns; however, the size of housing inventories and the softness in real estate prices were unusual even for recessionary periods.

These problems have been obvious to the citizens of Rhode Island. In December 1990, before the failure of RISDIC, the unemployment rate was 7.5 percent, 1.4 percentage points higher than the national average. Personal bankruptcies in 1990 numbered almost twice those of the prior year. Business bankruptcies also increased sharply in 1990, to triple the number in 1989. By any measure, the "misery index" of the citizens of Rhode Island was already high going into the RISDIC crisis.

The failure of RISDIC at the beginning of this year clearly exacerbated an already dreary economic situation. Initially, it is estimated that more than 350,000 accounts were frozen as a result of the RISDIC failure in a state with a population of only slightly more than 1 million people. Individuals were deprived of access to their funds, and businesses could not finance inventories and payrolls, resulting in severe dislocations that affected the entire citizenry of the state.

In relative terms, the crisis was much more severe than the two highly publicized private insurance failures in Ohio and Maryland in 1985. While the total shortfall between deposits and assets is unclear, estimates range between $150 million and $450 million, roughly 9 percent to 27 percent of total 1990 state government general revenues. In comparison, the shortfall in Ohio and Maryland was roughly 1 percent of each state's general revenues.

It is still too early to estimate the full economic impact of the RISDIC financial collapse on Rhode Island. Nonetheless, the relatively few economic data available for the first quarter of this year are not encouraging. Personal bankruptcy filings for the first quarter were almost 50 percent higher than the average for 1990. The 121 housing permits issued in February were far below the 1990 monthly average of 260 permits. The unemployment rate in February was 7.9 percent, compared with 7.5 percent in December. The RISDIC crisis has clearly worsened an already bleak economic outlook for Rhode Island.

The Federal Reserve is deeply concerned with the severity of the economic problems in Rhode Island. Roughly $1.2 billion remains frozen. The situation is all the more tragic in that many of these problems could have been avoided had earlier warnings been heeded.

Early Warnings

The Federal Reserve Bank of Boston had been concerned for some time with the financial viability of private insurance funds located in individual states. This concern increased with the failure of private thrift insurers in Maryland and Ohio in early 1985. Their experiences convinced us of the need to monitor carefully the financial health of privately insured institutions in the First District. Examination of financial data on RISDIC itself and on RISDIC-insured institutions raised serious doubts about the financial viability of the private insurance fund. Among the institutions that RISDIC insured, several clearly could not have qualified for federal insurance in 1985. Further weakening the fund, some of RISDIC's strongest members were qualifying for federal insurance and leaving the RISDIC insurance pool.

Even without a pool of risky members, substantial concerns with RISDIC would have remained. RISDIC expanded deposit insurance coverage to accounts exceeding $100,000 in 1985 and continually allowed members to engage in risky lending practices that were not acceptable to federal insurers of credit unions or to other private insurers. Because of the small size of the insurance pool, losses from large institutions could only be met by substantial additional assessments on its remaining members. Furthermore, since all the institutions were located in the same area, made loans to similar borrowers, and had large positions in other RISDIC insured-institutions, all were likely to experience problems at the same time.

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This lack of diversification, and the knowledge that RISDIC's riskiest institutions were also its largest, led senior officials of the Boston Federal Reserve Bank to initiate discussions with Rhode Island government officials on the status of RISDIC-insured institutions. Specifically, on March 21, 1986, Frank Morris, the former president of the Federal Reserve Bank of Boston, along with the senior vice president of its Bank Supervision Division and Credit Group and the vice president of the Bank Supervision Division, met with Governor Edward DiPrete and his chief of staff. The purpose of the meeting was to highlight the recent collapse of private insurers in Ohio and Maryland and to urge passage of legislation requiring federal insurance for all RISDIC members. Governor DiPrete seemed receptive and subsequently supported legislation requiring federal insurance.

Federal Reserve officials in Boston continued to correspond with the Rhode Island Director of Policy about the legislation requiring mandatory federal deposit insurance for RISDIC members. Reserve Bank staff reviewed drafts of bills and monitored their progress. Our early involvement with RISDIC ended, however, with the defeat of the bills requiring federal deposit insurance.

Our warnings also seemed less urgent, in part, because of the economic boom in Rhode Island during the mid-1980s. Of course, the boom only postponed, rather than prevented, the realization of RISDIC's problems. Unemployment in Rhode Island dropped to a low of 2.3 percent in December 1988, and Rhode Island experienced unprecedented increases in real estate prices. The rapid expansion of the Rhode Island economy, along with lax regulatory oversight of the composition and growth of credit union assets, enabled RISDIC-insured institutions to aggressively expand their lending. Many of the largest RISDIC-insured institutions experienced loan and deposit growth well in excess of 100 percent between 1985 and 1990. Such a rapid expansion of lending is frequently accompanied by a relaxation of credit standards and requires even greater vigilance by regulatory authorities. But there was no commensurate increase in the number of supervisory staff to conduct bank exams and monitoring at the Department of Business Regulation or at RISDIC. While the rapid growth of RISDIC-insured institutions and the lax regulation appeared harmless during the boom, they amplified problems once the economy started to decline.

By the end of the 1980s it was apparent that the rapid expansion of real estate activity was not sustainable. The small increases in population and slow growth in personal income had not kept pace with real estate prices. Real estate values throughout New England were decreasing, challenging even New England's best-managed institutions. The economic climate was devastating to institutions that had grown excessively by engaging in imprudent lending practices, and that included many RISDIC-insured institutions.

Crisis Preparations

With the precarious financial situation of many New England depository institutions and the announcement in the fall of 1990 that RISDIC had closed Heritage Loan and Investment Company, just four months after having closed Jefferson Loan and Investment Company, the Federal Reserve Bank of Boston became concerned that other RISDIC-insured institutions might also be insolvent. Boston Federal Reserve officials met with the Superintendent of Banking on November 20, 1990, to receive a briefing on the status of RISDIC and RISDIC-insured institutions. The staff obtained the bank examination and financial data necessary to begin analysis of the financial condition of RISDIC institutions, and contracts were initiated with the Rhode Island Credit Union League (RICUL) and the National Credit Union Association (NCUA). In addition, I initiated the first of many contacts with Governor-Elect Bruce Sundlun to discuss the closure of Heritage Loan and Investment Company and the problems in other RISDIC-insured institutions.

As a result of these discussions, we developed plans to provide emergency cash shipments to institutions experiencing deposit runs and to provide discount window loans, should either action be required. For the most troubled institutions, daily liquidity reporting was implemented and Federal Reserve staff conducted onsite visits. It was essential to have an effective mechanism to alert the Federal Reserve in the event of unusu-

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ally large deposit withdrawals. We also implemented contingency plans for delivering emergency shipments of currency, including arranging for transportation and storage with the appropriate security necessary for the bulk transfer of currency. Discount loan preparations included informing RISDIC-insured institutions of the collateral and other requirements necessary to access the discount window, evaluating the availability of each bank's collateral, assisting in the execution of borrowing agreements for discount window loans, and establishing a potential field warehouse and the legal documentation required for securing the assets used as collateral.

These efforts were coordinated with other regulators and with the incoming and outgoing administrations in Rhode Island. In addition, an officer of the Bank Examination Department was loaned to the state of Rhode Island to serve as a liaison between the Federal Reserve Bank and Rhode Island officials. Toward the end of December, senior staff of the Federal Reserve Bank of Boston were in daily contact, including weekends and holidays, with RICUL, the NCUA, and senior Rhode Island officials to monitor the situation and to discuss possible resolutions of the RISDIC problem.

CONTAINMENT

As you know, on January 1, 1991, newly elected Governor Bruce Sundlun announced the closing of all forty-five credit unions, banks, and loan and investment companies insured by RISDIC. My strong view, albeit personal, is that Governor Sundlun acted decisively and appropriately. The bank holiday protected small and poorly informed depositors from having the only remaining deposits in these insolvent institutions. The focus of Federal Reserve activities immediately became the protection of the payments mechanism and the prevention of any spillover to institutions with insurers other than RISDIC. The closings required the Federal Reserve Bank of Boston to decide how to process checks drawn on RISDIC-insured institutions and how to process and settle direct deposit checks sent to closed RISDIC institutions through the automated clearinghouse (ACH).

After consultation with Rhode Island state officials, it was decided that checks drawn on the twenty-two closed institutions that qualified for federal deposit insurance would be paid and delivered to RICUL. Banks sending checks for collection on closed RISDIC institutions that would remain closed because they were unable to qualify for federal insurance were notified that drafts on those institutions would be returned with the stamp "Unable to Present at This Time." In addition, depositors' access to an ATM network posed unique problems that were resolved after consultation with officials of the state of Rhode Island and the ATM network.

ACH transactions, an essential source of income for many citizens, were expected to be particularly large at the beginning of the month because of the delivery of social security payments. It was essential that actions be taken to ensure payment of direct deposits in closed RISDIC institutions. After having conferred with representatives of the U.S. Treasury, the Social Security Administration, and the Rhode Island Division of Banking, it was decided that Citizens Trust Company would act as agent for receipt and disbursement of direct deposit payments destined for closed RISDIC institutions that did not qualify for federal insurance. For the twenty-two institutions reopening the week starting January 7, 1991, with federal deposit insurance, ACH transactions were processed so that they would be available to customers when the institutions reopened after the bank holiday. Several Reserve Bank staff were dispatched to aid Citizens Trust Company with the task of authenticating and reconciling individual payments. In addition, the redirection of payments required significant reprogramming; in January and February alone, more than 10,000 electronic credits were redirected. These actions ensured the minimum of disruptions for depositors of closed institutions who received direct deposits, many of whom have limited income and depend on direct deposits, such as Social Security payments, to survive.

The January 1 closing of the forty-five RISDIC institutions raised concerns that disruptions might become more extensive as depositors became less confident about banking institutions in general. Depositor anxiety was increased by ru-

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mors of the impending closure of Bank of New England and the uncertainty over the form the closure would take. The highly charged atmosphere made depositors particularly sensitive to pronouncements by public officials and the press. The mere picture of an institution, even one totally unaffiliated with RISDIC, in a national media report on the RISDIC crisis was sufficient to result in large cash withdrawals.

Not surprisingly in this unsettled banking climate, several financial institutions in Southeastern Massachusetts and Rhode Island required emergency cash shipments. Despite snowstorms and the presence of jittery depositors, the timely delivery of cash shipments contained the deposit runs to a relatively few institutions. During the month of January the Federal Reserve Bank of Boston delivered thirty emergency cash shipments totaling $319.7 million. Once it became clear that depository institutions insured by sources other than RISDIC were not facing liquidity problems, the runs stopped.

We hope that the Federal Reserve Bank of Boston has played a useful role in reducing the hardships suffered by the citizens of Rhode Island as a result of the RISDIC crisis. Our early warnings were not successful in averting the problem. But after the seriousness of the recent situation became apparent, we carefully monitored the situation so that we could offer assistance when it was required. Our actions to facilitate transactions despite the closure of forty-five institutions, our emergency shipments of cash, and the assistance we have provided depository institutions, other regulators, and Rhode Island officials helped to minimize the disruptions caused by this unfortunate financial crisis.

Implications For Policy

While the RISIDC crisis is far from resolved, it has already highlighted the need to reconsider several broad policy issues. The first two relate directly to flaws in RISDIC insurance. The last three relate to banking and regulatory matters in general.

First, deposit insurance within narrow geographic boundaries, particularly in small states such as Rhode Island, does not rest on a sufficiently diversified economic base. In contrast to federal deposit insurance, which is well diversified because it has a large number of members that are geographically dispersed, RISDIC had neither large numbers of member institutions nor a diverse geographic distribution. As a result, many member institutions were susceptible to similar risks, and the largest institutions composed a sizable percentage of the total insurable pool. The three largest RISDIC-insured institutions accounted for 49 percent of total member deposits. Losses at any of the large institutions imperiled the entire fund, which could not be replenished by the limited resources of the remaining institutions.

Second, many depositors are unaware that private insurance is not guaranteed by the federal government and, at least not directly, by the state. In contrast, federal insurance has the full faith and credit of the U.S. government as the ultimate guarantee that depositors will always have access to their funds. Depositor misperceptions have forced states whose private insurance collapsed to assume the obligations of the private insurer. These assumed state obligations have been reinforced by the names and advertisements of the private insurance funds.

Third, states should reexamine the resources allocated to bank examination and supervision. Failure to adequately monitor RISDIC-insured institutions was all but inevitable, given the limited resources appropriated for bank regulation in Rhode Island. State regulators depended on the private insurer and on outside audits because of limited state resources. While in good times cuts in monitoring and supervising banks provide an attractive source of possible state savings, particularly since such cuts are unlikely to enrage special interest groups, these so-called "savings" are dwarfed by the eventual costs to the states when state-regulated banks experience financial difficulties.

Fourth, the benefits to the financial system of having the Federal Reserve involved in the many aspects of banking were clearly demonstrated in this crisis. The supervisory and operational expertise of the Federal Reserve was essential in quickly responding to potential problems in the payments mechanism. This quick response pre-

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vented wider systemic problems and minimized the disruptions to the payments system for the citizens of Rhode Island.

Fifth, coordinated action by state officials and federal regulators was essential in preventing a more serious financial disruption at the time of the RISDIC crisis. Greater contacts between elected officials and federal and state banking regulators should be encouraged and might help avert future problems in the financial services industry.

CONCLUSION

In summary, the collapse of RISDIC has been a major disruption to the citizens of Rhode Island. Unfortunately, no costless solution to this problem exists. The liabilities of RISDIC-insured institutions substantially exceed their assets, and this deficit is likely only to get larger as resolution of the RISDIC crisis is delayed. Depositors in some closed institutions have yet to receive any of their funds, and in other closed institutions depositors have received very limited payouts. However, these institutions have some assets with value. The state of Rhode Island needs to move quickly to give depositors access to as much of their funds as is feasible. The Federal Reserve Bank cannot be a source of capital to eliminate the shortfall. However, we are prepared to work with state officials in any appropriate way including providing liquidity to viable depository institutions.

As the national economy pulls out of the recession, New England's economic outlook should improve. While the New England economy is likely to lag the national economy by up to six months, we expect to see moderate economic growth by the end of this year. The regional economy will also be strengthened by the upcoming resolution of banking problems elsewhere in New England. These positive developments should help restore the economic climate that will allow resolution of Rhode Island's current financial crisis. □

Statement by Alan Greenspan, Chairman, Board of Governors of the Federal Reserve System, before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, April 23, 1991.

I am pleased to appear before this committee to discuss two important banking reform bills. The first, S.543, the Comprehensive Deposit Insurance Reform and Taxpayer Protection Act of 1991, was introduced by Chairman Riegle. The second, S.713, is the Treasury's proposed Financial Institutions Safety and Consumer Choice Act of 1991. These two bills have a significant degree of overlap and agreement about modifications to our deposit insurance system and our supervisory procedures.

Both bills propose similar reforms to reverse one of the fundamental causes of the problems facing our banking system today: an expansive safety net that creates incentives for our banks to take excessive risk with insufficient capital. The Treasury bill also addresses two other root causes of the present difficulties of the U.S. banking system: (1) the reduction in the value of the bank franchise associated with the ongoing technological revolution that has dramatically lowered the cost of financial transactions and expanded the scope of financial activities of bank rivals; and (2) a statutory and regulatory structure that impairs the competitiveness of U.S. banks by increasing their operating costs, discouraging geographic diversification, and limiting their ability to respond to financial innovations and the challenges posed by nonbank providers of financial services.

The coupling of the Riegle bill with the provisions of the Treasury bill on interstate branching and expanded activities for banking organizations would address these basic problems facing U.S. banks and would establish a particularly useful framework for congressional action. These broader reforms would make our banking system more efficient and better able to serve the public and would create an environment for a safe, sound, and profitable banking system.

Both bills contain a large number of detailed provisions. In the interests of both time and space, I have limited my comments to those

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portions of each bill that represent the core proposals relevant to basic reform, to those for which the Board may have a view contrary to others that you may have heard, and to those with which the Board has relatively strong reservations. I will, of course, respond to questions about those provisions on which I have not commented.

With so many provisions, it is not surprising that no Federal Reserve Board member supports all of them. Nonetheless, all members of the Board support a significant number of them, and a few provisions are opposed by some or all of us. Thus, when I say that the Board supports or opposes any particular provision, I will be suggesting a majority or sometimes a unanimous position. In this sense, I can say that the Board strongly supports both bills in their approach to deposit insurance and supervisory procedures, and similarly strongly supports the thrust of the Treasury bill to authorize new activities and interstate branching.

Prompt Corrective Action

The centerpiece of both bills is a capital-based prompt corrective action mechanism, under which entities with capital ratios below certain standards would be placed under prompt and progressively greater pressure to limit their dividends and their growth and to modify management practices. As the degree of undercapitalization increases, the supervisory pressure would intensify. The principal objective of prompt corrective action is to change the behavior of bank management by modifying its risk–benefit calculations through the establishment of a presumption that supervisors will take specified corrective action as capital deteriorates. Moreover, by acting promptly, it is possible to maintain the franchise values of the going concern and to avoid the rapid declines in value that normally occur for insolvent banks. For the same reason, at some low, but still positive, critical level of bank capital, the bank would be placed in conservatorship or receivership and the stockholders provided only with residual values, if any. If the bank could not be recapitalized, it would be sold, merged, or liquidated; larger banks might be reduced in size over time before sale or liquidation.

Thus, prompt corrective action is designed to decrease the probability of failures, and, when they do occur, to minimize their cost to the Federal Deposit Insurance Corporation (FDIC). It thus would reduce the need to draw on the insurance fund and to limit that draw when resort to insurance funds is necessary. The Board strongly supports this approach and believes that it is an idea whose time has come for enactment. In this regard, we are struck by the many similarities between the specifics of the two bills. The Treasury proposal clearly draws heavily on the provisions of the earlier version of the Riegle bill, and likewise the Riegle bill has been adjusted in reflection of Treasury proposals.

Our suggestions do not call for significant modifications, but we nonetheless urge their consideration. For example, both bills, correctly in our view, base prompt corrective action on capital. Generally, capital is a leading indicator of the financial condition and future performance and solvency of a bank. It should thus be a major determinant in prompt corrective action. However, supervisory experience and economic research indicate that sometimes capital ratios *alone* do not always differentiate between banks posing high and low risk to the deposit insurance system. That is why the Treasury's proposal includes reference to "unsafe and unsound" conditions or operations in placing banks into zones lower than might be indicated by capital alone. We believe that more general language—such as "other supervisory criteria"—would be more useful. Operationally, this would mean that supervisors would be able also to consider asset quality, liquidity, earnings, risk concentrations, and judgmental information based on recent examinations, such as classified assets data. In short, a reduction in a bank's capital ratio requires that a close review for significant problems is required but that other variables should be considered as well.

These other indicators of the financial condition of a bank should not prevent categorization based on capital. They would, however, permit supervisors to act even if the criteria for bank capital were met. Indeed, we would suggest that the proposed provisions for prompt corrective

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action be revised to indicate that supervisors could use other supervisory information to *downgrade* institutions relative to zones implied by capital alone. We believe that this approach would greatly improve the overall effectiveness and fairness of a policy of prompt corrective action without jeopardizing the presumption that regulators would be required to act quickly, forcefully, and consistently in dealing with capital-impaired institutions. Nor would it eliminate the rigor that its supporters hope prompt corrective action policies would bring to the supervisory framework. In our view, noncapital considerations should only be allowed to reduce the category that capital alone would call for and never either to neutralize or raise the categorization of a bank based on capital.

Indeed, even with the supplemental authority provided by the Treasury and Riegle prompt corrective action proposals, the bank regulators must remain vigilant in detecting problems that do not immediately show up in capital ratios of banks and must be aggressive in using existing enforcement authority to address these problems. Both bills would permit a systemic program of progressive restraint based on the capital of the institution, instead of requiring the regulator to determine on a case-by-case basis, as a precondition for remedial action, that an unsafe or unsound practice exists. This program would provide a powerful and useful tool for addressing problems at banks but would not replace the need for active supervision of other factors at banks.

The proposed Treasury legislation would authorize expedited judicial review to ensure that the supervisor had not acted in an arbitrary and capricious way but would allow the supervisory responses to go forward without delay while the court was reviewing the process of capital measurement. Such a procedure is a necessary precondition for the "prompt" in prompt corrective action but should be modified to include the other supervisory standards referred to above. We urge the incorporation of this concept of expedited judicial review in S.543.

The Riegle proposal has three categories of classification for prompt corrective action, and the Treasury proposal has five. The Board prefers the larger number of categories because of the additional flexibility it provides. Both approaches require certain actions and permit supervisory discretion when deemed appropriate. In the Treasury approach, the number of required and the range of permissible actions expand as the capital ratio declines, but procedures are specified—requiring explicit determination of public benefits—that permit the supervisor to delay taking required actions. The Riegle approach permits no deviations from a small number of required actions but has a wide range of permissible responses, a procedure that also provides flexibility to the supervisor. Both approaches thus blend flexibility with a mandate for prompt action. Both avoid inflexible, cookbook supervisory rules, while establishing a presumption of rapid supervisory action.

The adoption of prompt corrective action policies would represent a significant change in the supervisory framework for a large number of institutions. To avoid unintended impacts in credit markets and to provide banks with time to rebuild their capital positions and modify their policies, we would urge a delayed effective date. The Treasury legislation calls for a three-year delay, and the Riegle bill for a nine-month lag, after enactment. We prefer the longer interval. Putting banks on clear notice of the coming supervisory framework at a certain date should provide for a smooth transition with minimal disruption.

A final technical note: Both bills call for the regulators to establish the specific capital ratios for each zone or category. The Treasury bill requires that the agencies set the critical capital level—that would call for putting the bank in conservatorship or receivership—at a point that generally permits resolution of troubled banks without significant financial loss to the FDIC. The Treasury bill provides that this measure may be no lower than 1.5 percent of the bank's assets. The Riegle bill indicates that the critical capital ratio should be set high enough that "with only rare exceptions" resolution would involve no cost to the FDIC but does not specify a minimum critical capital level.

The very act of placing a bank in receivership or conservatorship significantly lowers its franchise value, thereby increasing FDIC resolution costs. It is unreasonable to impose such a "hair-

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cut" on operating banks. We would suggest, therefore, that the criterion be to "minimize" resolution costs. It is worth emphasizing that prompt corrective action will tend to reduce losses to the insurance fund, but a genuine fail-safe, no-losses-to-the-FDIC policy would require unrealistically high capital levels. We also believe that it is appropriate for the Congress to set a floor on the critical capital level that indicates that the Congress recognizes the positive subsidy resulting from the federal safety net.

Deposit Insurance Reform

As I noted, prompt corrective action will ultimately make deposit insurance reform less pressing. Nevertheless, both bills propose a reasonable reining in of the safety net that the Board supports. Both bills call for limiting insurance coverage to $100,000 per individual per insured institution (plus $100,000 for retirement savings) and for eliminating coverage for all—or in the case of S.543, for most—pass-through and brokered accounts. We believe that this basic proposal would be consistent with the original intent of deposit insurance to protect the smaller-balance depositor.

It is worth noting that 1989 survey data suggest that only about 3½ percent of households held accounts that, when combined for all household members, exceeded $100,000 at a single depository institution. However, 60 percent of these combined accounts were both less than $200,000 and held by households with husband and wife, each of whom could, under the provisions of both bills, open fully insured accounts at the same institution. With this adjustment, which excludes the additional coverage for retirement accounts proposed in both bills, only 1½ percent of households would have held accounts with uninsured balances. These households had median net worth in excess of $2 million, hardly a family for which the safety net was designed.

Some observers would prefer a rollback in coverage. If we were rewriting history, few observers now would call for insurance coverage as high as $100,000 per individual per institution. But, as I noted last summer before this committee, such insurance levels are now capitalized in bank stock values, in loan and deposit rates, and in the technology and scale of bank operations. A rollback could thus create disruptions that may well exceed its benefits.

The Treasury also proposes a study of longer-run efforts to limit coverage to $100,000 per individual across *all* institutions. The Board endorses the concept of a study to understand better the potential cost and intrusiveness of such a fundamental change in the scope of deposit insurance coverage.

Both bills would require that the FDIC establish a risk-based deposit premium assessment system. In principle, such a system has several attractive characteristics: It would link the cost of insurance to the risk that a bank poses to the insurance fund; it would reduce the subsidy to risky banks; and it would spread the cost of insurance more fairly across depository institutions. It could also be coupled with capital, reducing the premium for those banks that held capital above the minimum levels adjusted for their risk profiles. Whatever these attractions might be in principle, the Board would urge caution at a time when premiums are already high, Bank Insurance Fund (BIF) resources are low, and the range of premiums necessary to reflect risk differences accurately, and to induce genuine behavioral changes, might be much wider than feasible. Risk-based premiums also would have to be designed with some degree of complexity if they were to be fair and if unintended incentives were to be avoided. Moreover, the extent of potential benefits when risk-based premiums are imposed on top of the risk-based capital system, while likely to be positive, requires further evaluation.

Both bills would require that the FDIC resolve failed banks in the least costly manner, which generally means that uninsured depositors would receive only pro rata shares of residual values, if any. The Riegle bill, however, has no provision permitting consideration of systemic risks, and, after 1994, prohibits outright any financial assistance by the FDIC to an insured bank that would have the effect of preventing loss to uninsured depositors or creditors. To minimize the impact of a bank failure on other banks, this bill would require the Federal Reserve to develop and apply rules that limit interbank deposits and credits,

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including a prohibition on interbank deposits by banks not in capital compliance.

While the Board understands the desire to limit systemic risks through controlling interbank credit relationships, we strongly oppose this proposal because of the substantial disruption that could occur in the correspondent bank network from its implementation. We are, for example, concerned with the inducement to rapid withdrawals that would be associated with the message that a bank, whose capital has declined to just below minimum levels, was suddenly prohibited from taking interbank deposits. The payments system depends importantly on the interbank network, with large cross-border interbank balances held for payments purposes. Sudden changes in the ability to offer such balances would be associated with sudden shifts in payment patterns that could be quite disruptive.

The Treasury's bill is silent on interbank deposits and credits. However, it calls for an exception to the least costly resolution of failed banks in those situations in which the Treasury and the Federal Reserve Board, on a case-by-case basis, jointly determine that there would be bona fide systemic risk.

No one—including the Federal Reserve Board—is comfortable with the exception procedures for addressing systemic risk, even though the Treasury proposal would tighten up the way such cases are handled. While, in principle, systemic risk could develop if a number of smaller or regional banks were to fail, systemic risks are more likely to derive from the failure of one or more large institutions. Thus, the need to handle systemic risk has come to be associated with the too-big-to-fail doctrine. The disproportionate degree of systemic risk at larger banks highlights the tension between one of the main purposes of deposit insurance—protecting smaller-balance depositors—and the concern that the rapid withdrawals by uninsured depositors from larger banks perceived to be in a weakened condition could cause and spread significant disruptions that could, in turn, affect credit availability and macroeconomic stability. Whatever its macro benefits might be, the too-big-to-fail doctrine has increasingly offended observers and policymakers alike because of its inequitable treatment of depositors and borrowers at banks of different sizes, and its tendency both to broaden the safety net and to undermine depositor and creditor discipline on bank risktaking.

Despite the substantial concerns, the Board, like the Treasury, has reluctantly concluded that there may be circumstances in which all of the depositors of failing institutions will have to be protected in the interests of macroeconomic stability. In evaluating our conclusion, it is important to underline that we anticipate that there will also be circumstances in which large banks can fail with losses to uninsured depositors but without undue disruption to financial markets. The Treasury's proposal, in fact, contemplates that the large-balance depositors of these banks will not be protected. Moreover, since the exception proposal is designed to maintain the confidence of *depositors* in the system, its implementation does not call for protection of nondeposit creditors of the bank, its holding company, or its nonbank affiliates, and especially protection of the stockholders and senior management. These claimants and employees need not be protected to serve the objectives of the exception proposals.

In addition, I would emphasize again that other provisions of both bills should ultimately make the exception or too-big-to-fail issue less relevant. The greater emphasis on capital maintenance, more frequent onsite examinations, and policies of prompt corrective action can be expected to modify bank behavior and attitudes toward risktaking. Indeed, the ultimate solution to the too-big-to-fail problem is to ensure that our policies minimize the probability of large banks becoming weak and that when banks experience distress that regulators act promptly to limit FDIC costs. But reality requires that we recognize that substantial increases in capital and substantial reversals of policies cannot occur in the short run. Moreover, it would be taking a significant risk, we believe, to eliminate the long-run option to respond in a flexible way to unexpected and unusual situations. The Federal Reserve alone cannot address this problem. We can add liquidity to the economy and we can direct liquidity to individual institutions in appropriate circumstances. But we cannot, under the Federal Reserve Act, nor should we, provide capital to any institution.

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Bank Insurance Fund Recapitalization

While prompt corrective action and deposit insurance limits will reduce future exposure of the Bank Insurance Fund, the chairman of the FDIC has warned of the unfolding insolvency of BIF. In response, the Treasury has developed a proposal that would authorize the Federal Reserve Banks to lend up to $25 billion to the FDIC to absorb losses sustained by the BIF in resolving failed banks. While the liabilities of the BIF would be full faith and credit obligations of the U.S. Treasury, it is anticipated that they would be repaid from increased insurance premiums. Premiums could be increased to as high as 30 cents per $100 of assessed deposits—7 cents higher than the premium that the FDIC has proposed to impose at midyear. In addition, the BIF could borrow from other sources up to $45 billion for "working-capital" purposes, that is, to carry assets of failed banks pending their sale or liquidation. These loans would thus be self-liquidating. Total premium income would be used to pay interest on borrowings from the Federal Reserve and the Federal Financing Bank, cover ongoing insurance losses, repay Federal Reserve loans, and rebuild the BIF fund.

In the current environment of intense competition and weak earnings, the Federal Reserve Board is concerned about the potential costs of further premium increases in terms of the soundness and competitiveness of our banking, financial, and economic system. It is extremely difficult to judge how high the premium could be raised before the costs outweigh the benefits in terms of added revenues for the BIF. What is clear is that in reaching a judgment about the appropriate premium level we cannot ignore these potential costs simply because they cannot easily be measured. The premium level that maximizes the BIF's premium revenues, or even the premium level that maximizes the net worth of the BIF, could be substantially higher than the level that would be optimal if the potentially adverse impact of higher premiums on our financial system and our economy could be precisely quantified. In light of these considerations, the Board supports the imposition of a premium cap of 30 basis points and urges caution in considering increases in premium costs beyond an amount equal to an increase of 23 basis points on the current base.

The Board believes that any plan to recapitalize the BIF must provide sufficient resources without imposing excessive burdens on the banking industry in the near term. The Board also believes that loans to the BIF that would be repaid with future premium revenues are the best means of striking this difficult balance.

However, an element of the Treasury's proposal that has troubled the Board is the use of the Federal Reserve Banks as the source of these loans. To prevent such loans from affecting monetary policy, the loans would need to be matched by sales from the Federal Reserve's portfolio of Treasury securities. Thus, in either case, the public would be required to absorb an amount of Treasury securities equal to the amount of loans to the BIF.

The Board can discover no economic purpose that would be served by this indirect financing route. The implications for financial markets, the economy, and the federal budget would be identical if the Treasury made the proposed loans to the BIF rather than to the Federal Reserve Banks. Because the Federal Reserve would offset the loans with open market sales, there would be no impact on reserves, the federal funds rate, or the money supply. With respect to budgetary implications, neither FDIC outlays, net interest payments by the U.S. government, nor the budget deficit would be any different. Finally, use of the Treasury rather than the Reserve Banks would have no implications for the Budget Enforcement Act.

Not only would use of the Reserve Banks for funding the BIF serve no apparent economic purpose, it could create potential problems of precedent and perception for the Federal Reserve. In particular, the proposal involves the Federal Reserve directly funding the government. The Congress has always severely limited and, more recently, has forbidden the direct placement of Treasury debt with the Federal Reserve, apparently out of concern that such a practice could compromise the independent conduct of monetary policy and would allow the Treasury to escape the discipline of selling its debt directly to the market. Implementation of the proposal could

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create perceptions, both in the United States and abroad, that the nature or function of our central bank had been altered. In addition, if implementation of the proposal created a precedent for further loans to the BIF or to other entities, the liquidity of the Federal Reserve's portfolio could be reduced sufficiently to create concerns about the ability of the Federal Reserve to control the supply of reserves and, thereby, to achieve its monetary policy objectives.

The BIF must be granted unquestioned access to the financial resources necessary to meet its obligations. And, the public must be reassured that, regardless of the solvency or insolvency of the BIF, the U.S. government will make available whatever funds are necessary to protect federally insured deposits.

Whatever financial arrangements accomplish this objective, however, it is of critical importance that we adopt policies now to minimize the risk that such losses to the insurance fund will ever occur again. The Board believes that both the Riegle and the Treasury bills establish an approach that would accomplish that objective through prompt corrective action. But the Riegle bill does not address other issues that would strengthen banking organizations, issues that I would now like to discuss.

Expanded Activities and Interstate Branching

As the committee knows, the Board believes that a significant part of the longer-run solution to the subsidy provided by the safety net is an increase in minimum capital standards. However, the condition of many banks suggests that a shorter-run restoration process must precede the increase in capital minimums. In the interim, the Board supports the Treasury proposal that would immediately reward those financial services holding companies with bank subsidiaries that have capital significantly above the minimum standards. Not only does such an approach create additional inducements for these organizations to build and maintain the banks' capital, it also addresses one of the most significant causes of weaknesses in the banking system by widening the scope of activities for holding companies with well-capitalized bank subsidiaries.

It is clear that some members of the Congress are hesitant about authorizing wider activities for banking organizations at a time when taxpayers are being asked to pick up the costs for failed savings and loan associations that have unsuccessfully taken too much risk and when BIF recapitalization proposals raise the concern that taxpayer assistance for resolution costs of banks may also be necessary. Such hesitancy is understandable. However, two crucial differences exist between the expanded bank activities proposed by the Treasury and those previously allowed for savings and loan associations: the types of activities in which the institutions could engage and the types of institutions that would be allowed to engage in the activities.

The wider activities proposed by the Treasury are all financial in nature; they involve the types of risk with which bankers are familiar, letting them build on their expertise. Thus, for example, the bill would not permit financial services holding companies to engage in real estate development or other nonfinancial activities. It is worth repeating that the new activities that would be authorized would be restricted to holding companies with well-capitalized and soundly operated bank subsidiaries. They are to be conducted in separately capitalized affiliates that would have limited access to bank funds; and they must be divested if the capital of the affiliated banks does not remain significantly above the minimum international capital standards. The proposal does not repeat the thrift experience of authorizing *all* institutions—strong and weak—to engage in new activities in the depository, financed by insured deposits. The proposed approach is unlikely to expose the safety net to additional risk because it does not reflect a wholesale removal of restraints. Based on their current capital positions, we estimate that only about one-fourth of the largest twenty-five, and about one-half of the largest fifty, of our banking organizations would be permitted to engage in such activities if they were authorized today. Almost all of the next fifty largest bank holding companies have bank subsidiaries with capital high enough to permit the holding company to engage in these new activities.

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The best protection for the insurance fund is to be certain that we have strong banking organizations. Authorizing wider activities for holding companies with well-capitalized bank subsidiaries would increase the efficiency of our financial system by permitting such organizations to respond more flexibly to the new competitive environment in banking here and abroad. It also would add to the incentives for increasing and maintaining bank capital, and it would make available better and cheaper services to customers of U.S. banks around the world.

Similar benefits involving even more banks and a larger proportion of the public would result from widening the geographic scope of bank activity. The Riegle bill excludes, and the Treasury bill includes, such provisions. The Treasury proposal would repeal the Douglas Amendment to the Bank Holding Company Act, to permit banking companies to operate subsidiary *banks* in all states, and would amend the McFadden Act, to permit banks to operate *branches* of their banks in all states. The bill would thus eliminate an anachronism and permit full interstate banking by any vehicle that a banking organization chooses.

An interstate banking system has slowly evolved in this country through the holding company vehicle. Only Hawaii and Montana do not now have on the books legislation that permits—or is scheduled to permit—some form of interstate banking. But this approach, with separately capitalized bank subsidiaries, and with less than full nationwide banking authorized, still does not permit some banking organizations to enter some attractive markets and, most important, is unduly costly. True nationwide interstate branching would be much more flexible and efficient, achieving geographic diversification at lower cost. Simply by collapsing existing subsidiaries to branches, banks could eliminate the unnecessary costs of separate boards and extra management layers, as well as the costs of separately capitalizing each subsidiary. Authorization of interstate bank branching is, in effect, both a more efficient use of capital and a capital-building step by reducing banking costs.

The evidence from intrastate branching does not suggest that it will be a substantial source of additional earnings to out-of-market banks. What interstate banking promises is wider consumer choices at better prices and, for our banking system, increased competition and efficiency, the elimination of unnecessary costs associated with the delivery of banking services, and risk reduction through diversification. The Board continues to urge its prompt adoption.

Regulation and Examination

The holding company form is retained in the Treasury proposal as the best organizational vehicle for financial modernization. Under the Treasury proposal, each holding company subsidiary—bank and nonbank—would be separately capitalized and functionally regulated as if it were an independent entity: Bank regulatory agencies would regulate banks, the Securities and Exchange Commission (SEC) would regulate broker–dealers and mutual funds, and the states would regulate insurance companies.

To restrict the safety net to the insured bank, the proposal would apply Sections 23A and 23B of the Federal Reserve Act, which limits quantitatively the financial transactions between banks and their affiliates and requires that such transactions be collateralized and conducted on market terms. However, to achieve the synergies that are the purpose of the proposal, the bill would not impose management, operations, or general marketing fire walls, though strong disclosure requirements would be required to protect the consumer. Among the fire walls that would remain are restrictions on sales of affiliate liabilities at the bank, where they might be confused with insured deposits.

In the Treasury bill, the primary regulator of the largest bank subsidiary would become the umbrella supervisor of the financial services holding company. The Treasury bill contemplates that, with expanded permissible activities, the insured banking units often would account for a significantly smaller proportion of the consolidated assets of the financial services holding company than they are now of the bank holding company. As a result, the focus of the umbrella supervisor in the Treasury bill is to police and constrain threats to the bank, while limiting banklike regulation of the holding company and

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its uninsured subsidiaries. The Riegle bill, in contrast, does not expand the scope of activities of banking organizations and thus retains the current banklike regulatory focus on the consolidated holding company, whose assets are predominantly banks and subsidiaries whose activities are closely related to banking.

In their respective context, each of these approaches makes sense to the Board because they link regulation to the type of activity. Since the Board strongly supports a wider range of activities for banking organizations, we would also support the regulatory approach of the Treasury bill if such activities are authorized. Under that approach, the umbrella supervisor's authority over the uninsured affiliates of well-capitalized banks would be limited. However, the umbrella supervisor would police financial transactions between the bank and its affiliates, could assess the risks to the bank posed by the activities of its nonbank affiliates, and could require divestiture of a nonbank affiliate posing a threat to the bank.

To assure that the bank is protected, the Board believes that some minor modifications in the language of the Treasury bill are necessary to further clarify that the umbrella supervisor could examine the parent anytime it wishes to assure that it is not creating risk for the bank. Further clarity is also necessary to assure that, while the umbrella supervisor would not, as a matter of course, examine the nonbank affiliates on a regular basis, the umbrella supervisor would be permitted to examine nonbank affiliates whenever the supervisor believed that the affiliate posed a risk to the banks, even when the banks' capital was above minimum levels; otherwise the supervisor's divestiture authority would be less meaningful. Balancing protection of the bank and limits on the spreading of the safety net with minimal regulation of nonbank affiliates requires careful legislative language.

The Treasury proposal calls for the imposition of bank capital standards on, and the application of many of the regulations governing prompt corrective action for banks to, the consolidated holding company whenever the capital of the bank falls and remains below the minimum bank capital standard. This approach is designed to reinforce the protection of the banks from contagion by its parent or affiliates. While the Treasury bill provides the supervisor with examination authority over financial affiliates to determine compliance with these requirements, the Board believes that additional clarification is required to assure that the supervisor would have full examination powers over the consolidated financial services holding company when the banks' capital declined below minimum levels.

All of these clarifications are necessary to ensure that the umbrella supervisor would be able to act promptly and effectively to protect the bank. But the thrust of the modified provisions would still be to limit the banklike regulation of the holding company and its uninsured subsidiaries, provided the bank affiliates are well capitalized. For example, the traditional consolidated bank holding company capital regulation would not be imposed, under the bill, as long as its insured depository subsidiaries were themselves capitalized above minimum levels. There are several reasons for this approach: It recognizes the practical infeasibility of regulators determining what the appropriate minimum capital should be for an organization that is not primarily a banking organization but rather a true financial services company; it facilitates equitable treatment between holding company subsidiaries and independent firms; it avoids the inefficiencies of regulation; it creates an additional incentive to build and maintain a strong bank capital position; and it avoids even the appearance of extending the safety net.

It certainly is true that this would permit holding companies to rely without regulatory limit on debt markets to finance equity contributions to their bank and nonbank subsidiaries—so-called double leverage. However, prompt corrective action would limit dividends and other payments that bank subsidiaries could make to their parent should the banks' capital decline. Such restrictions on dividends, as well as the strict limitation of the safety net protection only to the banks, are likely to make financial markets cautious about the quantity of debt that it permits financial services holding companies to assume. Moreover, with the appropriate examination authority, the supervisor could take remedial corrective action if the holding company poses risk to the banks.

Our support for limits on banklike regulation of

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holding companies, as I have noted, depends on banks becoming a less important component of the consolidated entity. Should permissible activities of bank holding companies remain unchanged—and bank holding companies remain predominantly in the banking business—the Board would prefer to see the continuation of consolidated holding company supervision, regardless of the capital position of the subsidiary bank. In such a context, we would support the extension of the cross guarantees to nonbank subsidiaries, as provided in the Riegle bill.

The Riegle bill does not address regulatory structure, while the Treasury bill makes the Board the primary regulator of state-chartered banks and a new federal agency the primary regulator of national banks and thrift institutions. Thus, both the Board and the Treasury believe that the Federal Reserve should have a significant role in the supervisory process.

The Board is convinced that the information flow obtained from the supervisory contact is of critical importance for the conduct of monetary policy and the maintenance of the stability of the financial system. In addition, the Board believes that its supervisory policy benefits from the perspective of its responsibilities for macrostabilization. Not only is it important that monetary and supervisory policies not work at cross purposes, but I cannot emphasize enough how much we rely on the qualitative information we now obtain from bankers through our supervisory process to understand evolving developments in financial markets. We need a critical mass of coverage of banking markets to get an immediate sense of what lies behind the data, and, just as our responsibilities for macrostabilization bring a different perspective to our supervisory efforts, we use this feedback from the supervisory process both to help us develop our monetary policy and to evaluate its impact. For example, our understanding of the recent evolving problems with credit availability, the constrained flow of credit, and the impact on economic activity came importantly from our supervisory contact with banking organizations large and small.

Under the Treasury proposal, however, the Federal Reserve would have umbrella authority only over state-chartered banks, which tend to be significantly smaller, on average, than national banks. We believe our ability to accomplish our monetary policy objective successfully would be seriously damaged without the intimate contacts derived from our supervisory responsibilities relating to large banking organizations. This theme was echoed in the 1984 Bush Task Force report, which assigned umbrella supervision of large bank holding companies to the Federal Reserve, even if it did not regulate the lead bank. We believe that the Federal Reserve must have hands-on knowledge of the operations of those large banking organizations, where potential problems could have systemic effects, if we are to perform the critical function of ensuring stability in the financial markets and payments systems. For example, it is difficult to imagine how we would administer our discount window responsibilities and the associated collateral evaluations without the practical experience and knowledge derived from our supervisory responsibilities at the larger institutions.

Moreover, with the increasing globalization of banking, in the coming years the central banks of the world will need more than ever to coordinate responses to developments that may originate anywhere and have an impact not only on foreign exchange markets but also on the financial markets of their respective countries. In a world of electronic transfers, in which billions of dollars, yen, marks, and sterling can be transferred in milliseconds, and problems at a bank or other institution in any country can put such transfers—and hence market stability—at risk, central bank consultation and coordination on operating details and procedures are critical. Thus, in our view, it is essential that the Federal Reserve—to conduct its stabilization policies—have intimate familiarity with all banking institutions having a substantial cross-border presence.

Foreign Bank Activities in the United States

The Treasury bill would require that a foreign bank that desires to engage in newly authorized financial activities establish a financial services

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holding company in the United States through which such activities would have to be conducted. The bill also would require that any foreign bank that chooses to engage in such activities in the United States close its U.S. branches and agencies and conduct all of its U.S. banking business through a U.S. subsidiary bank. Under the bill, foreign banks would lose their grandfather rights for U.S. securities affiliates after three years and would be required to obtain approval from appropriate authorities to engage in underwriting and dealing in securities activities in the United States in the same way that a U.S. banking organization would. The Treasury bill would also allow foreign banks to establish interstate branches at any locations permitted to state or national banks. Foreign banks choosing to engage only in banking in the United States would not be required to form U.S. subsidiary banks and would be permitted to operate interstate through branches of the foreign parent bank.

The capital and other supervisory standards that would be the basis for authorizing affiliates of foreign banks to engage in newly authorized financial activities and interstate banking are the same as those that would apply to affiliates of U.S. banks. Such a policy appears appropriate and equitable. On the other hand, we question the need for the requirement that foreign banks close their U.S. branches and agencies and conduct their U.S. business in a separately capitalized U.S. subsidiary bank to take advantage of the expanded powers for activities and branching.

As the Treasury bill recognizes in advocating domestic interstate branching, a requirement that a banking business be conducted through separately incorporated subsidiaries rather than branches imposes substantial costs by not permitting a banking organization to use its capital and managerial resources efficiently. In most countries, U.S. banks have been permitted to enjoy the advantages inherent in competing in foreign markets through branch offices. In bilateral and multilateral discussions, U.S. authorities have correctly argued that a restriction against branching discourages the involvement of U.S. banks in foreign markets. It would be inconsistent not to acknowledge that foreign banks could also be discouraged from involvement in U.S. banking markets by requiring foreign banks to operate only through subsidiaries to engage in new activities. Moreover, by compelling a switch from branches, whose deposits now are largely uninsured, to U.S. subsidiaries, whose deposits would be covered by U.S. deposit insurance, we would be increasing the extent to which depositors would look to the U.S. safety net instead of to the foreign parent in the event of problems.

Foreign banks have made a substantial contribution to the competitive environment of U.S. financial markets and the availability of credit to U.S. borrowers. Currently, legal lending limits for U.S. branches and agencies of foreign banks are based on the consolidated capital of their parent banks. By contrast, requiring a "roll up" of branches and agencies of a foreign bank into a U.S. subsidiary bank, whose capital is measured separately from the parent, might limit the extent to which foreign banks contribute to the depth and efficiency of markets in the United States.

We also have some reservations about the purpose that would be served by requiring a foreign bank to establish a holding company in the United States to conduct new financial activities. In particular, requiring foreign banks to operate through holding companies is not necessary to assure competitive equity for U.S. financial services holding companies or independent U.S. nonbank firms. First, we see no clear competitive advantages to foreign banks when they can engage in new activities only if the banks are well capitalized. Second, branches of foreign banks possess no systemic funding advantages in the United States, and any cost advantage a foreign bank may have in its own home market would be available regardless of the structure of its U.S. operations. The requirement that a foreign bank conduct new activities only through a financial services holding company imposes additional costs on foreign banks without any obvious benefits. It also creates an inducement for foreign banks to conduct their banking operations in less costly environments outside the United States and for foreign authorities to threaten reciprocal restrictions for U.S. financial firms abroad.

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COMMERCE AND BANKING

The Treasury has proposed permitting commercial and industrial firms to own financial service holding companies. The Treasury report that preceded its legislative proposals focused on the need to widen and deepen capital sources, especially for failing banks, for which nonfinancial corporations might be willing to provide substantial capital in exchange for control. The Treasury proposal also seeks fairness for those financial firms that operate in markets banks would be authorized to enter under the proposal but that would otherwise be prohibited from purchasing a bank because of their commercial parents. The Treasury report also stressed the desirability of additional management expertise and strategic direction from commercial firms as well as the reduction in regulatory burden in distinguishing between financial and nonfinancial activities.

Those who hold a contrary view argue that our capital markets are so well developed that profitable opportunities in banking can attract capital from sources other than nonfinancial corporations seeking management control, provided that banks operate in a regime that permits them to be fully competitive. In addition, opponents are concerned about the implications of permitting commercial and industrial firms to own—even indirectly—subsidiaries with access to special government protection.

On balance, the Board supports on a philosophical level the notion of permitting any institution the right to go into any business—including banking—with the proper safeguards. However, the Board believes that it would be prudent to delay enacting the authority to link commerce and banking until we have gained some actual experience with wider financial ownership of, and wider activities for, banking organizations. We should reflect carefully on such a basic change in our institutional framework because it is a step that would be difficult to reverse and for which a strong case for immediate enactment has not been made.

The Board would have no difficulty with those nonbanking *financial* firms wishing to affiliate with banks maintaining their *de minimis* preexisting holdings in commercial or industrial firms. But, if banking and commerce connections remain prohibited, financial firms already owned by commercial and industrial firms would likely point out the inequity of their being prohibited from affiliating with banks, while their independent rivals were free to do so. Given the relatively small number of securities firms, insurance companies, finance companies, and thrift institutions that are owned by commercial and industrial firms, the Congress may wish to address this issue through appropriate limited grandfather provisions.

ACCOUNTING STANDARDS

Both bills address accounting standards in banking. Timely and accurate financial information on depository institutions is critical to the supervisory process and to effective market discipline. Thus, it is important that financial statements and reports of condition accurately represent the true economic condition of firms.

The Riegle bill contains a number of provisions intended to strengthen regulatory accounting standards for insured depository institutions. While the Board shares the basic view that any deficiencies in accounting practices should be corrected, we are concerned that certain contemplated reforms may be counterproductive. In particular, I am referring to the provisions requiring that regulatory accounting standards move in the direction of market-value accounting.

The Riegle bill would direct the SEC, in consultation with the banking agencies, to "facilitate" the development of regulatory accounting principles that promote effective supervision and "accurately reflect—at market value, to the extent feasible—the economic condition of insured depository institutions." This provision apparently is intended to stimulate the development of market valuation techniques, leading, eventually, to the adoption of market-based accounting standards for banks and thrift institutions. A related provision would mandate that banks with total assets of more than $1 billion disclose the aggregate market value of their assets and liabilities in reports of condition.

The Board recognizes the potential value of accounting research directed at improving the measurement of assets and liabilities. However,

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we are skeptical whether such research can successfully resolve fundamental problems regarding the applicability of market value accounting to all banking organizations. Consequently, at this time we believe that it would be premature to commit, even in principle, to the adoption of market value accounting either in whole or in part for banking organizations.

Our concerns are both practical and conceptual. Because most assets and liabilities of banks are not traded actively, their market values would have to be estimated. Inherently, such estimates would be highly subjective. For valid reasons, the economic value of an asset or a liability might differ according to the identity of the holder, reflecting differences in individual risk preferences, tax situations, informational and operating costs, and other idiosyncratic factors. Indeed, the value added by banks is partly attributable to their comparative advantage relative to other investors in evaluating, originating, or servicing illiquid loans, based on proprietary information, operating efficiencies, or special monitoring capabilities.

Owing to this subjectivity, market value estimates would be difficult to verify by auditors and examiners and susceptible to manipulation. Thus, the adoption of market value accounting principles for illiquid assets could worsen, rather than enhance, the quality of information about the true condition of depository institutions. Technologies that reduce the underlying subjectivity of market value estimates generally do so by imposing standardized assumptions that may not be appropriate in all situations and would precisely fit none.

Even when assets are traded in liquid markets, market values may not be the best measure of underlying value. A growing body of evidence suggests that asset prices display substantial short-run volatility or noise that is unrelated to economic fundamentals. Under market value accounting, such noise could discourage depository institutions from making fixed-rate loans, whose market values would be especially subject to price changes. Market value accounting also could lead to greater fluctuations in bank earnings that might generate instability in the supply of credit to the economy through its impact on the volatility of capital positions and on public confidence. The latter problem could arise even if market value information were disseminated through supplemental disclosures.

While the adoption of market value accounting for investment securities may be technically feasible at this time, the Board strongly recommends against such a partial approach that would mark only part of the balance sheet to market. Such a partial approach could create substantial measurement distortions that artificially distort bank behavior. Depository institutions often use investment securities to hedge interest rate risk present in other areas of their balance sheet. Thus, were investment securities marked to market, offsetting gains or losses on other assets and liabilities generally would not be recognized, leading to inaccurate measures of the true net worth and riskiness of the institution. Banks and thrift institutions, therefore, might be discouraged by accounting treatment from undertaking hedging transactions that are in their best interest. In addition, the partial approach would tend to undermine incentives to acquire and hold long-term securities and might encourage a trading mentality that could increase the overall level of risk in the portfolio.

We believe that the agencies and the SEC could productively focus on the improvement in supplemental disclosure and support the provisions of the Treasury bill that call for such efforts. However, at present we believe that there is rather limited scope for expanding supplemental disclosures of market value information by banks. For several years, a supplemental schedule to the report of condition has shown both the current book value and market value of each type of security held by banks. While these market values have not been included in reported capital and earnings, they are publicly disclosed. In addition, assets that are expected to turn over relatively quickly are carried at market value, in the case of trading accounts, or at the lower of cost or market value, in the case of debt securities, mortgages, and other loans held for sale. The report of condition requires separate disclosure of the amount of debt securities and loans held for sale, with the latter going beyond what is mandated under generally accepted accounting principles (GAAP). Perhaps the only significant area where additional supplemental disclosures

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of market value information may be appropriate is residential mortgages that are not held for resale and mortgage servicing rights. The active secondary market for these assets and related mortgage-backed securities could be used as a basis for disclosure of their market value.

Much can be done to reduce divergences between accounting and economic measures of financial condition within the current GAAP framework. The most important priority should be to improve the reporting of loan-loss reserves and disclosures about loan quality and asset concentrations. Financial analysts typically cite these areas, rather than the lack of market value information, as the most problematical under current accounting standards. In this regard, on March 1, the federal banking and thrift agencies recommended voluntary disclosures about the cash flows and other characteristics of nonaccrual loans held by banking and thrift organizations. In addition, the report of condition was recently revised to collect detailed data on the participation by banks in highly leveraged transactions. Nevertheless, further disaggregated disclosures about the characteristics of loans and borrowers, as would be required under S.543, may be appropriate. Such disclosures could exert constructive market discipline on depository institutions to ensure adequate provisioning for loan-loss reserves.

I would also note that the banking agencies currently are working to develop more comprehensive and uniform standards for examining loan-loss reserves. Together with an at least annual full-scope asset quality examination of every bank, these standards should enhance the reliability of estimates of the allowance for loan-loss reserves and their comparability across institutions.

CONCLUSION

The bills before you address critical issues of fundamental importance. The Board strongly supports the provisions of the Riegle and Treasury proposals to rein in the safety net by limiting deposit insurance coverage and implementing prompt corrective action procedures. We believe, however, that the Riegle bill should be extended to cover the proposals in the Treasury bill to expand the range of permissible activities for organizations with well-capitalized banking subsidiaries and to rescind inefficient restrictions on interstate banking. These steps would significantly and prudently limit subsidies to banks, reduce incentives for excessive risktaking, and safely remove constraints that have limited the ability of banks to deliver wider services at lower costs. All of these actions, including assured funding for the BIF, are required if we are to have a healthy and strong banking system capable of financing economic growth and providing American households and businesses with low cost state-of-the-art financial services.

Despite the need to develop procedures to assure that the BIF has adequate resources, the Board urges the Congress to address the issues broadly and to avoid only partial solutions by separating into component parts the comprehensive proposals for reform such as those suggested by the Treasury. Despite our concerns about some of its proposals, we strongly support the thrust of the Treasury's approach because it addresses the issues within a framework that attacks the major root causes of the problems in our banking system. □

Statement by John P. LaWare, Member, Board of Governors of the Federal Reserve System, before the Subcommittee on Economic Stabilization of the Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives, April 24, 1991.

I am pleased to appear before you this morning to present the views of the Federal Reserve Board on the proposed Fair Trade in Financial Services Act of 1991. Given our direct responsibilities with respect to the financial service industry and our desire to ensure a healthy and efficient environment for the provision of financial services, the Federal Reserve has a special interest in this legislation.

The proposed act has two major elements that I would like to discuss this morning. First, the Secretary of the Treasury would be required to submit to the Congress every two years a report

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identifying those countries that do not offer national treatment to U.S. banks, securities brokers and dealers, or investment advisers. A country offers national treatment to foreign firms if it offers "the same competitive opportunities (including effective market access)" as are available to their domestic firms. In the case of a country where a significant failure to accord national treatment is found, the Secretary of the Treasury must, in general, enter into negotiations with the country to end the discrimination. The Secretary may, at his discretion, publish in the *Federal Register* a determination that a country does not give national treatment; if he does so, regulatory agencies would have authority to use such a determination as a basis for denying applications by financial institutions from that country.

Second, if the Secretary of the Treasury has published in the *Federal Register* a determination with respect to a country, institutions from that country that are already operating in the United States may not commence "any new line of business" or conduct business from a "new location" without obtaining prior approval from the appropriate regulators. This provision would apply to new U.S. activities or U.S. offices for which no approval process is currently required for either domestic or foreign banks. For example, a foreign-owned U.S. bank may decide to begin to offer consumer mortgage lending or investment advisory services. Currently, no application for regulatory approval is required. However, under the proposed act such activities would be viewed as "new lines of business" requiring regulatory approval.

While we share the objectives of this proposed legislation in that we too would like to encourage other countries to liberalize their financial markets, we think that the legislation itself is unwarranted and would have unfortunate consequences. It would reject national treatment and grandfather rights—two practices that have been fundamental to U.S. policy toward the international operations of financial organizations. These practices should be preserved. Let me elaborate on these points.

The principle of national treatment was established as U.S. policy with respect to foreign banks by the International Banking Act of 1978. Despite some individual legislative initiatives in recent years, it is acknowledged by virtually all major industrial countries as the principle upon which regulation of the international operations of banks ought to be based. Over many years the U.S. government has assumed a leadership role in building a consensus around this concept. At home, our policy of national treatment seeks to ensure that foreign and domestic banks have a fair and equal opportunity to participate in our markets. The motivation is not merely a commitment to equity and nondiscrimination, though such a commitment in itself is worthy. More fundamentally, the motivation also is to provide consumers of financial services with access to a deep, varied, competitive, and efficient banking market in which they can satisfy their financial needs on the best possible terms.

Our policy of national treatment has served this country well. The U.S. banking market and U.S. financial markets more generally are the most efficient, most innovative, and most sophisticated in the world. It is not a coincidence that our markets are also among the most open to foreign competition. Foreign banks, by their presence and with the resources that they bring from their parents, make a significant contribution to our market and to our economic growth; they enhance the availability and reduce the cost of financial services to U.S. firms and individuals as well as to U.S. public-sector entities.

The proposed act would replace the U.S. policy of national treatment with a policy of reciprocal national treatment. The United States would be saying that we are prepared to forgo the benefits of foreign banks' participation in our market if U.S. banks were not allowed to compete fully and equitably abroad.

Based on experience to date, the Federal Reserve feels strongly that there are better ways to encourage other countries to open their markets. Relying on market forces to induce liberalization may actually be the most potent force. It is well understood that any country that wants to have a financial market with sufficient international stature to compete with New York and London must liberalize and open its market. Many countries, including notably—but not only—Japan and Germany, are moving inexorably in that direction.

Nevertheless, we have not relied only on such

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a passive strategy, however successful such a strategy ultimately may be. In 1979, after passage of the International Banking Act, the Treasury Department, with the help of other agencies, prepared its first National Treatment Study, which has been updated several times, most recently last year, and which will be prepared regularly in the future, pursuant to the Omnibus Trade and Competitiveness Act of 1988. Based on the findings of those reports, the Treasury has engaged in bilateral talks with several countries, including Japan, partly as a consequence of which we have seen a substantial degree of liberalization in foreign financial markets.

Beyond those efforts, the Federal Reserve and others urged countries of the European Community strongly, and with some success, to soften the reciprocity provisions in their proposed Second Banking Directive. We have participated in a range of committees at the Bank for International Settlements in Basle and at the Organisation for Economic Co-operation and Development in Paris, where work has been aimed, in part, at establishing the legal, supervisory, and regulatory conditions that are a precondition for ensuring a "level playing field." In addition, the Federal Reserve has joined others in the U.S. government in working vigorously to reach a meaningful agreement on trade in financial services within the current Uruguay round of multilateral trade negotiations.

I turn now to grandfathering, a practice widely accepted internationally as a means of protecting investment in existing foreign banking operations at a time of statutory change. U.S. operations of foreign banks were grandfathered in the International Banking Act. With respect to foreign operations of U.S. banks, the Federal Reserve, along with others in the U.S. government and the U.S. financial industry, objected strenuously when the European Community (EC) was considering the elimination of grandfather rights for foreign banks, including U.S. banks, operating in Europe; in the end the EC preserved those rights, as I suspect they realized all along that they would ultimately have to do. Consequently, European subsidiaries of U.S. banks may continue to conduct business and to expand their operations on a national treatment basis.

If, contrary to this widely accepted practice, the Congress were to adopt the proposed act, the United States could no longer hold to a principled position in advocating liberalization in international circles. By telling existing foreign-owned banks in the United States that the rules and procedures that have applied equally to them and to all other banks operating in the United States now apply only to U.S.-owned banks, we would be denying national treatment to foreign banks. We would run the risk of introducing instability and discouraging foreign investment in our markets. Moreover, we would be inviting almost certain retaliation.

In conclusion, I would like to emphasize that we have witnessed substantial liberalization and structural reform in financial markets abroad over the past decade. Like members of the Congress, we too would like to see further progress. However, we must recognize also that U.S. markets are not as open as other countries would like or, for that matter, as free as many in the United States, including the Federal Reserve, would like.

National treatment is an important concept, but in its implementation it is also an elusive one. Because it is enormously difficult to apply national treatment in a world in which the structures of banking markets in various countries differ significantly, it is tempting to seek what may appear to be direct, clear-cut solutions. However, lawmakers in each country, including the United States, must balance considerations of competitive equity with other legitimate concerns. We cannot insist that other countries adopt our structures any more than we can let others dictate to us.

It could prove to be a costly mistake if we jeopardize the gains we have made and are continuing to make in improving our own markets, in reforming markets abroad, and in gaining access for U.S. financial firms to those markets, for the sake of trying, probably in vain, to force others to adhere to our own timetable. □

An additional statement follows.

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Statement by Alan Greenspan, Chairman, Board of Governors of the Federal Reserve System, before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives, April 30, 1991.

I am pleased to appear before this committee to discuss three important banking reform bills: H.R. 6, the Deposit Insurance and Regulatory Reform Act of 1991, introduced by Chairman Gonzalez; H.R. 15, the Depositor Protection Act of 1991, introduced by Congressman Wylie; and H.R. 1505, the Treasury's proposed Financial Institutions Safety and Consumer Choice Act of 1991. These three bills all would modify our deposit insurance system to place limits on an expansive safety net that has created incentives for our banks to take excessive risk with insufficient capital. Both the Wylie and the Treasury bills would also increase the efficiency of our banking system, reducing its operating costs and increasing its diversification, by authorizing a true interstate banking system.

The Treasury bill addresses more broadly two other root causes of the present difficulties of the U.S. banking system: (1) the ongoing technological revolution that has dramatically lowered the cost of financial transactions and expanded the scope of financial activities of bank rivals, reducing the value of the bank franchise; and (2) a statutory and regulatory structure that impairs the competitiveness of U.S. banks by limiting their ability to respond to financial innovations and the challenges posed by nonbank providers of financial services.

Modifications of the deposit insurance system are necessary, but the Board strongly prefers the comprehensive approach to banking reform that the Treasury bill offers, believing that it establishes a particularly useful framework for congressional action. These broader reforms would make our banking system more efficient and better able to serve the public as well as create an environment for a safe, sound, and profitable banking system.

The three bills contain a large number of detailed provisions. In the interests of both time and space, I have limited my comments to those portions of each bill that represent the core proposals relevant to basic reform, to those for which the Board may have a view contrary to others that you may have heard, and to those with which the Board has relatively strong reservations. I shall, of course, respond to questions about those provisions on which I have not commented.

With so many provisions, it is not surprising that there is some difference of opinion among the Board members on some of them. Thus, when I say that the Board supports or opposes any particular provision, I will be suggesting a majority or sometimes a unanimous position. In this sense, I can say that the Board strongly supports the thrust of the Treasury bill to limit deposit insurance, authorize new activities and interstate branching, and modify supervisory procedures.

Prompt Corrective Action

Both the Treasury and the Gonzalez bills call for a capital-based mechanism for prompt corrective action under which entities with capital ratios below certain standards would be placed under prompt and progressively greater pressure to limit their dividends and their growth and to modify management practices. As the degree of undercapitalization increases, the supervisory pressure would intensify. The principal objective of prompt corrective action is to change the behavior of bank management by modifying its risk–benefit calculations through the establishment of a presumption that supervisors will take specified corrective action as capital deteriorates. Moreover, by acting promptly, it is possible for the franchise value of the going concern to be maintained and to avoid the rapid declines in value that normally occur for insolvent banks. For the same reason, at some low, but still positive, critical level of bank capital, the bank would be placed in conservatorship or receivership and the stockholders provided only with residual values, if any. If the bank could not be recapitalized, it would be sold, merged, or liquidated; larger banks might be reduced in size over time before sale or liquidation.

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Prompt corrective action is designed to decrease the probability of failures, and, when they do occur, to minimize their cost to the Federal Deposit Insurance Corporation (FDIC). It thus would reduce the need to draw on the insurance fund and to limit that draw when resort to insurance funds is necessary. The Board strongly supports this approach and believes that it is an idea whose time has come for enactment.

Our suggestions do not call for significant modifications, but we nonetheless urge their consideration. For example, both bills, correctly in our view, base prompt corrective action on capital. Generally, capital is a leading indicator of the financial condition and future performance and solvency of a bank. It thus should be a major determinant in prompt corrective action. However, supervisory experience and economic research indicate that capital ratios *alone* do not always differentiate between banks posing high and low risk to the deposit insurance system. That is why the Treasury's proposal authorizes placing banks into zones lower than might be indicated by capital alone on the basis of "unsafe and unsound" conditions or operations. We believe that more general language—such as "other supervisory criteria"—would be more useful. Operationally, this would mean that supervisors would be able also to consider asset quality, liquidity, earnings, risk concentrations, and judgmental information based on recent examinations such as data on classified assets. In short, a reduction in a bank's capital ratio implies that a close review for significant problems is required but that other variables should be considered as well.

These other indicators of the financial condition of a bank should not prevent categorization based on capital. They would, however, permit supervisors to act even if the criteria for bank capital were met. Indeed, we would suggest that the proposed provisions for prompt corrective action be revised to indicate that supervisors could use other information to *downgrade* institutions relative to zones implied by capital alone. We believe that this approach would greatly improve the overall effectiveness and fairness of a policy of prompt corrective action without jeopardizing the presumption that regulators would be required to act quickly, forcefully, and consistently in dealing with capital-impaired institutions. Nor would it eliminate the rigor that its supporters hope prompt corrective action policies would bring to the supervisory framework. In our view, noncapital considerations should only be allowed to reduce the category that capital alone would call for and never either to neutralize or raise the categorization of a bank based on capital.

Indeed, even with the supplemental authority provided by the Treasury and Gonzalez prompt corrective action proposals, the bank regulators must remain vigilant in detecting problems that do not immediately show up in capital ratios of banks and must be aggressive in using existing enforcement authority to address these problems. Both bills would permit a systematic program of progressive restraint based on the capital of the institution instead of requiring the regulator to determine on a case-by-case basis, as a precondition for remedial action, that an unsafe or unsound practice exists. This would provide a powerful and useful tool for addressing problems at banks but would not replace the need for active supervision of other factors at banks.

The proposed Treasury legislation would authorize expedited judicial review to ensure that the supervisor had not acted in an arbitrary and capricious way but would allow the supervisory responses to go forward without delay while the court was reviewing the process of capital measurement. Such a procedure is a necessary precondition for the "prompt" in prompt corrective action but should be modified to include the other supervisory standards referred to above. We urge the incorporation of this concept of expedited judicial review in the Gonzalez bill.

Both the Gonzalez and Treasury approaches to prompt corrective action require certain supervisory steps as capital declines and permit supervisory discretion when deemed appropriate. In the Treasury approach, the number of required and the range of permissible actions expand as the capital ratio declines, but procedures are specified that permit the supervisor to delay taking required actions based on explicit determination of public benefits. The Gonzalez approach permits no deviations from a small number of required actions and has other permissible responses in certain limited situations, a proce-

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dure that also provides some flexibility to the supervisor. Both approaches thus blend flexibility with a mandate for prompt action. Both avoid inflexible, cookbook supervisory rules, while establishing a presumption of rapid supervisory action.

However, we prefer the provisions of the Treasury bill to those in H.R. 6. The latter would trigger supervisory action only at two capital levels or if an undercapitalized bank did not submit or adhere to its capital plan. The Treasury bill provides for more flexibility by creating five capital zones, each with different supervisory steps.

The adoption of prompt corrective action policies would represent a significant change in the supervisory framework for a large number of institutions. To avoid unintended impacts in credit markets and to provide banks with time to rebuild their capital positions and modify their policies, we would urge a delayed effective date. The Treasury legislation calls for a three-year delay after enactment and the Gonzalez bill for a nine-month delay. We believe that it would be advisable to enact the longer interval. Putting banks on clear notice of the coming supervisory framework at a certain date should provide for a smooth transition with minimal disruption.

A final technical note: The Treasury and Gonzalez bills require that the agencies set the critical capital level that would call for putting the bank in conservatorship or receivership. The Treasury bill calls for that critical ratio to be at a point that generally permits resolution of troubled banks without significant financial loss to the FDIC, while the Gonzalez bill provides that the critical capital ratio should be set high enough so that the "with only rare exceptions" resolution would involve no cost to the FDIC. For the Treasury, this should be no lower than 1.5 percent of bank assets and for the Gonzalez approach no less than 2 percent of tangible assets.

The very act of placing a bank in receivership or conservatorship significantly lowers its franchise value, thereby increasing FDIC resolution costs. To require that a bank be closed with capital high enough to assure that it could absorb all of the associated drop in values seems unreasonable. We would suggest, therefore, that the criterion be to "minimize" resolution costs. It is worth emphasizing that prompt corrective action would tend to reduce losses to the insurance fund, but a genuine fail-safe, no-losses-to-the-FDIC policy would require unrealistically high capital levels. We also believe that it is appropriate for the Congress to set a floor on the critical capital level that indicates that the Congress recognizes the positive subsidy resulting from the federal safety net.

Deposit Insurance Reform

As I noted, prompt corrective action will ultimately make deposit insurance reform less pressing. Nevertheless, the Wylie and Treasury bills propose a reasonable reining in of the safety net that the Board supports. Both bills call for limiting insurance coverage to $100,000 per individual per insured institution (plus $100,000 for retirement savings). The Board supports these proposals to limit insurance coverage as well as the types of limits on insurance for pass-through accounts called for in all three bills and the elimination of insurance for brokered accounts in the Treasury bill. We believe that these steps would be consistent with the original intent of deposit insurance to protect the smaller-balance depositor.

It is worth noting that 1989 survey data suggest that only about 3½ percent of households held accounts that, when combined for all household members, exceeded $100,000 at a single depository institution. However, 60 percent of these combined accounts were both less than $200,000 and held by households with husband and wife, each of whom could, under the provisions of both bills, open fully insured accounts at the same institution. In another 15 percent of households, funds could be fully insured at a single depository institution if put into accounts of other members of the household. With both of these adjustments, which exclude the additional coverage for retirement accounts proposed in both bills, less than 1 percent of households would have held accounts with uninsured balances. These households had median net worth in excess of $2 million, hardly a family for which the safety net was designed.

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Some observers would prefer a rollback in coverage. If we were rewriting history, few now would call for insurance coverage as high as $100,000 per individual per institution. But, as I noted last summer before this committee, such insurance levels are now capitalized in bank stock values, in loan and deposit rates, and in the technology and scale of bank operations. A rollback could thus create disruptions that may well exceed its benefits.

The Treasury also proposes a study of longer-run efforts to limit coverage to $100,000 per individual (presumably plus another $100,000 for retirement accounts), across *all* institutions. The Gonzalez bill would adopt that coverage limit without a study, rather than the per institution limits in the other two bills. The Board endorses the concept of a study to understand better the potential cost and intrusiveness of such a fundamental change in the scope of deposit insurance coverage.

Both the Gonzalez and the Treasury bills would require that the FDIC establish a risk-based deposit premium assessment system. In principle, such a system has several attractive characteristics: It would link the cost of insurance to the risk that a bank poses to the insurance fund; it would reduce the subsidy to risky banks; and it would spread the cost of insurance more fairly across depository institutions. It could also be coupled with capital, reducing the premium for those banks that held capital above the minimum levels adjusted for their risk profiles. Whatever these attractions might be in principle, the Board would urge caution at a time when premiums are already high, Bank Insurance Fund (BIF) resources are low, and the range of premiums necessary to reflect risk differences accurately, and to induce genuine behavioral changes, might be much wider than feasible. Risk-based premiums also would have to be designed with some degree of complexity if they were to be fair and if unintended incentives were to be avoided. Moreover, the extent of potential benefits when risk-based premiums are imposed on top of the risk-based capital system, while likely to be positive, requires further evaluation.

The Wylie bill is silent on the failure resolution procedure of the FDIC, while the Treasury and the Gonzalez bills would require that the FDIC resolve failed banks in the least costly manner, which generally means that uninsured depositors would receive only pro rata shares of residual value, if any. The Gonzalez bill, however, has no provision permitting consideration of systemic risks, and, after 1994, prohibits outright any financial assistance by the FDIC to an insured bank that would have the effect of preventing loss to uninsured depositors or creditors. The Gonzales bill also contains a provision intended to limit Federal Reserve discount window lending to undercapitalized institutions, when lending to such institutions is not just for very short-term liquidity purposes. The Federal Reserve is sympathetic to concerns about failing bank use of the discount window to fund the flight of uninsured creditors, potentially raising the cost of resolution to the FDIC. The Federal Reserve would prefer not to lend to insolvent institutions unless the failure to do so might have systemic implications. However, we are concerned that the Gonzales bill would seriously handicap the Board's ability to ensure the stability of the banking system and might prematurely close off liquidity support to viable institutions.

The Treasury bill calls for an exception to the least costly resolution of failed banks when the Treasury and the Federal Reserve Board, on a case-by-case basis, jointly determine that there would be bona fide systemic risk. No one—including the Federal Reserve Board—is comfortable with the exception procedures for addressing systemic risk, even though the Treasury proposal would tighten up the way such cases are handled. While, in principle, systemic risk could develop if several smaller or regional banks were to fail, systemic risks are more likely to derive from the failure of one or more large institutions. Thus, the need to handle systemic risk has come to be associated with the too-big-to-fail doctrine. The disproportionate degree of systemic risk at larger banks highlights the tension between one of the main purposes of deposit insurance—protecting smaller-balance depositors—and the concern that the rapid withdrawals by uninsured depositors and other short-term creditors from larger banks perceived to be in a weakened condition

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could cause and spread significant disruptions that could, in turn, affect credit availability and macroeconomic stability. Whatever its macro benefits might be, the too-big-to-fail doctrine has increasingly offended observers and policymakers alike because of its inequitable treatment of depositors, other short-term creditors, and borrowers at banks of different sizes, and its tendency both to broaden the safety net and to undermine depositor and creditor discipline on bank risk-taking.

Despite the substantial concerns, the Board, like the Treasury, has reluctantly concluded that there may be circumstances in which all of the depositors and short-term creditors of failing institutions will have to be protected in the interests of macroeconomic stability. In evaluating our conclusion, it is important to underline that we anticipate that there will also be circumstances in which large banks can fail with losses to uninsured depositors and creditors but without undue disruption to financial markets. The Treasury's proposal, in fact, contemplates that the large-balance depositors of these banks will not be protected. Moreover, the exception proposal does not call for protection of all creditors of the bank, its holding company, or its nonbank affiliates, and especially protection of the stockholders and senior management. These claimants and employees should not be protected.

In addition, I would emphasize again that other provisions of the Treasury and the Gonzalez bills should ultimately make the exception or too-big-to-fail issue less relevant. The greater emphasis on capital maintenance, more frequent on-site examinations (also included in the Wylie bill), and prompt corrective action can be expected to modify bank behavior and attitudes toward risk-taking. Indeed, the ultimate solution to the too-big-to-fail problem is to ensure that our policies minimize the probability of large banks becoming weak and that when banks experience distress that regulators act promptly to limit FDIC costs. But reality requires that we recognize that substantial increases in capital and substantial reversals of policies cannot occur in the short run. Moreover, it would be taking a significant risk, we believe, to eliminate the long-run option to respond in a flexible way to unexpected and unusual situations.

Bank Insurance Fund Recapitalization

While prompt corrective action and deposit insurance limits will reduce future exposure of the Bank Insurance Fund, the chairman of the FDIC has warned of the unfolding insolvency of the BIF. In response, the Treasury has developed a proposal that would authorize the Federal Reserve Banks to lend up to $25 billion to the FDIC to absorb losses sustained by the BIF in resolving failed banks. While the liabilities of the BIF would be full faith and credit obligations of the U.S. Treasury, it is anticipated that they would be repaid from increased insurance premiums. Premiums could be increased to as high as 30 cents per $100 of assessed deposits—7 cents higher than the premium that the FDIC has proposed to impose at midyear. In addition, the BIF could borrow from other sources up to $45 billion for "working-capital" purposes, that is to carry assets of failed banks pending their sale or liquidation. These loans would thus be self-liquidating. Total premium income would be used to pay interest on borrowings from the Federal Reserve and the Federal Financing Bank, cover ongoing insurance losses, repay Federal Reserve loans, and rebuild the BIF fund.

Increase in BIF Premiums. In the current environment of both intense competition and weak earnings, the Federal Reserve Board is concerned about the potential costs of further premium increases in terms of the soundness and competitiveness of our banking, financial, and economic system. It is extremely difficult to judge how high the premium could be raised before the costs outweigh the benefits in terms of added revenues for the BIF. What is clear is that in reaching a judgment about the appropriate premium level we cannot ignore these potential costs simply because they cannot easily be measured. The premium level that maximizes the BIF's premium revenues, or even the premium level that maximizes the net worth of the BIF, could be substantially higher than the level that would be optimal if the potential adverse impact of higher premiums on our financial system and our economy could be precisely quantified. In light of these considerations, the Board supports

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the imposition of a premium cap of 30 basis points and urges caution in considering increases in premium costs beyond an amount equal to a charge of 23 basis points on the current base.

The Board believes that any plan to recapitalize the BIF must provide sufficient resources without imposing excessive burdens on the banking industry in the near term. The Board also believes that loans to the BIF that would be repaid with future premium revenues are the best means of striking this difficult balance.

Congressman Wylie's bill would assist banks in paying the higher premiums in two ways. The first way would authorize both larger reductions in reserve requirements than is possible under existing law and the transfer of imputed earnings on reserve balances to the insurance funds. In fact, the Federal Reserve still has room under existing law to reduce reserve requirements further but is concerned about the effects of such reductions on the clearing of payments, on money market volatility, and on the conduct of monetary policy. Further reductions in reserve requirements, in any event, would not benefit those banks whose account balances would have to be maintained for clearing purposes. Moreover, if reserve requirements were not reduced, the imputed interest payments would not be returned to the banks, but the distorting effects of the reserve requirement tax would continue to fall on particular types of deposits. The Board favors a more straightforward approach of paying explicit interest on required reserve balances, which the banks could use to offset higher premiums. Such an approach would end the tax involved in this monetary policy and payment systems tool.

The second way the Wylie bill would assist in paying higher premiums is to require the retirement of Federal Reserve stock, freeing up $2.5 billion of assets at national and state member banks that they could then invest in different ways; the additional earnings that they could realize above the statutory risk-free return of 6 percent on Federal Reserve stock probably is modest at this time but could be more significant in other environments. Presumably, the Reserve Banks would rebuild their capital from this distribution by withholding some of their earnings from the Treasury.

While ownership of Federal Reserve stock clearly does not confer any control over policy to member banks, there are clear benefits to the existing legal regime. Stock ownership, with local boards of directors, helps greatly to strengthen significant elements of the structure of the Federal Reserve System. By providing for private ownership of the Reserve Banks insulated from political control, present stock holding arrangements help ensure the independent role of the Federal Reserve within the government. The stock ownership by area industry participants contributes importantly to the cooperative atmosphere that is vital to the effective and efficient day-to-day operation of our monetary system. What appears to some to be an institutional quirk or an anachronism may in fact be a critical and important element in helping to ensure an independent U.S. central bank drawing on the regional resources of the financial community to make national policy. Rather than retiring this stock, we would prefer to see amendments to the Federal Reserve Act to provide that the dividend on the stock reflect a more appropriate rate of return, perhaps, for example, a rate linked in some way to the return on the Federal Reserve Bank's portfolio. We understand the motivation to return funds to the banking system during this period of pressure on the insurance fund, but we would urge the Congress not to ignore the important policy implications inherent in the structure of the Federal Reserve involved in this proposal.

Congressman Gonzalez's bill would seek to augment BIF balances, and to limit the increase in BIF premiums on most banks, by including the deposits of foreign branches of U.S. banks in the FDIC's assessment base. We understand the sense of fairness that motivates this proposal, especially given a policy that some banks may be "too large to fail." However, there are countervailing reasons for great caution in levying assessments on the foreign branch deposits.

The judgment that charging premiums on foreign branch deposits would raise significant amounts of revenue for the FDIC rests on the assumption that depositors would continue to hold these deposits in the face of relatively large FDIC premiums. However, at least some, if not all, of the premium increases would likely be

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reflected in lower offering yields on the deposits subject to premiums. Because depositors at foreign branches appear to be among the most sensitive to yield differentials among money market instruments, they are likely to shift funds out of U.S. banks should the yield differential on U.S. bank deposits decline vis-à-vis alternative money market instruments, such as deposits at foreign-based banks and commercial paper. Thus, larger U.S. banks would likely be faced with the choice of either trying to pass additional assessments on to deposit and loan customers in highly competitive markets, possibly suffering further erosion of their competitive positions, or absorbing assessments and suffering associated reductions in earnings and equity values during a difficult banking period. In any event, the revenue increase from the BIF assessments on foreign branch deposits of U.S. banks will be smaller—we believe considerably smaller—than initial calculations would suggest once adjustment is made for the reduced demand for lower-yielding deposits in the Euromarkets.

Lending by the Reserve Banks. Irrespective of the level of insurance premiums or methods of assisting banks to pay them, an element of the Treasury's proposal to recapitalize the BIF that has troubled the Board is the use of the Federal Reserve Banks as the source of loans to the BIF to cover its losses on failed bank resolutions. To prevent such loans from affecting monetary policy, the loans would need to be matched by sales from the Federal Reserve's portfolio of Treasury securities. Thus, in either case, the public would be required to absorb an amount of Treasury securities equal to the amount of loans to the BIF.

The Board can discover no economic purpose that would be served by this indirect financing route. The implications for financial markets, the economy, and the federal budget would be identical if the Treasury, rather than the Federal Reserve Banks, made the proposed loans to the BIF. Because the Federal Reserve would offset the loans with open market sales, there would be no impact on reserves, the federal funds rate, or the money supply. With respect to budgetary implications, neither FDIC outlays, net interest payments by the U.S. government, nor the budget deficit would be any different. Finally, use of the Treasury rather than the Reserve Banks would have no implications for the Budget Enforcement Act.

Not only would use of the Reserve Banks for funding the BIF serve no apparent economic purpose, it could also create potential problems of precedent and perception for the Federal Reserve. In particular, the proposal involves the Federal Reserve directly funding the government. The Congress has always severely limited, and, more recently, has removed the authorization for, the direct placement of Treasury debt with the Federal Reserve, apparently out of concern that such a practice could compromise the independent conduct of monetary policy and would allow the Treasury to escape the discipline of selling its debt directly to the market. Implementation of the proposal could create perceptions, both in the United States and abroad, that the nature or function of our central bank had been altered. In addition, if implementation of the proposal created a precedent for further loans to BIF or to other entities, the liquidity of the Federal Reserve's portfolio could be reduced sufficiently to create concerns about the ability of the Federal Reserve to control the supply of reserves and, thereby, to achieve its monetary policy objectives.

The BIF must be granted unquestioned access to the financial resources necessary to meet its obligations. And, the public must be reassured that, regardless of the solvency or insolvency of the BIF, the U.S. government will make available whatever funds are necessary to protect federally insured deposits. Whatever financial arrangements help accomplish this objective, however, it is of critical importance that we adopt policies now to minimize the risk that such losses to the insurance fund will ever occur again. The Board believes that both the Gonzalez and the Treasury bills establish an approach that would help accomplish that objective through prompt corrective action. But the Gonzalez bill does not address other issues that would strengthen banking organizations, and the Wylie bill only partially addresses them. I would like to turn to these issues now.

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Expanded Activities and Interstate Branching

As the committee knows, the Board believes that a significant part of the longer-run solution to the subsidy provided by the safety net is an increase in minimum capital standards. However, the condition of many banks suggests that a shorter-run restoration process must precede the increase in capital minimums. In the interim, the Board supports the Treasury proposal that would immediately reward those financial services holding companies with bank subsidiaries that have capital significantly above the minimum standards. Not only does such an approach create additional inducements for these organizations to build and maintain the banks' capital, it also addresses one of the most significant causes of weaknesses in the banking system by widening the scope of activities for holding companies with well-capitalized bank subsidiaries.

It is clear that some members of the Congress are hesitant about authorizing wider activities for banking organizations at a time when taxpayers are being asked to pick up the costs for failed savings and loan associations that have unsuccessfully taken too much risk and when BIF recapitalization proposals raise the concern that taxpayer assistance for resolution costs of banks may also be necessary. Such hesitancy is understandable. However, two crucial differences exist between the expanded bank activities proposed by the Treasury and those previously allowed for savings and loan associations: the types of activities in which the institutions could engage and the types of institutions that would be allowed to engage in them.

The wider activities proposed by the Treasury are all financial in nature; they involve the types of risk with which bankers are familiar, letting them build on their expertise. Thus, for example, the bill would not permit financial services holding companies to engage in real estate development or other nonfinancial activities. It is worth repeating that the new activities that would be authorized would be restricted to holding companies with well-capitalized and soundly operated bank subsidiaries. They are to be conducted in separately capitalized affiliates that would have limited access to bank funds; and the entities engaging in these new activities must be divested if the capital of the affiliated banks does not remain significantly above the minimum international capital standards. The proposal does not repeat the thrift experience of authorizing *all* institutions—strong and weak—to engage in new activities in the depository institution itself, financed by insured deposits. The proposed approach is unlikely to expose the safety net to additional risk because it does not reflect a wholesale removal of restraints. Based on their current capital positions, we estimate that only about one-fourth of the largest twenty-five, and about one-half of the largest fifty, of our banking organizations would be permitted to engage in such activities if they were authorized today. Almost all of the next fifty largest bank holding companies have bank subsidiaries with capital high enough to permit the holding company to engage in these new activities.

Congressman Wylie's bill would permit bank holding companies to engage in activities beyond those presently authorized when the activities are "of a financial nature," provided they are either in response to technological innovations in the provision of banking and banking-related services or are substantially identical to products and services offered by nonbank competitors. The Wylie bill offers a constructive option that, while more limited than the Treasury bill, would address one of the fundamental restraints on the ability of banking organizations to remain competitive in an ever-changing marketplace. However, unless the Glass–Steagall Act is repealed and certain provisions of Section (4)(c)(8) of the Bank Holding Company Act are rescinded, the Wylie bill would not permit banking organizations to engage in securities activities beyond Section 20 subsidiaries or to engage in insurance underwriting or sales. In remaining financial markets, it would focus on responding to the innovations developed by their nonbank competitors rather than permitting banking organizations to originate their own innovations for the delivery of financial services. The Board thus prefers the broader approach proposed in the Treasury bill.

The best protection for the insurance fund is to be certain that we have strong banking organizations. Authorizing wider activities for holding companies with well-capitalized bank subsidiar-

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ies would increase the efficiency of our financial system by permitting such organizations to respond more flexibly to the new competitive environment in banking here and abroad. It also would add to the incentives for increasing and maintaining bank capital, and it would make available better and cheaper services to customers of U.S. banks around the world.

Similar benefits involving even more banks and a larger proportion of the public would result from widening the geographic scope of bank activity. The Treasury and Wylie bills would repeal the Douglas amendment to the Bank Holding Company Act to permit banking companies to operate subsidiary *banks* in all states, and would amend the McFadden Act and related statutes, to permit banks to operate *branches* of their banks in all states. These bills would thus eliminate an anachronism and permit full interstate banking by any vehicle that a banking organization chooses.

An interstate banking system has slowly evolved in this country through the holding company vehicle. Only Hawaii and Montana do not now have on the books laws that permit—or are scheduled to permit—some form of interstate banking. But this approach, with separately capitalized bank subsidiaries, and with less than full nationwide banking authorized, still does not permit some banking organizations to enter some attractive markets and, most important, is unduly costly. True nationwide interstate branching would be much more flexible and efficient, achieving geographic diversification at lower cost. Simply by collapsing existing subsidiaries to branches, banks could eliminate the unnecessary costs of separate boards and extra management layers as well as the costs of separately capitalizing each subsidiary. Authorization of interstate bank branching is, in effect, both a more efficient use of capital and a capital-building step by reducing banking costs.

The evidence from intrastate branching does not suggest that interstate branching will be a substantial source of additional earnings to out-of-market banks. What interstate banking promises is wider consumer choices at better prices and, for our banking system, increased competition and efficiency, the elimination of unnecessary costs associated with the delivery of banking services, and risk reduction through diversification. The Board continues to urge its prompt adoption.

Regulation and Examination

The holding company form is retained in the Treasury proposal as the best organizational vehicle for financial modernization. Under the Treasury proposal, each holding company subsidiary—bank and nonbank—would be separately capitalized and functionally regulated as if it were an independent entity: Bank regulatory agencies would regulate banks, the Securities and Exchange Commission (SEC) would regulate broker–dealers and mutual funds, and the states would regulate insurance companies.

To restrict the safety net to the insured bank, the proposal would apply Sections 23A and 23B of the Federal Reserve Act, which limits quantitatively the financial transactions between banks and their affiliates and requires that such transactions be collateralized and conducted on market terms. However, to achieve the synergies that are the purpose of the proposal, the bill would not impose management, operations, or general marketing fire walls, though strong disclosure requirements would be required to protect the consumer. Among the fire walls that would remain are restrictions on sales of affiliate liabilities at the bank, where they might be confused with insured deposits.

In the Treasury bill, the primary regulator of the largest bank subsidiary would become the umbrella supervisor of the financial services holding company. The Treasury bill contemplates that, with expanded permissible activities, the insured banking units often would account for a significantly smaller proportion of the consolidated assets of the financial services holding company than they are now of the bank holding company. In this context, the focus of the umbrella supervisor in the Treasury bill is to police and constrain threats to the bank, while limiting banklike regulation of the holding company and its uninsured subsidiaries. In contrast, the Gonzalez bill does not expand the scope of activities of banking organizations and the Wylie bill expands powers only marginally. Thus, both

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retain the current banklike regulatory focus on the consolidated holding company, whose assets are predominantly banks and subsidiaries whose activities are bank related.

In their respective contexts, each of these approaches makes sense to the Board because they link regulation to the type of activity. Since the Board strongly supports a wider range of activities for banking organizations, we would also support the regulatory approach of the Treasury bill if such activities are authorized. Under that approach, the umbrella supervisor's authority over the uninsured affiliates of well-capitalized banks would be limited. However, the umbrella supervisor would police financial transactions between the bank and its affiliates, could assess the risks to the bank posed by the activities of its nonbank affiliates, and could require divestiture of a nonbank affiliate posing a threat to the bank.

To ensure that the bank is protected, the Board believes some minor modifications in the language of the Treasury bill are necessary to further clarify that the umbrella supervisor could examine the parent anytime it wishes to ensure that it is not creating risk for the bank. Further clarity is also necessary to ensure that, while the umbrella supervisor would not, as a matter of course, examine the nonbank affiliates on a regular basis, the umbrella supervisor would be permitted to examine these affiliates whenever the supervisor believed that they posed a risk to the banks, even when the banks' capital was above minimum levels; otherwise the supervisor's divestiture authority would be less meaningful. Balancing protection of the bank and limits on the spreading of the safety net with minimal regulation of nonbank affiliates requires careful legislative language.

The Treasury proposal calls for the imposition of bank capital standards on, and the application of many of the regulations governing prompt corrective action for banks to, the consolidated holding company whenever the capital of the bank falls and remains below the minimum bank capital standard. This approach is designed to reinforce the protection of the bank from contagion from its parent or affiliates. While the Treasury bill provides the supervisor with examination authority over financial affiliates to determine compliance with these requirements, the Board believes that additional clarification is required to ensure that the supervisor would have full examination powers over the consolidated financial services holding company when the banks' capital declined below minimum levels.

All of these clarifications are necessary to ensure that the umbrella supervisor would be able to act promptly and effectively to protect the bank. But the thrust of the modified provisions still would be to limit the banklike regulation of the holding company and its uninsured subsidiaries, provided the bank affiliates are well capitalized. For example, the traditional consolidated bank holding company capital regulation would not be imposed under the bill as long as its insured depository subsidiaries were themselves capitalized above minimum levels. There are several reasons for this approach: It recognizes the practical infeasibility of regulators determining what the appropriate minimum capital should be for an organization that is not primarily a banking organization but rather a true financial services company; it facilitates equitable treatment between holding company subsidiaries and independent firms; it avoids the inefficiencies of regulation; it creates an additional incentive to build and maintain a strong *bank* capital position; and it avoids even the appearance of extending the safety net.

It certainly is true that this approach would permit holding companies to rely without regulatory limit on debt markets to finance equity contributions to their bank and nonbank subsidiaries—so-called double leverage. However, prompt corrective action would limit dividends and other payments that bank subsidiaries could make to their parent should the banks' capital decline. Such restrictions on dividends, as well as the strict limitation of the safety net protection only to the banks, are likely to make financial markets cautious about the quantity of debt they permit financial services holding companies to assume. Moreover, with the appropriate examination authority, the supervisor could take remedial corrective action if the holding company poses risk to the banks.

Our support for limits on banklike regulation of holding companies, as I have noted, depends on banks becoming a less important component of the consolidated entity. Should permissible activities of bank holding companies remain unchanged—and bank holding companies remain

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predominantly in the banking business—the Board would prefer to see the continuation of consolidated holding company supervision, regardless of the capital position of the subsidiary bank.

As for regulatory structure, the Treasury bill would make the Board the primary regulator of state-chartered banks and a new federal agency the primary regulator of national banks and thrift institutions; the Gonzalez bill would create a single new agency as the primary federal regulator of all banks and thrift institutions. The Board is convinced that the information flow it now obtains from its supervisory contact with banks is of critical importance for the conduct of monetary policy and the maintenance of the stability of the financial system. In addition, the Board believes that its supervisory policy benefits from the perspective of its responsibilities for macrostabilization. Not only is it important that monetary and supervisory policies not work at cross purposes but I cannot emphasize enough how much we rely on the qualitative information that we now obtain from bankers through our supervisory process to understand evolving developments in financial markets. We need a critical mass of coverage of banking markets to get an immediate sense of what lies behind the data and, just as our responsibilities for macrostabilization bring a different perspective to our supervisory efforts, we use this feedback from the supervisory process both to help us develop our monetary policy and to evaluate its impact. For example, our understanding of the recent evolving problems with credit availability, the constrained flow of credit, and the impact on economic activity came importantly from our supervisory contact with banking organizations large and small.

Under the Treasury proposal, however, the Federal Reserve would have umbrella authority only over state-chartered banks, which tend to be significantly smaller, on average, than national banks, and, under the Gonzalez bill, we would have no supervisory responsibilities at all. We believe that our ability to accomplish our monetary policy objectives successfully would be seriously damaged without the intimate contacts derived from our supervisory responsibilities relating to large banking organizations. This view was echoed in the 1984 Bush Task Force report, which Congressman Wylie's bill would have studied for the feasibility of implementation; that report also would have made the Federal Reserve the primary regulator of all state banks and the umbrella supervisor of their holding companies, but, in addition, it would have made the Federal Reserve the umbrella supervisor of the holding companies of large banks, even if those banks had a national charter and, hence, another primary regulator. We believe that the Federal Reserve must have hands-on knowledge of the operations of those large banking organizations when potential problems could have systemic effects if we are to perform the critical function of ensuring stability in the financial markets and payments systems. For example, it is difficult to imagine how we would administer our discount window responsibilities and the associated collateral evaluations without the practical experience and knowledge derived from our supervisory responsibilities at the larger institutions.

Moreover, with the increasing globalization of banking, in the coming years the central banks of the world will need more than ever to coordinate responses to developments that may originate anywhere and affect not only foreign exchange markets but also the financial markets of their respective countries. In a world of electronic transfers, in which billions of dollars, yen, marks, and sterling can be transferred in milliseconds, and problems at a bank or other institution in any country can put such transfers—and hence market stability—at risk, central bank consultation and coordination on operating details and procedures are critical. Thus, in our view, it is essential that the Federal Reserve—to conduct its stabilization policies—have intimate familiarity with all banking institutions having a substantial cross-border presence.

Foreign Bank Activities in the United States

The Treasury bill would require that a foreign bank that desires to engage in newly authorized financial activities establish a financial services holding company in the United States through which such activities would have to be conducted. The bill also would require that any

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foreign bank that chooses to engage in such activities in the United States close its U.S. branches and agencies and conduct all of its U.S. banking business through a U.S. subsidiary bank. Under the bill, foreign banks would lose their grandfather rights for U.S. securities affiliates after three years and would be required to obtain approval from appropriate authorities to engage in underwriting and dealing in securities activities in the United States in the same way that a U.S. banking organization would. The Treasury bill would also allow foreign banks to establish interstate branches at any locations permitted to state or national banks. Foreign banks choosing to engage only in banking in the United States would not be required to form U.S. subsidiary banks and would be permitted to operate interstate through branches of the foreign parent bank.

The capital and other supervisory standards that would be the basis for authorizing affiliates of foreign banks to engage in newly authorized financial activities and interstate banking are the same as would apply to affiliates of U.S. banks. Such a policy appears appropriate and equitable. On the other hand, we question the need for the requirement that foreign banks close their U.S. branches and agencies and conduct their U.S. business in a separately capitalized U.S. subsidiary bank to take advantage of the expanded powers for activities and branching.

As the Treasury bill recognizes in advocating domestic interstate branching, a requirement that a banking business be conducted through separately incorporated subsidiaries rather than branches imposes substantial costs by not permitting a banking organization to use its capital and managerial resources efficiently. In most countries, U.S. banks have been permitted to enjoy the advantages inherent in competing in foreign markets through branch offices. In bilateral and multilateral discussions, U.S. authorities have correctly argued that a restriction against branching discourages the involvement of U.S. banks in foreign markets. It would be inconsistent not to acknowledge that foreign banks could also be discouraged from involvement in U.S. banking markets by requiring foreign banks to operate only through subsidiaries to engage in new activities. Moreover, by compelling a switch from branches, whose deposits now are largely uninsured, to U.S. subsidiaries, whose deposits would be covered by U.S. deposit insurance, we would be increasing the extent to which depositors would look to the U.S. safety net instead of to the foreign parent in the event of problems.

Foreign banks have made a substantial contribution to the competitive environment of U.S. financial markets and the availability of credit to U.S. borrowers. Currently, legal lending limits for U.S. branches and agencies of foreign banks are based on the consolidated capital of their parent banks. By contrast, requiring a "roll up" of branches and agencies of a foreign bank into a U.S. subsidiary bank, whose capital is measured separately from the parent, might limit the extent to which foreign banks contribute to the depth and efficiency of markets in the United States.

We also have some reservations about the purpose that would be served by requiring a foreign bank to establish a holding company in the United States to conduct new financial activities. In particular, requiring that foreign banks operate through holding companies is not necessary to ensure competitive equity for U.S. financial services holding companies or independent U.S. nonbank firms. First, we see no clear competitive advantages to foreign banks when they can engage in new activities only if the banks are well capitalized. Second, branches of foreign banks possess no systematic funding advantages in the United States, and any cost advantage a foreign bank may have in its *own* home market would be available regardless of the structure of its U.S. operations. The requirement that a foreign bank conduct new activities only through a financial services holding company imposes additional costs on foreign banks without any obvious benefits. It also creates an inducement for foreign banks to conduct their banking operations in less costly environments outside the United States and for foreign authorities to threaten reciprocal restrictions for U.S. financial firms abroad.

Commerce and Banking

The Treasury has proposed permitting commercial and industrial firms to own financial service

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holding companies. The Treasury report that preceded its legislative proposals focused on the need to widen and deepen capital sources, especially for failing banks, for which nonfinancial corporations might be willing to provide substantial capital in exchange for control. The Treasury proposal also seeks fairness for those financial firms that operate in markets that banks would be authorized to enter under the proposal but that would otherwise be prohibited from purchasing a bank because of their commercial parents. The Treasury report also stressed the desirability of additional management expertise and strategic direction from commercial firms as well as the reduction in regulatory burden in distinguishing between financial and nonfinancial activities.

Those who hold a contrary view argue that our capital markets are so well developed that profitable opportunities in banking can attract capital from sources other than nonfinancial corporations seeking management control, provided that banks operate in a regime that permits them to be fully competitive. In addition, opponents are concerned about the implications of permitting commercial and industrial firms to own—even indirectly—subsidiaries with access to special government protection.

On balance, the Board supports on a philosophical level the notion of permitting any institution the right to go into any business—including banking—with the proper safeguards. However, the Board believes that it would be prudent to delay enacting the authority to link commerce and banking until we have gained some actual experience with wider financial ownership of, and wider activities for, banking organizations. We should reflect carefully on such a basic change in our institutional framework because it is a step that would be difficult to reverse and for which a strong case for immediate enactment has not been made.

The Board would have no difficulty with those nonbanking *financial* firms wishing to affiliate with banks maintaining their *de minimis* preexisting holdings in commercial or industrial firms. But, if banking and commerce connections remain prohibited, financial firms already owned by commercial and industrial firms would likely point out the inequity of their being prohibited from affiliating with banks, while their independent rivals were free to do so. Given the relatively small number of securities firms, insurance companies, finance companies, and thrift institutions that are owned by commercial and industrial firms, the Congress may wish to address this issue through appropriate limited grandfather provisions.

ACCOUNTING STANDARDS

Both the Gonzalez and the Treasury bills address accounting standards in banking. Timely and accurate financial information on depository institutions is critical to the supervisory process and to effective market discipline. Thus, it is important that financial statements and reports of condition accurately represent the true economic condition of firms.

The Gonzalez bill contains a number of provisions intended to strengthen regulatory accounting standards for insured depository institutions. While the Board shares the basic view that any deficiencies in accounting practices should be corrected, we are concerned that certain contemplated reforms may be counterproductive. In particular, I am referring to the provisions requiring that regulatory accounting standards move in the direction of market-value accounting.

The Gonzalez bill would direct the new single banking agency it creates to "prescribe regulations which require that all assets and liabilities of insured depository institutions be accounted for at fair market value unless the agency makes a determination that such a method of accounting is inappropriate in the case of a particular asset or liability or class of assets or liabilities." The Board has significant concerns regarding the applicability of market value accounting to all banking organizations. Consequently, at this time we believe that it would be premature to commit, even in principle, to the adoption of market value accounting either in whole or in part for banking organizations.

Our concerns are both practical and conceptual. Because most assets and liabilities of banks are not traded actively, their market values would have to be estimated. Inherently, such estimates would be highly subjective. For valid

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reasons, the economic value of an asset or a liability might differ according to the identity of the holder, reflecting differences in individual risk preferences, tax situations, informational and operating costs, and other idiosyncratic factors. Indeed, the value added by banks is partly attributable to banks' comparative advantage relative to other investors in evaluating, originating, or servicing illiquid loans, based on proprietary information, operating efficiencies, or special monitoring capabilities.

Owing to this subjectivity, market value estimates would be difficult for auditors and examiners to verify and would be susceptible to manipulation. Thus, the adoption of market value accounting principles for illiquid assets could worsen, rather than enhance, the quality of information about the true condition of depository institutions. Technologies that reduce the underlying subjectivity of market value estimates generally do so by imposing standardized assumptions that may not be appropriate in all situations and would precisely fit none.

Even when assets are traded in liquid markets, market values may not be the best measure of underlying value. A growing body of evidence suggests that asset prices display substantial short-run volatility or noise that is unrelated to economic fundamentals. Under market value accounting, such noise could discourage depository institutions from making fixed-rate loans, whose market values would be especially subject to price changes. Market value accounting also could lead to greater fluctuations in bank earnings that might generate instability in the supply of credit to the economy through its impact on the volatility of capital positions and on public confidence. The latter problem could arise even if market value information were disseminated through supplemental disclosures.

While the adoption of market value accounting for investment securities may be technically feasible at this time, the Board strongly recommends against such a partial approach that would mark only part of the balance sheet to market. Such a partial approach could create substantial measurement distortions that artificially distort bank behavior. Depository institutions often use investment securities to hedge interest rate risk present in other areas of their balance sheet. Thus, were investment securities marked to market, offsetting gains or losses on other assets and liabilities generally would not be recognized, leading to inaccurate measures of the true net worth and riskiness of the institution. Banks and thrift institutions, therefore, might be discouraged by accounting treatment from undertaking hedging transactions that are in their best interest. In addition, the partial approach would tend to undermine incentives to acquire and hold long-term securities and might encourage a trading mentality that could increase the overall level of risk in the portfolio.

We support the provisions of the Treasury bill that call for efforts to improve supplemental disclosure. I would note that for several years a supplemental schedule to the report of condition has shown both the current book value and market value of each type of security held by banks. Although these market values are publicly disclosed, they have not been included in reported capital and earnings. We continue to believe that this accounting treatment is appropriate in light of the role played by the investment portfolios at most banking organizations.

Much can be done to reduce divergences between accounting and economic measures of financial condition within the current generally accepted accounting principles (GAAP) framework. The most important priority should be to improve the reporting of loan-loss reserves and disclosures about loan quality and asset concentrations. Financial analysts typically cite these areas, rather than the lack of market value information, as the most problematical under current accounting standards. In this regard, on March 1, the federal banking and thrift agencies recommended voluntary disclosures about the cash flows and other characteristics of nonaccrual loans held by banking and thrift organizations. In addition, the report of condition was recently revised to collect detailed data on the participation by banks in highly leveraged transactions. Nevertheless, further disaggregated disclosures about the characteristics of loans and borrowers may be appropriate. Such disclosures could exert constructive market discipline on depository institutions to ensure adequate provisioning for loan losses.

I would also note that the banking agencies currently are working to develop more compre-

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hensive and uniform standards for examining loan-loss reserves. Together with an at least annual full-scope asset quality examination of every bank, these standards should enhance the reliability of estimates of the allowance for loan-loss reserves and their comparability across institutions.

Conclusion

The bills before you address critical issues of fundamental importance. The Board strongly supports the provisions of the Wylie and Treasury proposals to rein in the safety net by limiting deposit insurance coverage and to rescind inefficient restrictions on interstate banking. The Board also strongly supports the provisions of the Gonzalez and Treasury bills implementing prompt corrective action procedures. We believe, however, that both the Gonzalez and Wylie bills should be extended to cover the proposals in the Treasury bill to expand the range of permissible activities for organizations with well-capitalized banking subsidiaries. Limiting deposit insurance, modifying supervisory procedures, introducing true interstate banking, and authorizing wider activities for strong organizations would significantly and prudently limit subsidies to banks, reduce incentives for excessive risktaking, and safely remove constraints that have limited the ability of banks to deliver wider services at lower costs. All of these actions, including assured funding for the BIF, are required if we are to have a healthy and strong banking system capable of financing economic growth and providing American households and businesses with low cost, state-of-the-art financial services.

Despite the need to develop procedures to ensure that the BIF has adequate resources, the Board urges the Congress to address the issues broadly and to avoid partial solutions that separate into component parts the comprehensive proposals for reform such as those suggested by the Treasury. Despite our concerns about some of its proposals, we strongly support the thrust of the Treasury's approach because it addresses the issues within a framework that attacks the major root causes of the problems in our banking system. □

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Announcements

CHANGE IN THE DISCOUNT RATE

The Federal Reserve Board announced on April 30, 1991, a reduction in the discount rate from 6 percent to 5½ percent, effective immediately.

Action was taken in light of continued weakness in economic activity, especially in the industrial and capital goods areas, and evidence of abating inflationary pressures. The reduction, in part, realigns the discount rate with market interest rates.

In taking the action, the Board voted on requests submitted by the boards of directors of the Federal Reserve Banks of Boston, New York, Atlanta, Chicago, and Dallas. The Board subsequently approved similar actions by the boards of directors of the Federal Reserve Banks of Philadelphia, Richmond, Minneapolis, Kansas City, and San Francisco, effective April 30; of the Federal Reserve Bank of Cleveland, effective May 1; and of the Federal Reserve Bank of St. Louis, effective May 2.

REGULATION K: REVISIONS

The Federal Reserve Board announced on April 19, 1991, revisions to Regulation K (International Banking Operations), which govern international banking operations that will permit U.S. banking organizations to expand the scope of their international activities.

Some of the revisions to the regulation will become effective immediately; others will become effective May 24, 1991.

The revisions will accomplish the following:

- Expand the existing authority to engage in underwriting and dealing in equity securities outside the United States.
- Increase the current dollar limits under which U.S. banking organizations may make investments abroad without prior notice to the Board.
- Clarify the portfolio investment authority under which U.S. banking organizations may make limited equity investments in any type of company outside the United States.
- Permit Edge corporations to provide domestic banking services, including loans, to foreign persons and governments.
- Expand the range of permissible activities for U.S. banking organizations abroad to include futures commission merchant activities and life insurance underwriting.
- Modify the authority for debt-for-equity investments, including permitting a cash component to such investments without prior notice to the Board and providing for retention of such investments in companies that engage in a small level of business activities in the United States.
- Authorize case-by case exemptions from the standard for qualifying foreign banking organizations.
- Require Edge corporations to maintain a minimum risk-based capital level of 10 percent.
- Make certain other technical and clarifying amendments.

The International Banking Act requires the Board to review its regulations with respect to Edge corporations at least every five years to ensure that the purposes of the Edge Act are being served in light of prevailing economic conditions and banking practices. Edge corporations are corporations chartered to engage in international or foreign banking or other international or foreign operations. The Board included in this review all of the provisions of Regulation K.

REGULATION B: REVISIONS TO OFFICIAL STAFF COMMENTARY

The Federal Reserve Board issued on April 2, 1991, revisions to its official staff commentary to Regulation B (Equal Credit Opportunity). The

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revisions, which became effective April 1, address notification of adverse action and a state law preemption determination.

Regulation Z: Revisions to Official Staff Commentary

The Federal Reserve Board issued on April 1, 1991, revisions to its official staff commentary for Regulation Z (Truth in Lending). The revisions were effective on April 1, 1991, but compliance is optional until October 1, 1991. The interpretations address such issues as renewals of home equity lines of credit, credit card substitution, and renewable balloon payment mortgages.

Examinations for Compliance with the Community Reinvestment Act

The Federal Reserve Board now makes available weekly a list of institutions that have been examined for compliance with the Community Reinvestment Act (CRA).

The information is included in a weekly publication, which lists applications received and actions taken by the Board, the Board's staff, and the Federal Reserve Banks. Institutions that have been examined for CRA compliance are listed in a new Section V following the application notices for each Federal Reserve District.

Persons interested in subscribing to this publication (H.2) should contact Publications Services, mail stop 138, Board of Governors of the Federal Reserve System, Washington, D.C. 20551. A check for $35 should accompany each request for a year's subscription. The subscription cost may be waived for community organizations on a case-by-case basis.

In addition, each Federal Reserve Bank publishes its own applications bulletin that includes a section on CRA examinations made in that Reserve District. Interested persons should contact the individual Reserve Banks for further information about the District publications.

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Legal Developments

FINAL RULE—AMENDMENT TO REGULATION D

The Board of Governors is amending 12 C.F.R. Part 204, its Regulation D (Reserve Requirements of Depository Institutions), including simplifying the definition of "savings account" by merging paragraphs 204.2(d)(2)(i) and (ii), which previously had separate descriptions of savings accounts and money market deposit accounts, and revising section 204.7(a) to change the term "penalties" to "charges," where appropriate, to more accurately reflect the nature of these payments.

Effective April 24, 1991, 12 C.F.R. Part 204 is amended as follows:

Part 204—Reserve Requirements of Depository Institutions

1. The authority citation for Part 204 continues to read as follows:

Authority: Sections 11(a), 11(c), 19, 25, 25(a) of the Federal Reserve Act (12 U.S.C. 248(a), 248(c), 371a, 371b, 461, 601, 611); section 7 of the International Banking Act of 1978 (12 U.S.C. 3105); and section 411 of the Garn–St Germain Depository Institutions Act of 1982 (12 U.S.C. 461).

2. Section 204.2 is amended by revising paragraph (b)(3)(ii)(A), footnote 1 to paragraph (c)(1), and paragraphs (d)(2), (e)(2), and (f)(2); by removing paragraph (b)(3)(iv) and redesignating paragraphs (b)(3)(v) and (b)(3)(vi) as (b)(3)(iv) and (b)(3)(v), respectively, to read as follows:

Section 204.2—Definitions.

* * * * *

(b)* * *

(3) * * *

(ii)* * *

(A) is subject to check, draft, negotiable order of withdrawal, share draft, or similar item, such as an account authorized by 12 U.S.C. 1832(a) ("NOW account") and a savings deposit described in section 204.2(d)(2), provided that the depositor is eligible to hold a NOW account; or

* * * * *

(c)

(1)

(i) * * * [1]

* * * * *

(d) * * *

(2) The term "*savings deposit*" also means: A deposit or account, such as an account commonly known as a passbook savings account, a statement savings account, or as a money market deposit account ("MMDA"), that otherwise meets the requirements of section 204.2(d)(1) and from which, under the terms of the deposit contract or by practice of the depository institution, the depositor is permitted or authorized to make no more than six transfers and withdrawals, or a combination of such transfers and withdrawals, per calendar month or statement cycle (or similar period) of at least four weeks, to another account (including a transaction account) of the depositor at the same institution or to a third party by means of a preauthorized or automatic transfer, or telephonic (including data transmission) agreement, order or instruction, and

1. A time deposit, or a portion thereof, may be paid before maturity without imposing the early withdrawal penalties specified by this part:
(a) where the time deposit is maintained in an individual retirement account established in accordance with 26 U.S.C. 408 and is paid within seven days after establishment of the individual retirement account pursuant to 26 C.F.R. 1.408–6(d)(4), where it is maintained in a Keogh (H.R. 10) plan, or where it is maintained in a "401(k) plan" under 26 U.S.C. 401(k); provided that the depositor forfeits an amount at least equal to the simple interest earned on the amount withdrawn;
(b) where the depository institution pays all or a portion of a time deposit representing funds contributed to an individual retirement account or a Keogh (H.R. 10) plan established pursuant to 26 U.S.C. 408 or 26 U.S.C. 401 or to a "401(k) plan" established pursuant to 26 U.S.C. 401(k) when the individual for whose benefit the account is maintained attains age 59½ or is disabled (as defined in 26 U.S.C. 72(m)(7)) or thereafter;
(c) where the depository institution pays that portion of a time deposit on which federal deposit insurance has been lost as a result of the merger of two or more federally insured banks in which the depositor previously maintained separate time deposits, for a period of one year from the date of the merger;
(d) upon the death of any owner of the time deposit funds;
(e) when any owner of the time deposit is determined to be legally incompetent by a court or other administrative body of competent jurisdiction; or
(f) where a time deposit is withdrawn within ten days after a specified maturity date even though the deposit contract provided for automatic renewal at the maturity date.

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no more than three of the six such transfers may be made by check, draft, debit card, or similar order made by the depositor and payable to third parties. A "preauthorized transfer" includes any arrangement by the depository institution to pay a third party from the account of a depositor upon written or oral instruction (including an order received through an automated clearing house (ACH)) or any arrangement by a depository institution to pay a third party from the account of the depositor at a predetermined time or on a fixed schedule. Such an account is not a "transaction account" by virtue of an arrangement that permits transfers for the purpose of repaying loans and associated expenses at the same depository institution (as originator or servicer) or that permits transfers of funds from this account to another account of the same depositor at the same institution or permits withdrawals (payments directly to the depositor) from the account when such transfers or withdrawals are made by mail, messenger, automated teller machine, or in person or when such withdrawals are made by telephone (via check mailed to the depositor) regardless of the number of such transfers or withdrawals.[5,6]

* * * * *

(e)* * *

(2) Deposits or accounts on which the depository institution has reserved the right to require at least seven days' written notice prior to withdrawal or transfer of any funds in the account and that are subject to check, draft, negotiable order of withdrawal, share draft, or other similar item, except accounts described in section 204.2(d)(2) (savings deposits), but including accounts authorized by 12 U.S.C. 1832(a) (NOW accounts).

* * * * *

(4) Deposits or accounts on which the depository institution has reserved the right to require at least seven days' written notice prior to withdrawal or transfer of any funds in the account and under the terms of which, or by practice of the depository institution, the depositor is permitted or authorized to make more than six withdrawals per month or statement cycle (or similar period) of at least four weeks for the purposes of transferring funds to another account of the depositor at the same institution (including "transaction account") or for making payment to a third party by means of a preauthorized transfer, or telephonic (including data transmission) agreement, order or instruction, except accounts described in section 204.2(d)(2). An account that authorizes more than six such withdrawals in a calendar month, or statement cycle (or similar period) of at least four weeks, is a "transaction account" whether or not more than six such transfers are made during such period. * * *

(f)* * *

(2) "Nonpersonal time deposit" does not include nontransferable time deposits to the credit of or in which the entire beneficial interest is held by an individual pursuant to an individual retirement account or Keogh (H.R. 10) plan under 26 U.S.C. 408, 401, or non-transferable time deposits held by an employer as part of an unfunded deferred-compensation plan established pursuant to subtitle D of the Revenue Act of 1978 (Pub. L. No. 95-600, 92 Stat. 2763), or a "401(k) plan" under 26 U.S.C. 401(k).

* * * * *

3. Section 204.7(a) is revised to read as follows:

Section 204.7—Reserve Deficiencies.

(a) Charges for deficiencies.

(1) Assessment of charges. Deficiencies in a depository institution's required reserve balance, after application of the 2 percent carryover provided in section 204.3(h) are subject to reserve deficiency charges. Federal Reserve Banks are authorized to assess charges for deficiencies in required reserves at a rate of 2 percent per year above the lowest rate in effect for borrowings from the Federal Reserve Bank on the first day of the calendar month in which the deficiencies occurred. Charges shall be assessed on the basis of daily average deficiencies during each maintenance period. Reserve Banks may, as an alternative to levying monetary charges, after consideration of the circumstances involved, permit a depository institution to eliminate deficiencies in its

5. In order to ensure that no more than the permitted number of withdrawals or transfers are made, for an account to come within the definition in § 204.2(d)(2), a depository institution must either:
(a) prevent withdrawals or transfers of funds from this account that are in excess of the limits established by § 204.2(d)(2), or
(b) adopt procedures to monitor those transfers on an *ex post* basis and contact customers who exceed the established limits on more than an occasional basis.

For customers who continue to violate those limits after they have been contacted by the depository institution, the depository institution must either close the account and place the funds in another account that the depositor is eligible to maintain, or take away the transfer and draft capacities of the account.

An account that authorizes withdrawals or transfers in excess of the permitted number is a transaction account regardless of whether the authorized number of transactions are actually made. For accounts described in section 204.2(d)(2), the institution at its option may use, on a consistent basis, either the date on the check, draft, or similar item, or the date the item is paid in applying the limits imposed by that section.

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required reserve balance by maintaining additional reserves during subsequent reserve maintenance periods.

(2) Waivers.

(i) Reserve Banks may waive the charges for reserve deficiencies except when the deficiency arises out of a depository institution's gross negligence or conduct that is inconsistent with the principles and purposes of reserve requirements. Each Reserve Bank has adopted guidelines that provide for waivers of small charges. The guidelines also provide for waiving the charge once during a two-year period for any deficiency that does not exceed a certain percentage of the depository institution's required reserves. Decisions by Reserve Banks to waive charges in other situations are based on an evaluation of the circumstances in each individual case and the depository institution's reserve maintenance record. If a depository institution has demonstrated a lack of due regard for the proper maintenance of required reserves, the Reserve Bank may decline to exercise the waiver privilege and assess all charges regardless of amount or reason for the deficiency.

(ii) In individual cases, where a federal supervisory authority waives a liquidity requirement, or waives the penalty for failing to satisfy a liquidity requirement, the Reserve Bank in the District where the involved depository institution is located shall waive the reserve requirement imposed under this part for such depository institution when requested by the federal supervisory authority involved.

* * * * *

5. Footnote 14 is section 204.8(a)(2)(i)(B)(5) is revised to read as follows:

The designated entities are specified in 12 C.F.R. 204.125.

6. Above the caption to section 204.121 the following is added:

Interpretations

7. In section 204.125, the caption of the section, the introductory clause, and the first entry under the heading "ASIA" are revised to read as follows:

Section 204.125—Foreign, international, and supranational entities referred to in sections 204.2(c)(1)(iv)(E) and 204.8(a)(2)(i)(B)(5).

The entities referred to in section 204.2(c)(1)(E) and section 204.8(a)(2)(i)(B)(5) are:

* * * * *

ASIA

Asia and Pacific Council.

* * * * *

FINAL RULE—AMENDMENT TO REGULATION K

The Board of Governors is amending 12 C.F.R. Parts 211 and 265, its Regulation K (International Banking Operations) and its Rules Regarding Delegation of Authority. The International Banking Act of 1978 (P.L. 95–369) requires the Board to review and revise its regulation governing the operation of Edge corporations every five years. In connection with this review, the Board has examined all of the provisions of Regulation K, 12 C.F.R. Part 211, which governs international banking operations, and has revised provisions of the regulation governing permissible activities of U.S. banking organizations abroad, including underwriting and dealing in equity securities; investments by U.S. banking organizations under the general consent procedures; portfolio investments; domestic powers of Edge corporations; capitalization and supervision of Edge corporations; debt-for-equity investments; qualifying foreign banking organizations; powers of foreign branches of member banks; and export trading companies. In addition, there are other and technical amendments to Regulation K and certain amendments to the Board's Rules Regarding Delegation of Authority, 12 C.F.R. Part 265.

Effective May 27, 1991, except in the case of section 211.5(b)(1)(iii), (c)(1) and (f)(4)(i), which are effective immediately, 12 C.F.R. Part 211, Subparts A, B, and C, and Part 265 are amended as follows:

Part 211—International Banking Operations

1. The authority citation for part 211 is revised to read as follows:

Authority: Federal Reserve Act (12 U.S.C. 221 *et seq.*); Bank Holding Company Act of 1956, as amended (12 U.S.C. 1841 *et seq.*); the International Banking Act of 1978 (Pub. L. 95–369; 92 Stat. 607; 12 U.S.C. 3101 *et seq.*); the Bank Export Services Act (Title II, Pub. L. 97–290, 96 Stat. 1235); the International Lending Supervision Act (Title IX, Pub. L. 98–181, 97 Stat. 1153, 12 U.S.C. 3901 *et seq.*); and the Export Trading Company Act Amendments of 1988 (Title III, Pub. L. 100–418, 102 Stat. 1384 (1988)).

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2. Subpart A (section 211.1 through 211.7) is revised to read as follows:

Subpart A—International Operations of United States Banking Organizations

Section 211.1 Authority, purpose, and scope.
Section 211.2 Definitions.
Section 211.3 Foreign branches of U.S. banking organizations.
Section 211.4 Edge and Agreement corporations.
Section 211.5 Investments and activities abroad.
Section 211.6 Lending limits and capital requirements.
Section 211.7 Supervision and reporting.

Subpart A—International Operations of United States Banking Organizations

Section 211.1—Authority, purpose, and scope.

(a) *Authority.* This subpart is issued by the Board of Governors of the Federal Reserve System ("Board") under the authority of the Federal Reserve Act ("FRA") (12 U.S.C. 221 *et seq.*); the Bank Holding Company Act of 1956 ("BHC Act") (12 U.S.C. 1841 *et seq.*); and the International Banking Act of 1978 ("IBA") (12 U.S.C. 3101 *et seq.*). Requirements for the collection of information contained in this regulation have been approved by the Office of Management and Budget under the provision of 44 U.S.C. 3501, *et seq.* and have been assigned OMB Nos. 7100-0107; 7100-0109; 7100-0110; 7100-0069; 7100-0086; and 7100-0073.

(b) *Purpose.* This subpart sets out rules governing the international and foreign activities of U.S. banking organizations, including procedures for establishing foreign branches and Edge corporations to engage in international banking and for investments in foreign organizations.

(c) *Scope.* This subpart applies to:

(1) corporations organized under section 25(a) of the FRA (12 U.S.C. 611–631), "Edge corporations";

(2) corporations having an agreement or undertaking with the Board under section 25 of the FRA (12 U.S.C. 601–604a), "Agreement corporations";

(3) member banks with respect to their foreign branches and investments in foreign banks under section 25 of the FRA (12 U.S.C. 601–604a);[1] and

(4) bank holding companies with respect to the exemption from the nonbanking prohibitions of the BHC Act afforded by section 4(c)(13) of the BHC Act (12 U.S.C. 1843(c)(13)).

Section 211.2—Definitions.

Unless otherwise specified, for the purposes of this subpart:

(a) An "affiliate" of an organization means:

(1) any entity of which the organization is a direct or indirect subsidiary; or

(2) any direct or indirect subsidiary of the organization or such entity.

(b) "Capital Adequacy Guidelines" means the Capital Adequacy Guidelines for State Member Banks: Risk-Based Measure (12 C.F.R. 208, App. A).

(c)"Capital and surplus" means paid-in and unimpaired capital and surplus, and includes undivided profits but does not include the proceeds of capital notes or debentures.

(d) "Directly or indirectly," when used in reference to activities or investments of an organization, means activities or investments of the organization or of any subsidiary of the organization.

(e) "Eligible country" means a country that, since 1980, has restructured its sovereign debt held by foreign creditors, and any other country that the Board deems to be eligible.

(f) An Edge corporation is "engaged in banking" if it is ordinarily engaged in the business of accepting deposits in the United States from nonaffiliated persons.

(g) "Engaged in business" or "engaged in activities" in the United States means maintaining and operating an office (other than a representative office) or subsidiary in the United States.

(h) "Equity" means an ownership interest in an organization, whether through:

(1) Voting or nonvoting shares;

(2) General or limited partnership interests;

(3) Any other form of interest conferring ownership rights, including warrants, debt, or any other interests that are convertible into shares or other ownership rights in the organization; or

(4) Loans that provide rights to participate in the profits of an organization, unless the investor receives a determination that such loans should not be considered equity in the circumstances of the particular investment.

(i) "Foreign" or "foreign country" refers to one or more foreign nations, and includes the overseas territories, dependencies, and insular possessions of those nations and of the United States, and the Commonwealth of Puerto Rico.

(j) "Foreign bank" means an organization that:

(1) Is organized under the laws of a foreign country;

(2) Engages in the business of banking;

1. Section 25 of the FRA, which refers to national banking associations, also applies to state member banks of the Federal Reserve System by virtue of section 9 of the FRA (12 U.S.C. 321).

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(3) Is recognized as a bank by the bank supervisory or monetary authority of the country of its organization or principal banking operations;

(4) Receives deposits to a substantial extent in the regular course of its business; and

(5) Has the power to accept demand deposits.

(k) "Foreign branch" means an office of an organization (other than a representative office) that is located outside the country under the laws of which the organization is established, at which a banking or financing business is conducted.

(l) "Foreign person" means an office or establishment located, or individual residing, outside the United States.

(m) "Investment" means:

(1) The ownership or control of equity;

(2) Binding commitments to acquire equity;

(3) Contributions to the capital and surplus of an organization; and

(4) The holding of an organization's subordinated debt when the investor and the investor's affiliates hold more than 5 percent of the equity of the organization.

(n) "Investor" means an Edge corporation, Agreement corporation, bank holding company, or member bank.

(o) "Joint venture" means an organization that has 20 percent or more of its voting shares held directly or indirectly by the investor or by an affiliate of the investor under any authority, but which is not a subsidiary of the investor.

(p) "Loans and extensions of credit" means all direct and indirect advances of funds to a person made on the basis of any obligation of that person to repay funds.

(q) "Organization" means a corporation, government, partnership, association, or any other entity.

(r) "Person" means an individual or an organization.

(s) "Portfolio investment" means an investment in an organization other than a subsidiary or joint venture.

(t) "Representative office" means an office that:

(1) Engages solely in representational and administrative functions such as solicitation of new business for or liaison between the organization's head office and customers in the United States; and

(2) Does not have authority to make business decisions for the account of the organization represented.

(u) "Subsidiary" means an organization more than 50 percent of the voting shares of which is held directly or indirectly, or which is otherwise controlled or capable of being controlled, by the investor or an affiliate of the investor under any authority. Among other circumstances, an investor is considered to control an organization if the investor or an affiliate is a general partner of the organization or if the investor and its affiliates directly or indirectly own or control more than 50 percent of the equity of the organization.

(v) "Tier 1 capital" has the same meaning as provided under the Capital Adequacy Guidelines (12 C.F.R. 208, App. A).

Section 211.3—Foreign branches of U.S. banking organizations.

(a) *Establishment of foreign branches.*

(1) *Right to establish branches.* Foreign branches may be established by any member bank having capital and surplus of $1,000,000 or more, an Edge corporation, an Agreement corporation, or a subsidiary held pursuant to this subpart. Unless otherwise provided in this section, the establishment of a foreign branch requires the specific prior approval of the Board.

(2) *Branching within a foreign country.* Unless the organization has been notified otherwise, no prior Board approval is required for an organization to establish additional branches in any foreign country where it operates one or more branches.[2]

(3) *Branching into additional foreign countries.* After giving the Board 45 days' prior written notice, an organization that operates branches in two or more foreign countries may establish a branch in an additional foreign country, unless notified otherwise by the Board.[2]

(4) *Expiration of branching authority.* Authority to establish branches through prior approval or prior notice shall expire one year from the earliest date on which the authority could have been exercised, unless the Board extends the period.

(5) *Reporting.* Any organization that opens, closes, or relocates a branch shall report such change in a manner prescribed by the Board.

(b) *Further powers of foreign branches of member banks.* In addition to its general banking powers, and to the extent consistent with its charter, a foreign branch of a member bank may engage in the following activities so far as usual in connection with the business of banking in the country where it transacts business:

(1) *Guarantees.* Guarantee debts, or otherwise agree to make payments on the occurrence of readily ascertainable events,[3] if the guarantee or agreement specifies a maximum monetary liability; but except

2. For the purpose of this paragraph, a subsidiary other than a bank or an Edge or Agreement corporation is considered to be operating a branch in a foreign country if it has an affiliate that operates an office (other than a representative office) in that country.

3. "Readily ascertainable events" include, but are not limited to, events such as nonpayment of taxes, rentals, customs duties, or costs of transport and loss or nonconformance of shipping documents.

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to the extent that the member bank is fully secured, it may not have liabilities outstanding for any person on account of such guarantees or agreements which, when aggregated with other unsecured obligations of the same person, exceed the limit contained in paragraph (a)(1) of section 5200 of the Revised Statutes (12 U.S.C. 84) for loans and extensions of credit;

(2) *Government obligations.* Underwrite, distribute, buy, sell, and hold obligations of:

(i) The national government of the country in which the branch is located;

(ii) An agency or instrumentality of the national government where supported by the taxing authority, guarantee, or full faith and credit of the national government; and

(iii) A political subdivision of the country;

Provided however that, no member bank may hold, or be under commitment with respect to, such obligations for its own account in an aggregate amount exceeding the greater of:

(A) 10 percent of its Tier 1 capital; or

(B) 10 percent of the total deposits of the bank's branches in that country on the preceding year-end call report date (or the date of acquisition of the branch in the case of a branch that has not been so reported);

(3) *Other Investments.* Invest in:

(i) The securities of the central bank, clearing houses, governmental entities other than those authorized under paragraph (b)(2) of this section, and government-sponsored development banks of the country in which the foreign branch is located;

(ii) Other debt securities eligible to meet local reserve or similar requirements; and

(iii) Shares of automated electronic payments networks, professional societies, schools, and the like necessary to the business of the branch;

Provided however that, the total investments of the bank's branches in that country under this paragraph (exclusive of securities held as required by the law of that country or as authorized under section 5136 of the Revised Statutes (12 U.S.C. 24, Seventh)) may not exceed 1 percent of the total deposits of the bank's branches in that country on the preceding year-end call report date (or on the date of acquisition of the branch in the case of a branch that has not so reported);

(4) *Credit extensions to bank's officers.* Extend credit to an officer of the bank residing in the country in which the foreign branch is located to finance the acquisition or construction of living quarters to be used as the officer's residence abroad, provided however that:

(i) The credit extension is reported promptly to the branch's home office; and

(ii) Any extension of credit exceeding $100,000 (or the equivalent in local currency) is reported also to the bank's board of directors;

(5) *Real estate loans.* Take liens or other encumbrances on foreign real estate in connection with its extensions of credit, whether or not of first priority and whether or not the real estate has been improved;

(6) *Insurance.* Act as insurance agent or broker;

(7) *Employee benefits program.* Pay to an employee of the branch, as part of an employee benefits program, a greater rate of interest than that paid to other depositors of the branch;

(8) *Repurchase agreements.* Engage in repurchase agreements involving securities and commodities that are the functional equivalents of extensions of credit;

(9) *Investment in subsidiaries.* With the Board's prior approval, acquire all of the shares of a company (except where local law requires other investors to hold directors' qualifying shares or similar types of instruments) that engages solely in activities:

(i) in which the member bank is permitted to engage; or

(ii) that are incidental to the activities of the foreign branch; and

(10) *Other activities.* With the Board's prior approval, engage in other activities that the Board determines are usual in connection with the transaction of the business of banking in the places where the member bank's branches transact business.

(c) *Reserves of foreign branches of member banks.* Member banks shall maintain reserves against foreign branch deposits when required by part 204 of this chapter (Regulation D).

Section 211.4—Edge and Agreement corporations.

(a) *Organization.*

(1) *Board authority.* The Board shall have the authority to approve:

(i) The establishment of Edge corporations; and

(ii) Investments by member banks and bank holding companies in Agreement corporations.

(2) *Permit.* A proposed Edge corporation shall become a body corporate when the Board issues a permit approving its proposed name, articles of association, and organization certificate.

(3) *Name.* The name shall include "international," "foreign," "overseas," or some similar word, but may not resemble the name of another organization

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to an extent that might mislead or deceive the public.

(4) *Federal Register notice.* The Board shall publish in the *Federal Register* notice of any proposal to organize an Edge corporation and will give interested persons an opportunity to express their views on the proposal.

(5) *Factors considered by the Board.* The factors considered by the Board in acting on a proposal to organize an Edge corporation include:

(i) The financial condition and history of the applicant;

(ii) The general character of its management;

(iii) The convenience and needs of the community to be served with respect to international banking and financing services; and

(iv) The effects of the proposal on competition.

(6) *Authority to commence business.*

(i) After the Board issues a permit, the Edge corporation may elect officers and otherwise complete its organization, invest in obligations of the United States Government, and maintain deposits with depository institutions, but it may not exercise any other powers until at least 25 percent of the authorized capital stock specified in the articles of association has been paid in cash, and each shareholder has paid in cash at least 25 percent of that shareholder's stock subscription.

(ii) Unexercised authority to commence business as an Edge corporation shall expire one year after issuance of the permit, unless the Board extends the period.

(7) *Amendments to articles of association.* No amendment to the articles of association shall become effective until approved by the Board.

(8) *Shareholders meeting.* An Edge Corporation shall provide in its bylaws that:

(i) A shareholders meeting shall be convened at the request of the Board within five days after the Board gives notice of the request to the Edge corporation;

(ii) Any shareholder or group of shareholders that owns or controls 25 percent or more of the shares of the Edge corporation shall attend such a meeting in person or by proxy; and

(iii) Failure by a shareholder or authorized representative to attend any such meeting in person or by proxy may result in removal or barring of such shareholders or any representatives from further participation in the management or affairs of the Edge corporation.

(b) *Nature and ownership of shares.*

(1) *Shares.*

(i) Shares of stock in an Edge corporation may not include no-par value shares and shall be issued and transferred only on its books and in compliance with section 25(a) of the FRA and this subpart.

(ii) The share certificates of an Edge corporation shall:

(A) Name and describe each class of shares indicating its character and any unusual attributes such as preferred status or lack of voting rights; and

(B) Conspicuously set forth the substance of:

(1) Any limitations upon the rights of ownership and transfer of shares imposed by section 25(a) of the FRA; and

(2) Any rules that the Edge corporation prescribes in its by-laws to ensure compliance with this paragraph.

(iii) Any change in status of a shareholder that causes a violation of section 25(a) of the FRA shall be reported to the Board as soon as possible, and the Edge corporation shall take such action as the Board may direct.

(2) *Ownership of Edge corporations by foreign institutions.*

(i) *Prior Board approval.* One or more foreign or foreign-controlled domestic institutions referred to in paragraph 13 of section 25(a) of the FRA (12 U.S.C. 619) may apply for the Board's prior approval to acquire directly or indirectly a majority of the shares of the capital stock of an Edge corporation.

(ii) *Conditions and requirements.* Such an institution shall:

(A) Provide the Board information related to its financial condition and activities and such other information as the Board may require;

(B) Ensure that any transaction by an Edge corporation with an affiliate[4] is on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions by the Edge corporation with nonaffiliated persons, and does not involve more than the normal risk of repayment or present other unfavorable features;

(C) Ensure that the Edge corporation will not provide funding on a continual or substantial basis to any affiliate or office of the foreign institution through transactions that would be inconsistent with the international and foreign business purposes for which Edge corporations are organized;

4. For purposes of this paragraph, "affiliate" means any organization that would be an "affiliate" under section 23A of the FRA (12 U.S.C. 371c) if the Edge corporation were a member bank.

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(D) Invest no more than 10 percent of the institution's capital and surplus in the aggregate amount of stock held in all Edge corporations; and

(E) In the case of a foreign institution not subject to section 4 of the BHC Act:

(1) Comply with any conditions that the Board may impose that are necessary to prevent undue concentration of resources, decreased or unfair competition, conflicts of interest, or unsound banking practices in the United States; and

(2) Give the Board 45 days' prior written notice, in a form to be prescribed by the Board, before engaging in any nonbanking activity in the United States, or making any initial or additional investments in another organization, that would require prior Board approval or notice by an organization subject to section 4 of the BHC Act; in connection with such notice, the Board may impose conditions necessary to prevent adverse effects that may result from such activity or investment.

(3) *Change in control.*

(i) *Prior notice.* Any person shall give the Board 60 days' prior written notice, in a form to be prescribed by the Board, before acquiring, directly or indirectly, 25 percent or more of the voting shares, or otherwise acquiring control, of an Edge corporation. The Board may extend the 60-day period for an additional 30 days by notifying the acquiring party. A notice under this paragraph need not be filed where a change in control is effected through a transaction requiring the Board's approval under section 3 of the BHC Act (12 U.S.C. 1842).

(ii) *Board review.* In reviewing a notice filed under this paragraph, the Board shall consider the factors set forth in paragraph (a)(5) of this section and may disapprove a notice or impose any conditions that it finds necessary to assure the safe and sound operation of the Edge corporation, to assure the international character of its operation, and to prevent adverse effects such as decreased or unfair competition, conflicts of interest, or undue concentration of resources.

(c) *Domestic branches.*

(1) *Prior notice.*

(i) An Edge corporation may establish branches in the United States 45 days after the Edge corporation has given notice to its Reserve Bank, unless the Edge corporation is notified to the contrary within that time.

(ii) The notice to the Reserve Bank shall include a copy of the notice of the proposal published in a newspaper of general circulation in the communities to be served by the branch.

(iii) The newspaper notice may appear no earlier than 90 calendar days prior to submission of notice of the proposal to the Reserve Bank. The newspaper notice must provide an opportunity for the public to give written comment on the proposal to the appropriate Reserve Bank for at least 30 days after the date of publication.

(2) *Factors considered.* The factors considered in acting upon a proposal to establish a branch are enumerated in paragraph (a)(5) of this section.

(3) *Expiration of authority.* Authority to open a branch under prior notice shall expire one year from the earliest date on which that authority could have been exercised, unless the Board extends the period.

(d) *Reserve requirements and interest rate limitations.* The deposits of an Edge or Agreement corporation are subject to parts 204 and 217 of this chapter (Regulations D and Q) in the same manner and to the same extent as if the Edge or Agreement corporation were a member bank.

(e) *Permissible activities in the United States.* An Edge corporation may engage directly or indirectly in activities in the United States that are permitted by the sixth paragraph of section 25(a) of the FRA and are incidental to international or foreign business, and in such other activities as the Board determines are incidental to international or foreign business. The following activities will ordinarily be considered incidental to an Edge corporation's international or foreign business:

(1) *Deposit activities.*

(i) *Deposits from foreign governments and foreign persons.* An Edge corporation may receive in the United States transaction accounts, savings, and time deposits (including issuing negotiable certificates of deposits) from foreign governments and their agencies and instrumentalities, and from foreign persons.

(ii) *Deposits from other persons.* An Edge corporation may receive from any other person in the United States transaction accounts, savings, and time deposits (including issuing negotiable certificates of deposit) if such deposits:

(A) Are to be transmitted abroad;

(B) Consist of funds to be used for payment of obligations to the Edge corporation or collateral securing such obligations;

(C) Consist of the proceeds of collections abroad that are to be used to pay for exported or imported goods or for other costs of exporting or importing or that are to be periodically transferred to the depositor's account at another financial institution;

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(D) Consist of the proceeds of extensions of credit by the Edge corporation;

(E) Represent compensation to the Edge corporation for extensions of credit or services to the customer;

(F) Are received from Edge or Agreement corporations, foreign banks and other depository institutions (as described in part 204 of this chapter (Regulation D));

(G) Are received from an organization that by its charter, license, or enabling law is limited to business that is of an international character, including Foreign Sales Corporations (26 U.S.C. 921); transportation organizations engaged exclusively in the international transportation of passengers or in the movement of goods, wares, commodities or merchandise in international or foreign commerce; and export trading companies that are exclusively engaged in activities related to international trade.

(2) *Liquid funds.* Funds of an Edge or Agreement corporation that are not currently employed in its international or foreign business, if held or invested in the United States, shall be in the form of:

(i) Cash;

(ii) Deposits with depository institutions, as described in part 204 of this chapter (Regulation D), and other Edge and Agreement corporations;

(iii) Money market instruments (including repurchase agreements with respect to such instruments), such as bankers' acceptances, federal funds sold, and commercial paper; and

(iv) Short- or long-term obligations of, or fully guaranteed by, federal, state, and local governments and their instrumentalities.

(3) *Borrowings.* An Edge corporation may:

(i) Borrow from offices of other Edge and Agreement corporations, foreign banks, and depository institutions (as described in part 204 of this chapter (Regulation D)) or issue obligations to the United States or any of its agencies or instrumentalities;

(ii) Incur indebtedness from a transfer of direct obligations of, or obligations that are fully guaranteed as to principal and interest by, the United States or any agency or instrumentality thereof that the Edge corporation is obligated to repurchase;

(iii) Issue long-term subordinated debt that does not qualify as a "deposit" under part 204 of this chapter (Regulation D).

(4) *Credit activities.* An Edge corporation may:

(i) Finance the following:

(A) Contracts, projects, or activities performed substantially abroad;

(B) The importation into or exportation from the United States of goods, whether direct or through brokers or other intermediaries;

(C) The domestic shipment or temporary storage of goods being imported or exported (or accumulated for export); and

(D) The assembly or repackaging of goods imported or to be exported;

(ii) Finance the costs of production of goods and services for which export orders have been received or which are identifiable as being directly for export;

(iii) Assume or acquire participations in extensions of credit, or acquire obligations arising from transactions the Edge corporation could have financed, including acquisitions of obligations of foreign governments;

(iv) Guarantee debts, or otherwise agree to make payments on the occurrence of readily ascertainable events,[5] if the guarantee or agreement specifies the maximum monetary liability thereunder and is related to a type of transaction described in paragraphs (e)(4)(i) and (ii) of this section; and

(v) Provide credit and other banking services for domestic and foreign purposes to foreign governments and their agencies and instrumentalities; foreign persons; and organizations of the type described in paragraph 211.4(e)(1)(ii)(G) of this section.

(5) *Payments and collections.* An Edge corporation may receive checks, bills, drafts, acceptances, notes, bonds, coupons, and other instruments for collection abroad, and collect such instruments in the United States for a customer abroad; and may transmit and receive wire transfers of funds and securities for depositors.

(6) *Foreign exchange.* An Edge corporation may engage in foreign exchange activities.

(7) *Fiduciary and investment advisory activities.* An Edge corporation may:

(i) Hold securities in safekeeping for, or buy and sell securities upon the order and for the account and risk of, a person, provided such services for U.S. persons shall be with respect to foreign securities only;

(ii) Act as paying agent for securities issued by foreign governments or other entities organized under foreign law;

(iii) Act as trustee, registrar, conversion agent, or paying agent with respect to any class of securities issued to finance foreign activities and distributed solely outside the United States;

5. "Readily ascertainable events" include, but are not limited to, events such as nonpayment of taxes, rentals, customs duties, or cost of transport and loss or nonconformance of shipping documents.

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(iv) Make private placements of participations in its investments and extensions of credit; however, except to the extent permissible for member banks under section 5136 of the Revised Statutes (12 U.S.C. 24, Seventh), no Edge corporation may otherwise engage in the business of underwriting, distributing, or buying or selling securities in the United States;

(v) Act as investment or financial adviser by providing portfolio investment advice and portfolio management with respect to securities, other financial instruments, real property interests and other investment assets,[6] and by providing advice on mergers and acquisitions, provided such services for U.S. persons shall be with respect to foreign assets only; and

(vi) Provide general economic information and advice, general economic statistical forecasting services and industry studies, provided such services for U.S. persons shall be with respect to foreign economies and industries only.

(8) *Banking services for employees.* Provide banking services, including deposit services, to the officers and employees of the Edge corporation and its affiliates; however, extensions of credit to such persons shall be subject to the restrictions of part 215 of this chapter (Regulation O) as if the Edge corporation were a member bank.

(9) *Other activities.* With the Board's prior approval, engage in other activities in the United States that the Board determines are incidental to the international or foreign business of Edge corporations.

(f) *Agreement corporations.* With the prior approval of the Board, a member bank or bank holding company may invest in a federally- or state-chartered corporation that has entered into an agreement or undertaking with the Board that it will not exercise any power that is impermissible for an Edge corporation under this subpart.

Section 211.5—Investments and activities abroad.

(a) *General policy.* Activities abroad, whether conducted directly or indirectly, shall be confined to activities of a banking or financial nature and those that are necessary to carry on such activities. In doing so, investors shall at all times act in accordance with high standards of banking or financial prudence, having due regard for diversification of risks, suitable liquidity, and adequacy of capital. Subject to these considerations and the other provisions of this section, it is the Board's policy to allow activities abroad to be organized and operated as best meets corporate policies.

(b) *Investment requirements.*

(1) *Eligible investments.* Subject to the limitations in paragraph (b)(2) of this section, an investor may directly or indirectly:

(i) Invest in a subsidiary that engages solely in activities listed in paragraph (d) of this section or in such other activities as the Board has determined in the circumstances of a particular case are permissible; provided however that, in the case of an acquisition of a going concern, existing activities that are not otherwise permissible for a subsidiary may account for not more than 5 percent of either the consolidated assets or revenues of the acquired organization;

(ii) Invest in a joint venture provided that, unless otherwise permitted by the Board, not more than 10 percent of the joint venture's consolidated assets or revenues are attributable to activities not listed in paragraph (d) of this section; and

(iii) Make portfolio investments in an organization, provided however that:

(A) The total direct and indirect portfolio investments by the investor and its affiliates in organizations engaged in activities that are not permissible for joint ventures do not exceed:

(1) 40 percent of the total equity of the organization, when combined with shares in the organization held in trading or dealing accounts pursuant to paragraph (d)(14) of this section and shares in the organization held under any other authority; or

(2) 25 percent of the investor's Tier 1 capital where the investor is a bank holding company or 100 percent of Tier 1 capital for any other investor, when combined with underwriting commitments and shares held in trading or dealing accounts pursuant to paragraph (d)(14) of this section;[7] and

(B) Any loans and extensions of credit made by an investor or its affiliates to the organization are on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions between the investor or its affiliates and nonaffiliated persons.

6. For purposes of this section, management of an investment portfolio does not include operational management of real property, or industrial or commercial assets.

7. For this purpose, a direct subsidiary of a member bank is deemed to be an investor.

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(2) *Direct investments by member banks.* A member bank's direct investments under section 25 of the FRA shall be limited to:

(i) Foreign banks;

(ii) Foreign organizations formed for the sole purpose of either holding shares of a foreign bank or performing nominee, fiduciary, or other banking services incidental to the activities of a foreign branch or foreign bank affiliate of the member bank; and

(iii) Subsidiaries established pursuant to section 211.3(b)(9) of this subpart.

(3) *Investment limit.* In computing the amount that may be invested in any organization under this section, there shall be included any unpaid amount for which the investor is liable and any investments in the same organization held by affiliates under any authority.

(4) *Divestiture.* An investor shall dispose of an investment promptly (unless the Board authorizes retention) if:

(i) The organization invested in:

(A) Engages in the general business of buying or selling goods, wares, merchandise, or commodities in the United States;

(B) Engages directly or indirectly in other business in the United States that is not permitted to an Edge corporation in the United States except that an investor may hold up to 5 percent of the shares of a foreign company that engages directly or indirectly in business in the United States that is not permitted to an Edge corporation; or

(C) Engages in impermissible activities to an extent not permitted under paragraph (b)(1) of this section; or

(ii) After notice and opportunity for hearing, the investor is advised by the Board that its investment is inappropriate under the FRA, the BHC Act, or this subpart.

(c) *Investment procedures.*[8] Direct and indirect investments shall be made in accordance with the general consent, prior notice, or specific consent procedures contained in this paragraph. Except as the Board may otherwise determine, in order for an investor to make investments under the general consent procedure, the investor and any other investor of which it is a subsidiary shall be in compliance with applicable minimum standards for capital adequacy. The Board may at any time, upon notice, modify or suspend the general consent and prior notice procedures with respect to any investor or with respect to the acquisition of shares of organizations engaged in particular kinds of activities. An investor shall apply for and receive the prior specific consent of the Board for its initial investment in its first subsidiary or joint venture unless an affiliate has made such an investment. Authority to make investments under prior notice or specific consent shall expire one year from the earliest date on which the authority could have been exercised, unless the Board extends the period.

(1) *General consent.* Subject to the other limitations of this section, the Board grants its general consent for the following:[9]

(i) Any investment in a joint venture or subsidiary, and any portfolio investment, if the total amount invested (in one transaction or in a series of transactions) does not exceed the lesser of:

(A) $25 million; or

(B) 5 percent of the investor's Tier 1 capital in the case of a member bank, bank holding company, or Edge corporation engaged in banking, or 25 percent of the investor's Tier 1 capital in the case of an Edge corporation not engaged in banking;

(ii) Any additional investment in an organization in any calendar year so long as:

(A) The total amount invested in that calendar year does not exceed 10 percent of the investor's Tier 1 capital; and

(B) The total amount invested under section 211.5 (including investments made pursuant to specific consent or prior notice) in that calendar year does not exceed cash dividends reinvested under paragraph (c)(1)(iii) of this section plus 10 percent of the investor's direct and indirect historical cost[10] in the organization, which investment authority, to the extent unexercised, may be carried forward and accumulated for up to five consecutive years;

8. When necessary, the general consent and prior notice provisions of this section constitute the Board's approval under the eighth paragraph of section 25(a) of the FRA for investments in excess of the limitations therein based on capital and surplus.

9. In determining compliance with these limits, an investor shall combine the value of all shares of an organization held in trading or dealing accounts under paragraph 211.5(d)(14) of this section with investments in the same organization. Shares held in trading or dealing accounts are also subject to the limits in paragraph 211.5(d)(14) of this section.

10. The "historical cost" of an investment consists of the actual amounts paid for shares or otherwise contributed to the capital accounts, as measured in dollars at the exchange rate in effect at the time each investment was made. It does not include subordinated debt or unpaid commitments to invest even though these may be considered investments for other purposes of this part. For investments acquired indirectly as a result of acquiring a subsidiary, the historical cost to the investor is measured as of the date of acquisition of the subsidiary at the net asset value of the equity interest in the case of subsidiaries and joint ventures, and in the case of portfolio investments, at the book carrying value.

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(iii) Any additional investment in an organization in an amount equal to cash dividends received from that organization during the preceding twelve calendar months; or

(iv) Any investment that is acquired from an affiliate at net asset value.

(2) *Prior notice.* An investment that does not qualify under the general consent procedure may be made after the investor has given 45 days' prior written notice to the Board. The Board may waive the 45-day period if it finds immediate action is required by the circumstances presented. The notice period shall commence at the time the notice is accepted. The Board may suspend the period or act on the investment under the Board's specific consent procedures.

(3) *Specific consent.* Any investment that does not qualify for either the general consent or the prior notice procedure shall not be consummated without the specific consent of the Board.

(d) *Permissible activities.* The Board has determined that the following activities are usual in connection with the transaction of banking or other financial operations abroad:

(1) Commercial and other banking activities;

(2) Financing, including commercial financing, consumer financing, mortgage banking, and factoring;

(3) Leasing real or personal property, or acting as agent, broker, or advisor in leasing real or personal property, if the lease serves as the functional equivalent of an extension of credit to the lessee of the property;

(4) Acting as fiduciary;

(5) Underwriting credit life insurance and credit accident and health insurance;

(6) Performing services for other direct or indirect operations of a U.S. banking organization, including representative functions, sale of long-term debt, name saving, holding assets acquired to prevent loss on a debt previously contracted in good faith, and other activities that are permissible domestically for a bank holding company under sections 4(a)(2)(A) and 4(c)(1)(C) of the BHC Act;

(7) Holding the premises of a branch of an Edge corporation or member bank or the premises of a direct or indirect subsidiary, or holding or leasing the residence of an officer or employee of a branch or subsidiary;

(8) Providing investment, financial, or economic advisory services;

(9) General insurance agency and brokerage;

(10) Data processing;

(11) Organizing, sponsoring, and managing a mutual fund if the fund's shares are not sold or distributed in the United States or to U.S. residents and the fund does not exercise managerial control over the firms in which it invests;

(12) Performing management consulting services provided that such services when rendered with respect to the U.S. market shall be restricted to the initial entry;

(13) Underwriting, distributing and dealing in debt securities outside the United States;

(14) Underwriting, distributing, and dealing in equity securities outside the United States as follows:

(i) By an investor, or an affiliate, that had commenced such activities prior to March 27, 1991, and subject to limitations in effect at that time (12 C.F.R. part 211 (1990)); or

(ii) With the approval of the Board, underwriting equity securities if:

(A) Commitments by an investor and its affiliates for the shares of an organization do not in the aggregate exceed the lesser of $60 million or 25 percent of the investor's Tier 1 capital unless the underwriter is covered by binding commitments from subunderwriters or other purchasers obtained by the investor or its affiliates; and

(B) Commitments by an investor and its affiliates for the shares of an organization in excess of those permitted by paragraph (d)(14)(ii)(A) of this section provided that:

(1) the underwriting level approved by the Board for the investor and its affiliates in excess of the limitations of paragraph (d)(14)(ii)(A) of this section is fully deducted from the capital of the bank holding company, and from the capital of the bank where the securities activities are conducted by a subsidiary of a U.S. bank;[11] and

(2) in the Board's judgment such bank holding company and bank would remain strongly capitalized after such deduction from capital; and

(iii) With the approval of the Board, dealing in the shares of an organization (including the shares of a U.S. organization with respect to foreign persons only and subject to the limitations on owning or controlling shares of a company in section 4 of the BHC Act and the Board's Regulation Y (12 C.F.R. part 225)) where the shares held in the trading or dealing accounts of an investor and its affiliates, when combined with any shares held pursuant to the authority provided under paragraph (b) of this section, do not in the aggregate exceed the lesser of $30 million or 10 percent of

11. Fifty percent of such capital deductions shall be from Tier 1 capital.

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the investor's Tier 1 capital, provided however that:

(A) For purposes of determining compliance with the limitations of this paragraph (d)(14)(iii) and paragraph (b)(1)(iii)(A)(2) of this section, long and short positions in the same security may be netted and positions in a security may be offset by futures, forwards, options, and similar instruments referenced to the same security through hedging methods approved by the Board, except that any position in a security shall not be deemed to have been reduced by more than 75 percent;

(B) Any shares held in trading or dealing accounts for longer than 90 days shall be reported to the senior management of the investor;

(C) Any shares acquired pursuant to an underwriting commitment for up to 90 days after the payment date for such underwriting shall not be subject to the dollar and percentage limitations of paragraph (d)(14)(iii) of this section or the investment provisions of paragraph (b) of this section, other than the aggregate limits in paragraph (b)(1)(iii)(A)(2) of this section; and

(D) Shares of an organization held in all trading and dealing accounts, when combined with all other equity interests in the organization held by the investor and its affiliates, other than underwriting commitments for shares and shares held pursuant to an underwriting for 90 days following the payment date for such shares, must conform to the permissible limits for investments in an organization under paragraph (b) of this section.[12]

(iv) Underwriting commitments for shares and shares held by an affiliate authorized to underwrite equity securities under section 4(c)(8) of the BHC Act shall not be included in determining compliance with the aggregates limits in paragraph (b)(1)(iii)(A)(2) and the limits of paragraphs (d)(14)(ii)(A) and (iii) of this section, except that shares held by such an affiliate shall be included for purposes of determining compliance with paragraph (d)(14)(iii)(D) of this section.

(15) Operating a travel agency provided that the travel agency is operated in connection with financial services offered abroad by the investor or others;

(16) Underwriting life, annuity, pension fund-related, and other types of insurance, where the associated risks have been previously determined by the Board to be actuarially predictable, provided however that:

(i) Investments in, and loans and extensions of credit (other than loans and extensions of credit fully secured in accordance with the requirements of section 23A of the FRA (12 U.S.C. 371c) or with such other standards as the Board may require) to, the company by the investor or its affiliates are deducted from the capital of the investor;[13] and

(ii) Activities conducted directly or indirectly by a subsidiary of a U.S. insured bank are excluded from the authority of this paragraph.

(17) Acting as a futures commission merchant for financial instruments of the type, and on exchanges, that the Board has previously approved, provided however that:

(i) Activities are conducted in accordance with the standards set forth in section 225.25(b)(18) of the Board's Regulation Y (12 C.F.R. 225.25(b)(18)); and

(ii) Prior approval must be obtained for activities conducted on an exchange that requires members to guarantee or otherwise contract to cover losses suffered by other members.

(18) Acting as principal or agent in swap transactions[14] subject to any limitations applicable to state member banks under the Board's Regulation H (12 C.F.R. 208), except that where such activities involve contracts related to a commodity, such contracts must provide an option for cash settlement and the option must be exercised upon settlement.

(19) Engaging in activities that the Board has determined in Regulation Y (12 C.F.R. 225.25(b)) are closely related to banking under section 4(c)(8) of the BHC Act; and

(20) With the Board's specific approval, engaging in other activities that the Board determines are usual in connection with the transaction of the business of banking or other financial operations abroad and are consistent with the FRA or the BHC Act.

(e) *Debts previously contracted.* Shares or other ownership interests acquired to prevent a loss upon a debt previously contracted in good faith are not subject to the limitations or procedures of this section; however, they shall be disposed of promptly but in no event later

12. Underwriting commitments are combined with shares held by an investor and its affiliates (other than an affiliate authorized to deal in shares under section 4(c)(8) of the BHC Act) in dealing or trading accounts and with portfolio investments for purposes of determining compliance with the aggregate limits in paragraph (b)(1)(iii)(A)(2) of this section.

13. Fifty percent of such capital deduction shall be from Tier 1 capital.

14. Swap transactions involving equity instruments are separately authorized under paragraph (d)(14) of this section.

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than two years after their acquisition, unless the Board authorizes retention for a longer period.

(f) *Investments made through debt-for-equity conversions.*

(1) *Permissible investments.* A bank holding company may make investments through the conversion of sovereign or private debt obligations of an eligible country, either through direct exchange of the debt obligations for the investment or by a payment for the debt in local currency, the proceeds of which, including an additional cash investment not exceeding in the aggregate more than 10 percent of the fair value of the debt obligations being converted as part of such investment, are used to purchase the following investments:

(i) *Public sector companies.* A bank holding company may acquire up to and including 100 percent of the shares of (or other ownership interests in) any foreign company located in an eligible country if the shares are acquired from the government of the eligible country or from agencies or instrumentalities.

(ii) *Private sector companies.* A bank holding company may acquire up to and including 40 percent of the shares, including voting shares, of (or other ownership interests in) any other foreign company located in an eligible country subject to the following conditions:

(A) A bank holding company may acquire more than 25 percent of the voting shares of the foreign company only if another shareholder or control group of shareholders unaffiliated with the bank holding company holds a larger block of voting shares of the company;

(B) The bank holding company and its affiliates may not lend or otherwise extend credit to the foreign company in amounts greater than 50 percent of the total loans and extensions of credit to the foreign company; and

(C) The bank holding company's representation on the board of directors or on management committees of the foreign company may be no more than proportional to its shareholding in the foreign company.

(2) *Investments by bank subsidiary of bank holding company.* Upon application, the Board may permit an indirect investment to be made pursuant to this paragraph through an insured bank subsidiary of the bank holding company where the bank holding company demonstrates that such ownership is consistent with the purposes of the FRA. In granting its consent, the Board may impose such conditions as it deems necessary or appropriate to prevent adverse effects, including prohibiting loans from the bank to the company in which the investment is made.

(3) *Divestiture.*

(i) *Time limits for divestiture.* The bank holding company shall divest the shares of, or other ownership interests in, any company acquired pursuant to this paragraph (unless the retention of the shares or other ownership interest is otherwise permissible at the time required for divestiture) within the longer of:

(A) Ten years from the date of acquisition of the investment except that the Board may extend such period if, in the Board's judgment, such an extension would not be detrimental to the public interest; or

(B) Two years from the date on which the bank holding company is permitted to repatriate in full the investment in the foreign company;

Provided however that, in either event divestiture occurs within fifteen years of the date of the acquisition.

(ii) *Report to the Board.* The bank holding company shall report to the Board on its plans for divesting an investment made under this paragraph two years prior to the final date for divestiture, in a manner to be prescribed by the Board.

(iii) *Other conditions requiring divestiture.* All investments made pursuant to this paragraph are subject to paragraphs (b)(4)(i)(A) and (B) of this section requiring prompt divestiture (unless the Board upon application authorizes retention) if the company invested in engages permissible business in the United States that exceeds in the aggregate 10 percent of the company's consolidated assets or revenues calculated on an annual basis; provided however that, such company may not engage in activities in the United States that consist of banking or financial operations (as defined in section 211.23(f)(5)(iii)(B) of this chapter), or types of activities permitted by regulation or order under section 4(c)(8) of the BHC Act, except under regulations of the Board or with the prior approval of the Board.

(4) *Investment procedures.*

(i) *General consent.* Subject to the other limitations of this paragraph, the Board grants its general consent for investments made under this paragraph if the total amount invested does not exceed the greater of $25 million or 1 percent of the Tier 1 capital of the investor.

(ii) All other investments shall be made in accordance with the procedures of paragraph (c) of this section requiring prior notice or specific consent.

(5) *Conditions.*

(i) *Name.* Any company acquired pursuant to this

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paragraph shall not bear a name similar to the name of the acquiring bank holding company or any of its affiliates.

(ii) *Confidentiality*. Neither the bank holding company nor its affiliates shall provide to any company acquired pursuant to this paragraph any confidential business information or other information concerning customers that are engaged in the same or related lines of business as the company.

Section 211.6—Lending limits and capital requirements.

(a) *Acceptances of Edge corporations.*

(1) *Limitations*. An Edge corporation shall be and remain fully secured for:

(i) All acceptances outstanding in excess of 200 percent of its Tier 1 capital; and

(ii) All acceptances outstanding for any one person in excess of 10 percent of its Tier 1 capital;

provided however that, these limitations apply only to acceptances of the types described in paragraph 7 of section 13 of the FRA (12 U.S.C. 372).

(2) *Exceptions*. These limitations do not apply if the excess represents the international shipment of goods and the Edge corporation is:

(i) Fully covered by primary obligations to reimburse it that are guaranteed by banks or bankers; or

(ii) Covered by participation agreements from other banks, as such agreements are described in section 250.165 of this chapter.

(b) *Loans and extensions of credit to one person.*

(1) *Limitations*. Except as the Board may otherwise specify:

(i) The total loans and extensions of credit outstanding to any person by an Edge corporation engaged in banking and its direct or indirect subsidiaries may not exceed 15 percent of the Edge corporation's Tier 1 capital;[15] and

(ii) The total loans and extensions of credit to any person by a foreign bank or Edge corporation subsidiary of a member bank, and by majority-owned subsidiaries of a foreign bank or Edge corporation, when combined with the total loans and extensions of credit to the same person by the member bank and its majority-owned subsidiaries, may not exceed the member bank's limitation on loans and extensions of credit to one person.

(2) "Loans and extensions of credit" has the meaning set forth in section 211.2(p) of this part[16] and, for purposes of this paragraph, include:

(i) Acceptances outstanding that are not of the types described in paragraph 7 of section 13 of the FRA (12 U.S.C. 372);

(ii) Any liability of the lender to advance funds to or on behalf of a person pursuant to a guarantee, standby letter of credit, or similar agreements;

(iii) Investments in the securities of another organization except where the organization is a subsidiary; and

(iv) Any underwriting commitments to an issuer of securities where no binding commitments have been secured from subunderwriters or other purchasers.

(3) *Exceptions*. The limitations of paragraph (b)(1) of this section do not apply to:

(i) Deposits with banks and federal funds sold;

(ii) Bills or drafts drawn in good faith against actual goods and on which two or more unrelated parties are liable;

(iii) Any bankers' acceptance of the kind described in paragraph 7 of section 13 of the FRA that is issued and outstanding;

(iv) Obligations to the extent secured by cash collateral or by bonds, notes, certificates of indebtedness, or Treasury bills of the United States;

(v) Loans and extensions of credit that are covered by bona fide participation agreements; or

(vi) Obligations to the extent supported by the full faith and credit of the following:

(A) The United States or any of its departments, agencies, establishments, or wholly owned corporations (including obligations to the extent insured against foreign political and credit risks by the Export-Import Bank of the United States or the Foreign Credit Insurance Association), the International Bank for Reconstruction and Development, the International Finance Corporation, the International Development Association, the Inter-American Development Bank, the African Development Bank, the Asian Development Bank, or the European Bank for Reconstruction and Development;

(B) Any organization if at least 25 percent of such an obligation or of the total credit is also

15. For purposes of this subsection, "subsidiary" includes subsidiaries controlled by the Edge corporation but does not include companies otherwise controlled by affiliates of the Edge corporation.

16. In the case of a foreign government, these include loans and extensions of credit to the foreign government's departments or agencies deriving their current funds principally from general tax revenues. In the case of a partnership or firm, these include loans and extensions of credit to its members and, in the case of a corporation, these include loans and extensions of credit to the corporation's affiliates where the affiliate incurs the liability for the benefit of the corporation.

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supported by the full faith and credit of, or participated in by, any institution designated in paragraph (b)(3)(vi)(A) of this section in such manner that default to the lender will necessarily include default to that entity. The total loans and extensions of credit under this paragraph (b)(3)(vi)(B) to any person shall at no time exceed 100 percent of the Tier 1 capital of the Edge corporation.

(c) *Capitalization.* An Edge corporation shall at all times be capitalized in an amount that is adequate in relation to the scope and character of its activities. In the case of an Edge corporation engaged in banking, after December 31, 1992, its minimum ratio of qualifying total capital to weighted-risk assets, as determined under the Capital Adequacy Guidelines, shall not be less than 10 percent, of which at least 50 percent shall consist of Tier 1 capital; provided however that for purposes of this paragraph, no limitation shall apply as to the inclusion of subordinated debt that qualifies as Tier 2 capital under the Capital Adequacy Guidelines.

Section 211.7—Supervision and reporting.

(a) *Supervision.*

(1) *Foreign branches and subsidiaries.* Organizations conducting international banking operations under this subpart shall supervise and administer their foreign branches and subsidiaries in such a manner as to ensure that their operations conform to high standards of banking and financial prudence. Effective systems of records, controls, and reports shall be maintained to keep management informed of their activities and condition. Such systems shall provide, in particular, information on risk assets, liquidity management, operations, internal controls, and conformance to management policies. Reports on risk assets shall be sufficient to permit an appraisal of credit quality and assessment of exposure to loss, and for this purpose provide full information on the condition of material borrowers. Reports on the operations and controls shall include internal and external audits of the branch or subsidiary.

(2) *Joint ventures.* Investors shall maintain sufficient information with respect to joint ventures to keep informed of their activities and condition. Such information shall include audits and other reports on financial performance, risk exposure, management policies, operations, and controls. Complete information shall be maintained on all transactions with the joint venture by the investor and its affiliates.

(3) *Availability of reports to examiners.* The reports and information specified in paragraphs (a)(1) and (2) of this section shall be made available to examiners of the appropriate bank supervisory agencies.

(b) *Examinations.* Examiners appointed by the Board shall examine each Edge corporation once a year. An Edge corporation shall make available to examiners sufficient information to assess its condition and operations and the condition and activities of any organization whose shares it holds.

(c) *Reports.*

(1) *Reports of condition.* Each Edge corporation shall make reports of condition to the Board at such times and in such form as the Board may prescribe. The Board may require that statements of condition or other reports be published or made available for public inspection.

(2) *Foreign operations.* Edge and Agreement corporations, member banks, and bank holding companies shall file such reports on their foreign operations as the Board may require.

(3) *Acquisition or disposition of shares.* A member bank, Edge or Agreement corporation or a bank holding company shall report, in a manner prescribed by the Board, any acquisition or disposition of shares.

(d) *Filing and processing procedures.*

(1) Unless otherwise directed by the Board, applications, notifications, and reports required by this part shall be filed with the Reserve Bank of the district in which the parent bank or bank holding company is located or, if none, the Reserve Bank of the district in which the applying or reporting institution is located. Instructions and forms for such applications, notifications and reports are available from the Reserve Banks.

(2) The Board shall act on an application or notification under this subpart within 60 calendar days after the Reserve Bank has accepted the application or notification unless the Board notifies the investor that the 60-day period is being extended and states the reasons for the extension.

Subpart B—Foreign Banking Organizations

3. Section 211.21 is revised to read as follows:

Section 211.21—Authority, purpose, and scope.

(a) *Authority.* This subpart is issued by the Board of Governors of the Federal Reserve System ("Board") under the authority of the Bank Holding Company Act of 1956 (12 U.S.C. 1841 *et seq.*) ("BHC Act"); and the International Banking Act of 1978 (12 U.S.C. 3101 *et seq.*) ("IBA").

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(b) *Purpose and scope.* This subpart is in furtherance of the purposes of the BHC Act and the IBA. It applies to foreign banks and foreign banking organizations with respect to:

(1) The limitations on interstate banking under section 5 of the IBA (12 U.S.C. 3103); and

(2) The exemptions from the nonbanking prohibitions of the BHC Act and the IBA afforded by sections 2(h) and 4(c)(9) of the BHC Act (12 U.S.C. 1841(h) and 1843(c)(9)).

4. In section 211.22, paragraphs (a)(2), and (a)(5) are revised to read as follows:

Section 211.22—Interstate banking operations of foreign banking organizations.

* * * * *

(a) *Definitions.** * *

(1) * * *

(2) "Banking subsidiary," with respect to a specified foreign bank, means a bank that is a subsidiary as the terms "bank" and "subsidiary" are defined in section 2 of the BHC Act (12 U.S.C. 1841).

(3) * * *

(4) * * *

(5) "Foreign bank," for purposes of this section, is an organization that is organized under the laws of a foreign country and that engages in the business of banking.

5. In section 211.23, paragraphs (d), (e), (f)(4), (f)(5), (g), and (h) are revised, and paragraph (i) is added, to read as follows:

Section 211.23—Nonbanking activities of foreign banking organizations.

* * * * *

(d) *Loss of eligibility for exemptions.*

(1) A foreign banking organization that qualified under paragraph (b) of this section shall cease to be eligible for the exemptions of this section if it fails to meet the requirements of paragraph (b) of this section for two consecutive years as reflected in its Annual Reports (F.R. Y-7) filed with the Board.

(2) A foreign banking organization that ceases to be eligible for the exemptions of this section may continue to engage in activities or retain investments commenced or acquired prior to the end of the first fiscal year for which its Annual Report reflects nonconformance with paragraph (b) of this section. Activities commenced or investments made after that date shall be terminated or divested within three months of the filing of the second Annual Report unless the Board grants consent to continue the activity or retain the investment under paragraph (e) of this section.

(3) A foreign banking organization that ceases to qualify under paragraph (b) of this section, or an affiliate of such foreign banking organization, that requests a specific determination of eligibility under paragraph (e) of this section may, prior to the Board's determination on eligibility, continue to engage in activities and make investments under the provisions of paragraphs (f)(1), (2) and (4) of this section.

(e) *Specific determination of eligibility for nonqualifying foreign banking organizations.*

(1) A foreign banking organization that does not qualify under paragraph (b) of this section for the exemptions afforded by this section, or that has lost its eligibility for the exemptions under paragraph (d) of this section, may apply to the Board for a specific determination of eligibility for the exemptions.

(2) A foreign banking organization may apply for a specific determination prior to the time it ceases to be eligible for the exemptions afforded by this section.

(3) In determining whether eligibility for the exemptions would be consistent with the purposes of the BHC Act and in the public interest, the Board shall consider:

(i) The history and the financial and managerial resources of the organization;

(ii) The amount of its business in the United States;

(iii) The amount, type, and location of its nonbanking activities, including whether such activities may be conducted by U.S. banks or bank holding companies; and

(iv) Whether eligibility of the foreign banking organization would result in undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices.

(4) Such determination shall be subject to any conditions and limitations imposed by the Board, including any requirements to cease activities or dispose of investments.

(5) Determinations of eligibility would generally not be granted where a majority of the business of the foreign banking organization derives from commercial or industrial activities or where the U.S. banking business of the organization is larger than the non-U.S. banking business conducted directly by the foreign bank or banks (as defined in section 211.2(j) of this part) of the organization.

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(f) *Permissible activities and investments.* A foreign banking organization that qualifies under paragraph (b) of this section may:

(1) * * *

(2) * * *

(3) * * *

(4) Own or control voting shares of any company in a fiduciary capacity under circumstances that would entitle such shareholding to an exemption under section 4(c)(4) of the BHC Act if the shares were held or acquired by a bank.

(5) Own or control voting shares of a foreign company that is engaged directly or indirectly in business in the United States other than that which is incidental to its international or foreign business, subject to the following limitations:

(i) More than 50 percent of the foreign company's consolidated assets shall be located, and consolidated revenues derived from, outside the United States; provided however that, if the foreign company fails to meet the requirements of this paragraph for two consecutive years (as reflected in Annual Reports (F.R. Y-7)) filed with the Board by the foreign banking organization, the foreign company shall be divested or its activities terminated within one year of the filing of the second consecutive Annual Report that reflects nonconformance with the requirements of this paragraph, unless the Board grants consent to retain the investment under paragraph (g) of this section;

(ii) The foreign company shall not directly underwrite, sell, or distribute, nor own or control more than 5 percent of the voting shares of a company that underwrites, sells, or distributes securities in the United States except to the extent permitted bank holding companies;

(iii) If the foreign company is a subsidiary of the foreign banking organization, the foreign company must be, or must control, an operating company, and its direct or indirect activities in the United States shall be subject to the following limitations:

(A) The foreign company's activities in the United States shall be the same kind of activities or related to the activities engaged in directly or indirectly by the foreign company abroad as measured by the "establishment" categories of the Standard Industrial Classification (SIC) (an activity in the United States shall be considered related to an activity outside the United States if it consists of supply, distribution, or sales in furtherance of the activity);

(B) The foreign company may engage in activities in the United States that consist of banking, securities, insurance or other financial operations, or types of activities permitted by regulation or order under section 4(c)(8) of the BHC Act, only under regulations of the Board or with the prior approval of the Board.

(1) Activities within Division H (Finance, Insurance, and Real Estate) of the SIC shall be considered banking or financial operations for this purpose, with the exception of acting as operators of nonresidential buildings (SIC 6512), operators of apartment buildings (SIC 6513), operators of dwellings other than apartment buildings (SIC 6514), and operators of residential mobile home sites (SIC 6515); and operating title abstract offices (SIC 6541); and

(2) The following activities shall be considered financial activities and may be engaged in only with the approval of the Board under subsection (g): credit reporting services (SIC 7323); computer and data processing services (SIC 7371, 7372, 7373, 7374, 7375, 7376, 7377, 7378, and 7379); armored car services (SIC 7381); management consulting (SIC 8732, 8741, 8742, and 8748); certain rental and leasing activities (SIC 4741, 7352, 7353, 7359, 7513, 7514, 7515, and 7519); accounting, auditing and bookkeeping services (SIC 8721); courier services (SIC 4215 and 4513); and arrangement of passenger transportation (SIC 4724, 4725, and 4729).

(g) *Exemptions under section 4(c)(9) of the BHC Act.* A foreign banking organization that is of the opinion that other activities or investments may, in particular circumstances, meet the conditions for an exemption under section 4(c)(9) of the BHC Act may apply to the Board for such a determination by submitting to the Reserve Bank of the District, in which its banking operations in the United States are principally conducted, a letter setting forth the basis for that opinion.

(h) *Reports.*

(1) The foreign banking organization shall inform the Board through the organization's Reserve Bank within 30 days after the close of each quarter of all shares of companies engaged, directly or indirectly, in activities in the United States that were acquired during such quarter under the authority of this section.

(2) The foreign banking organization shall also report any direct activities in the United States commenced during such quarter by a foreign subsidiary of the foreign banking organization. This information shall (unless previously furnished) include a brief description of the nature and scope of each company's business in the United States, including the 4-digit SIC numbers of the activities in which the company engages. Such information shall also in-

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clude the 4-digit SIC numbers of the direct parent of any U.S. company acquired, together with a statement of total assets and revenues of the direct parent.

(i) *Availability of information.* If any information required under this section is unknown and not reasonably available to the foreign banking organization, either because obtaining it would involve unreasonable effort or expense or because it rests peculiarly within the knowledge of a company that is not controlled by the organization, the organization shall:

(1) Give such information on the subject as it possesses or can reasonably acquire together with the sources thereof; and

(2) Include a statement either showing that unreasonable effort or expense would be involved or indicating that the company whose shares were acquired is not controlled by the organization and stating the result of a request for information.

6. Subpart C is revised to read as follows:

Subpart C—Export Trading Companies

Section 211.31 Authority, purpose, and scope.
Section 211.32 Definitions.
Section 211.33 Investments and extensions of credit.
Section 211.34 Procedures for filing and processing notices.

Subpart C—Export Trading Companies

Section 211.31—Authority, purpose, and scope.

(a) *Authority.* This subpart is issued by the Board of Governors of the Federal Reserve System ("Board") under the authority of the Bank Holding Company Act of 1956, as amended (12 U.S.C. 1841 *et seq.*) ("BHC Act"), the Bank Export Services Act (Title II, Pub. L. 97–290, 96 Stat. 1235 (1982)) ("BESA"), and the Export Trading Company Act Amendments of 1988 (Title III, Pub. L. 100–418, 102 Stat. 1384 (1988)) ("ETC Act Amendments").

(b) *Purpose and scope.* This subpart is in furtherance of the purposes of the BHC Act, the BESA, and the ETC Act Amendments, the latter two statutes being designed to increase U.S. exports by encouraging investments and participation in export trading companies by bank holding companies and the specified investors. The provisions of this subpart apply to the following (hereinafter referred to as "eligible investors"):

(1) Bank holding companies as defined in section 2 of the BHC Act (12 U.S.C. 1841(a));

(2) Edge and Agreement corporations, as described in section 211.1(c) of this part, that are subsidiaries of bank holding companies but are not subsidiaries of banks;

(3) Bankers' banks as described in section 4(c)(14)(F)(iii) of the BHC Act (12 U.S.C. 1843(c)(14)(F)(iii)); and

(4) Foreign banking organizations as defined in section 211.23(a)(2) of this part.

Section 211.32—Definitions.

The definitions of section 211.2 in Subpart A apply to this subpart subject to the following:

(a) "Export trading company" means a company that is exclusively engaged in activities related to international trade and, by engaging in one or more export trade services, derives:

(1) At least one-third of its revenues in each consecutive four-year period from the export of, or from facilitating the export of, goods and services produced in the United States by persons other than the export trading company or its subsidiaries; and

(2) More revenues in each four-year period from export activities as described in paragraph (a)(1) of this section than it derives from the import, or facilitating the import, into the United States of goods or services produced outside the United States.

For purposes of this section, "revenues" shall include net sales revenues from exporting, importing, or third party trade in goods by the export trading company for its own account, and gross revenues derived from all other activities of the export trading company.

(b) The terms "bank," "company" and "subsidiary" have the same meanings as those contained in section 2 of the BHC Act (12 U.S.C. 1841).

Section 211.33—Investments and extensions of credit.

(a) *Amount of investments.* In accordance with the procedures of section 211.34 of this subpart, an eligible investor may invest no more than 5 percent of its consolidated capital and surplus in one or more export trading companies, except that an Edge or Agreement corporation not engaged in banking may invest as much as 25 percent of its consolidated capital and surplus but no more than 5 percent of the

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consolidated capital and surplus of its parent bank holding company.

(b) *Extensions of credit.*

(1) *Amount.* An eligible investor in an export trading company or companies may extend credit directly or indirectly to the export trading company or companies in a total amount that at no time exceeds 10 percent of the investor's consolidated capital and surplus.

(2) *Terms.*

(i) An eligible investor in an export trading company may not extend credit directly or indirectly to the export trading company or any of its customers or to any other investor holding 10 percent or more of the shares of the export trading company on terms more favorable than those afforded similar borrowers in similar circumstances, and such extensions of credit shall not involve more than the normal risk of repayment or present other unfavorable features.

(ii) For the purposes of this provision, an investor in an export trading company includes any affiliate of the investor.

(3) *Collateral requirements.* Covered transactions between a bank and an affiliated export trading company in which a bank holding company has invested pursuant to this subpart are subject to the collateral requirements of section 23A of the Federal Reserve Act (12 U.S.C. 371c), except where a bank issues a letter of credit or advances funds to an affiliated export trading company solely to finance the purchase of goods for which:

(i) The export trading company has a bona fide contract for the subsequent sale of the goods; and

(ii) The bank has a security interest in the goods or in the proceeds from their sale at least equal in value to the letter of credit or the advance.

Section 211.34—Procedures for filing and processing notices.

(a) *Filing notice.*

(1) *Prior notice of investment.* An eligible investor shall give the Board 60 days' prior written notice of any investment in an export trading company.

(2) *Subsequent notice.*

(i) An eligible investor shall give the Board 60 days' prior written notice of changes in the activities of an export trading company that is a subsidiary of the investor if the export trading company expands its activities beyond those described in the initial notice to include:

(A) Taking title to goods where the export trading company does not have a firm order for the sale of those goods;

(B) Product research and design;

(C) Product modification; or

(D) Activities not specifically covered by the list of activities contained in section 4(c)(14)(F)(ii) of the BHC Act.

(ii) Such an expansion of activities shall be regarded as a proposed investment under this subpart.

(b) *Time period for Board action.*

(1) A proposed investment that has not been disapproved by the Board may be made 60 days after the Reserve Bank accepts the notice for processing. A proposed investment may be made before the expiration of the 60-day period if the Board notifies the investor in writing of its intention not to disapprove the investment.

(2) The Board may extend the 60-day period for an additional 30 days if the Board determines that the investor has not furnished all necessary information or that any material information furnished is substantially inaccurate. The Board may disapprove an investment if the necessary information is provided within a time insufficient to allow the Board reasonably to consider the information received.

(3) Within three days of a decision to disapprove an investment, the Board shall notify the investor in writing and state the reasons for the disapproval.

(c) *Time period for investment.* An investment in an export trading company that has not been disapproved shall be made within one year from the date of the notice not to disapprove, unless the time period is extended by the Board or by the appropriate Reserve Bank.

(d) *Time period for calculating revenues.* For any export trading company that commenced operations two years or more prior to August 23, 1988, the four-year period within which to calculate revenues derived from its activities under section 211.32(a) of this part shall be deemed to have commenced with the beginning of the 1988 fiscal year for that export trading company. For all other export trading companies, the four-year period shall commence with the first fiscal year after the respective export trading company has been in operation for two years.

Part 265—Rules Regarding Delegation of Authority

1. The authority citation for part 265 continues to read as follows:

Authority: Sec. 11(k), 38 Stat. 261 and 80 Stat. 1314 (12 U.S.C. 248(k)).

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2. In section 265.2, paragraph (c)(38) is added to read as follows:

Section 265.2—Specific functions delegated to Board employees and to Federal Reserve Banks.

* * * * *

(38) Under section 211.5(d)(14) of this chapter (Regulation K):

(i) To approve requests for authority to engage in the activities of underwriting, distributing, and dealing in shares outside the United States, provided that the Staff Director has determined that the internal procedures and operations of the organization and the effect of the proposed activities on capital adequacy are consistent with approval; and

(ii) To approve hedging methods authorized under section 211.5(d)(14)(iii)(A) of this chapter.

* * * * *

3. In section 265.2, paragraphs (f)(46)(iii) and (46)(v) are removed; paragraphs (f)(46)(iv) and (46)(vi) are redesignated as (f)(46)(iii) and (46)(iv) respectively; and paragraph (f)(46)(ii) is revised, and paragraph f(53) is added, to read as follows:

* * * * *

(f) *Each Federal Reserve Bank* * * *

* * * * *

(46) * * *

(i) * * *

(ii) A bank holding company investor and its lead bank meet the minimum capital adequacy guidelines of the Board, the Comptroller of the Currency or the Federal Deposit Insurance Corporation or have enacted capital enhancement plans that have been determined by the appropriate supervisory authority to be acceptable;

* * * * *

(53) Under section 211.5(d)(17) of this chapter (Regulation K) to approve applications to engage in futures commission merchant activities on an exchange that requires members to guarantee or otherwise contract to cover losses suffered by other members, provided that the Board has previously approved the exchange and the application is on the same terms and conditions on which the Board based its approval of the exchange.

* * * * *

Orders Issued Under Bank Holding Company Act

Orders Issued Under Section 3 of the Bank Holding Company Act

Fleet/Norstar Financial Group, Inc. Providence, Rhode Island

Order Approving an Application to Provide Interim Management Services to the FDIC

Fleet/Norstar Financial Group, Inc., Providence, Rhode Island ("Applicant"), a bank holding company within the meaning of the Bank Holding Company Act (the "BHC Act"), has applied under section 3 of the BHC Act (12 U.S.C. § 1842) to exercise control over the management and policies of the New Bank of New England, N.A., Boston, Massachusetts ("New BNE"), New Maine National Bank, Portland, Maine ("New Maine"), and New Connecticut Bank & Trust Company, N.A., Hartford, Connecticut ("New Connecticut"), by entering into an interim management contract with the Federal Deposit Insurance Corporation ("FDIC") involving these banks. New BNE, New Maine, and New Connecticut (together, "Bridge Banks") are bridge banks created by the FDIC to acquire the assets and assume the deposits and other liabilities of the three subsidiary banks of Bank of New England Corporation, Boston, Massachusetts.

On January 6, 1991, the three subsidiary banks of Bank of New England Corporation were declared insolvent and the FDIC was appointed receiver of each of the banks. That same day the FDIC established the Bridge Banks pursuant to section 11(n) of the Federal Deposit Insurance Act ("FDI Act") to acquire the assets and assume the deposits and other liabilities of the closed banks. The FDIC solicited offers for the acquisition of the Bridge Banks from qualified bidders pursuant to sections 11(n) and 13(f) of the FDI Act (12 U.S.C. §§ 1821(n) and 1823(f)), and today has announced that it has selected Applicant as the winning bidder for the Bridge Banks pursuant to section 13(f) of the FDI Act. The FDIC has indicated to the Board that an emergency exists and has requested that the Board take expeditious action, under the relevant provisions of the BHC Act, in order to minimize the cost of the transaction to the FDIC and to permit the Bridge Banks to operate under private

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management during the period while a final sale of the Bridge Banks is negotiated.

The Board has considered this application in light of the factors provided in the BHC Act.[1] Applicant's existing financial condition on a consolidated basis and its managerial resources and the future prospects of the companies involved are satisfactory in the context of this proposal. The benefits to the convenience and needs of the communities in the relevant markets of maintaining the Bridge Banks as viable competitors and of providing the Bridge Banks immediately with new management with demonstrated capability weigh in favor of approval of this application. Applicant and the Bridge Banks compete in certain banking markets. The Board believes that any adverse competitive effects that may result from the Applicant's management contract with these Banks are outweighed by the substantial public benefits of this proposal. The management contract would permit the Bridge Banks to operate under private management while a final contract is negotiated and would avoid any potential disruption in the operations of these Banks during this period.[2]

After entering into the management agreement, Applicant will apply to acquire the assets and liabilities of each of the Bridge Banks in transactions subject to review under section 18(c) of the Bank Merger Act. In addition, Applicant proposes to establish a new intermediate bank holding company to hold the shares of the Massachusetts and Connecticut Bridge Banks in a transaction subject to section 3 of the BHC Act. Applicant expects that consummation of these transactions would occur following final negotiation of the sale agreements with the FDIC over the next several weeks. The Board intends to seek public comment on subsequent applications to the Board to effect the final acquisitions pursuant the emergency procedures established in the Bank Merger Act and the BHC Act.

Based on the foregoing and all the facts of record, the Board has determined that this application under section 3 of the BHC Act should be, and hereby is, approved. This action is limited to approval of the transaction according to the terms and conditions of Applicant's bid as presented to the Board, and any significant modification to those terms or conditions may require further review by the Board. In light of all of the facts of record in this case, including the FDIC's request that the Board act immediately on this application, the Board also has determined, pursuant to section 3(b) of the BHC Act (12 U.S.C. § 1842(b)), section 225.14(h) of the Board's Regulation Y (12 C.F.R. 225.14(h)), and section 262.3(l) of the Board's Rules of Procedure (12 C.F.R. 262.3(l)), to dispense with the notice provisions of the BHC Act in reviewing this application. For the same reasons, the Board has determined, in accordance with section 11(b) of the BHC Act, that expeditious action on this application is necessary and that Applicant may act pursuant to the management contract on or after the fifth calendar day following the effective date of this order.

By order of the Board of Governors, effective April 22, 1991.

Voting for this action: Chairman Greenspan and Governors Angell, Kelley, and LaWare. Absent and not voting: Governor Mullins.

JENNIFER J. JOHNSON
Associate Secretary of the Board

1. This application does not seek authority to acquire the assets or voting shares of the Bridge Banks. While the laws of Massachusetts permit a Rhode Island bank holding company to acquire assets and voting shares of a Massachusetts bank, it is unclear whether the State has authorized an out-of-state bank holding company to acquire control of Massachusetts bank through the proposed management contract. Section 3(d) of the BHC Act (12 U.S.C. § 1842(d)), the Douglas Amendment, prohibits the Board from approving an application by a bank holding company to acquire control of any bank located outside of the holding company's home state unless the acquisition is specifically authorized by the laws of the state where the bank is located. Section 11(n)(8)(B) and section 13(f) of the FDI Act, however, specifically provide that a bank holding company may acquire a bridge bank located in another state, without regard to the limitations on interstate banking in the Douglas Amendment or any relevant state law, where the bridge bank has total assets of at least $500,000,000. 12 U.S.C. §§ 1821(n)(8)(B) and 1823(f)(4)(A). Each of the Bridge Banks was established by the FDIC pursuant to section 11(n) and has total assets in excess of $500,000,000. Applicant was awarded the management contract pursuant to section 11(n) and section 13(f) of the FDI Act. Accordingly, the provisions of the Douglas Amendment and of any relevant state law do not bar approval of the proposed interim management contract under the BHC Act.

2. The Board has considered comments regarding the competitive effects of Applicant's acquisition of the Bridge Banks as they relate to Applicant's proposal to enter into an interim management agreement.

United New Mexico Financial Corporation Albuquerque, New Mexico

Order Approving the Acquisition of Banks

United New Mexico Financial Corporation, Albuquerque, New Mexico ("Applicant"), a bank holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has applied under section 3 of the BHC Act (12 U.S.C. § 1842), to acquire the following subsidiary banks of First Interstate Bancorp, Los Angeles, California ("First Interstate"); First Interstate Bank of Albuquerque, Albuquerque, New Mexico ("FI Albuquerque"); First Interstate Bank of Lea County, Hobbs, New Mexico ("FI Lea County"); and First Interstate Bank of Roswell, Roswell, New Mexico ("FI Roswell"). After the proposed acquisitions, Applicant proposes to merge these banks with

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its three existing subsidiary banks that operate in the same banking markets.[1]

Notice of the application, affording interested persons an opportunity to submit comments, has been published (55 *Federal Register* 35,462 (1990)). The time for filing comments has expired, and the Board has considered the application and all comments received in light of the factors set forth in section 3(c) of the BHC Act.

Applicant operates 13 subsidiary banks in New Mexico and is the third largest commercial banking organization in the state, controlling approximately $980.5 million in deposits, representing approximately 10.4 percent of the total deposits in commercial banking organizations in New Mexico.[2] First Interstate is the fourth largest commercial banking organization in New Mexico, controlling approximately $738 million in deposits in New Mexico, representing approximately 7.8 percent of the total deposits in commercial banking organizations in the state. Upon consummation of the proposed acquisition, Applicant would become the second largest commercial banking organization in New Mexico, controlling approximately $1.5 billion in deposits, representing approximately 16 percent of the total deposits in commercial banking organizations in the state.[3] Consummation of the proposal would not result in significantly adverse effects on the concentration of banking resources in New Mexico.

Applicant and First Interstate compete directly in the Albuquerque, Lea County, and Roswell, New Mexico banking markets. The Board has carefully considered several comments, including comments from state and congressional representatives, on the alleged anticompetitive effects and loss of employment in Lea County, New Mexico, and one comment on the alleged anticompetitive effects in Roswell County, New Mexico.

In the Lea County banking market,[4] Applicant is the second largest depository organization, controlling approximately $112.4 million in deposits, representing approximately 29.7 percent of the deposits held by banks and savings associations operating in the market ("market deposits").[5] First Interstate is the largest depository organization, controlling approximately $127.3 million in deposits, representing approximately 33.6 percent of market deposits. The Lea County market is highly concentrated, with the four largest depository organizations controlling approximately 88 percent of market deposits. Upon consummation of this transaction, Applicant would become the largest depository organization in the market, controlling approximately $239.7 million in deposits, representing approximately 63 percent of market deposits. The Herfindahl–Hirschman Index ("HHI"), would increase by 1994 points to 4422.[6]

In order to mitigate the adverse competitive effects that would otherwise result from consummation of this proposal, Applicant has committed to divest, within 120 days of consummation, at least $90 million in banking deposits in Lea County.[7] These divested deposits would be utilized to create a new commercial banking organization that would rank second in the market, with approximately 23.8 percent of market deposits.[8]

In addition to the proposed divestiture, the Board has considered several other factors that substantially

1. Applicant has also applied to the Federal Deposit Insurance Corporation and the New Mexico Financial Institutions Division to merge;

(i) FI Albuquerque with United Mew Mexico Bank at Albuquerque, Albuquerque, New Mexico:

(ii) FI Lea County with United New Mexico Bank at Lea County, Hobbs, New Mexico; and

(iii) FI Roswell with United New Mexico Bank at Roswell. Upon consummation of these mergers, these banks would be state-chartered nonmember banks.

2. State banking data are as of June 30, 1990; market data are as of March 31, 1990; and thrift data are as of June 30, 1989.

3. These data reflect the proposed divestiture of the deposits discussed later in this Order.

4. The Lea County banking market is approximated by Lea County excluding Jal, New Mexico.

5. All market share calculations include thrift institution deposits at 50 percent. The Board previously has recognized that thrift institutions have become, or have the potential to become, major competitors of commercial banks. *Midwest Financial Group*, 75 *Federal Reserve Bulletin* 386 (1989); *CB&T Bancshares, Inc.*, 75 *Federal Reserve Bulletin* 381 (1989); *National City Corporation*, 70 *Federal Reserve Bulletin* 743 (1984).

6. Under the revised Department of Justice Merger Guidelines, 49 *Federal Register* 26,823 (June 29, 1984), a market in which the post-merger HHI is above 1800 is considered highly concentrated. In such markets, the Justice Department is likely to challenge a merger that increases the HHI by more than 50 points. The Justice Department has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects), unless the post-merger HHI is at least 1800 and the merger increases the HHI by at least 200 points. The Justice Department has stated that the higher than normal HHI thresholds for screening bank mergers for anticompetitive effects implicitly recognizes the competitive effect of limited-purpose lenders and other non-depository financial entities.

7. The Applicant has committed to divest all branches and deposits of FI Lea County in Hobbs and Lovington, New Mexico. Applicant will also submit to the Board before consummation of this transaction all required agreements, including definitive contracts of sale, that would cause an effective divestiture under the BHC Act. If the Applicant is unsuccessful in divesting these deposits within 120 days of consummation, the Applicant will transfer them to an independent trustee who will be instructed to promptly sell these deposits and remit the proceeds to the Applicant. *See, e.g., First Union Corporation*, 76 *Federal Reserve Bulletin* 83 (1990). The Justice Department has indicated that it does not plan to challenge this proposal in light of this proposed divestiture.

8. After the divestiture, Applicant would remain the largest commercial banking organization in the Lea County market, controlling approximately $149.7 million, representing approximately 39.5 percent of market deposits. The HHI would increase by 170 points to 2598.

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mitigate the anticompetitive effects of the combination of Applicant and First Interstate in this market. Five commercial banks and one thrift institution would remain as competitors upon consummation of the proposal. Because the deposits to be divested by Applicant would be used to create a new commercial banking organization, the Lea County market would have as many commercial banks following consummation of this proposal as there were prior to consummation. On the basis of all facts of record, including Applicant's commitments and subject to the conditions in this Order, the Board finds that consummation of this proposal would not have a significantly adverse effect on competition in the Lea County banking market.

In the Albuquerque banking market,[9] Applicant is the fifth largest depository organization, controlling approximately $318.5 million in deposits, representing approximately 5.2 percent of market deposits. First Interstate is the fourth largest depository organization in Albuquerque, controlling approximately $427.4 million in deposits, representing approximately 7 percent of market deposits. Upon consummation of this proposal, Applicant would become the fourth largest depository organization in the market, controlling approximately $745.9 million in deposits, representing approximately 12.2 percent of market deposits. The HHI for the market would increase by 73 points to 2271. Accordingly, the Board concludes that consummation of the proposal would not result in a significantly adverse effect on competition in the Albuquerque banking market.

In the Roswell banking market,[10] Applicant is the second largest depository organization, controlling approximately $107.5 million in deposits, representing approximately 17 percent of market deposits. First Interstate is the fourth largest depository organization, controlling approximately $72.7 million in deposits, representing approximately 11.5 percent of market deposits. Following consummation of this proposal, the Roswell market would remain moderately concentrated and seven commercial banks and two thrifts would remain in the market.[11] Accordingly, the Board concludes that consummation of the proposal would not result in a significantly adverse effect on competition in the Roswell banking market.

On the basis of the above facts and other facts of record, including the divestiture commitments made by the Applicant, the Board finds that consummation of this proposal would not have a significantly adverse effect on competition in any relevant market.

Upon consummation of this proposal, Applicant's lead bank, United New Mexico Bank at Albuquerque, Albuquerque, New Mexico ("UNM-Albuquerque"), would more than double its present size to assets of approximately $833 million and would hold approximately half the total banking assets of the Applicant. The Board notes that FI Albuquerque and UNM-Albuquerque both have reported poor earnings and problem assets. In order to strengthen the combined organization, Applicant has committed to inject up to $12 million in additional capital into UNM-Albuquerque.[12] In light of this and other facts of record, the Board believes that the financial and managerial resources of Applicant and its future prospects are consistent with approval.

In considering the convenience and needs of the communities to be served, the Board notes that UNM-Albuquerque's enhanced capital would generally improve the financial condition of the bank and permit it to better serve the community. The Board also has considered the potential for loss of employment in Lea County resulting from the proposal. The Applicant has stated that some personnel reductions may occur, and has committed that all affected persons will be treated fairly and in accordance with all applicable laws. The Board notes that the impact of this proposal on employment would be lessened by the entry into this market of a new banking organization that would acquire the divested branches. Accordingly, in light of all the facts of record, the Board believes that considerations relating to the convenience and needs of the communities to be served by Applicant's subsidiary banks are also consistent with approval.

Based on the foregoing and other facts of record, the Board has determined that the application should be, and hereby is, approved. This approval is conditioned upon the Applicant's fulfilling its commitments within the prescribed time periods, including commitments to make the necessary capital infusions into its lead bank as well as its commitments for the divestiture in the Lea County market. In addition, the Board's approval is conditioned upon the Applicant submitting to the Board before consummation of this transaction all required agreements, including definitive contracts of

9. The Albuquerque banking market is approximated by the Albuquerque RMA.

10. The Roswell-Artesia banking market is approximated by Chaves County and the northern half of Eddy County.

11. Upon consummation, Applicant would become the largest banking organization in the market, controlling approximately $179.7 million in deposits, which represents approximately 28.6 percent of total market deposits. The HHI for the market would increase by 392 points to 1654.

12. Applicant has committed to make a capital infusion into UNM-Albuquerque in the amount of $2 million upon consummation of this proposal, $5 million at the time of the proposed divestiture, and up to an additional $5 million subsequent to these events if under certain circumstances the additional infusion is necessary.

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sale, necessary to complete an effective divestiture under the BHC Act, and upon receiving approval from the Federal Deposit Insurance Corporation. This transaction shall not be consummated before the thirtieth calendar day following the effective date of this Order, or later than three months after the effective date of this Order, unless such period is extended by the Board or by the Federal Reserve Bank of Dallas, acting pursuant to delegated authority.

By order of the Board of Governors, effective April 15, 1991.

Voting for this action: Chairman Greenspan and Governors Angell, Kelley, and LaWare. Absent and not voting: Governor Mullins.

JENNIFER J. JOHNSON
Associate Secretary of the Board

Orders Issued Under Section 4 of the Bank Holding Company Act

Barclays PLC
London, England

Barclays Bank PLC
London, England

Order Approving Application to Engage in the Issuance and Sale of Traveler's Checks

Barclays PLC and Barclays Bank PLC, London, England (together, "Barclays"), bank holding companies within the meaning of the Bank Holding Company Act ("BHC Act"), have applied for the Board's approval under section 4(c)(8) of the BHC Act (12 U.S.C. § 1843(c)(8)), to engage indirectly in the issuance and sale of traveler's checks with a face value of $1,000 or less on a global basis by acquiring through its subsidiary, Interpayment Services Ltd., Poole, England ("Interpayment"),[1] certain assets of BA Cheque Corporation, San Francisco, California, the traveler's check subsidiary of BankAmerica Corporation, San Francisco, California ("BankAmerica").[2]

Notice of the application, affording an opportunity for interested persons to submit comments, has been duly published (55 *Federal Register* 49,704 (1990)). The time for filing comments has expired, and the Board has considered the application and all comments received in light of the factors set forth in section 4 of the BHC Act.

Barclays has total consolidated assets of approximately $260.3 billion.[3] Barclays owns bank subsidiaries in New York, Delaware, and North Carolina, and operates branches in New York, Boston, and Chicago and agencies in San Francisco and Miami.

Concurrent with its purchase of the traveler's check operations of BankAmerica, Barclays and BankAmerica have entered into a joint venture agreement that will combine the traveler's check operations of both companies into Interpayment. Both Interpayment and BA Cheque Corporation currently engage in the issuance and sale of traveler's checks with a face value of $1,000 or less and, under this proposal, Interpayment would engage only in traveler's check activities that the Board has determined by regulation to be closely related to banking for purposes of section 4(c)(8) of the BHC Act. *See* 12 C.F.R. 225.25(b)(12).

In acting on an application under section 4(c)(8) of the BHC Act, the Board must consider whether an applicant's performance of the proposed activities "can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest, or unsound banking practices." 12 U.S.C. § 1843(c)(8). This consideration also requires an evaluation of the financial and managerial aspects associated with the proposal. Consummation of this proposal would result in the elimination of a competitor among the issuers of traveler's checks. Barclays is the third largest issuer of traveler's checks in the United States, representing approximately 9.2 percent of the traveler's checks issued and sold in the United States. BankAmerica is the fourth largest issuer of traveler's checks in the United States, representing 8.2 percent of the traveler's checks issued and sold in the United States.[4] Upon consummation of this proposal, Interpayment would control approximately 17.4 percent of

1. Interpayment currently manages the traveler's check business of Barclays in the United States and arranges for the sale of Barclays's traveler's checks through unaffiliated sales agents. Barclays has previously received approval to engage in the issuance and sale of traveler's checks in the United States. *See* 71 *Federal Reserve Bulletin* 741 (1985).

2. In return for the transfer of its traveler's check business, BankAmerica will acquire a nonvoting, nonconvertible, preferred stock interest in Interpayment. Barclays and BankAmerica have also entered into a two-year management services agreement during which BankAmerica will work to preserve its base of unaffiliated selling agents for use by Interpayment. Barclays and BankAmerica have also entered into a sales agent agreement governing the sale by BankAmerica subsidiaries and affiliates of traveler's checks issued by Interpayment for an initial period of time.

3. Asset data are as of December 31, 1990.

4. On a worldwide basis, the five largest issuers of traveler's checks account for approximately 93.2 percent of traveler's checks sold. Barclays and BankAmerica rank fourth and fifth respectively in the sale of traveler's checks worldwide. As a result of this proposal, Interpayment would control the issuance of approximately 16.4 percent of the traveler's checks sold worldwide.

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the market for the issuance and sale of traveler's checks in the United States.

The market for the issuance of traveler's checks is highly concentrated, with the five largest issuers of traveler's checks accounting for approximately 97.9 percent of the traveler's checks sold in the United States.[5] Although consummation of this proposal would eliminate a competitor among issuers of traveler's checks, several factors serve to mitigate the potential anticompetitive effects of this proposal.[6] As an initial matter, while the market among issuers of traveler's checks has always been concentrated, the record suggests that there exists strong competition among issuers to enlist the numerous independent agents that sell their checks. There is nothing in the record that would indicate that the elimination of one competitor from this market would in any way affect the continuing competition among the remaining issuers of traveler's checks for the services of these selling agents.

In addition, the market is dominated by the largest issuer of traveler's checks, which currently issues over 60 percent of the traveler's checks sold in the United States. The combination of the traveler's check issuance operations of Barclays and BankAmerica should result in operational efficiencies that would allow Interpayment to operate more effectively and act as a more viable competitor to the largest issuer of traveler's checks.[7]

The Board also has examined the effect of consummation of this proposal on the market for the sale of traveler's checks. The market for the sale of traveler's checks is local in geographic scope. There is no evidence in the record that would suggest that the proposed transaction would result in the elimination of substantial competition in any local market. Retail agents establish the price charged for traveler's checks and are generally constrained from substantially raising prices due to competition from no-fee sellers, and the growing substitutability of credit cards as a payment mechanism for travelers. Accordingly, consummation of this proposal would not substantially lessen competition in the market for the sale of traveler's checks.

In light of these and other considerations reflected in the record, the Board concludes that consummation of this proposal would not have a significantly adverse effect on competition in the markets for the issuance and sale of traveler's checks.

In the past, the Board has expressed concern that a joint venture could lead to a matrix of relationships between co-venturers that could lessen competition between the co-venturers, create the possibility of conflicts of interests, or impair or give the appearance of impairing the ability of the banking organization to function effectively as an independent and impartial provider of credit.[8] In this case, neither the proposed investment nor the joint venture agreement or other agreements applicable to this transaction between Barclays and BankAmerica place any limits on the other activities of Barclays or BankAmerica. Both Barclays and BankAmerica are large, independent organizations that will continue to compete in a variety of banking and nonbanking activities. In addition, because these companies are both bank holding companies whose activities conform to the requirements of the BHC Act, this proposal does not raise the same level of concern present in joint ventures between bank holding companies and commercial companies that the proposed joint venture may undermine the legally mandated separation of banking and commerce.[9] Accordingly, consummation of this transaction is not expected to create any conflicts of interests or adversely influence Barclays or BankAmerica in any creditor relationships.

Based upon all of the facts of record, the Board believes that consummation of this proposal is not likely to result in any significant adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices. Accordingly, the Board has determined that the performance of the proposed activity by Barclays can reasonably be expected to produce public benefits that would outweigh adverse effects

5. Under the revised Department of Justice Merger Guidelines, 49 *Federal Register* 26,823 (1984), a market in which the post-merger Herfindahl–Hirschman Index ("HHI") is above 1800 is considered to be highly concentrated. In such nonbanking markets, the Justice Department is likely to challenge a merger that increases the HHI by more than 50 points, in the absence of factors indicating that the merger would not substantially lessen competition. Upon consummation of this transaction, the HHI in the market for the issuance of traveler's checks in the United States would increase by 151 points to 4603. The Justice Department has indicated that, at this time, it does not plan to challenge this proposal.

6. The Board has previously indicated that market share indicators alone may be inconclusive in determining actual market behavior, and findings of anticompetitive effects based on such indicators can be rebutted by a showing that these indicators do not accurately reflect the true economic characteristics of a particular market. *See The Bank of New York Company, Inc.*, 74 *Federal Reserve Bulletin* 257, 262 n.18 (1988).

7. Moreover, a review of the available evidence suggests that demand for traveler's checks has declined in recent years due in part to the increased acceptability of credit cards as a payment mechanism for travelers. This factor also serves to mitigate the Board's concern about the potential anticompetitive effects of the elimination of a competitor from the market for the issuance of traveler's checks.

8. *See, e.g., Amsterdam-Rotterdam Bank, N.V.*, 70 *Federal Reserve Bulletin* 835 (1984).

9. *See The Dai-Ichi Kangyo Bank, Limited*, 76 *Federal Reserve Bulletin* 75 (1990).

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under the proper incident to banking standard of section 4(c)(8) of the BHC Act.

Based on the above, the Board has determined to, and hereby does, approve the application subject to all of the terms and conditions set forth in this order and the Board's regulations that relate to these activities. The Board's determination is also subject to all of the conditions set forth in the Board's Regulation Y, including those in sections 225.4(d) and 225.23(b), and to the Board's authority to require modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to assure compliance with, and prevent evasion of, the provisions of the BHC Act and the Board's regulations and orders issued thereunder.

This transaction shall not be consummated later than three months after the effective date of this order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of New York, pursuant to delegated authority.

By order of the Board of Governors, effective April 5, 1991.

Voting for this action: Chairman Greenspan and Governors Angell, Kelley, LaWare, and Mullins.

WILLIAM W. WILES
Secretary of the Board

First Michigan Bank Corporation
Holland, Michigan

Order Approving Application to Provide Securities Brokerage and Investment Advisory Services and Act as Riskless Principal

First Michigan Bank Corporation, Holland, Michigan, ("First Michigan"), a bank holding company subject to the Bank Holding Company Act ("BHC Act"), has applied under section 4(c)(8) of the BHC Act (12 U.S.C. § 1843(c)(8)) and section 225.23(a) of the Board's Regulation Y (12 C.F.R. 225.23(a)), for its wholly owned subsidiary, FMB-Brokerage Services, Inc., Holland, Michigan ("Company"), to engage in the following activities:

(1) to provide securities brokerage services and related securities credit services pursuant to section 225.25(b)(15) of the Board's Regulation Y (12 C.F.R. 225.25(b)(15));

(2) to provide investment advisory and brokerage services on a combined basis ("full-service brokerage") to retail and institutional customers, subject to conditions previously established by the Board; and

(3) to buy and sell all types of securities on the order of investors as a "riskless principal".

Notice of the application, affording interested persons an opportunity to submit comments on the proposal, has been published (56 *Federal Register* 7387 (1991)). The time for filing comments has expired, and the Board has considered the application and all comments received in light of the public interest factors set forth in section 4(c)(8) of the BHC Act.

First Michigan, with total consolidated assets of $1.6 billion, is the ninth largest banking organization in Michigan.[1] It operates ten banking subsidiaries in Michigan and also engages in trust and credit-related insurance activities through its other nonbanking subsidiaries.

The Board previously has determined by order that full-service brokerage is a permissible non-banking activity for bank holding companies under section 4(c)(8) of the BHC Act.[2] In addition, Company will provide discretionary investment management for institutional customers only, under the same terms and conditions as previously approved by the Board.[3] First Michigan also proposes that Company engage in investment advisory and securities brokerage activities on a separate basis pursuant to the Board's Regulation Y.[4]

The Board also has found that, subject to certain prudential limitations that address the potential for conflicts of interests, unsound banking practices or other adverse effects, the proposed "riskless principal" activities are so closely related to banking as to be a proper incident thereto within the meaning of section 4(c)(8) of the BHC Act. First Michigan has committed that Company will conduct its riskless principal activities using the same methods and procedures and subject to the prudential limitations established by the Board in the *Bankers Trust II* and *J.P. Morgan* orders.[5]

1. Data are as of December 31, 1990.

2. *PNC Financial Corp.*, 75 *Federal Reserve Bulletin* 396 (1989); *Bank of New England Corporation*, 74 *Federal Reserve Bulletin* 700 (1988); *Bankers Trust New York Company*, 74 *Federal Reserve Bulletin* 695 (1988).

3. *J.P. Morgan & Co. Inc.*, 73 *Federal Reserve Bulletin* 810 (1987). Investment advice would be provided on an integrated basis, *i.e.*, company would not charge an explicit fee for the investment advice and would receive fees only for transactions executed for customers.

4. 12 C.F.R. 225.25(b)(15).

5. *J.P. Morgan & Company Incorporated*, 76 *Federal Reserve Bulletin* 26 (1990) ("*J.P. Morgan*"); and *Bankers Trust New York Corporation*, 75 *Federal Reserve Bulletin* 829 (1989) ("*Bankers Trust II*"). In this regard, Company will maintain specific records that will clearly identify all riskless principal transactions, and Company will not engage in any riskless principal transactions for any securities carried in its inventory. When acting as a riskless principal, Company will only engage in transactions in the secondary market and not at the order of a customer that is the issuer of the securities to be sold, will not act as riskless principal in any transaction involving a security for which it makes a market, nor hold itself out as making a market in the securities that it buys and sells as riskless principal. Moreover, Company will not engage in riskless principal transactions with First Michigan or any of First Michigan's affiliates, including any foreign affiliates that may engage in securities dealing activities overseas.

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In order to approve this application, the Board is required to determine that the performance of the proposed activities "can reasonably be expected to produce benefits to the public . . . that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices." 12 U.S.C. § 1843(c)(8).

Consummation of the proposal would provide increased convenience to First Michigan's customers. The Board also expects that the *de novo* entry of First Michigan into the market for these services would increase the level of competition among providers of these services.

Consummation of the proposal within the framework established in this and previous Board Orders is not likely to result in any significantly adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices. In addition, financial and managerial considerations are consistent with approval of the application. Accordingly, the Board has determined that the performance of the proposed activities by First Michigan can reasonably be expected to produce public benefits which would outweigh potential adverse effects.

Based on all of the facts of record, as well as the commitments made by Applicant, and the conditions set forth in this and the above-noted orders, the Board has determined that the balance of the public interest factors it is required to consider under section 4(c)(8) of the BHC Act is favorable. Accordingly, the application is hereby approved. The Board's determination is subject to all of the conditions set forth in the Board's Regulation Y, including those in sections 225.4(d) and 225.23(b), and to the Board's authority to require modification or termination of the activities of the holding company or any of its subsidiaries as the Board finds necessary to assure compliance with, and to prevent evasion of, the provisions and purposes of the BHC Act and the Board's regulations and Orders issued thereunder.

This transaction shall not be consummated later than three months after the effective date of this Order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Chicago, pursuant to delegated authority.

By order of the Board of Governors, effective April 1, 1991.

Voting for this action: Chairman Greenspan and Governors Angell, Kelley, and Mullins. Absent and not voting: Governor LaWare.

JENNIFER J. JOHNSON
Associate Secretary of the Board

The Fuji Bank, Limited
Tokyo, Japan

Order Approving Application to Engage in Certain Leasing Activities

The Fuji Bank, Limited, Tokyo, Japan ("Fuji"), a bank holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has applied under section 4(c)(8) of the BHC Act (12 U.S.C. § 1843(c)(8)) and section 225.23(a) of the Board's Regulation Y (12 C.F.R. 225.23(a)) to engage, through its wholly owned subsidiary, Heller Financial, Inc., Chicago, Illinois ("Heller"), in the leasing of personal property, and acting as agent, broker, or adviser in leasing such property, including lease transactions in which Heller may rely for its compensation on an estimated residual value of the leased property at the expiration of the initial lease term of up to 100 percent of the acquisition cost of the property ("higher residual value leasing").

Notice of the application, affording interested persons an opportunity to submit comments, has been duly published (56 *Federal Register* 9700 (1991)). The time for filing comments has expired, and the Board has considered the application and all comments received in light of the factors set forth in section 4(c)(8) of the BHC Act.

Fuji, with total consolidated assets equivalent to approximately $372.6 billion, is the third largest banking organization in the world.[1] Fuji owns Fuji Bank & Trust Company, New York, New York. In addition, Fuji operates branches in New York and in Chicago; agencies in Los Angeles, San Francisco, Houston, and Atlanta; representative offices in Miami and in Seattle; and an Edge Act Corporation in San Francisco. Fuji engages in various nonbanking activities in the United States pursuant to section 4(c)(8) of the BHC Act.

Heller currently engages in various nonbanking activities, including commercial financing and leasing activities pursuant to sections 225.25(b)(1) and (b)(5) of the Board's Regulation Y. Heller has total assets of $7.3 billion.

In order to approve an application under section 4(c)(8) of the BHC Act, the Board must determine that the proposed activity is "so closely related to banking or managing or controlling banks as to be a proper incident thereto . . . ." 12 U.S.C. § 1843(c)(8). The Board previously has determined by order that the activities of engaging in higher residual value leasing and acting as agent, broker, or adviser with respect to

1. Asset data are as of September 30, 1990. Ranking is as of July 26, 1990.

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such lease transactions are closely related to banking and permissible for bank holding companies subject to certain limitations.[2] Heller proposes to conduct these activities using the same methods and procedures and subject to the same limitations established by the Board in its previous orders regarding these activities. In this regard, all leases will be non-operating and, with the exception of the residual value calculation, will otherwise conform to all of the requirements provided in the Board's regulation regarding leasing transactions generally.[3] In particular, Heller would engage in the proposed activities only for leases in which the property to be leased is acquired specifically for the leasing transaction under consideration or was acquired specifically for an earlier leasing transaction. Moreover, Fuji has committed that the proposed lease transactions engaged in by Heller would have a minimum initial lease term of one year, that the maximum lease term would be no more than 40 years, and that Heller would sell or re-lease the property within two years of the expiration of the initial lease.

In acting on an application under section 4(c)(8) of the BHC Act, the Board also must consider whether an applicant's performance of the proposed activities "can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices." 12 U.S.C. § 1843(c)(8).

Fuji maintains that approval of the proposed activity would enable Heller to better respond to the needs of its leasing customers and competitive conditions in the leasing industry by allowing Heller to offer a broader range of leasing terms.

The Board has considered the potential for adverse effects that might be associated with reliance by Heller on high residual values in leasing transactions. In this case, Fuji proposes that Heller engage in these leasing activities subject to limitations previously relied on by the Board which are designed to minimize the possibility of such effects. Fuji also has committed to limit the total amount of Heller's investment in leases with estimated residual values in excess of 25 percent of the acquisition cost of the leased property to no more than 10 percent of Fuji's total consolidated assets, and to limit the aggregate amount of Heller's investment in leases with estimated residual values in excess of 70 percent of the acquisition cost of the leased property to the lesser of:

(i) 0.5 percent of Fuji's total consolidated assets, or

(ii) 10 percent of Fuji's total consolidated shareholders' equity.

In addition, Fuji has committed to maintain Heller's capital at levels commensurate with industry standards for comparable leasing activities. The Federal Reserve Bank of New York will monitor the policies and procedures of Heller to assure that they comply with this Order.

In every case involving a nonbanking acquisition by a bank holding company under section 4 of the BHC Act, the Board considers the financial condition and resources of the applicant and its subsidiaries and the effect of the transaction on these resources.[4] After making adjustments to reflect Japanese banking and accounting principles, including consideration of a portion of unrealized appreciation in Fuji's portfolio of equity securities, the Board concludes that financial considerations are consistent with approval. The managerial resources of Fuji also are consistent with approval.

Consummation of the proposal would provide added convenience to Fuji's leasing customers. In addition, the Board expects that the *de novo* entry of Fuji into the market for this activity would increase the level of competition among providers of this service. Accordingly, the Board has determined that the performance of the proposed activity by Fuji can reasonably be expected to produce benefits to the public.

For these reasons, and in reliance on Fuji's commitments, the Board believes that consummation of this proposal is not likely to result in any significantly adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices. Based on the foregoing and other facts of record, the Board concludes that the balance of the public interest factors that it is required to consider under section 4(c)(8) is favorable in this case.

Accordingly, subject to the conditions in this Order and the commitments made by Fuji, the Board has determined that the proposed application should be, and hereby is, approved. This determination is subject to all of the conditions set forth in the Board's Regu-

2. *The Sanwa Bank, Limited*, 77 *Federal Reserve Bulletin* 187 (1991); *Security Pacific Corporation*, 76 *Federal Reserve Bulletin* 462 (1990). *See also Dai-Ichi Kangyo Bank, Limited*, 76 *Federal Reserve Bulletin* 960 (1990). On May 25, 1990, the Board issued for comment a proposal to make these leasing activities permissible for bank holding companies generally under Regulation Y. 55 *Federal Register* 22,348 and 23,446 (1990). Fuji has committed to conform Heller's leasing activities to any final rule adopted by the Board.

3. *See* 12 C.F.R. 225.25(b)(5).

4. 12 C.F.R. 225.24; *The Fuji Bank, Limited*, 75 *Federal Reserve Bulletin* 94 (1989); *Bayerische Vereinsbank AG*, 73 *Federal Reserve Bulletin* 155, 156 (1987).

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lation Y, including sections 225.4(d) and 225.23(b) (12 C.F.R. 225.4(d) and 225.23(b)), and to the Board's authority to require such modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to assure compliance with, or to prevent evasion of, the provisions and purposes of the BHC Act and the Board's regulations and orders issued thereunder.

This transaction shall not be consummated later than three months after the effective date of this Order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of New York, pursuant to delegated authority.

By order of the Board of Governors, effective April 10, 1991.

Voting for this action: Chairman Greenspan and Governors Angell, LaWare, and Mullins. Absent and not voting: Governor Kelley.

JENNIFER J. JOHNSON
Associate Secretary of the Board

Orders Issued Under Sections 3 and 4 of the Bank Holding Company Act

Apple Merger Corp.
New York, New York

Order Approving Formation of a Bank Holding Company and Engaging in Commercial Lending

Apple Merger Corp., New York, New York ("Apple Merger"), has applied pursuant to section 3(a)(1) of the Bank Holding Company Act ("BHC Act") (12 U.S.C. § 1842(a)(1)) to become a bank holding company by acquiring approximately 95 percent of the voting shares of Apple Bancorp, Inc., New York, New York ("Apple Bancorp"), a registered bank holding company. Apple Merger would thereby indirectly acquire Apple Bank for Savings, New York, New York ("Bank"). Apple Merger also has applied pursuant to section 4(c)(8) of the BHC Act to engage in commercial lending activities.

Notice of the applications, affording interested persons an opportunity to submit comments, have been published (55 *Federal Register* 50,773 (1990)). The time for filing comments has expired, and the Board has considered the applications and all comments received in light of the factors set forth in sections 3 and 4 of the BHC Act.

Apple Merger is an interim corporation formed for the purpose of permitting Apple Bancorp's current owner to acquire all the shares of Apple Bancorp.[1] Based on the facts of record, consummation of this proposal would not result in any significantly adverse effect on competition or the concentration of banking resources in the State of New York or in any relevant market. Accordingly, the Board concludes that competitive considerations are consistent with approval of these applications. The financial and managerial resources and future prospects of Apple Merger and Bank appear to be consistent with approval.

The Board also has considered factors relating to the convenience and needs of the communities to be served. In this regard, the Board notes that Apple Bancorp and Bank are under new ownership and that new management has initiated affirmative steps to improve substantially the performance of Bank under the Community Reinvestment Act (12 U.S.C. § 2901 *et seq.*) ("CRA") and to correct deficiencies in the Bank's performance identified in Bank's last examination report.[2] In general, the Statement of the Federal Financial Supervisory Agencies Regarding the Community Reinvestment Act indicates that commitments for future corrective actions offered in the application process will not be sufficient to overcome a seriously deficient CRA record.[3] In this case, however, the inadequate CRA record reflected the actions of the previous owners and the current owner has taken steps to correct deficiencies in CRA performance in a timely fashion. Accordingly, the Board believes that accepting commitments for improvement of Bank's CRA record is appropriate.

In light of all the facts of record, including the CRA programs to be implemented and the programs begun by Bank's new management to improve its CRA performance, the Board believes that considerations relating to the convenience and needs of the communities to be served are consistent with approval. The Board's decision in this regard is specifically premised upon the commitments made by applicant in this application.

Apple Merger also has applied to engage in commercial lending activities pursuant to section 225.25(b)(1) of the Board's Regulation Y (12 C.F.R. 225.25(b)(1)). There is no evidence in the record to indicate that approval of this proposal would result in any significantly adverse effects, such as undue concentration of

1. Apple Bancorp's current owner controls approximately 95 percent of the shares and proposes to acquire the remaining shares of Apple Bancorp outstanding through a "second step" merger. Record ownership of the current owner's shares will be transferred to Apple Merger immediately before it merges with and into Apple Bancorp. As a result of this merger, each outstanding share of Apple Bancorp will be converted into a right to receive $38 in cash.

2. The examination was conducted as of July 12, 1990 and occurred prior to acquisition of Bank by its current owner.

3. 54 *Federal Register* 13,742 (1989).

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resources, decreased or unfair competition, conflicts of interests, or unsound banking practices. Accordingly, the Board has determined that the balance of the public interest factors it must consider under section 4(c)(8) of the BHC Act is favorable and consistent with approval.

Based on the foregoing and other facts of record, the Board has determined that the applications should be, and hereby are, approved. This approval is specifically conditioned upon applicant's compliance with the commitments made to the Board regarding its steps to improve Bank's record of performance under the CRA. The acquisition of Bank shall not be consummated before the thirtieth calendar day following the effective date of this Order, and the proposed bank and nonbank acquisitions shall not be consummated later than three months after the effective date of this Order, unless such period is extended for good cause by the Board or the Federal Reserve Bank of New York, acting pursuant to delegated authority. The determination as to the nonbanking activities approved in this case is subject to all of the conditions contained in Regulation Y, including those in sections 225.4(d) and 225.23(b)(3) (12 C.F.R. 225.4(d) and 225.23(b)(3)), and to the Board's authority to require such notification or termination of the activities of a holding company or any of its subsidiaries as the Board finds necessary to assure compliance with, or to prevent evasion of, the provisions and purposes of the BHC Act and the Board's regulations and orders issued thereunder.

By order of the Board of Governors, effective April 1, 1991.

Voting for this action: Chairman Greenspan and Governors Angell, Kelley, and Mullins. Absent and not voting: Governor LaWare.

JENNIFER J. JOHNSON
Associate Secretary of the Board

Orders Issued Under Bank Merger Act

Manufacturers Hanover Trust Company New York, New York

Order Approving Acquisition of Certain Assets and Assumption of Certain Liabilities of a Bank, the Establishment of Branches, and Additional Investment in Bank Premises

Manufacturers Hanover Trust Company, New York, New York ("MHTC"), a state-chartered member bank, has applied pursuant to section 18(c) of the Federal Deposit Insurance Act (12 U.S.C. § 1828(c)) (the "Bank Merger Act"), to purchase certain assets from and to assume certain liabilities of ten branches of Goldome, Buffalo, New York ("Goldome").[1] MHTC also has applied to establish branches at the locations of the ten Goldome branches listed in the Appendix pursuant to section 9 of the Federal Reserve Act (12 U.S.C. § 321 *et seq.*) ("FRA") and for permission to make an additional investment in bank premises pursuant to section 24A of the FRA (12 U.S.C. § 371d).

Notice of these applications, affording interested persons an opportunity to submit comments, has been given in accordance with the Bank Merger Act and the Board's Rules of Procedure (12 C.F.R. 262.3(b)). As required by the Bank Merger Act, reports on the competitive effects of the merger were requested from the United States Attorney General, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. The time for filing comments has expired, and the Board has considered the applications and all comments received in light of the factors set forth in the Bank Merger Act and in section 9 of the FRA.

MHTC is the fourth largest commercial banking organization in the state of New York, controlling deposits of $24.5 billion, which represents approximately 9.1 percent of total deposits in commercial banking organizations in the state.[2] The 10 operating Goldome offices MHTC proposes to acquire are located within the counties of New York, Bronx, Orange, Rockland, and Westchester in New York State. Total deposits in all the offices to be acquired are approximately $1.46 billion, representing approximately 0.4 percent of total deposits in commercial banks in the state.[3] Upon consummation of this proposal, MHTC would remain the fourth largest commercial banking organization in the state, controlling approximately 9.6 percent of total deposits in commercial banking organizations in the state.

MHTC and Goldome compete in the Metropolitan New York-New Jersey banking market.[4] The Metro-

1. MHTC also has applied to assume the deposit liabilities of three branches of Goldome that may be closed by the acquisition date and certain non-branch deposit liabilities of Goldome.

2. Market data are as of June 30, 1989, and state deposit data are as of December 30, 1990.

3. Goldome is a state-chartered savings bank with deposits insured by the Federal Deposit Insurance Corporation ("FDIC"). Because Goldome had FDIC insurance prior to the enactment of the Financial Institutions Reform, Recovery and Enforcement Act ("FIRREA"), this transaction does not represent the conversion of a Savings Association Insurance Fund member to a Bank Insurance Fund member under the provisions of that Act and is not, therefore, subject to that Act's moratorium on such conversions. *See* FIRREA, Pub. L. No. 101-73, §§ 206(a)(7) and 208(14).

4. The Metropolitan New York-New Jersey market includes New York City and Nassau, Suffolk, Orange, Putnam, Rockland, Sullivan,

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politan New York-New Jersey banking market is considered to be unconcentrated and would remain so upon consummation of the proposal.[5] Based on these and the other facts of record, the Board concludes that consummation of the proposal would not have a significantly adverse effect on competition in the relevant banking market.

In evaluating these applications, the Board has carefully considered the financial resources of MHTC and the effect on those resources of the proposed acquisition. The Board notes that Manufacturers Hanover Corporation, the parent of MHTC, recently added capital to MHTC to support this proposal. Consummation of this proposal, therefore, would not result in any diminution of MHTC's tangible capital position. The present proposal would result in a relatively small increase in MHTC's asset size, and MHTC would use the acquired deposits to reduce its short-term liabilities. Based on these considerations, the Board concludes that the financial and managerial resources and future prospects of MHTC, within the context of this proposal, are consistent with approval.

In considering the convenience and needs of the communities to be served, as provided in the Bank Merger Act, and in reviewing an application for a deposit facility, including the establishment of a domestic branch or other facility with the ability to accept deposits under the FRA, the Board is required, under the Community Reinvestment Act (12 U.S.C. § 2901 *et seq.*) ("CRA"), to consider the institution's record of serving the credit needs of the community, including low- and moderate-income neighborhoods. The CRA requires the federal financial supervisory agencies to encourage financial institutions to help meet the credit needs of the local communities in which they operate consistent with the safe and sound operation of such institutions.

In this regard, the Board has considered comments filed by the Citywide Responsible Banking Alliance: MHT ("Protestant") alleging that MHTC has generally failed to meet the credit needs of the Harlem community.[6] Specifically, Protestant alleges that MHTC has failed:

(i) to provide financing for homes in Harlem by using inappropriate lending criteria based on racial composition and geographic location;
(ii) to offer credit products, including customer accounts, that meet the credit needs of low- and moderate-income persons in Harlem; and
(iii) to incorporate the Harlem community in its outreach and advertising programs.

The Board has carefully reviewed the CRA performance record of MHTC, as well as Protestant's comments and MHTC's response to those comments, in light of the CRA, the Board's regulations, and the Statement of the Federal Financial Supervisory Agencies Regarding the Community Reinvestment Act ("Agency CRA Statement").[7] The Agency CRA Statement provides guidance regarding the types of policies and procedures that the supervisory agencies believe financial institutions should have in place in order to fulfill their responsibilities under the CRA on an ongoing basis and the procedures that the supervisory agencies will use during the application process to review an institution's CRA compliance and performance. The Agency CRA Statement also suggests that decisions by agencies to allow financial institutions to expand will be made pursuant to an analysis of the institution's overall CRA performance and will be based on the actual record of performance of the institution.[8]

Initially, in the most recent examination of MHTC's CRA performance ("the CRA examination"), the Board notes that MHTC has received an "outstanding" rating from the Federal Reserve Bank of New York, acting pursuant to authority delegated by the Board, MHTC's primary regulator.[9] This rating was assigned under the new four-tiered rating system implemented by amendments to the CRA in the FIRREA.[10] The Agency CRA Statement provides

and Westchester Counties in New York; Bergen, Essex, Hudson, Hunterdon, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset, Sussex, Union, and Warren Counties in New Jersey; and parts of Fairfield County in Connecticut.

5. Under the revised Department of Justice Merger Guidelines (49 *Federal Register* 26,823 (June 29, 1984)), a market in which the post-merger Herfindahl–Hirschman Index ("HHI") is less than 1000 is considered unconcentrated. Generally the Justice Department will not challenge a bank merger (in the absence of other factors indicating anticompetitive effects) if the post-merger HHI is less than 1000. Upon consummation of this proposal, the HHI of the market would increase by 5 points to 436.

6. Protestant is an alliance of community advocates and non-profit housing developers. The Board also has considered a comment alleging that, in upstate New York, MHTC does not meet the credit needs of women- and minority-owned businesses and has limited involvement in community-based organizations, and a comment generally objecting to the loss of Goldome branches in Manhattan and the Bronx. For the reasons discussed above, the Board believes that, on balance, MHTC meets the credit needs of small businesses and is involved in community-based organizations in upstate New York and that MHTC's ownership of the Goldome branches will permit these branches to continue to operate and help to meet the convenience and needs of the communities served by these branches.

7. 54 *Federal Register* 13,742 (1989).

8. *Id.*

9. The CRA compliance examination for MHTC is as of September 24, 1990.

10. This system provides for "outstanding," "satisfactory," "needs to improve" and "substantial noncompliance" ratings for an institution's record of meeting community credit needs. Ratings assigned to financial institutions after July 1, 1990, are disclosed to the public. 12 U.S.C. § 2906(b)(2). Under this new rating system, an

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that, although CRA examination reports do not provide conclusive evidence of an institution's CRA record, these reports will be given great weight in the applications process.[11]

The CRA examination found that MHTC's delineation of its communities in general was reasonable and did not exclude low- and moderate-income communities from its service area. In addition, the CRA examination concluded that a geographic analysis of loan applications using Home Mortgage Disclosure Act ("HMDA") data and MHTC's annual CRA lending studies of approved and declined applications from the Downstate Community supported the reasonableness of the delineation. Protestant's comments relate to Harlem which is an area within MHTC's Downstate Community as delineated under the CRA.[12]

The CRA requires the appropriate federal supervisory authority to "assess an institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution."[13] The Agency CRA Statement similarly provides that federal regulatory agencies are required to take into account a financial institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods when considering certain applications from these institutions. Accordingly, in considering Protestant's comments under the CRA, the Board must consider MHTC's record of performance in meeting the credit needs of its entire CRA-delineated community. This community includes, but is not limited to, the Downstate Community which includes Harlem.

Protestant alleges, primarily on the basis of analyses of HMDA data, that MHTC has refused to provide home financing in Harlem by using inappropriate criteria based on the racial composition of the community and its geographic location. Discrimination and other illegal credit practices are evaluated in a CRA performance examination under the following assessment factors:

(1) any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement (Assessment Factor D); and

(2) evidence of prohibited discriminatory or other illegal credit practices (Assessment Factor F).[14]

The CRA examination under these factors found no evidence of any practice by MHTC intended to discourage applications for the types of credit set forth in MHTC's CRA Statement.[15] Furthermore, no credit practices were identified that were inconsistent with the substantive provisions of anti-discrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act.[16]

Although the CRA examination noted that HMDA data indicated low-level lending activity in some areas, it concluded that there is reasonable penetration throughout MHTC's Downstate Community, including in low- and moderate-income census tracts.[17] For ex-

institution's CRA record is evaluated in light of 12 assessment factors, which are grouped into five performance categories:

(i) ascertainment of community credit needs;

(ii) marketing and types of credit offered and extended;

(iii) geographic distribution and record of opening and closing offices;

(iv) discrimination and other illegal credit practices; and

(v) community development.

11. 54 *Federal Register* 13,745.

12. The Downstate Community includes New York City and the counties of Nassau, Suffolk, Orange, Rockland and Westchester and is served by 192 branches. Four of these branches serve Harlem. The Board generally has defined Harlem in the same manner as Protestant to include community districts 9, 10, and 11, a geographic area bounded on the east by the East River, extending north to East 142nd Street and south to 96th Street, and bounded on the west by the Hudson River, extending north approximately to West 155th Street and south to 110th Street. This area includes 73 census tracts and is predominately minority and low-income. Protestant's analyses relate to approximately 68 census tracts within Harlem, but these analyses do not indicate specifically how many or which of the census tracts have been excluded.

13. 12 U.S.C. § 2901.

14. Protestant maintains that MHTC's ratio of outstanding loans to core deposits in Harlem when compared with this same ratio outside of Harlem is evidence of MHTC's discrimination against borrowers in this area. The Board previously has noted that loan-to-deposit ratios are only a broad measure of lending activity and that there are many nondiscriminatory reasons why a particular neighborhood may generate more deposits than loan requests, or more requests than deposits. *See First Bank System, Inc.*, 74 *Federal Reserve Bulletin* 824 (1988).

15. The CRA examination noted that MHTC affirmatively solicited credit applications from all segments of its communities, including applications from low- and moderate-income neighborhoods and that MHTC had written policies, procedures, and training programs to ensure that the bank did not illegally discourage or pre-screen applicants. In addition, MHTC has represented that it hires independent, external evaluators (white and minority, male and female) to "shop" its own branches and rate branch personnel on a variety of service quality criteria to ensure that branches provide equal access to the bank's loan and deposit products.

16. The CRA examination noted isolated violations under the Board's Regulation B, implementing the Equal Credit Opportunity Act, that were exceptions to established bank procedures and that affected few applicants. For approximately three months, telephone applicants for credit card lines of credit were provided with oral rather than written notification of adverse action. Corrective action already has been taken by management for those affected applicants and to ensure future compliance.

17. The Board notes that MHTC has taken affirmative steps relating to its performance in mortgage lending in low- and moderate-income neighborhoods. MHTC recently has obtained approval from state banking authorities to establish the Manufacturers Hanover Community Development Corporation ("MHCDC") to incorporate all of its community development activities into a single organizational structure. MHCDC's activities include the financing of low- and moderate-income multi-family dwellings and residential housing lending. In addition, MHTC implemented specific goals this year for its branches to increase residential loan origination. This program is branch-based and will supplement MHTC's "MortgageTrack" Program, a mortgage referral program for realtors and mortgage brokers located in MHTC's Downstate Community. In 1990, MHTC undertook a market research study to focus on lending efforts in low- and moderate-income

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ample, in 1988 and 1989, 10 percent of home mortgage and home improvement loans made by MHTC in the Downstate Community were made in low- and moderate-income census tracts. During the first six months of 1990, 14 percent of such loans were made in low- and moderate-income census tracts.[18] HMDA data for the five boroughs of New York City in 1989 show that 13.1 percent of MHTC's mortgage loans and 30.5 percent of its home improvement loans were made in low- and moderate-income areas.

Protestant also alleges that MHTC does not provide multi-family housing loans and has failed to participate in FHA or VA mortgage insurance programs. The CRA, however, affords a financial institution considerable flexibility in determining how best to meet the credit needs of its entire community, and institutions are not required to adopt specific activities or programs.[19]

In this regard, MHTC is a substantial contributor to revolving loan funds utilized by financial intermediaries for the construction of affordable housing, including Community Preservation Corporation ("CPC") ($11.7 million commitment), and Neighborhood Housing Service of New York City ("NHS") ($500,000 commitment) and Capital Affordable Housing ($313,000 commitment).[20] Since 1974, CPC has financed more than 9500 dwelling units in northern Manhattan, which represents public and private investments of over $220 million. This lending has been concentrated in the districts of Washington Heights, a low- and moderate-income community, and Central Harlem.[21] In October 1990, NHS began to offer to eligible residents home improvement loans below market rates and rehabilitation loans and technical assistance to owners of small multi-family and mixed-used buildings.[22]

MHTC also provides a variety of other consumer products to low- and moderate-income communities, including unsecured personal installment loans, automobile loans, and retail credit cards.[23] MHTC has been active in originating government-guaranteed student loans and has participated in projects that benefit the cultural and social aspects of the Harlem community.[24] In addition, MHTC offers a variety of credit products to small businesses including revolving credit lines, business installment loans, time and demand commercial loans and letters of credit.[25] MHTC also recently re-

neighborhoods and MHTC has identified low- and moderate-income census tracts in New York City eligible to generate mortgage loan applications.

18. The Board believes that certain disparities alleged by Protestant in the HMDA data relating specifically to Harlem must be considered in light of other factors associated with Harlem. These factors include a relatively low number of owner-occupied housing units, fewer real estate transfers eligible for mortgage financing, and low median household incomes. For example, only 11 percent of the housing units in Harlem are owner occupied. In addition, the median household income in Harlem is $8,528 while the median household income in the other districts in Manhattan is $17,385.

19. *See* Uniform Interagency Community Reinvestment Act Final Guidelines for Disclosure of Written Evaluations and Revised Assessment Rating System, 55 *Federal Register* 18,163 (1990) ("Uniform Interagency Guidelines").

20. MHTC also lends directly to housing-related and community development projects on a short-term basis. For example, MHTC has committed to provide $73.8 million in construction loans, $4.4 million of which will be used to rehabilitate 13 buildings in Manhattan for use by low- and moderate-income families under New York City's vacant building program. Two of these buildings are located in Harlem. Although Protestant believes that MHTC should provide permanent financing for multi-family housing in Harlem and participate in other types of city-sponsored housing programs, the CRA does not require lenders to participate in specific types of financing or programs.

21. Protestant has generally criticized CPC's lack of lending in Harlem and its tenant practices. CPC has reported updated information to the Board that it has made $52.4 million in construction loans, representing 2,782 dwelling units in Harlem since CPC's inception through October 1990. In addition, CPC has outstanding commitments of $4 million for the substantial rehabilitation of 286 more units in Harlem. These commitments bring the total public and private investments leveraged by CPC for housing development in Harlem to almost $157 million. When CPC acquired these 2,782 units for rehabilitation, 719 were occupied and 2,063 were vacant. The occupied units, which were slated for moderate rehabilitation, are under the New York City program for rent stabilization. The remaining vacant units were targeted for "gut" rehabilitation. The Department of Housing Preservation and Development ("HPD") determines the plans for occupancy and the rents of these units, with the goal of housing as many low-income individuals as possible. HPD's guidelines for CPC's units currently under construction in Harlem provide that 80 percent of the units would be for moderate-income individuals, 10 percent for low-income individuals, and 10 percent for formerly homeless persons.

22. NHS has reported to the Board that it is presently processing 11 loan applications from Harlem for a total amount of $901,600 in loan commitments.

23. As of year-end 1989, MHTC has represented that it had $29.5 million outstanding in consumer credit extensions (excluding mortgages) from residents of Harlem. The Board notes that in designating the Harlem community, MHTC defines its southern boundary as 96th Street, east to west, with the effect of including a portion of the Upper West Side. Accordingly, MHTC's reported outstanding extensions of credit and other activities in Harlem as designated by the Board may be less.

24. MHTC currently has outstanding a total of $2.9 million for the renovation of the Apollo Theater, which was completed in 1988, and a $2.1 million participation in a loan for the reconstruction of the National Black Theater. MHTC's investment in community development projects in New York City, including its projects in Harlem, totals 19 projects for an investment of approximately $98.8 million.

25. MHTC reports that its small business loan extensions to businesses with addresses in Harlem totalled $4.7 million in 1989. As a general matter, MHTC's efforts to meet the credit needs of small businesses extend to its other CRA-delineated communities, including women- and minority-owned businesses in its Upstate Communities. MHTC markets its services to small businesses primarily through its Business Finance Group ("BFG"). BFG lends up to $250,000 to any one business and provides business installment loans as small as $3,000 and lines of credit as small as $25,000. Marketing efforts for BFG are coordinated through a call program by branch staff, and the sampled call reports demonstrated that branch officers were contacting local businesses throughout MHTC's delineated areas. The CRA examination confirmed that these call programs were working well, and the Board expects that MHTC will strengthen its documentation of these programs. In addition, the CRA examination noted that MHTC indirectly lends money to small businesses through small business investment corporations and minority-enterprise small business investment corporations, which lend primarily to businesses located in New York City but also throughout the tri-state area.

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entered the SBA's guaranteed loan program.

Protestant's criticisms of MHTC's credit products offered in Harlem is based in large part on a comparative analysis of its checking and savings accounts.[26] In addition to its regular accounts, MHTC offers a Basic Checking product designed to accommodate customers with limited finances and first-time account holders.[27] MHTC has initiated steps to enhance its ATM services in Harlem by completing the installation of four additional ATMs at one of its Harlem branches to provide 24-hour access, and intends to explore providing additional ATMs with 24-hour access at other Harlem branch locations.

Protestant generally alleges that MHTC's outreach, advertising, and communication programs have failed to incorporate Harlem into its lending community.[28] The Board notes, however, that, as a general matter, the CRA examination found that MHTC has an effective ascertainment program that includes ongoing and meaningful contact with numerous and diverse community organizations and government agencies throughout its entire service area.[29] For example, in the five boroughs of New York City, MHTC is actively involved with 213 community-based organizations, of which 113 serve communities throughout Manhattan, including 24 organizations exclusively serving Harlem. Nine of the Harlem organizations are involved in housing and economic development. MHTC's Urban Affairs Officers participate in and sponsor a number of forums on issues of community interest throughout the community, including in Harlem and other low- and moderate-income neighborhoods within the delineated community. In addition, these officers have made on-site visits to a number of community groups based in low- and moderate-income communities, including Harlem. MHTC officers also provide volunteer service for a variety of such organizations.

The Board also notes that MHTC has adopted many of the elements of an effective CRA program as outlined in the Agency CRA Statement. MHTC has a CRA officer responsible for coordinating CRA activities throughout the bank. The board of directors has been actively involved in overseeing the establishment of the bank's CRA Mission Statement and CRA Action Plan and of an organizational structure to implement MHTC's CRA efforts. MHTC's board reviews quarterly reports and other information from the CRA officer and a board member who is the contact between the board and the bank's Planning Committee. The Planning Committee, consisting of the CRA officer and 13 senior officers, monitors the CRA Advisory Committee's activities and reviews and approves major proposals submitted by the CRA Advisory Committee. The Planning Committee, also consisting of the CRA officer and other senior officers, meets monthly to review and assess MHTC's CRA program, identify weaknesses in the program, make recommendations for improving it, and implement strategies for the introduction of products and services.

The CRA examination found that MHTC's marketing efforts are generally satisfactory and that MHTC employs a multimedia approach in marketing its products. In the spring of 1990, MHTC initiated a mortgage and basic checking advertisement campaign in the press media.[30] For 1991, MHTC plans to alternate advertising in the minority press of its credit products

Finally, MHTC has a working relationship with Rochester Neighborhood Housing Services, Inc. and Neighborhood Housing Services of Buffalo, Inc.

26. Protestant suggests that MHTC is unable to meet the credit needs of Harlem because of its speculative lending activities outside its CRA service community. As discussed above, the Board believes that MHTC offers credit products that help meet the needs of low- and moderate-income communities within its Downstate Community, including Harlem. In addition, the Board previously has noted as a general matter that an internationally-oriented lending program by a commercial bank is not necessarily inconsistent with helping to meet the credit needs of its local community. *See First National Boston Corporation*, 67 *Federal Reserve Bulletin* 253 (1981); *Manufacturers Hanover Trust Company*, 66 *Federal Reserve Bulletin* 601 (1980).

27. For a monthly fee of $5 and no minimum balance, Basic Checking provides up to eight free checks per month and unlimited ATM usage without charge. Additional check and teller transactions cost $0.75 each. Applicant's Basic Checking was compared to accounts offered by four other large New York banks and it ranked second in affordability. MHTC reports that 21 percent of its checking relationships in Harlem use Basic Checking and that between 1989 and 1990 the number of accounts in Harlem have increased by 54 percent. One of MHTC's advertisements involving its Power Checking product is the subject of a Notice of Violation by the New York Department of Consumer Affairs. MHTC believes that the advertisement complies with all applicable consumer protection laws and is currently discussing the notice with the Department.

28. In support of this allegation, Protestant maintains that MHTC's outstanding loans and correspondent banking services provided to South Africa inhibit its ability to ascertain and meet the credit needs of the Harlem community. The record in this case does not indicate that MHTC's investments are in violation of applicable law, and as discussed above, the Board believes that MHTC has adequately attempted to ascertain credit needs and market its credit products to its entire community, including Harlem. *See NCNB Corporation*, 73 *Federal Reserve Bulletin* 666, 668, n. 11 (1987).

29. The CRA examination found no variation from MHTC's satisfactory level of involvement with community-based organizations in its Upstate Community. The CRA examination noted that MHTC was very active in supporting nonprofit organizations through grants, although these grants were made primarily to organizations located in New York City and, to a lesser extent, throughout the rest of MHTC's delineated communities.

30. MHTC advertises home equity credit lines and other loan products in New York City's three major daily newspapers. Advertisements for mortgages and basic checking services also are placed in minority and local community newspapers such as *El Diario* and *The Amsterdam News* and in weeklies such as *The Phoenix*, *Greenline* and the *Carib News*. In addition, MHTC advertises in *El Vocero*, a Spanish-language daily, and the *City Sun*, a newspaper that targets a black readership.

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for personal loans and its mortgage products.[31] MHTC also uses other methods of local marketing, including setting up display booths at local street fairs, sponsoring charitable and civic events, and advertising in nonprofit journals.

In considering the public benefits of this transaction, the Board also notes that Goldome would receive additional capital as the result of this transaction. In addition, most of the branches of Goldome to be acquired in this transaction would remain open and continue to operate and serve their communities. The Board believes that the new capital provided to Goldome by this transaction and the continued operation of these branches by MHTC would result in substantial public benefits.

For the reasons discussed above, and based upon the overall CRA record of MHTC, as well as other facts of record and public benefits of this proposal, the Board concludes that, on balance, the convenience and needs factor, including the CRA record of MHTC, is consistent with approval of these applications. The Board also has considered the factors it is required to consider when approving applications for establishment of branches pursuant to section 9 of the FRA and finds those factors to be consistent with approval. In addition, the Board concludes that allowing MHTC under section 24A of the FRA to make an additional investment in bank premises is necessary to enable MHTC to acquire the Goldome branches, and is consistent with approval.

Protestant has requested a formal hearing on these applications as well as a public meeting or an opportunity to present its views orally to the Board. The Bank Merger Act and the FRA do not require the Board to hold a hearing on merger or branch applications filed pursuant to these provisions and therefore Protestant has no right to a hearing. The Board's rules generally provide that the Board may, in its discretion, hold a public hearing or meeting to clarify factual issues related to the application and to provide an opportunity for testimony. *See* 12 C.F.R. 262.3(e), 262.25(d) and 262.3(i)(3).

Initially, the Board notes that Protestant has been given the opportunity to submit, and has submitted, extensive written facts and arguments to the Board regarding these applications. These materials, as well as responses from MHTC and information available to the Board, have not provided a basis to support the belief that the facts already before the Board are incomplete or insufficient to permit the Board to carry out its responsibility under the Bank Merger Act and the FRA to evaluate the applications under the statutory criteria, or that further investigation would produce additional relevant information. The Board is not required to hold a formal hearing or receive oral testimony where a party disputes the conclusions to be drawn from established facts or where such proceedings would not serve to develop new or useful facts.

Protestant asserts that several disputes, including MHTC's refusal to lend in Harlem, MHTC's refusal to discuss its South African policy, and MHTC's failure to develop services that are affordable to low-income persons, raise factual questions.[32] Protestant maintains that these disputes contradict factual assertions made by MHTC in the applications. These assertions, however, do not dispute facts in the record or even elicit new facts, but question inferences and conclusions drawn from the factual presentations in the applications.

The Board finds that MHTC and Protestant have had ample opportunity to present evidence and arguments in writing and to respond to each other's submissions and concludes that the parties' extensive written submissions have been an adequate means of clarifying the issues in this case, including the factual issues raised by Protestant. The Board also believes that the few truly factual disputes that Protestant asserts exist regarding MHTC's CRA record in the Harlem community should be viewed in the context of all the facts of record regarding MHTC's service to its entire CRA-delineated communities. Thus, in the Board's view, even assuming that these few facts are in dispute, they would not have a material effect on the Board's conclusion with respect to MHTC's overall compliance with the CRA. Accordingly, Protestant's request for a public hearing or meeting or to make an oral presentation before the Board is denied.

Based on the foregoing and all of the facts of record, the Board has determined that the applications should be, and hereby are, approved. This transaction shall not be consummated before the thirtieth calendar day following the effective date of this order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of New York, acting pursuant to delegated authority.

31. MHTC also plans to begin advertising small business loans in the *City Sun* this month. In addition, MHTC has recently undertaken a multimedia advertising campaign targeted at small and mid-size businesses in the New York area. In 1991 MHTC plans to expand its marketing efforts for personal and automobile loan products in its Downstate Community.

32. In Protestant's view, these disputed facts cannot be resolved by written submissions because some information is not publicly available and adequate consideration of these factual disputes requires cross-examination of MHTC's officials.

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By order of the Board of Governors, effective April 19, 1991.

Voting for this action: Chairman Greenspan and Governors Angell, Kelley, and LaWare. Absent and not voting: Governor Mullins.

JENNIFER J. JOHNSON
Associate Secretary of the Board

APPENDIX

Manufacturers Hanover Trust Company has applied to establish branches at the following locations:

New York County

1065 Avenue of the Americas, New York, NY 10021
1122 Lexington Avenue, New York, NY 10021

Bronx County

3555 Johnson Avenue, Bronx, NY 10463

Orange County

13–15 Sussex Street, Port Jervis, NY 12771
Route 17M near Route 6, Wawayanda, NY 10973

Rockland County

466 Pacesetter Shopping Center, Route 202, Ramapo, NY 10970
108 Main Street, Nyack, NY 10960
41 South Middletown Road, Nanuet, NY 10954

Westchester County

722 North Bedford Road, Bedford Hills, NY 10507
Route 6 and Lee Road, Jefferson Valley, NY 10535

ORDERS ISSUED UNDER FEDERAL RESERVE ACT

Orders Issued Under Section 25(a) of the Federal Reserve Act

Morgan Guaranty International Finance Corporation
New York, New York

Order Approving Application to Engage in Certain Futures Commission Merchant Activities in Japan

April 1, 1991

Mr. Edmund P. Rogers, III
Senior Vice President
and Resident Counsel
J.P. Morgan & Co., Incorporated
60 Wall Street
New York, NY 10260

Dear Mr. Rogers:

As requested in your letter of December 11, 1990, the Board of Governors grants its consent to Morgan Guaranty International Finance Corporation ("MGIFC"), New York, New York, to retain the shares of J.P. Morgan Securities Asia Limited ("JPMSA"), Singapore, after JPMSA acts as a futures commission merchant ("FCM") on the Osaka Securities Exchange (the "OSE"), Osaka, Japan. JPMSA would act as a FCM with respect to a Nikkei 225 futures contract and a Nikkei 225 options contract, and futures contracts of the kinds listed in section 225.25(b)(18) of Regulation Y. JPMSA would also offer investment advice to non-affiliated persons on financial futures and options on financial futures. In taking this action, the Board relied on MGIFC's commitment that JPMSA's FCM and investment advisory activities on the OSE will be conducted in accordance with the conditions imposed in sections 225.25(b)(18) and (19) of Regulation Y.

The Board has also delegated to the Federal Reserve Bank of New York authority to approve additional financial contracts involving products that the Board has reviewed and approved previously but that are not specifically covered by Regulation Y. Proposals involving products that have not been reviewed previously by the Board continue to require the Board's specific consent.

The Reserve Bank should be notified promptly of any prospective substantial changes in the activities of the OSE that would materially increase the potential liability of the Morgan organization in conducting activities on the OSE. The Board expects that MGIFC will comply with any conditions the Board may impose after reviewing such changes.

Very truly yours,

Jennifer J. Johnson
Associate Secretary of the Board

cc: Vice President Rutledge, FRB of New York

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Applications Approved Under Bank Holding Company Act

By Federal Reserve Banks

Recent applications have been approved by the Federal Reserve Banks as listed below. Copies are available upon request to the Reserve Banks.

Section 3

Applicant(s)	Bank(s)	Reserve Bank	Effective Date
Bancshares of Jackson Hole Incorporated, Jackson, Wyoming	Jackson Hole Bancshares Corp., Jackson, Wyoming	Kansas City	April 10, 1991
BancWest Bancorp, Inc., Taylor, Texas	The Bank of the West, Austin, Texas	Dallas	April 15, 1991
Blue Waters Bancshares, Inc., New Brighton, Minnesota	First State Bank of Graceville, Graceville, Minnesota	Minneapolis	March 29, 1991
Caldwell County Bancshares, Inc., Hamilton, Missouri	Caldwell County Bank, Hamilton, Missouri	Kansas City	April 19, 1991
CBW Bancorp, Crawfordville, Florida	The Citizens Bank of Wakulla, Crawfordville, Florida	Atlanta	April 24, 1991
Chesapeake Bancorp, Chestertown, Maryland	The Chesapeake Bank & Trust Company, Chestertown, Maryland	Richmond	April 2, 1991
Citizens National Bancorp, Inc., Darlington, Wisconsin	The Citizens National Bank of Darlington, Darlington, Wisconsin	Chicago	April 15, 1991
CTB Financial Corporation, Choudrant, Louisiana	Community Trust Bank, Choudrant, Louisiana	Dallas	April 22, 1991
Denali Bancorporation, Inc., Fairbanks, Alaska	Denali State Bank, Fairbanks, Alaska	San Francisco	April 1, 1991
Enfin, Inc., Solon, Ohio	Enterprise Bank, Solon, Ohio	Cleveland	March 21, 1991
Firstbank of Illinois Co., Springfield, Illinois	Central Banc System, Inc., Fairview Heights, Illinois	Chicago	April 5, 1991
Firstbank of Illinois Co., Springfield, Illinois	PBM Bancorp, Inc., Marion, Illinois	Chicago	April 5, 1991

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Section 3—Continued

Applicant(s)	Bank(s)	Reserve Bank	Effective Date
First Bancshares of Valley City, Inc., Valley City, North Dakota	Litchville State Bank Holding Company, Litchville, North Dakota	Minneapolis	March 22, 1991
First Michigan Bank Corporation, Holland, Michigan	Northwestern Bank Corporation, East Jordan, Michigan	Chicago	April 11, 1991
First Pinellas Financial Group, Inc., Pinellas Park, Florida	First National Bank of Pinellas, Pinellas Park, Florida	Atlanta	March 15, 1991
First State Bancorp, Inc., Caruthersville, Missouri	Farmers Bank of Portageville, Portageville, Missouri	St. Louis	March 22, 1991
First Staunton Bancshares, Inc., Staunton, Illinois	The First National Bank in Staunton, Staunton, Illinois	St. Louis	April 9, 1991
FSB Bancorp, Wever, Iowa	Farmers Savings Bank, Wever, Iowa	Chicago	April 24, 1991
High Point Financial Services, Inc., Forreston, Illinois	Forreston State Bank, Forreston, Illinois	Chicago	April 19, 1991
HUBCO, Inc., Union City, New Jersey	Meadowlands National Bank, North Bergen, New Jersey	New York	April 12, 1991
Illinois State Bancorp, Inc., Chicago, Illinois	First National Bank of Wheaton, Wheaton, Illinois	Chicago	April 12, 1991
Larimer Bancorporation, Inc., Fort Collins, Colorado	First Interstate Bank of Fort Collins, N.A., Fort Collins, Colorado	Kansas City	April 23, 1991
McIntosh Bancshares, Inc., Jackson, Georgia	McIntosh State Bank, Jackson, Georgia	Atlanta	April 3, 1991
Midlothian State Bank Employee Stock Ownership Trust, Midlothian, Illinois	Midlothian State Bank, Midlothian, Illinois	Chicago	April 22, 1991
Old Second Bancorp, Inc., Aurora, Illinois	Affiliated Bank, Burlington, Illinois	Chicago	March 27, 1991
Prairie Bancorp, Inc., Manlius, Illinois	Tampico National Bank, Tampico, Illinois	Chicago	March 28, 1991
The Prosperity Banking Company, St. Augustine, Florida	Prosperity Bank of St. Augustine, St. Augustine, Florida	Atlanta	March 25, 1991
Star Banc Corporation, Kentucky, Newport, Kentucky	Star Bank, Northern Kentucky, Covington, Kentucky	Cleveland	April 9, 1991
TAG Bancshares, Inc., Trenton, Georgia	Citizens Bank & Trust, Inc., Trenton, Georgia	Atlanta	April 10, 1991

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Section 3—Continued

Applicant(s)	Bank(s)	Reserve Bank	Effective Date
United Missouri Bancshares, Inc., Kansas City, Missouri	Valley Bank Holding Company, Security, Colorado	Kansas City	March 29, 1991

Section 4

Applicant(s)	Nonbanking Activity/Company	Reserve Bank	Effective Date
AMCORE Financial, Inc., Rockford, Illinois	AMCORE Interim Federal Savings Bank, Rockford, Illinois	Chicago	April 12, 1991
Banc One Corporation, Columbus, Ohio	Citizens Federal Savings and Loan Association, Dayton, Ohio	Cleveland	March 25, 1991
Credit Lyonnais, Paris, France	IMRS, Inc., Stamford, Connecticut	New York	March 22, 1991
FCNB Corp, Frederick, Maryland	FCNB Federal Savings Bank, Frederick, Maryland	Richmond	April 22, 1991
First Community Bancshares, Inc., Lone Grove, Oklahoma	Community Savings and Loan Association, Ardmore, Oklahoma	Kansas City	April 22, 1991
Fulton Financial Corporation, Lancaster, Pennsylvania	Great Valley Savings Association, Reading, Pennsylvania	Philadelphia	March 28, 1991
Lewis Banshares, Inc., Armour, South Dakota	First State Insurance Agency, Armour, South Dakota	Minneapolis	April 4, 1991
Metrobancorp, Indianapolis, Indiana	Metro Federal Savings Bank, Indianapolis, Indiana	Chicago	March 29, 1991
Norwest Corporation, Minneapolis, Minnesota Norwest Financial Services, Inc., Des Moines, Iowa Norwest Financial, Inc., Des Moines, Iowa	AVCO Financial Services of Mississippi, Inc., Irvine, California	Minneapolis	April 17, 1991
Norwest Corporation, Minneapolis, Minnesota	U. B. C. Investment Corp., Denver, Colorado	Minneapolis	March 26, 1991
Synovus Financial Corporation, Columbus, Georgia	Citizens Federal Savings and Loan Association of Rome, Rome, Georgia	Atlanta	March 22, 1991

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APPLICATIONS APPROVED UNDER BANK MERGER ACT

Applicant(s)	Bank(s)	Reserve Bank	Effective Date
Chemical Bank Bay Area, Bay City, Michigan	First Federal Savings Bank and Trust, Pontiac, Michigan	Chicago	April 23, 1991
Comerica Bank - Detroit, Detroit, Michigan	Comerica Bank, N.A., Jackson, Michigan	Chicago	March 21, 1991
Tioga State Bank, Spencer, New York	Norstar Bank N.A., Buffalo, New York	New York	April 5, 1991
Union Bank/Streator, Streator, Illinois	Ottawa National Bank, Ottawa, Illinois	Chicago	March 22, 1991

PENDING CASES INVOLVING THE BOARD OF GOVERNORS

This list of pending cases does not include suits against the Federal Reserve Banks in which the Board of Governors is not named a party.

Fields v. Board of Governors, No. 3:91CV069 (N.D. Ohio, filed February 5, 1991). Appeal of denial of request for information under the Freedom of Information Act.

State of Illinois v. Board of Governors, No. 90–3824 (7th Circuit, appeal filed December 19, 1990). Appeal of injunction restraining the Board from providing state examination materials in response to a Congressional subpoena. On November 30, 1990, the U.S. District Court for the Northern District of Illinois issued a preliminary injunction preventing the Board and the Chicago Reserve Bank from providing documents relating to the state examination in response to the subpoena. The House Committee on Banking, Finance and Urban Affairs has appealed the injunction. Argument in the case is scheduled for May 10, 1991.

Citicorp v. Board of Governors, No. 90–4124 (2d Circuit, filed October 4, 1990). Petition for review of Board order requiring Citicorp to terminate certain insurance activities conducted pursuant to Delaware law by an indirect nonbank subsidiary. The Delaware Bankers Association and the State of Delaware have intervened on behalf of petitioners, and insurance trade associations have intervened on behalf of the Board in the action. Awaiting decision.

Stanley v. Board of Governors, No. 90–3183 (7th Circuit, filed October 3, 1990). Petition for review of Board order imposing civil money penalties on five former bank holding company directors. Oral argument is scheduled for May 16, 1991.

Sibille v. Federal Reserve Bank of New York and Board of Governors, No. 90-CIV-5898 (S.D. New York, filed September 12, 1990). Appeal of denial of Freedom of Information Act request.

Kuhns v. Board of Governors, No. 90–1398 (D.C. Cir., filed July 30, 1990). Petition for review of Board order denying request for attorney's fees pursuant to Equal Access to Justice Act. The petition for review was denied on April 12, 1991.

May v. Board of Governors, No. 90–1316 (D.C. Cir., filed July 27, 1990). Appeal of District Court order dismissing plaintiff's action under Freedom of Information and Privacy Acts. Board's motion for summary affirmance filed October 12, 1990.

Burke v. Board of Governors, No. 90–9509 (10th Circuit, filed February 27, 1990). Petition for review of Board orders assessing civil money penalties and issuing orders of prohibition. Oral argument is scheduled for May 7.

Kaimowitz v. Board of Governors, No. 90–3067 (11th Cir., filed January 23, 1990). Petition for review of Board order dated December 22, 1989, approving application by First Union Corporation to acquire Florida National Banks. Petitioner objects to approval on Community Reinvestment Act grounds.

Babcock and Brown Holdings, Inc. v. Board of Governors, No. 89–70518 (9th Cir., filed November 22, 1989). Petition for review of Board determination that a company would control a proposed insured bank for purposes of the Bank Holding Company Act. Oral argument was held on April 9, and on April 17 the Court of Appeals dismissed the case as moot.

Consumers Union of U.S., Inc. v. Board of Governors, No. 90–5186 (D.C. Cir., filed June 29, 1990). Appeal of District Court decision upholding amend-

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ments to Regulation Z implementing the Home Equity Loan Consumer Protection Act. Awaiting decision.

Synovus Financial Corp. v. Board of Governors, No. 89–1394 (D.C. Cir., filed June 21, 1989). Petition for review of Board order permitting relocation of a bank holding company's national bank subsidiary from Alabama to Georgia. Oral argument was held on October 11, 1990. On December 10, the Justice Department filed a brief on behalf of the Board and the Office of the Comptroller of the Currency in response to a request from the court regarding an issue in the case.

MCorp v. Board of Governors, No. 89–2816 (5th Cir., filed May 2, 1989). Appeal of preliminary injunction against the Board enjoining pending and future enforcement actions against a bank holding company now in bankruptcy. On May 15, 1990, the Fifth Circuit vacated the district court's order enjoining the Board from proceeding with enforcement actions based on section 23A of the Federal Reserve Act, but upheld the district court's order enjoining such actions based on the Board's source-of-strength doctrine. 900 F.2d 852 (5th Cir. 1990). On March 4, 1991, the Supreme Court granted the parties' cross-petitions for *certiorari,* Nos. 90–913, 90–914. The Board's brief was filed on April 18, 1991.

MCorp v. Board of Governors, No. CA3–88–2693 (N.D. Tex., filed October 10, 1988). Application for injunction to set aside temporary cease and desist orders. Stayed pending outcome of *MCorp v. Board of Governors,* 900 F.2d 852 (5th Cir. 1990).

White v. Board of Governors, No. CU-S-88–623-RDF (D. Nev., filed July 29, 1988). Age discrimination complaint. Board's motion to dismiss or for summary judgment was denied on January 3, 1991. Awaiting trial date.

Written Agreements Approved by Federal Reserve Banks

Bank Bumiputra Malaysia Berhad
Kuala Lumpur, Malaysia

The Federal Reserve Board announced on April 30, 1991, the execution of a written statement among the Federal Reserve Banks of New York and San Francisco, and the Bank Bumiputra Malaysia, Berhad, Kuala Lumpur, Malaysia, and its New York Branch and Los Angeles Agency.

Community Bankers, Inc.
Granbury, Texas

The Federal Reserve Board announced on April 4, 1991, the execution of a Written Agreement between the Federal Reserve Bank of Dallas, Community Bankers, Inc., Granbury, Texas, and Mr. Charles Baker, Chairman of the board of directors of the bank holding company.

First City Bancorporation of Texas, Inc.
Houston, Texas

The Federal Reserve Board announced on April 19, 1991, the execution of a Written Agreement between the Federal Reserve Bank of Dallas and First City Bancorporation of Texas, Inc., Houston, Texas.

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Financial and Business Statistics

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1.10 RESERVES, MONEY STOCK, LIQUID ASSETS, AND DEBT MEASURES

Annual rates of change, seasonally adjusted in percent[1]

Monetary and credit aggregates	1990			1991	1990		1991		
	Q2	Q3	Q4	Q1	Nov.	Dec.	Jan.	Feb.r	Mar.
Reserves of depository institutions[2]									
1 Total	.2r	−.5r	3.9r	9.2	7.6r	21.4r	8.8r	3.5	−1.2
2 Required	.9r	−.5r	1.7r	4.7	5.1r	3.6r	−3.6r	12.8	14.8
3 Nonborrowed	.7r	3.8r	7.8r	9.1	12.2r	19.1r	3.8r	10.5	−.9
4 Monetary base[3]	7.9r	9.1r	9.9r	14.5	6.5r	9.0r	21.5r	16.8	5.9
Concepts of money, liquid assets, and debt[4]									
5 M1	4.2	3.7	3.4	5.8	3.1	3.1	1.9	14.1	9.0
6 M2	3.9	3.0	2.1r	3.6	.1r	1.8r	1.1r	8.7	7.6
7 M3	1.3	1.6	1.0r	4.3	.1r	1.1r	3.7r	10.9	2.9
8 L	.9	2.0r	1.5r	n.a.	.5r	.4r	4.9r	9.2	n.a.
9 Debt	7.0	7.1	6.0	5.3	6.1	5.1	4.6	6.3	n.a.
Nontransaction components									
10 In M2[5]	3.8	2.7	1.7r	2.8	−1.0r	1.5r	.9r	6.9	7.0
11 In M3 only[6]	−9.1	−3.8r	−3.5r	7.2	.5r	−2.0r	14.8r	20.3	−16.9
Time and savings deposits									
Commercial banks									
12 Savings	4.1	5.9	5.2	10.3	3.6	7.3	12.0	11.3	15.3
13 MMDAs	9.6	8.2	3.5	6.0	2.2	3.2	−2.2r	17.2	17.5
14 Small-denomination time[7]	12.7	15.5	11.5	9.0	2.9r	17.5	7.2	8.0	4.8
15 Large-denomination time[8,9]	−2.9	−2.2	−8.5	11.7	1.9	−4.0r	23.9	21.6	−3.9
Thrift institutions									
16 Savings	2.2	−3.3	−7.3	−.4	−5.6	−8.5	−4.5	9.1	14.7
17 MMDAs	.4	−7.7	−7.2	−1.2	−5.5	−16.7	−1.9	8.5	16.8
18 Small-denomination time[7]	−7.4	−11.0r	−8.6r	−10.2	−2.1r	−13.0r	−9.8r	−10.5	−14.4
19 Large-denomination time[8]	−28.7	−27.3	−26.3	−32.2	−29.9	−39.3	−30.7	−30.5	−35.5
Money market mutual funds									
20 General purpose and broker-dealer	4.7	10.0	11.2	19.5	4.6	16.4	29.7	14.1	18.0
21 Institution-only	14.8	21.6	30.4	49.9	9.0	51.8	42.0	84.9	23.3
Debt components[4]									
22 Federal	9.7	14.4	11.4	12.3	15.5	13.1	10.9	14.4	n.a.
23 Nonfederal	6.2	4.9	4.3	3.1	3.2	2.5	2.6	3.6	n.a.

1. Unless otherwise noted, rates of change are calculated from average amounts outstanding in preceding month or quarter.

2. Figures incorporate adjustments for discontinuities associated with regulatory changes in reserve requirements. (See also table 1.20.)

3. Seasonally adjusted, break-adjusted monetary base consists of (1) seasonally adjusted, break-adjusted total reserves (line 1), plus (2) the seasonally adjusted currency component of the money stock, plus (3) (for all quarterly reporters on the "Report of Transaction Accounts, Other Deposits and Vault Cash" and for all those weekly reporters whose vault cash exceeds their required reserves) the seasonally adjusted, break adjusted difference between current vault cash and the amount applied to satisfy current reserve requirements.

4. Composition of the money stock measures and debt is as follows:

M1: (1) currency outside the Treasury, Federal Reserve Banks, and the vaults of depository institutions; (2) travelers checks of nonbank issuers; (3) demand deposits at all commercial banks other than those due to depository institutions, the U.S. government, and foreign banks and official institutions, less cash items in the process of collection and Federal Reserve float; and (4) other checkable deposits (OCD), consisting of negotiable order of withdrawal (NOW) and automatic transfer service (ATS) accounts at depository institutions, credit union share draft accounts, and demand deposits at thrift institutions.

M2: M1 plus overnight (and continuing contract) repurchase agreements (RPs) issued by all depository institutions and overnight Eurodollars issued to U.S. residents by foreign branches of U.S. banks worldwide, money market deposit accounts (MMDAs), savings and small-denomination time deposits (time deposits—including retail RPs—in amounts of less than $100,000), and balances in both taxable and tax-exempt general purpose and broker-dealer money market mutual funds. Excludes individual retirement accounts (IRA) and Keogh balances at depository institutions and money market funds. Also excludes all balances held by U.S. commercial banks, money market funds (general purpose and broker-dealer), foreign governments and commercial banks, and the U.S. government.

M3: M2 plus large-denomination time deposits and term RP liabilities (in amounts of $100,000 or more) issued by all depository institutions, term Eurodollars held by U.S. residents at foreign branches of U.S. banks worldwide and at all banking offices in the United Kingdom and Canada, and balances in both taxable and tax-exempt, institution-only money market mutual funds. Excludes amounts held by depository institutions, the U.S. government, money market funds, and foreign banks and official institutions. Also subtracted is the estimated amount of overnight RPs and Eurodollars held by institution-only money market mutual funds.

L: M3 plus the nonbank public holdings of U.S. savings bonds, short-term Treasury securities, commercial paper and bankers acceptances, net of money market mutual fund holdings of these assets.

Debt: Debt of domestic nonfinancial sectors consists of outstanding credit market debt of the U.S. government, state and local governments, and private nonfinancial sectors. Private debt consists of corporate bonds, mortgages, consumer credit (including bank loans), other bank loans, commercial paper, bankers acceptances, and other debt instruments. Data are derived from the Federal Reserve Board's flow of funds accounts. Data on debt of domestic nonfinancial sectors are monthly averages, derived by averaging adjacent month-end levels. Growth rates for debt reflect adjustments for discontinuities over time in the levels of debt presented in other tables.

5. Sum of overnight RPs and Eurodollars, money market fund balances (general purpose and broker-dealer), MMDAs, and savings and small time deposits.

6. Sum of large time deposits, term RPs, term Eurodollars of U.S. residents, and money market fund balances (institution-only), less a consolidation adjustment that represents the estimated amount of overnight RPs and Eurodollars held by institution-only money market mutual funds.

7. Small-denomination time deposits—including retail RPs—are those issued in amounts of less than $100,000. All IRA and Keogh accounts at commercial banks and thrifts are subtracted from small time deposits.

8. Large-denomination time deposits are those issued in amounts of $100,000 or more, excluding those booked at international banking facilities.

9. Large-denomination time deposits at commercial banks less those held by money market mutual funds, depository institutions, and foreign banks and official institutions.

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1.11 RESERVES OF DEPOSITORY INSTITUTIONS AND RESERVE BANK CREDIT

Millions of dollars

Factors	Monthly averages of daily figures			Weekly averages of daily figures for week ending						
	1991			1991						
	Jan.	Feb.	Mar.	Feb. 13	Feb. 20	Feb. 27	Mar. 6	Mar. 13	Mar. 20	Mar. 27
SUPPLYING RESERVE FUNDS										
1 **Reserve Bank credit**	**284,701**	**286,467**	**285,011**	**285,706**	**286,980**	**287,851**	**286,908**	**285,061**	**285,153**	**283,699**
U.S. government securities[1, 2]										
2 Bought outright-system account	234,665	235,257	238,299	236,243	235,574	235,783	238,066	238,476	237,476	237,285
3 Held under repurchase agreements	2,165	3,542	1,019	898	4,341	5,603	2,886	1,319	2,039	380
Federal agency obligations[2]										
4 Bought outright	6,342	6,342	6,342	6,342	6,342	6,342	6,342	6,342	6,342	6,342
5 Held under repurchase agreements	223	331	87	73	303	675	345	36	109	77
6 Acceptances	0	0	0	0	0	0	0	0	0	0
Loans to depository institutions[2]										
7 Adjustment credit	52	145	143	30	203	265	405	65	109	34
8 Seasonal credit	32	36	53	27	46	43	38	45	56	68
9 Extended credit	29	34	51	20	33	60	40	38	56	72
10 Float	1,077	874	557	1,170	927	161	610	322	286	242
11 Other Federal Reserve assets	39,661	39,907	38,459	40,904	39,212	38,920	38,176	38,418	38,680	39,200
12 Gold stock	11,058	11,058	11,058	11,058	11,058	11,058	11,058	11,058	11,058	11,058
13 Special drawing rights certificate account	10,018	10,018	10,018	10,018	10,018	10,018	10,018	10,018	10,018	10,018
14 Treasury currency outstanding	20,429	20,471	20,546	20,464	20,474	20,484	20,519	20,533	20,548	20,562
ABSORBING RESERVE FUNDS										
15 Currency in circulation	284,549	284,133	286,408	283,967	284,780	284,535	285,550	286,944	286,745	286,047
16 Treasury cash holdings	572	576	616	558	590	569	607	609	619	622
Deposits, other than reserve balances, with Federal Reserve Banks										
17 Treasury	8,701	11,221	6,406	11,187	9,728	13,345	9,192	5,869	4,801	6,131
18 Foreign	252	223	247	215	221	235	232	247	250	266
19 Service-related balances and adjustments	3,097	2,777	2,849	2,674	2,805	2,849	2,854	2,890	2,859	2,812
20 Other	188	195	220	184	210	188	215	212	256	206
21 Other Federal Reserve liabilities and capital	8,467	9,246	8,087	9,612	8,936	9,017	8,047	8,242	8,501	8,549
22 Reserve balances with Federal Reserve Banks[3]	20,379	19,643	21,800	18,851	21,261	18,672	21,804	21,657	22,746	20,705
	End-of-month figures			Wednesday figures						
	1991			1991						
	Jan.	Feb.	Mar.	Feb. 13	Feb. 20	Feb. 27	Mar. 6	Mar. 13	Mar. 20	Mar. 27
SUPPLYING RESERVE FUNDS										
23 **Reserve Bank credit**	**299,857**	**298,834**	**286,706**	**285,495**	**290,125**	**286,231**	**291,517**	**283,623**	**294,060**	**287,378**
U.S. government securities[1, 2]										
24 Bought outright-system account	234,306	236,636	240,965	234,881	235,204	236,235	237,100	237,572	237,816	241,238
25 Held under repurchase agreements	14,888	14,768	0	2,578	6,118	3,580	5,437	0	9,857	0
Federal agency obligations[2]										
26 Bought outright	6,342	6,342	6,342	6,342	6,342	6,342	6,342	6,342	6,342	6,342
27 Held under repurchase agreements	2,186	1,266	0	196	181	575	1,151	0	592	0
28 Acceptances	0	0	0	0	0	0	0	0	0	0
Loans to depository institutions[2]										
29 Adjustment credit	89	402	135	51	591	29	2,343	22	183	44
30 Seasonal credit	39	47	62	33	45	40	36	53	66	66
31 Extended credit	52	57	48	18	63	56	27	46	65	63
32 Float	531	1,073	2,582	713	2,276	216	574	977	−181	299
33 Other Federal Reserve assets	41,425	38,245	36,573	40,684	39,305	39,159	38,508	38,611	39,321	39,327
34 Gold stock	11,058	11,058	11,058	11,058	11,058	11,058	11,058	11,058	11,058	11,058
35 Special drawing rights certificate account	10,018	10,018	10,018	10,018	10,018	10,018	10,018	10,018	10,018	10,018
36 Treasury currency outstanding	20,454	20,494	20,577	20,464	20,474	20,484	20,519	20,533	20,548	20,562
ABSORBING RESERVE FUNDS										
37 Currency in circulation	283,004	285,151	286,685	284,411	285,234	284,691	286,499	287,254	286,514	286,286
38 Treasury cash holdings	590	605	623	589	597	605	608	618	621	623
Deposits, other than reserve balances, with Federal Reserve Banks										
39 Treasury	27,810	23,898	10,922	11,012	15,782	13,300	6,247	4,827	5,243	6,156
40 Foreign	271	329	228	210	235	301	251	228	197	299
41 Service-related balances and adjustments	2,766	2,854	2,827	2,674	2,805	2,849	2,855	2,890	2,859	2,812
42 Other	183	171	188	177	188	184	222	197	195	207
43 Other Federal Reserve liabilities and capital	9,820	8,216	5,670	8,719	8,819	8,746	7,982	8,331	8,506	8,392
44 Reserve balances with Federal Reserve Banks[3]	16,944	19,181	21,214	19,243	18,016	17,114	28,449	20,888	31,548	24,240

1. *Includes* securities loaned—fully guaranteed by U.S. government securities pledged with Federal Reserve Banks—and *excludes* any securities sold and scheduled to be bought back under matched sale-purchase transactions.

2. Beginning with the May 1990 *Bulletin*, this table has been revised to correspond with the H.4.1 statistical release.

3. Excludes required clearing balances and adjustments to compensate for float.

NOTE. For amounts of currency and coin held as reserves, see table 1.12. Components may not add to totals because of rounding.

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1.12 RESERVES AND BORROWINGS Depository Institutions[1]

Millions of dollars

Reserve classification	Monthly averages[9]									
	1988	1989	1990	1990				1991		
	Dec.	Dec.	Dec.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
1 Reserve balances with Reserve Banks[2]	37,837	35,436	30,237	33,303	32,127	33,382	30,237	22,023	19,827r	21,731
2 Total vault cash[3]	28,204	29,822	31,777	30,625	31,515	31,086	31,777	33,220	33,477	30,896
3 Applied vault cash[4]	25,909	27,374	28,884	28,149	28,925	28,663	28,884	28,969	28,724	26,852
4 Surplus vault cash[5]	2,295	2,448	2,893	2,476	2,590	2,423	2,893	4,250	4,753	4,044
5 Total reserves[6]	63,746	62,810	59,120	61,452	61,052	62,045	59,120	50,992	48,551r	48,583
6 Required reserves	62,699	61,888	57,456	60,544	60,206	61,099	57,456	48,824	46,743r	47,411
7 Excess reserve balances at Reserve Banks[7]	1,047	922	1,665	909	847	947	1,665	2,168	1,809r	1,172
8 Total borrowings at Reserve Banks	1,716	265	326	624	410	230	326	534	252	241
9 Seasonal borrowings at Reserve Banks	130	84	76	418	335	162	76	33	37	55
10 Extended credit at Reserve Banks[8]	1,244	20	23	6	18	24	23	27	34	53
	Biweekly averages of daily figures for weeks ending									
	1990			1991						
	Nov. 28	Dec. 12	Dec. 26	Jan. 9	Jan. 23	Feb. 6	Feb. 20	Mar. 6	Mar. 20	Apr. 3
11 Reserve balances with Reserve Banks[2]	32,848	34,046	28,413	26,198	21,193	18,776	20,049	20,228r	22,209	21,941
12 Total vault cash[3]	31,631	30,293	32,690	32,783	32,050	35,759	33,341	32,005	30,286	31,067
13 Applied vault cash[4]	29,125	28,027	29,621	28,876	28,222	30,384	28,638	27,629	26,413	26,986
14 Surplus vault cash[5]	2,506	2,266	3,069	3,908	3,828	5,375	4,703	4,376	3,873	4,081
15 Total reserves[6]	61,972	62,073	58,034	55,074	49,415	49,160	48,687	47,857r	48,622	48,927
16 Required reserves	61,006	61,513	56,113	51,481	48,478	46,439	46,934	46,637r	47,616	47,573
17 Excess reserve balances at Reserve Banks[7]	966	561	1,922	3,592	937	2,721	1,753	1,221r	1,007	1,355
18 Total borrowings at Reserve Banks	193	130	504	295	884	191	179	426	185	212
19 Seasonal borrowings at Reserve Banks	140	87	79	41	28	35	37	41	51	68
20 Extended credit at Reserve Banks[8]	25	25	22	22	28	30	27	50	47	62

1. These data also appear in the Board's H.3 (502) release. For address, see inside front cover.
2. Excludes required clearing balances and adjustments to compensate for float and includes other off-balance sheet "as-of" adjustments.
3. Total "lagged" vault cash held by those depository institutions currently subject to reserve requirements. Dates refer to the maintenance periods in which the vault cash can be used to satisfy reserve requirements. Under contemporaneous reserve requirements, maintenance periods end 30 days after the lagged computation periods in which the balances are held.
4. All vault cash held during the lagged computation period by "bound" institutions (i.e., those whose required reserves exceed their vault cash) plus the amount of vault cash applied during the maintenance period by "nonbound" institutions (i.e., those whose vault cash exceeds their required reserves) to satisfy current reserve requirements.
5. Total vault cash (line 2) less applied vault cash (line 3).
6. Reserve balances with Federal Reserve Banks (line 1) plus applied vault cash (line 3).
7. Total reserves (line 5) less required reserves (line 6).
8. Extended credit consists of borrowing at the discount window under the terms and conditions established for the extended credit program to help depository institutions deal with sustained liquidity pressures. Because there is not the same need to repay such borrowing promptly as there is with traditional short-term adjustment credit, the money market impact of extended credit is similar to that of nonborrowed reserves.
9. Data are prorated monthly averages of biweekly averages.

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1.13 SELECTED BORROWINGS IN IMMEDIATELY AVAILABLE FUNDS Large Banks[1]

Averages of daily figures, in millions of dollars

Maturity and source	1990, week ending Monday[2]							1991, week ending Monday[2]	
	Nov. 19	Nov. 26	Dec. 3	Dec. 10	Dec. 17	Dec. 24	Dec. 31	Jan. 7	Jan. 14
Federal funds purchased, repurchase agreements, and other selected borrowing in immediately available funds									
From commercial banks in the United States									
1 For one day or under continuing contract	87,080	82,126	83,431	88,675	83,932	80,069	74,416	82,002	78,600
2 For all other maturities	19,428	21,122	19,755	20,403	19,750	19,919	19,020	16,548	16,797
From other depository institutions, foreign banks and foreign official institutions, and U.S. government agencies									
3 For one day or under continuing contract	37,728	34,159	36,220	35,472	34,350	29,847	28,065	29,672	30,986
4 For all other maturities	21,121	23,295	20,933	21,495	20,976	20,512	21,031	20,037	20,563
Repurchase agreements on U.S. government and federal agency securities in immediately available funds									
Brokers and nonbank dealers in securities									
5 For one day or under continuing contract	13,700	11,585	12,015	9,971	9,542	8,888	8,891	8,718	9,219
6 For all other maturities	21,972	21,976	21,258	20,222	18,797	16,567	17,577	18,874	19,605
All other customers									
7 For one day or under continuing contract	31,667	27,725	30,998	29,936	29,794	26,219	27,060	27,549	26,103
8 For all other maturities	13,665	17,193	13,248	12,912	12,064	13,609	13,626	11,629	11,636
MEMO: Federal funds loans and resale agreements in immediately available funds in maturities of one day or under continuing contract									
9 To commercial banks in the United States	50,258	46,826	47,141	46,871	44,446	43,353	43,753	49,537	41,777
10 To all other specified customers[3]	17,843	16,466	17,078	17,362	20,409	18,312	15,935	17,779	18,698

1. Banks with assets of $1 billion or more as of Dec. 31, 1977.
These data also appear in the Board's H.5 (507) release. For address, see inside front cover.

2. Beginning with the August Bulletin data appearing are the most current available. To obtain data from May 1, 1989, through April 16, 1990, contact the Division of Applications Development and Statistical Services, Financial Statement Reports Section, (202) 452-3349.

3. Brokers and nonbank dealers in securities; other depository institutions; foreign banks and official institutions; and United States government agencies.

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1.14 FEDERAL RESERVE BANK INTEREST RATES

Percent per year

Current and previous levels

Federal Reserve Bank	Adjustment credit and Seasonal credit[1]			Extended credit[2]						
				First 30 days of borrowing			After 30 days of borrowing[3]			
	On 4/29/91	Effective date	Previous rate	On 4/29/91	Effective date	Previous rate	On 4/29/91	Effective date	Previous rate	Effective date
Boston	6	2/1/91	6½	6	2/1/91	6½	6.50	4/18/91	6.65	4/4/91
New York	↑	2/1/91	↑	↑	2/1/91	↑	↑	4/18/91	↑	4/4/91
Philadelphia	↑	2/1/91	↑	↑	2/1/91	↑	↑	4/18/91	↑	4/4/91
Cleveland	↑	2/1/91	↑	↑	2/1/91	↑	↑	4/18/91	↑	4/4/91
Richmond	↑	2/1/91	↑	↑	2/1/91	↑	↑	4/18/91	↑	4/4/91
Atlanta	↑	2/4/91	↑	↑	2/4/91	↑	↑	4/18/91	↑	4/4/91
Chicago	↑	2/1/91	↑	↑	2/1/91	↑	↑	4/18/91	↑	4/4/91
St. Louis	↑	2/4/91	↑	↑	2/4/91	↑	↑	4/18/91	↑	4/4/91
Minneapolis	↑	2/1/91	↑	↑	2/1/91	↑	↑	4/18/91	↑	4/4/91
Kansas City	↑	2/1/91	↑	↑	2/1/91	↑	↑	4/18/91	↑	4/4/91
Dallas	↑	2/1/91	↑	↑	2/1/91	↑	↑	4/18/91	↑	4/4/91
San Francisco	6	2/1/91	6½	6	2/1/91	6½	6.50	4/18/91	6.65	4/4/91

Range of rates for adjustment credit in recent years[4]

Effective date	Range (or level)—All F.R. Banks	F.R. Bank of N.Y.	Effective date	Range (or level)—All F.R. Banks	F.R. Bank of N.Y.	Effective date	Range (or level)—All F.R. Banks	F.R. Bank of N.Y.
In effect Dec. 31, 1977	6	6	1981—May 5	13–14	14	1985—May 20	7½–8	7½
1978—Jan. 9	6–6½	6½	8	14	14	24	7½	7½
20	6½	6½	Nov. 2	13–14	13			
May 11	6½–7	7	6	13	13	1986—Mar. 7	7–7½	7
12	7	7	Dec. 4	12	12	10	7	7
July 3	7–7¼	7¼				Apr. 21	6½–7	6½
10	7¼	7¼	1982—July 20	11½–12	11½	July 11	6	6
Aug. 21	7¾	7¾	23	11½	11½	Aug. 21	5½–6	5½
Sept. 22	8	8	Aug. 2	11–11½	11	22	5½	5½
Oct. 16	8–8½	8½	3	11	11			
20	8½	8½	16	10½	10½	1987—Sept. 4	5½–6	6
Nov. 1	8½–9½	9½	27	10–10½	10	11	6	6
3	9½	9½	30	10	10			
			Oct. 12	9½–10	9½	1988—Aug. 9	6–6½	6½
1979—July 20	10	10	13	9½	9½	11	6½	6½
Aug. 17	10–10½	10½	Nov. 22	9–9½	9			
20	10½	10½	26	9	9	1989—Feb. 24	6½–7	7
Sept. 19	10½–11	11	Dec. 14	8½–9	9	27	7	7
21	11	11	15	8½–9	8½			
Oct. 8	11–12	12	17	8½	8½	1990—Dec. 19	6½	6½
10	12	12						
			1984—Apr. 9	8½–9	9	1991—Feb. 1	6–6½	6
1980—Feb. 15	12–13	13	13	9	9	4	6	6
19	13	13	Nov. 21	8½–9	8½			
May 29	12–13	13	26	8½	8½	In effect Apr. 29, 1991	6	6
30	12	12	Dec. 24	8	8			
June 13	11–12	11						
16	11	11						
July 28	10–11	10						
29	10	10						
Sept. 26	11	11						
Nov. 17	12	12						
Dec. 5	12–13	13						

1. Adjustment credit is available on a short-term basis to help depository institutions meet temporary needs for funds that cannot be met through reasonable alternative sources. After May 19, 1986, the highest rate established for loans to depository institutions may be charged on adjustment credit loans of unusual size that result from a major operating problem at the borrower's facility.

Seasonal credit is available to help smaller depository institutions meet regular, seasonal needs for funds that cannot be met through special industry lenders and that arise from a combination of expected patterns of movement in their deposits and loans. A temporary simplified seasonal program was established on Mar. 8, 1985, and the interest rate was a fixed rate ½ percent above the rate on adjustment credit. The program was reestablished for 1986 and 1987 but was not renewed for 1988.

2. Extended credit is available to depository institutions, when similar assistance is not reasonably available from other sources, when exceptional circumstances or practices involve only a particular institution or when an institution is experiencing difficulties adjusting to changing market conditions over a longer period of time.

3. For extended-credit loans outstanding more than 30 days, a flexible rate somewhat above rates on market sources of funds ordinarily will be charged, but in no case will the rate charged be less than the basic discount rate plus 50 basis points. The flexible rate is reestablished on the first business day of each two-week reserve maintenance period. At the discretion of the Federal Reserve Bank, the time period for which the basic discount rate is applied may be shortened.

4. For earlier data, see the following publications of the Board of Governors: *Banking and Monetary Statistics, 1914–1941*, and *1941–1970*; *Annual Statistical Digest, 1970–1979*.

In 1980 and 1981, the Federal Reserve applied a surcharge to short-term adjustment credit borrowings by institutions with deposits of $500 million or more that had borrowed in successive weeks or in more than four weeks in a calendar quarter. A 3 percent surcharge was in effect from Mar. 17, 1980 through May 7, 1980. There was no surcharge until Nov. 17, 1980, when a 2 percent surcharge was adopted; the surcharge was subsequently raised to 3 percent on Dec. 5, 1980, and to 4 percent on May 5, 1981. The surcharge was reduced to 3 percent effective Sept. 22, 1981, and to 2 percent effective Oct. 12, 1981. As of Oct. 1, 1981 the formula for applying the surcharge was changed from a calendar quarter to a moving 13-week period. The surcharge was eliminated on Nov. 17, 1981.

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1.15 RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS[1]

Percent of deposits

Type of deposit, and deposit interval[2]	Depository institution requirements after implementation of the Monetary Control Act	
	Percent of deposits	Effective date
Net transaction accounts[3, 4]		
$0 million–$41.1 million	3	12/18/90
More than $41.1 million	12	12/18/90
Nonpersonal time deposits[5, 6]	0	12/27/90
Eurocurrency liabilities[7]	0	12/27/90

1. Required reserves must be held in the form of deposits with Federal Reserve Banks or vault cash. Nonmember institutions may maintain reserve balances with a Federal Reserve Bank indirectly on a pass-through basis with certain approved institutions. For previous reserve requirements, see earlier editions of the *Annual Report* or the *Federal Reserve Bulletin*. Under provisions of the Monetary Control Act, depository institutions include commercial banks, mutual savings banks, savings and loan associations, credit unions, agencies and branches of foreign banks, and Edge corporations.

2. The Garn–St Germain Depository Institutions Act of 1982 (Public Law 97–320) requires that $2 million of reservable liabilities of each depository institution be subject to a zero percent reserve requirement. The Board is to adjust the amount of reservable liabilities subject to this zero percent reserve requirement each year for the succeeding calendar year by 80 percent of the percentage increase in the total reservable liabilities of all depository institutions, measured on an annual basis as of June 30. No corresponding adjustment is to be made in the event of a decrease. On Dec. 20, 1988, the exemption was raised from $3.2 million to $3.4 million. In determining the reserve requirements of depository institutions, the exemption shall apply in the following order: (1) net NOW accounts (NOW accounts less allowable deductions); and (2) net other transaction accounts. The exemption applies only to accounts that would be subject to a 3 percent reserve requirement.

3. Transaction accounts include all deposits on which the account holder is permitted to make withdrawals by negotiable or transferable instruments, payment orders of withdrawal, and telephone and preauthorized transfers in excess of three per month for the purpose of making payments to third persons or others. However, MMDAs and similar accounts subject to the rules that permit no more than six preauthorized, automatic, or other transfers per month, of which no more than three can be checks, are not transaction accounts (such accounts are savings deposits).

4. The Monetary Control Act of 1980 requires that the amount of transaction accounts against which the 3 percent reserve requirement applies be modified annually by 80 percent of the percentage change in transaction accounts held by all depository institutions, determined as of June 30 each year. Effective Dec. 18, 1990 for institutions reporting quarterly and Dec. 25, 1990 for institutions reporting weekly, the amount was increased from $40.4 million to $41.1 million.

5. The reserve requirements on nonpersonal time deposits with an original maturity of less than 1-1/2 years were reduced from 3 percent to 1-1/2 percent on the maintenance period that began December 13, 1990, and to zero for the maintenance period that began December 27, 1990, for institutions that report weekly. The reserve requirement on nonpersonal time deposits with an original maturity of 1-1/2 years or more has been zero since October 6, 1983.

6. For institutions that report quarterly, the reserves on nonpersonal time deposits with an original maturity of less than 1-1/2 years were reduced from 3 percent to zero on January 17, 1991.

7. The reserve requirements on Euroccurrency liabilities were reduced from 3 percent to zero in the same manner and on the same dates as were the reserves on nonpersonal time deposits with an original maturity of less than 1-1/2 years (see notes 5 and 6).

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1.17 FEDERAL RESERVE OPEN MARKET TRANSACTIONS[1]

Millions of dollars

Type of transaction	1988	1989	1990	1990					1991	
				Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
U.S. TREASURY SECURITIES										
Outright transactions (*excluding matched transactions*)										
Treasury bills										
1 Gross purchases	8,223	14,284	24,739	4,264	631	933	6,658	0	0	1,967
2 Gross sales	587	12,818	7,291	68	0	0	0	2,350	120	0
3 Exchange	241,876	231,211	241,086[r]	26,512[r]	19,041	19,271	25,981	16,939	19,747	21,381
4 Redemptions	2,200	12,730	4,400	0	0	0	0	3,000	1,000	0
Others within 1 year										
5 Gross purchases	2,176	327	425[r]	0	0	0	325	0	0	100
6 Gross sales	0	0	0	0	0	0	0	0	0	0
7 Maturity shift	23,854	28,848	25,638	3,235	1,010	1,934	3,531	1,991	989	2,292
8 Exchange	−24,588	−25,783	−27,424	−4,550	0	0	−4,315	0	0	0
9 Redemptions	0	500	0	0	0	0	0	0	0	0
1 to 5 years										
10 Gross purchases	5,485	1,436	250[r]	0	0	0	0	0	0	0
11 Gross sales	800	490	200	0	0	0	0	200	0	0
12 Maturity shift	−17,720	−25,534	−21,770	−2,188	−1,010	−1,677	−3,258	−1,991	−778	−1,909
13 Exchange	22,515	23,250	25,410	4,200	0	0	3,915	0	0	0
5 to 10 years										
14 Gross purchases	1,579	287	0	0	0	0	0	0	0	350
15 Gross sales	175	29	100	0	0	0	0	100	0	0
16 Maturity shift	−5,946	−2,231	−2,186	−697	0	−256	127	0	−212	−184
17 Exchange	1,797	1,934	789	0	0	0	0	0	0	0
Over 10 years										
18 Gross purchases	1,398	284	0	0	0	0	0	0	0	0
19 Gross sales	0	0	0	0	0	0	0	0	0	0
20 Maturity shift	−188	−1,086	−1,681	−350	0	0	−400	0	0	−200
21 Exchange	275	600	1,226	350	0	0	400	0	0	0
All maturities										
22 Gross purchases	18,863	16,617	25,414	4,264	631	933	6,983	0	0	2,417
23 Gross sales	1,562	13,337	7,591	68	0	0	0	2,650	120	0
24 Redemptions	2,200	13,230	4,400	0	0	0	0	3,000	1,000	0
Matched transactions										
25 Gross sales	1,168,484	1,323,480	1,369,052	113,647	120,036	127,265	116,601	125,844	130,751	127,589
26 Gross purchases	1,168,142	1,326,542	1,363,434	110,635	120,280	129,722	114,488	123,442	126,141	127,502
Repurchase agreements[2]										
27 Gross purchases	152,613	129,518	219,632	26,700	31,996	19,844	36,457	45,684	36,337	44,688
28 Gross sales	151,497	132,688	202,551	23,764	34,932	19,844	34,105	31,022	38,462	44,809
29 Net change in U.S. government securities	15,872	−10,055	24,886	4,121	−2,060	3,390	7,222	6,608	−7,855	2,209
FEDERAL AGENCY OBLIGATIONS										
Outright transactions										
30 Gross purchases	0	0	0	0	0	0	0	0	0	0
31 Gross sales	0	0	0	0	0	0	0	0	0	0
32 Redemptions	587	442	183	37	0	34	0	1	0	0
Repurchase agreements[2]										
33 Gross purchases	57,259	38,835	41,836	7,130	7,394	5,913	2,774	2,091	4,416	3,546
34 Gross sales	56,471	40,411	40,461	5,944	8,580	5,913	2,504	1,021	3,571	4,466
35 Net change in federal agency obligations	198	−2,018	1,192	1,149	−1,186	−34	270	1,070	845	−920
36 **Total net change in System Open Market Account**	**16,070**	**−12,073**	**26,078**	**5,270**	**−3,247**	**3,356**	**7,492**	**7,678**	**−7,010**	**1,290**

1. Sales, redemptions, and negative figures reduce holdings of the System Open Market Account; all other figures increase such holdings. Details may not add to totals because of rounding.

2. In July 1984 the Open Market Trading Desk discontinued accepting bankers acceptances in repurchase agreements.

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1.18 FEDERAL RESERVE BANKS Condition and Federal Reserve Note Statements[1]

Millions of dollars

Account	Wednesday					End of month		
	1991					1991		
	Feb. 27	Mar. 6	Mar. 13	Mar. 20	Mar. 27	Jan. 31	Feb. 28	Mar. 29
	Consolidated condition statement							
ASSETS								
1 Gold certificate account	11,058	11,058	11,058	11,058	11,058	11,058	11,058	11,058
2 Special drawing rights certificate account	10,018	10,018	10,018	10,018	10,018	10,018	10,018	10,018
3 Coin	611	662	663	663	658	535	611	659
Loans								
4 To depository institutions	136	2,406	122	314	172	190	180	244
5 Other	0	0	0	0	0	0	0	0
6 Acceptances held under repurchase agreements	0	0	0	0	0	0	0	0
Federal agency obligations	0	0	0	0	0	0	0	0
7 Bought outright	6,342	6,342	6,342	6,342	6,342	6,342	6,342	6,342
8 Held under repurchase agreements	866	1,151	0	592	0	1,341	2,186	0
U.S. Treasury securities								
Bought outright								
9 Bills	111,664	113,530	113,102	112,447	114,668	112,520	111,736	114,245
10 Notes	91,407	92,307	93,207	94,107	95,307	91,407	91,407	95,457
11 Bonds	31,163	31,263	31,263	31,263	31,263	31,163	31,163	31,263
12 Total bought outright[2]	234,234	237,100	237,572	237,816	241,238	235,090	234,306	240,965
13 Held under repurchase agreements	2,359	5,437	0	9,857	0	17,013	14,888	0
14 Total U.S. Treasury securities	236,592	242,537	237,572	247,673	241,238	252,103	249,194	240,965
15 Total loans and securities	**243,936**	**252,435**	**244,035**	**254,921**	**247,752**	**259,975**	**257,901**	**247,551**
16 Items in process of collection	6,650	6,074	5,674	5,075	4,719	6,106	5,160	9,381
17 Bank premises	875	884	890	896	896	872	875	896
Other assets								
18 Denominated in foreign currencies[2]	32,838	32,614	32,731	32,890	33,006	32,633	33,879	30,096
19 All other[3]	6,308	5,072	5,111	5,643	5,674	6,376	6,704	5,647
20 Total assets	**312,294**	**318,817**	**310,180**	**321,163**	**313,781**	**327,573**	**326,206**	**315,305**
LIABILITIES								
21 Federal Reserve notes	263,537	267,251	268,002	267,250	267,005	267,657	263,751	267,391
Deposits								
22 To depository institutions	17,926	31,243	23,831	34,913	27,205	38,658	19,902	24,067
23 U.S. Treasury—General account	16,884	6,247	4,827	5,243	6,156	8,960	27,810	10,922
24 Foreign—Official accounts	225	251	228	197	299	369	271	228
25 Other	197	222	197	195	207	242	183	188
26 Total deposits	**35,232**	**37,963**	**29,083**	**40,548**	**33,867**	**48,228**	**48,165**	**35,405**
27 Deferred credit items	5,019	5,622	4,764	4,858	4,516	3,540	4,470	6,839
28 Other liabilities and accrued dividends[4]	3,195	3,063	3,027	3,177	3,000	3,301	3,588	2,552
29 Total liabilities	**306,982**	**313,898**	**304,876**	**315,833**	**308,388**	**322,727**	**319,974**	**312,187**
CAPITAL ACCOUNTS								
30 Capital paid in	2,450	2,480	2,485	2,486	2,501	2,423	2,450	2,501
31 Surplus	2,423	2,311	2,349	2,378	2,423	2,423	2,423	751
32 Other capital accounts	438	127	469	465	468	0	1,359	−133
33 Total liabilities and capital accounts	**312,294**	**318,817**	**310,180**	**321,163**	**313,781**	**327,573**	**326,206**	**315,305**
34 MEMO: Marketable U.S. Treasury securities held in custody for foreign and international accounts	252,496	251,501	247,823	248,299	241,444	247,521	255,092	245,789
	Federal Reserve note statement							
35 Federal Reserve notes outstanding issued to bank	306,722	309,831	310,328	310,631	311,119	304,829	306,681	311,042
36 LESS: Held by bank	43,185	42,580	42,326	43,381	44,114	37,172	42,930	43,651
37 Federal Reserve notes, net	263,537	267,251	268,002	267,005	267,605	267,657	263,751	267,391
Collateral held against notes net:								
38 Gold certificate account	11,058	11,058	11,058	11,058	11,058	11,058	11,058	11,058
39 Special drawing rights certificate account	10,018	10,018	10,018	10,018	10,018	10,018	10,018	10,018
40 Other eligible assets	0	0	3,013	0	0	0	0	0
41 U.S. Treasury and agency securities	242,460	246,175	243,913	246,174	245,928	246,581	242,675	246,315
42 Total collateral	**263,537**	**267,251**	**268,002**	**267,250**	**267,005**	**267,657**	**263,751**	**267,391**

1. Some of these data also appear in the Board's H.4.1 (503) release. For address, see inside front cover. Components may not add to totals because of rounding.

2. Includes securities loaned—fully guaranteed by U.S. Treasury securities pledged with Federal Reserve Banks—and excludes securities sold and scheduled to be bought back under matched sale-purchase transactions.

3. Valued monthly at market exchange rates.

4. Includes special investment account at the Federal Reserve Bank of Chicago in Treasury bills maturing within 90 days.

5. Includes exchange-translation account reflecting the monthly revaluation at market exchange rates of foreign-exchange commitments.

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1.19 FEDERAL RESERVE BANKS Maturity Distribution of Loan and Security Holding

Millions of dollars

Type and maturity groupings	Wednesday					End of month		
	1991					1991		
	Feb. 20	Feb. 27	Mar. 6	Mar. 13	Mar. 20	Jan. 30	Feb. 27	Mar. 29
1 Loans—Total	700	125	2,406	122	314	136	125	173
2 Within 15 days	700	125	2,382	87	308	136	125	166
3 16 days to 90 days	0	4	24	35	6	0	4	6
4 91 days to 1 year	0	0	0	0	0	0	0	0
5 Acceptances—Total	0	0	0	0	0	0	0	0
6 Within 15 days	0	0	0	0	0	0	0	0
7 16 days to 90 days	0	0	0	0	0	0	0	0
8 91 days to 1 year	0	0	0	0	0	0	0	0
9 U.S. Treasury securities—Total	241,322	236,238	237,105	237,572	247,673	237,000	236,238	240,965
10 Within 15 days[1]	14,173	9,319	8,245	10,298	20,562	12,567	9,319	6,881
11 16 days to 90 days	58,638	57,895	59,857	60,270	56,699	54,302	57,895	62,204
12 91 days to 1 year	71,002	71,166	70,406	67,607	70,516	73,169	71,166	71,133
13 Over 1 year to 5 years	59,549	59,549	60,237	61,037	61,537	58,510	59,549	62,387
14 Over 5 years to 10 years	13,284	13,634	13,684	13,684	13,684	13,306	13,634	13,684
15 Over 10 years	24,676	24,676	24,676	24,675	24,676	24,736	24,676	24,676
16 Federal agency obligations—Total	6,523	6,342	6,343	6,342	6,934	7,208	6,342	6,342
17 Within 15 days[1]	569	304	1	75	862	1,035	304	275
18 16 days to 90 days	575	657	913	884	689	864	657	653
19 91 days to 1 year	1,563	1,608	1,654	1,729	1,729	1,548	1,608	1,808
20 Over 1 year to 5 years	2,590	2,548	2,548	2,428	2,428	2,550	2,548	2,393
21 Over 5 years to 10 years	1,037	1,037	1,037	1,037	1,037	1,022	1,037	1,024
22 Over 10 years	187	188	188	188	188	188	187	188

1. Holdings under repurchase agreements are classified as maturing within 15 days in accordance with maximum maturity of the agreements.

NOTE: Components may not sum to totals because of rounding.

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1.20 AGGREGATE RESERVES OF DEPOSITORY INSTITUTIONS AND MONETARY BASE[1]

Billions of dollars, averages of daily figures

Item	1987 Dec.r	1988 Dec.r	1989 Dec.r	1990 Dec.r	1990r Aug.	Sept.	Oct.	Nov.	Dec.	1991r Jan.	Feb.	Mar.
ADJUSTED FOR CHANGES IN RESERVE REQUIREMENTS[2]	Seasonally adjusted											
1 **Total reserves**[3]	**45.81**	**47.60**	**47.73**	**49.10**	**47.97**	**48.26**	**47.94**	**48.24**	**49.10**	**49.47**	**49.61**	**49.56**
2 Nonborrowed reserves[4]	45.03	45.88	47.46	48.78	47.05	47.64	47.53	48.01	48.78	48.93	49.36	49.32
3 Nonborrowed reserves plus extended credit[5]	45.52	47.12	47.48	48.80	47.17	47.64	47.55	48.04	48.80	48.96	49.39	49.37
4 Required reserves	44.77	46.55	46.81	47.44	47.11	47.35	47.10	47.30	47.44	47.30	47.80	48.39
5 Monetary base[6]	246.28	263.46	274.17	299.79	290.46	293.80	295.94	297.55	299.79	305.15	309.44	310.97
ADJUSTED FOR CHANGES IN RESERVE REQUIREMENTS[2]	Not seasonally adjusted											
6 **Total reserves**[7]	**47.04**	**49.00**	**49.18**	**50.58**	**47.63**	**48.11**	**47.55**	**48.42**	**50.58**	**50.76**	**48.55**	**48.58**
7 Nonborrowed reserves	46.26	47.29	48.91	50.25	46.70	47.48	47.14	48.19	50.25	50.22	48.30	48.34
8 Nonborrowed reserves plus extended credit[8]	46.75	48.53	48.93	50.28	46.83	47.49	47.16	48.21	50.28	50.25	48.33	48.39
9 Required reserves[8]	46.00	47.96	48.26	48.91	46.76	47.20	46.71	47.47	48.91	48.59	46.74	47.41
10 Monetary base[9]	249.93	267.46	278.30	304.04	290.98	293.07	294.43	298.44	304.04	306.03	305.74	308.17
NOT ADJUSTED FOR CHANGES IN RESERVE REQUIREMENTS[10]												
11 **Total reserves**[11]	**62.14**	**63.75**	**62.81**	**59.12**	**60.73**	**61.45**	**61.05**	**62.05**	**59.12**	**50.99**	**48.55**	**48.58**
12 Nonborrowed reserves	61.36	62.03	62.54	58.79	59.80	60.83	60.64	61.82	58.79	50.46	48.30	48.34
13 Nonborrowed reserves plus extended credit[5]	61.85	63.27	62.56	58.82	59.93	60.83	60.66	61.84	58.82	50.48	48.33	48.39
14 Required reserves	61.09	62.70	61.89	57.46	59.86	60.54	60.21	61.10	57.46	48.82	46.74	47.41
15 Monetary base[12]	266.06	283.00	292.55	313.70	304.99	307.21	308.85	312.69	313.70	309.30	308.53	311.03
16 Excess reserves[13]	1.05	1.05	.92	1.66	.87	.91	.85	.95	1.66	2.17	1.81	1.17
17 Borrowings from the Federal Reserve	.78	1.72	.27	.33	.93	.62	.41	.23	.33	.53	.25	.24

1. Latest monthly and biweekly figures are available from the Board's H.3(502) statistical release. Historical data and estimates of the impact on required reserves of changes in reserve requirements are available from the Monetary and Reserves Projections Section, Division of Monetary Affairs, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

2. Figures reflect adjustments for discontinuities or "breaks" associated with regulatory changes in reserve requirements.

3. Seasonally adjusted, break adjusted total reserves equal seasonally adjusted, break-adjusted required reserves (line 4) plus excess reserves (line 16).

4. Seasonally adjusted, break-adjusted nonborrowed reserves equal seasonally adjusted, break-adjusted total reserves (line 1) less total borrowings of depository institutions from the Federal Reserve (line 17).

5. Extended credit consists of borrowing at the discount window under the terms and conditions established for the extended credit program to help depository institutions deal with sustained liquidity pressures. Because there is not the same need to repay such borrowing promptly as there is with traditional short-term adjustment credit, the money market impact of extended credit is similar to that of nonborrowed reserves.

6. The seasonally adjusted, break-adjusted monetary base consists of (1) seasonally adjusted, break-adjusted total reserves (line 1), plus (2) the seasonally adjusted currency component of the money stock, plus (3) (for all quarterly reporters on the "Report of Transaction Accounts, Other Deposits and Vault Cash" and for all those weekly reporters whose vault cash exceeds their required reserves, the seasonally adjusted, break-adjusted difference between current vault cash and the amount applied to satisfy current reserve requirements.

7. Break-adjusted total reserves equal break-adjusted required reserves (line 9) plus excess reserves (line 16).

8. To adjust required reserves for discontinuities because of regulatory changes in reserve requirements, a multiplicative procedure is used to estimate what required reserves would have been in past periods had current reserve requirements been in effect. Break-adjusted required reserves are equal to break-adjusted required reserves held against transactions deposits.

9. The break-adjusted monetary base equals (1) break-adjusted total reserves (line 6), plus (2) the (unadjusted) currency component of the money stock, plus (3) (for all quarterly reporters on the "Report of Transaction Accounts, Other Deposits and Vault Cash" and for all those weekly reporters whose vault cash exceeds their required reserves) the break-adjusted difference between current vault cash and the amount applied to satisfy current reserve requirements.

10. Reflects actual reserve requirements, including those on nondeposit liabilities, with no adjustments to eliminate the effects of discontinuities associated with changes in reserve requirements.

11. Reserve balances with Federal Reserve Banks plus vault cash used to satisfy reserve requirements.

12. The monetary base, not break-adjusted and not seasonally adjusted, consists of (1) total reserves (line 11), plus (2) required clearing balances and adjustments to compensate for float at Federal Reserve Banks, plus (3) the currency component of the money stock, plus (4) (for all quarterly reporters on the "Report of Transaction Accounts, Other Deposits and Vault Cash" and for all those weekly reporters whose vault cash exceeds their required reserves) the difference between current vault cash and the amount applied to satisfy current reserve requirements. After the introduction of CRR, currency and vault cash figures are measured over the computation periods ending on Mondays.

13. Unadjusted total reserves (line 11) less unadjusted required reserves (line 14).

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1.21 MONEY STOCK, LIQUID ASSETS, AND DEBT MEASURES[1]

Billions of dollars, averages of daily figures

Item[2]	1987 Dec.	1988 Dec.	1989 Dec.	1990 Dec.	1990 Dec.	1991 Jan.r	1991 Feb.	1991 Mar.
	Seasonally adjusted							
1 M1	749.7	786.4	793.6	825.4	825.4	826.7	836.4	842.7
2 M2	2,910.1	3,069.9	3,223.1	3,329.8r	3,329.8r	3,332.9	3,357.0r	3,378.3
3 M3	3,677.4	3,919.1	4,055.2	4,113.8r	4,113.8r	4,126.5	4,164.1r	4,174.0
4 L	4,337.0	4,676.0	4,889.9	4,959.7r	4,959.7r	4,979.9	5,018.1	n.a.
5 Debt	8,345.1	9,107.6	9,790.4	10,450.0	10,450.0	10,490.2	10,544.9	n.a.
M1 components								
6 Currency[3]	196.8	212.0	222.2	246.4	246.4	251.6	255.1	256.7
7 Travelers checks[4]	7.0	7.5	7.4	8.4	8.4	8.4	8.2	8.1
8 Demand deposits[5]	286.5	286.3	278.7	276.9	276.9	272.9	276.2	277.2
9 Other checkable deposits[6]	259.3	280.7	285.2	293.7	293.7	293.9	296.8	300.8
Nontransactions components								
10 In M2[7]	2,160.4	2,283.5	2,429.5	2,504.4r	2,504.4r	2,506.2	2,520.7r	2,535.5
11 In M3 only[8]	767.3	849.3	832.1	784.0r	784.0r	793.7	807.1r	795.7
Time and Savings accounts								
Commercial banks								
12 Savings deposits	178.3	192.1	187.7	199.4	199.4	201.4	203.3	205.9
13 Money market deposit accounts	356.4	350.2	353.0	378.4	378.4	377.7	383.1r	388.7
14 Small time deposits[9]	388.0	447.5	531.4	598.1r	598.1r	601.7	605.7	608.1
15 Large time deposits[10, 11]	326.6	368.0	401.9	386.1r	386.1r	393.8	400.9r	399.6
Thrift institutions								
16 Savings deposits	233.7	232.3	216.4	211.4	211.4	210.6	212.2	214.8
17 Money market deposit accounts	168.5	151.2	133.1	127.6	127.6	127.4	128.3	130.1
18 Small time deposits[9]	529.7	584.3	614.5	566.1r	566.1r	561.5	556.6r	549.9
19 Large time deposits[10]	162.6	174.3	161.6	121.0	121.0	117.9	114.9r	111.5
Money market mutual funds								
20 General purpose and broker-dealer	221.7	241.1	313.6	347.7	347.7	356.3	360.5	365.9
21 Institution-only	88.9	86.9	101.9	125.7	125.7	130.1	139.3	142.0
Debt components								
22 Federal debt	1,957.9	2,114.2	2,268.1	2,532.8	2,532.8	2,555.9	2,586.6	n.a.
23 Nonfederal debt	6,387.2	6,993.4	7,522.3	7,917.2	7,917.2	7,934.3	7,958.3	n.a.
	Not seasonally adjusted							
24 M1	766.2	804.2	811.9	844.3	844.3	833.2	823.4	834.7
25 M2	2,923.0	3,083.3	3,236.6	3,343.9r	3,343.9r	3,343.1	3,347.8r	3,377.5
26 M3	3,690.3	3,931.5	4,067.0	4,125.9r	4,125.9r	4,132.6	4,152.2r	4,173.3
27 L	4,352.8	4,691.8	4,907.4	4,978.0r	4,978.0r	4,995.9	5,008.7	n.a.
28 Debt	8,329.1	9,093.2	9,775.9	10,437.4	10,437.4	10,480.0	10,513.6	n.a.
M1 components								
29 Currency[3]	199.3	214.8	225.3	249.6	249.6	249.8	252.7r	255.6
30 Travelers checks[4]	6.5	6.9	6.9	7.8	7.8	7.8	7.8	7.8
31 Demand deposits[5]	298.6	298.9	291.5	289.9	289.9	277.7	268.1	270.1
32 Other checkable deposits[6]	261.8	283.5	288.2	297.0r	297.0r	297.9	294.8	301.3
Nontransactions components								
33 In M2[7]	2,156.8	2,279.1	2,424.7	2,499.6r	2,499.6r	2,509.9	2,524.4r	2,542.8
34 In M3 only[8]	767.3	848.2	830.4	782.0r	782.0r	789.5	804.4r	795.8
Time and Savings accounts								
Commercial banks								
35 Savings deposits	176.8	190.6	186.4	197.7	197.7	199.9	201.6	205.9
36 Money market deposit accounts	359.0	353.2	356.5	381.6	381.6	380.5	384.6r	390.9
37 Small time deposits[9]	387.2	446.0	529.2	596.1r	596.1r	602.1	606.3	607.7
38 Large time deposits[10, 11]	325.8	366.8	400.4	386.1	386.1	392.2	399.4r	399.1
Thrift institutions								
39 Savings deposits	231.4	229.9	214.2	209.6	209.6	209.0	210.5	214.8
40 Money market deposit accounts	168.6	151.6	133.7	128.7	128.7	128.4	128.8	130.8
41 Small time deposits[9]	529.5	583.8	613.8	564.1r	564.1r	561.9	557.2r	549.6
42 Large time deposits[10]	163.3	175.2	162.6	121.0	121.0	117.5	114.5r	111.3
Money market mutual funds								
43 General purpose and broker-dealer	221.1	240.7	313.5	347.8	347.8	356.6	364.7	372.5
44 Institution-only	89.6	87.6	102.8	127.0	127.0	134.8	144.0	143.9
Repurchase agreements and Eurodollars								
45 Overnight	83.2	83.4	77.3	73.9	73.9	71.4	70.9r	70.7
46 Term	197.1	227.7	179.8	161.4r	161.4r	160.4	160.7r	156.3
Debt components								
47 Federal debt	1,955.6	2,111.8	2,265.9	2,532.1	2,532.1	2,557.8	2,591.0	n.a.
48 Nonfederal debt	6,373.5	6,981.4	7,509.9	7,905.4	7,905.4	7,922.2	7,922.6	n.a.

For notes see following page.

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NOTES TO TABLE 1.21

1. Latest monthly and weekly figures are available from the Board's H.6 (508) release. Historical data are available from the Money and Reserves Projection Section, Division of Monetary Affairs, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

2. Composition of the money stock measures and debt is as follows:

M1: (1) currency outside the Treasury, Federal Reserve Banks, and the vaults of depository institutions; (2) travelers checks of nonbank issuers; (3) demand deposits at all commercial banks other than those due to depository institutions, the U.S. government, and foreign banks and official institutions less cash items in the process of collection and Federal Reserve float; and (4), other checkable deposits (OCD) consisting of negotiable order of withdrawal (NOW) and automatic transfer service (ATS) accounts at depository institutions, credit union share draft accounts, and demand deposits at thrift institutions.

M2: M1 plus overnight (and continuing contract) repurchase agreements (RPs) issued by all depository institutions and overnight Eurodollars issued to U.S. residents by foreign branches of U.S. banks worldwide, money market deposit accounts (MMDAs), savings and small-denomination time deposits (time deposits—including retail RPs—in amounts of less than $100,000), and balances in both taxable and tax-exempt general purpose and broker–dealer money market mutual funds. Excludes individual retirement accounts (IRA) and Keogh balances at depository institutions and money market funds. Also excludes all balances held by U.S. commercial banks, money market funds (general purpose and broker–dealer), foreign governments and commercial banks, and the U.S. government.

M3: M2 plus large-denomination time deposits and term RP liabilities (in amounts of $100,000 or more) issued by all depository institutions, term Eurodollars held by U.S. residents at foreign branches of U.S. banks worldwide and at all banking offices in the United Kingdom and Canada, and balances in both taxable and tax-exempt, institution-only money market mutual funds. Excludes amounts held by depository institutions, the U.S. government, money market funds, and foreign banks and official institutions. Also subtracted is the estimated amount of overnight RPs and Eurodollars held by institution-only money market mutual funds.

L: M3 plus the nonbank public holdings of U.S. savings bonds, short-term Treasury securities, commercial paper and bankers acceptances, net of money market mutual fund holdings of these assets.

Debt: Debt of domestic nonfinancial sectors consists of outstanding credit market debt of the U.S. government, state and local governments, and private nonfinancial sectors. Private debt consists of corporate bonds, mortgages, consumer credit (including bank loans), other bank loans, commercial paper, bankers acceptances, and other debt instruments. Data are derived from the Federal Reserve Board's flow of funds accounts. Debt data are based on monthly averages.

3. Currency outside the U.S. Treasury, Federal Reserve Banks, and vaults of depository institutions.

4. Outstanding amount of U.S. dollar-denominated travelers checks of nonbank issuers. Travelers checks issued by depository institutions are included in demand deposits.

5. Demand deposits at commercial banks and foreign-related institutions other than those due to depository institutions, the U.S. government, and foreign banks and official institutions, less cash items in the process of collection and Federal Reserve float.

6. Consists of NOW and ATS balances at all depository institutions, credit union share draft balances, and demand deposits at thrift institutions.

7. Sum of overnight RPs and overnight Eurodollars, money market fund balances (general purpose and broker-dealer), MMDAs, and savings and small time deposits.

8. Sum of large time deposits, term RPs, term Eurodollars of U.S. residents, and money market fund balances (institution-only), less a consolidation adjustment that represents the estimated amount of overnight RPs and Eurodollars held by institution-only money market funds.

9. Small-denomination time deposits—including retail RPs—are those issued in amounts of less than $100,000. All individual retirement accounts (IRA) and Keogh accounts at commercial banks and thrifts are subtracted from small time deposits.

10. Large-denomination time deposits are those issued in amounts of $100,000 or more, excluding those booked at international banking facilities.

11. Large-denomination time deposits at commercial banks less those held by money market mutual funds, depository institutions, and foreign banks and official institutions.

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1.22 BANK DEBITS AND DEPOSIT TURNOVER[1]

Debits are shown in billions of dollars, turnover as ratio of debits to deposits. Monthly data are at annual rates.

Bank group, or type of customer	1988	1989	1990	1990					1991
				Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
DEBITS TO	Seasonally adjusted								
Demand deposits[3]									
1 All insured banks	219,795.7	256,150.4	278,202.3	295,570.0	267,680.2	295,490.0	294,468.6	270,911.4	284,385.4
2 Major New York City banks	115,475.6	129,319.9	131,740.9	144,314.2	126,088.7	136,082.4	140,531.5	129,636.7	137,766.9
3 Other banks	104,320.2	126,830.5	146,461.4	151,255.8	141,591.5	159,407.6	153,937.1	141,274.7	146,618.5
4 ATS–NOW accounts[4]	2,478.1	2,910.5	3,344.7	3,549.5	3,110.7	3,449.3	3,479.2	3,310.2	3,502.1
5 Savings deposits[5]	537.0	547.5	558.2	599.8	523.6	573.7	565.8	519.9	575.3
DEPOSIT TURNOVER									
Demand deposits[3]									
6 All insured banks	622.9	735.1	801.4	851.9	764.8	865.9	857.1	789.7	844.4
7 Major New York City banks	2,897.2	3,421.5	3,802.2	4,119.5	3,717.9	4,280.5	4,320.4	3,926.2	4,202.0
8 Other banks	333.3	408.3	468.8	484.9	447.9	515.1	494.9	455.6	482.3
9 ATS–NOW accounts[4]	13.2	15.2	16.4	17.4	15.1	16.8	16.8	15.9	16.7
10 Savings deposits[5]	2.9	3.0	2.9	3.1	2.7	2.9	2.9	2.6	2.9
DEBITS TO	Not seasonally adjusted								
Demand deposits[3]									
11 All insured banks	219,790.4	256,133.2	277,719.5	302,515.9	257,936.7	298,947.2	277,536.6	279,499.3	288,167.7
12 Major New York City banks	115,460.7	129,400.1	131,784.7	147,040.1	121,343.4	142,664.0	133,220.6	133,491.9	136,578.8
13 Other banks	104,329.7	126,733.0	145,934.8	155,475.8	136,593.3	156,283.2	144,316.0	146,007.4	151,588.9
14 ATS–NOW accounts[4]	2,477.3	2,910.7	3,339.2	3,570.5	3,131.6	3,462.0	3,259.5	3,394.4	3,879.4
15 MMDA[6]	2,342.7	2,677.1	2,928.1	3,189.2	2,775.9	3,095.5	2,805.0	2,990.3	3,107.4
16 Savings deposits[5]	536.3	546.9	557.1	599.6	513.6	616.3	505.1	520.9	589.2
DEPOSIT TURNOVER									
Demand deposits[3]									
17 All insured banks	622.8	735.4	800.6	887.4	744.4	870.9	800.0	777.1	835.0
18 Major New York City banks	2,896.7	3,426.2	3,809.9	4,395.6	3,607.3	4,376.5	4,067.4	3,758.7	3,993.1
19 Other banks	333.2	408.0	467.3	505.7	436.6	503.1	459.3	450.4	487.6
20 ATS–NOW accounts[4]	13.2	15.2	16.4	17.7	15.4	17.1	15.8	16.0	18.1
21 MMDA[6]	6.6	7.9	8.0	8.6	7.5	8.3	7.4	7.9	8.2
22 Savings deposits[5]	2.9	2.9	2.9	3.1	2.6	3.1	2.6	2.7	3.0

1. Historical tables containing revised data for earlier periods may be obtained from the Monetary and Reserves Projections Section, Division of Monetary Affairs, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

These data also appear on the Board's G.6 (406) release. For address, see inside front cover.

2. Annual averages of monthly figures.

3. Represents accounts of individuals, partnerships, and corporations and of states and political subdivisions.

4. Accounts authorized for negotiable orders of withdrawal (NOW) and accounts authorized for automatic transfer to demand deposits (ATS). ATS data are available beginning December 1978.

5. Excludes ATS and NOW accounts, MMDA and special club accounts, such as Christmas and vacation clubs.

6. Money market deposit accounts.

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1.23 LOANS AND SECURITIES All Commercial Banks[1]

Billions of dollars; averages of Wednesday figures

Category	1990									1991		
	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
	Seasonally adjusted											
1 **Total loans and securities[2]**	**2,648.1**	**2,655.4**	**2,670.1**	**2,683.0**	**2,704.9**	**2,708.0**	**2,713.6**	**2,716.6**	**2,723.6**	**2,721.2**	**2,735.1**	**2,750.9**
2 U.S. government securities	426.4	430.3	438.4	442.8	445.7	450.1	453.1	454.0	454.2	454.1	458.0	471.4
3 Other securities	180.2	178.2	177.5	177.3	178.8	178.8	177.8	175.9	175.6	177.7	177.6	177.6
4 Total loans and leases[2]	2,041.5	2,046.9	2,054.2	2,062.9	2,080.4	2,079.0	2,082.7	2,086.7	2,093.8	2,089.4	2,099.5	2,102.0
5 Commercial and industrial	645.9	644.3	645.3	644.4	645.1	644.7	643.7	646.5	648.1	644.3	643.9	646.0
6 Bankers acceptances held[3]	7.6	7.6	7.8	7.6	7.4	7.5	7.3	7.4	7.5	7.7	6.8	6.7
7 Other commercial and industrial	638.3	636.7	637.4	636.7	637.7	637.1	636.4	639.1	640.5	636.6	637.1	639.4
8 U.S. addressees[4]	634.0	632.2	633.2	632.5	633.4	632.6	631.7	634.0	635.3	631.1	631.5	633.7
9 Non-U.S. addressees[4]	4.3	4.4	4.3	4.3	4.3	4.5	4.7	5.1	5.3[r]	5.5	5.5	5.6
10 Real estate	790.8	798.9	805.9	814.5	818.0	822.5	827.7	832.0	836.5	837.3	842.6	846.3
11 Individual	377.8	378.4	377.6	376.4	378.2	378.6	379.7	378.7	378.9	375.9	377.7	375.5
12 Security	36.8	35.5	35.0	38.7	44.6	41.3	40.5	39.6	40.6	43.2	43.2	38.9
13 Nonbank financial institutions	34.0	34.1	34.4	34.7	35.0	35.2	34.8	34.6	34.7	34.2	35.3	36.1
14 Agricultural	30.8	31.0	31.1	31.3	31.5	31.8	32.2	32.5	33.0	33.6	33.7	34.1
15 State and political subdivisions	38.2	37.9	37.3	36.4	35.8	35.2	35.1	34.8	34.2	33.5	33.4	33.0
16 Foreign banks	8.6	8.7	7.4	7.0	7.9	8.1	9.0	8.2	7.4	6.6	6.9	7.6
17 Foreign official institutions	3.3	3.3	3.2	3.2	3.2	3.3	3.2	3.2	3.2	3.0	3.1	3.2
18 Lease financing receivables	32.4	32.6	32.4	32.6	32.7	32.8	33.3	32.9	32.7	32.4	32.8	33.0
19 All other loans	42.8	42.3	44.5	43.6	48.2	45.5	43.6	43.6	44.6	45.4[r]	46.9	48.3
	Not seasonally adjusted											
20 **Total loans and securities[2]**	**2,647.7**	**2,654.5**	**2,670.8**	**2,677.5**	**2,700.1**	**2,707.0**	**2,715.5**	**2,720.1**	**2,730.5**	**2,721.0**	**2,737.3**	**2,748.3**
21 U.S. government securities	427.5	430.3	437.1	439.9	444.0	448.2	450.8	454.1	451.5	455.8	463.9	475.8
22 Other securities	179.5	178.0	177.5	176.4	179.1	179.0	178.0	176.6	176.3	177.9	177.3	176.9
23 Total loans and leases[2]	2,040.7	2,046.2	2,056.3	2,061.1	2,077.1	2,079.8	2,086.7	2,089.3	2,102.7	2,087.3	2,096.1	2,095.7
24 Commercial and industrial	650.6	648.3	647.7	644.6	643.5	640.9	641.2	644.5	648.0	641.1	643.0	648.3
25 Bankers acceptances held[3]	7.4	7.6	8.0	7.3	7.2	7.5	7.4	7.6	7.7	7.6	7.0	6.6
26 Other commercial and industrial	643.2	640.8	639.7	637.3	636.3	633.4	633.8	636.9	640.3	633.4	636.1	641.7
27 U.S. addressees[4]	638.6	636.3	635.5	632.9	631.8	628.8	629.1	631.9	635.1	628.2	630.6	636.2
28 Non-U.S. addressees[4]	4.6	4.5	4.3	4.4	4.5	4.6	4.7	5.0	5.2	5.3	5.5	5.4
29 Real estate	788.4	798.0	806.0	814.9	819.9	824.2	830.3	834.0	837.9	837.1	839.5	842.6
30 Individual	375.1	376.6	375.6	374.1	377.4	380.4	380.6	379.8	383.8	380.1	377.1	372.8
31 Security	38.3	34.9	37.1	38.6	43.9	40.3	39.5	38.5	40.0	41.0	44.8	40.2
32 Nonbank financial institutions	33.7	33.8	34.5	34.6	35.0	34.9	34.7	35.0	36.1	34.7	34.9	35.4
33 Agricultural	29.8	30.6	31.4	32.1	32.5	32.9	33.1	32.9	32.9	32.9	32.7	32.7
34 State and political subdivisions	38.2	37.8	37.2	36.2	35.7	35.2	35.1	34.7	34.0	34.1	33.5	33.0
35 Foreign banks	8.3	8.6	7.5	7.1	8.0	8.2	9.3	8.4	7.6	6.6	6.8	7.2
36 Foreign official institutions	3.3	3.3	3.2	3.2	3.2	3.3	3.2	3.2	3.2	3.0	3.1	3.2
37 Lease financing receivables	32.4	32.5	32.2	32.4	32.6	32.8	33.3	33.1	32.8	32.8	32.9	32.9
38 All other loans	42.5	41.6	43.9	43.3	45.4	46.8	46.3	45.3	46.5	43.7	47.7	47.5

1. Data have been revised to reflect new benchmark and seasonal adjustments.
2. Excludes loans to commercial banks in the United States.
3. Includes nonfinancial commercial paper held.
4. United States includes the 50 states and the District of Columbia.

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1.24 MAJOR NONDEPOSIT FUNDS OF COMMERCIAL BANKS[1]

Monthly averages, billions of dollars

Source	1990									1991		
	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.r	Feb.r	Mar.
Seasonally adjusted												
1 Total nondeposit funds[2]	268.9	269.0	272.3	281.1	283.8	283.0	291.8r	292.4r	287.7r	277.1	265.4	264.4
2 Net balances due to related foreign offices[3]	18.7	25.8	17.2	19.1r	19.0	21.5	29.9	30.1	34.5	33.4	24.7	30.0
3 Borrowings from other than commercial banks in United States[4]	250.3	243.2	255.1	262.0	264.8	261.5r	262.0r	262.3r	253.1r	243.7	240.7	234.4
4 Domestically chartered banks	193.7	186.6	196.8	201.6	202.2	198.8	196.9	195.1	187.2	182.5	177.6	172.2
5 Foreign-related banks	56.6	56.5	58.3	60.4	62.6	62.7	65.0r	67.2r	66.0r	61.3	63.1	62.2
Not seasonally adjusted												
6 Total nondeposit funds[2]	269.7	277.3	275.1	277.2	282.5	278.6	288.7r	293.5r	282.1r	272.5	268.4	269.7
7 Net balances due to related foreign offices[3]	16.7	28.5	17.4	16.6	18.5	21.5	29.6	30.8	37.1	33.1	24.7	29.5
8 Domestically chartered banks	−10.6	−1.3	−6.1	−5.8	−3.4	−4.2	−1.0	.6	−4.2	−15.3	−15.2	−6.1
9 Foreign-related banks	27.3	29.8	23.5	22.4	21.9	25.8r	30.6	30.2	41.3	48.4	39.9	35.5
10 Borrowings from other than commercial banks in United States[4]	253.0	248.8	257.7	260.6	264.0	257.0	259.2r	262.8r	245.0r	239.4	243.7	240.2
11 Domestically chartered banks	194.8	191.6	197.7	199.1	201.7	195.6	195.0	197.6	182.9	177.9	179.8	176.6
12 Federal funds and security RP borrowings[5]	191.0	188.3	194.6	196.2	198.1	191.6	191.7	194.8	180.1	174.7	177.1	173.4
13 Other[6]	3.7	3.4	3.2	2.9	3.6	4.0	3.2	2.9	2.8	3.2	2.8	3.2
14 Foreign-related banks[6]	58.2	57.2	60.0	61.5	62.3	61.5	64.2r	65.1r	62.1r	61.5	63.9	63.6
MEMO												
Gross large time deposits[7]												
15 Seasonally adjusted	456.2	454.4	451.5	451.9	449.2	443.6	438.0	435.2	431.8	440.9	450.4	450.7
16 Not seasonally adjusted	453.9	454.0	451.0	450.5	450.1	445.4	440.4	437.8	431.8	439.3	449.0	450.2
U.S. Treasury demand balances at commercial banks[8]												
17 Seasonally adjusted	21.3	19.2	20.6	15.0	32.7	26.0	22.3	25.2	24.4	25.7	33.4	33.8
18 Not seasonally adjusted	20.0	25.2	20.9	15.2	23.5	31.0	20.9	19.2	23.0	29.4	39.3	28.4

1. Commercial banks are those in the 50 states and the District of Columbia with national or state charters plus agencies and branches of foreign banks, New York investment companies majority owned by foreign banks, and Edge Act corporations owned by domestically chartered and foreign banks.

These data also appear in the Board's G.10 (411) release. For address, see inside front cover.

2. Includes federal funds, RPs, and other borrowing from nonbanks and net balances due to related foreign offices.

3. Reflects net positions of U.S. chartered banks, Edge Act corporations, and U.S. branches and agencies of foreign banks with related foreign offices plus net positions with own IBFs.

4. Other borrowings are borrowings through any instrument, such as a promissory note or due bill, given for the purpose of borrowing money for the banking business. This includes borrowings from Federal Reserve Banks and from foreign banks, term federal funds, loan RPs, and sales of participations in pooled loans.

5. Based on daily average data reported weekly by approximately 120 large banks and quarterly or annual data reported by other banks.

6. Figures are partly daily averages and partly averages of Wednesday data.

7. Time deposits in denominations of $100,000 or more. Estimated averages of daily data.

8. U.S. Treasury demand deposits and Treasury tax-and-loan notes at commercial banks. Averages of daily data.

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1.25 ASSETS AND LIABILITIES OF COMMERCIAL BANKING INSTITUTIONS Last-Wednesday-of-Month Series[1]

Billions of dollars

Account	1990								1991		
	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
ALL COMMERCIAL BANKING INSTITUTIONS[2]											
1 Loans and securities	2,847.1	2,871.6	2,878.8	2,896.8	2,887.1	2,931.3	2,925.1	2,936.9	2,908.7	2,924.9	2,910.9
2 Investment securities	587.2	589.8	588.3	597.2	601.7	604.9	603.3	605.6	612.8	614.0	628.3
3 U.S. government securities	417.8	422.2	421.7	429.1	434.5	438.0	437.6	439.6	447.6	449.5	463.3
4 Other	169.3	167.6	166.6	168.0	167.2	166.8	165.7	166.0	165.2	164.5	165.1
5 Trading account assets	21.4	23.7	27.7	29.3	21.4	27.4	25.0	22.0	24.1	26.9	23.5
6 Total loans	2,238.5	2,258.1	2,262.8	2,270.4	2,264.0	2,299.0	2,296.9	2,309.3	2,271.8	2,283.9	2,259.1
7 Interbank loans	192.8	202.2	204.8	200.1	191.0	207.9	207.0	204.0	193.3	185.0	171.8
8 Loans excluding interbank	2,045.7	2,055.9	2,057.9	2,070.3	2,073.0	2,091.2	2,089.8	2,105.3	2,078.6	2,099.0	2,087.3
9 Commercial and industrial	645.8	646.9	641.5	639.7	639.7	643.4	644.4	650.8	637.2	645.1	648.5
10 Real estate	801.7	807.9	816.0	820.1	825.0	831.5	833.7	838.3	836.9	840.1	842.5
11 Individual	376.6	376.8	374.8	379.4	381.2	380.8	380.5	384.7	378.6	376.4	371.5
12 All other	221.7	224.3	225.6	231.1	227.1	235.5	231.2	231.5	225.9	237.4	224.8
13 Total cash assets	237.7	219.6	210.7	207.7	213.7	220.8	216.7	217.9	199.2	204.5	206.1
14 Reserves with Federal Reserve Banks	27.6	31.8	29.8	30.0	33.6	29.7	33.0	23.4	16.5	18.1	25.0
15 Cash in vault	29.9	28.9	28.8	30.3	29.3	29.4	32.8	32.0	30.4	29.8	28.9
16 Cash items in process of collection	100.7	86.2	79.6	77.5	81.1	85.4	78.4	86.0	74.7	79.9	76.9
17 Demand balances at U.S. depository institutions	32.0	27.7	27.3	27.3	27.0	28.5	28.4	29.6	28.1	27.7	27.6
18 Other cash assets	47.5	45.0	45.2	42.5	42.8	47.8	44.2	46.8	49.6	49.0	47.7
19 Other assets	197.0	207.5	205.3	220.8	226.6	230.1	226.6	245.1	249.9	259.6	263.1
20 Total assets/total liabilities and capital	**3,281.8**	**3,298.6**	**3,294.8**	**3,325.3**	**3,327.4**	**3,382.2**	**3,368.5**	**3,399.9**	**3,357.8**	**3,388.9**	**3,380.1**
21 Deposits	2,295.3	2,282.4	2,290.9	2,296.5	2,300.1	2,332.0	2,319.9	2,363.4	2,334.6	2,365.0	2,382.5
22 Transaction deposits	618.1	598.6	590.1	589.1	595.3	612.1	598.1	637.1	587.9	594.1	602.8
23 Savings deposits	554.5	556.4	561.3	565.6	563.5	570.5	573.1	573.3	573.9	583.5	594.1
24 Time deposits	1,122.7	1,127.5	1,139.5	1,141.8	1,141.3	1,149.4	1,148.8	1,152.9	1,172.8	1,187.3	1,185.6
25 Borrowings	546.1	572.6	562.1	579.9	570.9	591.0	570.6	548.7	529.8	515.4	492.3
26 Other liabilities	223.3	223.9	220.5	226.2	233.1	236.0	255.3	264.4	268.8	282.3	278.2
27 Residual (assets less liabilities)	217.1	219.7	221.2	222.8	223.4	223.3	222.7	223.5	224.6	226.2	227.0
MEMO											
28 U.S. government securities (including trading account)	430.9	436.1	440.4	446.3	445.1	454.2	451.9	451.1	459.4	463.7	475.9
29 Other securities (including trading account)	177.6	177.4	175.6	180.2	178.0	178.1	176.4	176.5	177.5	177.2	176.0
DOMESTICALLY CHARTERED COMMERCIAL BANKS[3]											
30 Loans and securities	2,589.5	2,608.3	2,614.4	2,631.8	2,620.5	2,658.4	2,645.1	2,654.2	2,628.0	2,642.3	2,635.6
31 Investment securities	558.6	559.2	557.3	566.1	569.0	571.5	569.8	570.5	575.3	577.4	588.6
32 U.S. government securities	404.8	407.7	406.5	414.1	417.9	420.9	420.8	421.7	426.5	429.3	440.2
33 Other	153.7	151.5	150.8	152.0	151.2	150.6	149.1	148.8	148.7	148.2	148.5
34 Trading account assets	21.4	23.7	27.7	29.3	21.4	27.4	25.0	22.0	24.1	26.9	23.5
35 Total loans	2,009.5	2,025.5	2,029.4	2,036.4	2,030.0	2,059.5	2,050.3	2,061.7	2,028.6	2,038.0	2,023.5
36 Interbank loans	144.2	153.3	153.7	153.7	146.0	164.0	157.4	160.0	151.7	150.9	148.3
37 Loans excluding interbank	1,865.4	1,872.2	1,875.7	1,882.6	1,884.0	1,895.5	1,892.9	1,901.7	1,876.9	1,887.0	1,875.2
38 Commercial and industrial	521.4	520.1	517.3	514.0	513.2	515.4	513.4	512.7	504.2	508.4	506.3
39 Real estate	764.5	769.7	776.7	779.5	784.0	789.8	791.6	796.4	794.0	797.1	799.7
40 Individual	376.6	376.8	374.8	379.4	381.2	380.8	380.5	384.7	378.6	376.4	371.5
41 All other	202.9	205.5	206.9	209.8	205.7	209.5	207.4	207.9	200.2	205.1	197.7
42 Total cash assets	209.7	193.3	184.7	181.7	187.0	189.3	187.7	188.3	166.6	172.7	177.0
43 Reserves with Federal Reserve Banks	26.6	30.9	28.9	28.0	32.1	28.5	31.5	23.0	15.3	17.0	24.0
44 Cash in vault	29.9	28.9	28.8	30.3	29.2	29.4	32.8	32.0	30.3	29.8	28.8
45 Cash items in process of collection	99.3	84.2	78.1	75.9	79.0	83.6	76.4	83.9	72.9	78.2	74.9
46 Demand balances at U.S. depository institutions	30.0	25.9	25.6	25.0	25.1	26.6	26.2	27.6	26.2	25.8	25.8
47 Other cash assets	23.9	23.4	23.4	22.5	21.5	21.2	20.9	21.8	22.0	21.9	23.4
48 Other assets	136.0	141.2	139.1	145.6	152.3	153.6	155.0	167.8	166.9	171.3	167.9
49 Total assets/liabilities and capital	**2,935.2**	**2,942.9**	**2,938.2**	**2,959.1**	**2,959.7**	**3,001.3**	**2,987.8**	**3,010.3**	**2,961.4**	**2,986.3**	**2,980.4**
50 Deposits	2,213.0	2,200.0	2,209.2	2,214.9	2,220.1	2,253.8	2,243.3	2,283.5	2,236.2	2,255.2	2,266.2
51 Transaction deposits	608.3	588.5	580.2	578.8	584.4	601.5	587.7	626.1	577.4	583.8	592.2
52 Savings deposits	551.6	553.4	558.3	562.6	560.4	567.4	569.8	570.0	570.6	580.2	590.6
53 Time deposits	1,053.2	1,058.1	1,070.7	1,073.5	1,075.3	1,085.0	1,085.8	1,087.4	1,088.1	1,091.2	1,083.4
54 Borrowings	393.6	410.3	396.0	404.3	395.8	400.4	394.1	375.6	380.1	371.8	354.9
55 Other liabilities	115.1	116.5	115.3	120.7	124.1	127.5	131.5	131.4	124.2	136.8	136.0
56 Residual (assets less liabilities)	213.4	216.2	217.7	219.2	219.7	219.6	219.0	219.8	220.9	222.6	223.4
MEMO											
57 Real estate loans, revolving	54.1	55.0	56.3	57.7	58.6	60.6	61.1	61.7	62.9	63.3	63.6
58 Real estate loans, other	710.3	714.7	720.4	721.7	725.4	729.2	730.5	734.7	731.1	733.8	736.1

1. Back data are available from the Banking and Monetary Statistics section, Board of Governors of the Federal Reserve System, Washington, D.C., 20551. These data also appear in the Board's weekly H.8 (510) release.

Figures are partly estimated. They include all bank-premises subsidiaries and other significant majority-owned domestic subsidiaries. Loan and securities data for domestically chartered commercial banks are estimates for the last Wednesday of the month based on a sample of weekly reporting banks and quarter-end condition report data. Data for other banking institutions are estimates made for the last Wednesday of the month based on a weekly reporting sample of foreign-related institutions and quarter-end condition reports.

2. Commercial banking institutions include insured domestically chartered commercial banks, branches and agencies of foreign banks, Edge Act and Agreement corporations, and New York State foreign investment corporations.

3. Insured domestically chartered commercial banks include all member banks and insured nonmember banks.

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1.26 ASSETS AND LIABILITIES OF LARGE WEEKLY REPORTING COMMERCIAL BANKS

Millions of dollars, Wednesday figures

Account	1991								
	Jan. 30	Feb. 6	Feb. 13	Feb. 20	Feb. 27	Mar. 6	Mar. 13	Mar. 20	Mar. 27
ASSETS									
1 Cash and balances due from depository institutions	93,562	95,316	95,700	112,066	98,752	104,672	101,740	107,772	103,905
2 U.S. Treasury and government securities	182,590	185,682	187,462	188,595	186,851	191,647	190,367	191,601	189,496
3 Trading account	11,755	13,558	14,822	16,387	14,203	18,038	15,951	16,121	12,775
4 Investment account	170,835	172,124	172,640	172,208	172,648	173,610	174,416	175,480	176,721
5 Mortgage-backed securities[1]	81,447	81,863	81,822	82,003	82,349	82,703	82,822	83,922	84,304
6 All other maturing in									
7 One year or less	18,484	17,875	17,946	18,618	18,362	18,183	18,259	17,985	18,946
8 Over one through five years	39,568	40,782	40,895	39,645	39,739	39,980	41,030	41,093	41,022
9 Over five years	31,337	31,603	31,977	31,943	32,198	32,743	32,305	32,479	32,450
10 Other securities	60,350	60,348	60,145	60,216	60,449	60,568	60,312	59,950	60,081
11 Trading account	925	1,216	1,101	1,097	1,348	1,412	1,267	1,267	1,553
12 Investment account	59,425	59,132	59,044	59,119	59,102	59,156	59,044	58,682	58,528
13 State and political subdivisions, by maturity	29,689	29,373	29,299	29,223	29,057	28,957	28,719	28,414	28,115
14 One year or less	3,746	3,761	3,746	3,722	3,707	3,711	3,699	3,659	3,606
15 Over one year	25,943	25,611	25,553	25,501	25,350	25,246	25,019	24,754	24,509
16 Other bonds, corporate stocks, and securities	29,736	29,760	29,746	29,896	30,045	30,199	30,326	30,269	30,413
17 Other trading account assets	11,341	12,303	11,624	11,198	11,330	11,757	10,896	9,997	9,453
18 Federal funds sold[2]	75,416	87,753	74,535	80,606	73,836	80,514	75,204	69,212	70,456
19 To commercial banks in the U.S.	53,339	58,080	50,287	53,076	48,177	54,863	47,372	45,434	48,909
20 To nonbank brokers and dealers	19,062	25,385	20,742	24,511	21,767	22,081	24,176	20,626	18,030
21 To others[3]	3,016	4,288	3,507	3,018	3,892	3,570	3,656	3,153	3,517
22 Other loans and leases, gross	1,053,060	1,054,462	1,055,764	1,059,255	1,056,932	1,056,198	1,053,501	1,053,825	1,050,233
23 Commercial and industrial	318,310	320,061	319,813	320,155	320,614	321,087	318,772	320,041	319,462
24 Bankers' acceptances and commercial paper	1,473	1,607	1,579	1,674	1,523	1,552	1,522	1,571	1,661
25 All other	316,838	318,453	318,234	318,481	319,092	319,535	317,250	318,470	317,801
26 U.S. addressees	315,480	317,067	316,712	317,065	317,693	318,184	315,879	317,179	316,470
27 Non-U.S. addressees	1,358	1,386	1,522	1,416	1,398	1,351	1,371	1,291	1,331
28 Real estate loans	400,832	401,011	400,895	401,720	401,324	401,681	402,681	402,814	402,001
29 Revolving, home equity	35,381	35,398	35,480	35,593	35,589	35,582	35,645	35,718	35,752
30 All other	365,451	365,613	365,415	366,127	365,736	366,100	367,037	367,096	366,249
31 To individuals for personal expenditures	196,355	195,515	195,084	195,252	194,867	194,050	193,548	192,294	191,616
32 To depository and financial institutions	46,764	47,701	48,551	48,841	48,327	48,836	50,209	49,826	48,585
33 Commercial banks in the United States	21,164	21,654	22,707	22,693	22,852	22,419	23,701	24,193	23,085
34 Banks in foreign countries	3,242	3,333	2,969	3,423	3,010	3,280	3,360	2,871	2,817
35 Nonbank depository and other financial institutions	22,358	22,715	22,874	22,725	22,465	23,137	23,148	22,762	22,683
36 For purchasing and carrying securities	13,469	13,754	14,723	16,197	15,143	13,703	12,152	13,011	12,986
37 To finance agricultural production	5,858	5,798	5,787	5,738	5,732	5,786	5,810	5,707	5,718
38 To states and political subdivisions	21,092	20,904	20,856	20,816	20,802	20,642	20,531	20,486	20,542
39 To foreign governments and official institutions	1,170	1,152	1,205	1,233	1,316	1,248	1,781	1,230	1,391
40 All other loans[4]	21,875	21,254	21,467	21,936	21,465	21,746	20,662	21,142	20,698
41 Lease financing receivables	27,335	27,312	27,383	27,367	27,341	27,418	27,354	27,274	27,235
42 LESS: Unearned income	4,249	4,222	4,227	4,241	4,230	4,169	4,145	4,150	4,139
43 Loan and lease reserve[5]	38,899	39,271	38,054	37,997	38,009	38,400	38,330	38,258	38,076
44 Other loans and leases, net	1,009,913	1,010,969	1,013,483	1,017,017	1,014,693	1,013,628	1,011,026	1,011,416	1,008,018
45 Other assets	162,711	166,397	165,672	162,856	164,017	161,818	162,736	161,691	160,392
46 **Total assets**	**1,595,884**	**1,618,769**	**1,608,622**	**1,632,554**	**1,609,929**	**1,624,605**	**1,612,279**	**1,611,640**	**1,601,801**

Footnotes appear on the following page.

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1.26 ASSETS AND LIABILITIES OF LARGE WEEKLY REPORTING COMMERCIAL BANKS—Continued

Millions of dollars, Wednesday figures

Account	1991								
	Jan. 30	Feb. 6	Feb. 13	Feb. 20	Feb. 27	Mar. 6	Mar. 13	Mar. 20	Mar. 27
LIABILITIES									
47 Deposits	1,089,942	1,105,362	1,100,170	1,114,940	1,098,902	1,107,116	1,108,889	1,100,432	1,103,072
48 Demand deposits	213,859	218,833	217,156	228,696	216,423	217,712	219,747	213,051	218,896
49 Individuals, partnerships, and corporations	172,112	176,618	176,451	181,508	173,477	176,358	176,477	171,490	173,717
50 Other holders	41,746	42,215	40,705	47,188	42,946	41,354	43,270	41,561	45,179
51 States and political subdivisions	6,758	6,507	6,199	7,074	6,808	6,081	5,826	6,725	6,945
52 U.S. government	1,511	1,419	1,186	1,608	1,627	1,513	1,310	1,513	1,687
53 Depository institutions in the United States	18,896	19,375	18,052	22,031	17,984	19,636	17,893	19,450	19,594
54 Banks in foreign countries	4,984	5,278	4,820	5,156	4,922	4,872	5,187	4,582	5,412
55 Foreign governments and official institutions	637	701	819	699	676	489	669	818	569
56 Certified and officers' checks	8,960	8,934	9,629	10,621	10,929	8,763	12,385	8,473	10,972
57 Transaction balances other than demand deposits[4]	82,988	86,962	84,688	85,254	84,412	88,984	86,838	86,817	86,629
58 Nontransaction balances	793,096	799,567	798,325	800,989	798,067	800,421	802,304	800,564	797,547
59 Individuals, partnerships, and corporations	757,266	762,689	761,157	763,669	760,514	763,121	764,998	763,196	760,393
60 Other holders	35,829	36,878	37,168	37,320	37,553	37,300	37,305	37,369	37,154
61 States and political subdivisions	28,734	29,606	30,014	30,177	30,642	30,372	30,476	30,720	30,730
62 U.S. government	869	864	865	873	875	888	888	873	864
63 Depository institutions in the United States	5,731	5,906	5,801	5,788	5,559	5,556	5,471	5,300	5,090
64 Foreign governments, official institutions, and banks	495	502	489	481	476	485	470	476	469
65 Liabilities for borrowed money[5]	292,789	302,375	292,494	299,581	287,445	295,825	277,724	288,754	275,115
66 Borrowings from Federal Reserve Banks	0	0	0	525	0	2,313	0	62	11
67 Treasury tax and loan notes	28,194	28,228	28,012	28,754	29,207	19,407	14,761	22,127	21,551
68 Other liabilities for borrowed money[6]	264,595	274,146	264,482	270,302	258,238	274,105	262,963	266,564	253,553
69 Other liabilities (including subordinated notes and debentures)	102,459	100,089	103,960	106,279	111,891	109,950	113,131	110,391	110,622
70 **Total liabilities**	**1,485,190**	**1,507,827**	**1,496,624**	**1,520,800**	**1,498,237**	**1,512,891**	**1,499,744**	**1,499,577**	**1,488,809**
71 Residual (Total assets minus total liabilities)[7]	110,693	110,942	111,998	111,755	111,692	111,713	112,535	112,063	112,992
MEMO									
72 Total loans and leases, gross, adjusted, plus securities[8]	1,308,254	1,320,815	1,316,536	1,324,101	1,318,370	1,323,402	1,319,207	1,314,958	1,307,725
73 Time deposits in amounts of $100,000 or more	209,768	211,262	210,117	209,579	207,581	206,170	205,559	204,123	201,722
74 Loans sold outright to affiliates, total[9]	1,275	1,279	1,284	1,284	1,293	1,271	1,302	1,233	1,241
75 Commercial and industrial	737	743	746	748	753	731	760	695	692
76 Other	538	536	537	537	539	540	542	538	550
77 Foreign branch credit extended to U.S. residents[10]	24,961	24,884	25,528	26,078	26,036	25,939	26,055	26,241	25,981
78 Net due to related institutions abroad	−15,269	−18,306	−15,153	−12,188	−7,036	−5,647	−2,985	−5,194	−4,161

1. Includes certificates of participation, issued or guaranteed by agencies of the U.S. government, in pools of residential mortgages.
2. Includes securities purchased under agreements to resell.
3. Includes allocated transfer risk reserve.
4. Includes NOW, ATS, and telephone and pre-authorized transfer savings deposits.
5. Includes borrowings only from other than directly related institutions.
6. Includes federal funds purchased and securities sold under agreements to repurchase.
7. This balancing item is not intended as a measure of equity capital for use in capital adequacy analysis.
8. Excludes loans to and federal funds transactions with commercial banks in the United States.
9. Affiliates include a bank's own foreign branches, nonconsolidated nonbank affiliates of the bank, the bank's holding company (if not a bank), and nonconsolidated nonbank subsidiaries of the holding company.
10. Credit extended by foreign branches of domestically chartered weekly reporting banks to nonbank U.S. residents. Consists mainly of commercial and industrial loans, but includes an unknown amount of credit extended to other than nonfinancial businesses.

NOTE. Data that formerly appeared on table 1.28 Asset and Liabilities of Large Weekly Reporting Commercial Banks in New York City may be obtained from the Board's H.4.2 (504) statistical release. For address see inside front cover.

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1.30 LARGE WEEKLY REPORTING U.S. BRANCHES AND AGENCIES OF FOREIGN BANKS Assets and Liabilities

Millions of dollars, Wednesday figures

Account	1991								
	Jan. 30	Feb. 6	Feb. 13	Feb. 20	Feb. 27	Mar. 6	Mar. 13	Mar. 20	Mar. 27
1 Cash and balances due from depository institutions	18,317	19,138	17,842	17,228	17,867	17,610	17,114	16,043	15,587
2 U.S. Treasury and government agency securities	13,669	13,634	13,250	13,082	13,082	14,426	14,600	16,126	14,940
3 Other securities	7,624	7,595	7,698	7,592	7,576	7,567	7,657	7,639	7,688
4 Federal funds sold[1]	7,729	8,577	8,832	10,572	9,696	8,841	8,686	10,589	5,153
5 To commercial banks in the United States	4,739	3,686	3,726	5,584	3,953	3,888	2,682	4,630	1,654
6 To others[2]	2,989	4,890	5,107	4,988	5,743	4,953	6,004	5,959	3,499
7 Other loans and leases, gross	137,190	136,325	136,638	135,724	136,822	137,187	138,358	138,624	137,272
8 Commercial and industrial	79,832	80,395	80,948	81,959	82,084	83,447	83,869	84,278	85,192
9 Bankers acceptances and commercial paper	2,238	2,588	2,446	2,273	2,111	2,168	2,143	1,981	2,019
10 All other	77,594	77,807	78,502	79,686	79,973	81,279	81,726	82,297	83,172
11 U.S. addressees	75,657	75,890	76,562	77,688	77,990	79,292	79,754	80,375	81,106
12 Non-U.S. addressees	1,937	1,918	1,940	1,998	1,983	1,987	1,972	1,922	2,066
13 Loans secured by real estate	27,477	27,495	27,529	27,637	27,845	28,331	28,551	28,479	28,360
14 To financial institutions	24,662	23,600	23,171	21,642	21,773	20,806	21,115	20,761	18,974
15 Commercial banks in the United States	17,806	16,410	15,848	14,403	14,177	13,068	13,198	12,995	11,715
16 Banks in foreign countries	1,193	1,403	1,442	1,590	1,514	1,658	1,704	1,785	1,686
17 Nonbank financial institutions	5,663	5,787	5,882	5,649	6,082	6,080	6,212	5,981	5,573
18 For purchasing and carrying securities	1,611	1,250	1,577	1,176	1,645	1,263	1,615	1,700	1,425
19 To foreign governments and official institutions	222	250	213	204	290	212	211	192	259
20 All other	3,386	3,335	3,200	3,105	3,185	3,127	2,998	3,215	3,063
21 Other assets (claims on nonrelated parties)	33,838	33,102	33,043	31,053	31,291	30,577	30,626	30,090	29,444
22 **Total assets**[3]	**237,106**	**240,479**	**241,123**	**239,100**	**240,767**	**241,846**	**243,417**	**242,544**	**238,662**
23 Deposits or credit balances due to other than directly related institutions	63,517	65,766	69,203	70,332	73,281	72,822	75,688	76,238	77,874
24 Demand deposits[4]	4,030	3,993	4,007	4,046	4,019	3,845	3,997	4,466	4,532
25 Individuals, partnerships, and corporations	2,637	2,610	2,452	2,521	2,462	2,525	2,598	2,796	2,767
26 Other	1,394	1,384	1,555	1,525	1,558	1,320	1,398	1,670	1,765
27 Nontransaction accounts	59,486	61,773	65,196	66,286	69,262	68,976	71,691	71,772	73,343
28 Individuals, partnerships, and corporations	44,308	46,284	48,887	50,292	52,488	51,856	53,804	54,050	54,297
29 Other	15,178	15,489	16,308	15,994	16,774	17,121	17,887	17,722	19,046
30 Borrowings from other than directly related institutions	93,491	98,136	95,226	92,744	90,136	94,049	94,790	90,377	85,213
31 Federal funds purchased[5]	36,788	42,198	40,342	42,011	36,641	40,023	40,208	36,746	33,435
32 From commercial banks in the United States	16,696	18,401	15,155	17,954	14,974	16,645	17,971	13,720	15,272
33 From others	20,092	23,798	25,187	24,057	21,667	23,377	22,237	23,026	18,162
34 Other liabilities for borrowed money	56,703	55,937	54,884	50,733	53,495	54,026	54,582	53,631	51,779
35 To commercial banks in the United States	26,716	24,124	24,146	21,451	21,818	21,100	21,787	21,628	19,906
36 To others	29,987	31,814	30,739	29,282	31,678	32,926	32,795	32,003	31,873
37 Other liabilities to nonrelated parties	33,396	32,526	32,497	30,372	30,084	29,432	29,696	29,407	28,854
38 **Total liabilities**[6]	**237,106**	**240,479**	**241,123**	**239,100**	**240,767**	**241,846**	**243,417**	**242,544**	**238,662**
MEMO									
39 Total loans (gross) and securities adjusted[7]	143,666	146,034	146,845	146,983	149,046	151,066	153,421	155,354	151,684
40 Net due to related institutions abroad	27,963	21,943	20,378	21,802	22,832	19,906	16,867	23,091	18,142

1. Includes securities purchased under agreements to resell.
2. Includes transactions with nonbank brokers and dealers in securities.
3. Includes net due from related institutions abroad for U.S. branches and agencies of foreign banks having a net due from position.
4. Includes other transaction deposits.
5. Includes securities sold under agreements to repurchase.
6. Includes net due to related institutions abroad for U.S. branches and agencies of foreign banks having a net due to position.
7. Excludes loans to and federal funds transactions with commercial banks in the U.S.

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1.32 COMMERCIAL PAPER AND BANKERS DOLLAR ACCEPTANCES OUTSTANDING

Millions of dollars, end of period

Instrument	1986 Dec.	1987 Dec.	1988 Dec.	1989 Dec.	1990 Dec.	1990 Sept.	1990 Oct.	1990 Nov.	1990 Dec.	1991 Jan.	1991 Feb.
	Commercial paper (seasonally adjusted unless noted otherwise)										
1 **All issuers**	**331,316**	**358,997**	**458,464**	**530,123**	**566,688**	**562,508**	**561,148**	**564,482**	**566,688**	**569,378**	**566,067**
Financial companies[1]											
Dealer-placed paper[2]											
2 Total	101,707	102,742	159,777	186,343	218,953	205,093	205,673	211,986	218,953	216,148	217,812
3 Bank-related (not seasonally adjusted)[3]	2,265	1,428	1,248	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Directly placed paper[4]											
4 Total	151,897	174,332	194,931	212,640	201,862	206,079	205,420	204,191	201,862	202,997	197,990
5 Bank-related (not seasonally adjusted)[3]	40,860	43,173	43,155	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
6 Nonfinancial companies[5]	77,712	81,923	103,756	131,140	145,873	151,336	150,055	148,305	145,873	150,233	145,795
	Bankers dollar acceptances (not seasonally adjusted)[6]										
7 **Total**	**64,974**	**70,565**	**66,631**	**62,972**	**54,771**	**50,469**	**52,093**	**53,968**	**54,771**	**56,498**	**52,831**
Holder											
8 Accepting banks	13,423	10,943	9,086	9,433	9,017	9,366	9,189	8,751	9,017	10,029	10,240
9 Own bills	11,707	9,464	8,022	8,510	7,930	7,944	7,868	7,535	7,930	8,539	8,391
10 Bills bought	1,716	1,479	1,064	924	1,087	1,421	1,321	1,217	1,087	1,490	1,849
Federal Reserve Banks											
11 Own account	0	0	0	0	0	0	0	0	0	0	0
12 Foreign correspondents	1,317	965	1,493	1,066	918	1,333	1,145	880	918	927	892
13 Others	50,234	58,658	56,052	52,473	44,836	39,770	41,760	44,337	44,836	45,542	41,699
Basis											
14 Imports into United States	14,670	16,483	14,984	15,651	13,096	12,723	12,408	12,758	13,096	14,284	13,799
15 Exports from United States	12,960	15,227	14,410	13,683	12,703	11,889	13,238	13,865	12,703	12,870	12,082
16 All other	37,344	38,855	37,237	33,638	26,481	25,856	26,447	27,345	26,481	n.a.	n.a.

1. Institutions engaged primarily in activities such as, but not limited to, commercial savings, and mortgage banking; sales, personal, and mortgage financing; factoring, finance leasing, and other business lending; insurance underwriting; and other investment activities.
2. Includes all financial company paper sold by dealers in the open market.
3. Beginning January 1989, bank-related series have been discontinued.
4. As reported by financial companies that place their paper directly with investors.
5. Includes public utilities and firms engaged primarily in such activities as communications, construction, manufacturing, mining, wholesale and retail trade, transportation, and services.
6. Beginning January 1988, the number of respondents in the bankers acceptance survey were reduced from 155 to 111 institutions—those with $100 million or more in total acceptances. The panel is revised every January and currently has about 100 respondents. The current reporting group accounts for over 90 percent of total acceptances activity.

1.33 PRIME RATE CHARGED BY BANKS on Short-Term Business Loans

Percent per year

Date of change	Rate	Period	Average rate	Period	Average rate	Period	Average rate
1988— Feb. 2	8.50	1988	9.32	1989— Jan.	10.50	1990— Jan.	10.11
May 11	9.00	1989	10.87	Feb.	10.93	Feb.	10.00
July 14	9.50	1990	10.01	Mar.	11.50	Mar.	10.00
Aug. 11	10.00			Apr.	11.50	Apr.	10.00
Nov. 28	10.50	1988— Jan.	8.75	May	11.50	May	10.00
		Feb.	8.51	June	11.07	June	10.00
1989— Feb. 10	11.00	Mar.	8.50	July	10.98	July	10.00
24	11.50	Apr.	8.50	Aug.	10.50	Aug.	10.00
June 5	11.00	May	8.84	Sept.	10.50	Sept.	10.00
July 31	10.50	June	9.00	Oct.	10.50	Oct.	10.00
		July	9.29	Nov.	10.50	Nov.	10.00
1990— Jan. 8	10.00	Aug.	9.84	Dec.	10.50	Dec.	10.00
		Sept.	10.00				
1991— Jan. 2	9.50	Oct.	10.00			1991— Jan.	9.52
Feb. 4	9.00	Nov.	10.05			Feb.	9.05
		Dec.	10.50			Mar.	9.00
						Apr.	9.00

NOTE. These data also appear in the Board's H.15 (519) and G.13 (415) releases. For address, see inside front cover.

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1.35 INTEREST RATES Money and Capital Markets

Averages, percent per year; weekly, monthly and annual figures are averages of business day data unless otherwise noted.

	Instrument	1988	1989	1990	1990	1991			1991, week ending				
					Dec.	Jan.	Feb.	Mar.	Mar. 1	Mar. 8	Mar. 15	Mar. 22	Mar. 29
	MONEY MARKET RATES												
1	Federal funds[1,2,3]	7.57	9.21	8.10	7.31	6.91	6.25	6.12	6.31	6.47	6.17	6.10	6.10
2	Discount window borrowing[2,11]	6.20	6.93	6.98	6.79	6.50	6.00	6.00	6.00	6.00	6.00	6.00	6.00
	Commercial paper[3,4,5]												
3	1-month	7.58	9.11	8.15	8.28	7.12	6.53	6.48	6.71	6.75	6.38	6.35	6.36
4	3-month	7.66	8.99	8.06	7.80	7.10	6.49	6.41	6.63	6.63	6.33	6.31	6.29
5	6-month	7.68	8.80	7.95	7.49	7.02	6.41	6.36	6.51	6.54	6.28	6.28	6.27
	Finance paper, directly placed[3,4,6]												
6	1-month	7.44	8.99	8.00	7.62	6.95	6.31	6.31	6.35	6.61	6.18	6.20	6.17
7	3-month	7.38	8.72	7.87	7.32	6.92	6.38	6.28	6.52	6.52	6.16	6.19	6.16
8	6-month	7.14	8.16	7.53	6.95	6.59	6.14	6.20	6.33	6.36	6.11	6.13	6.14
	Bankers acceptances[3,4,7]												
9	3-month	7.56	8.87	7.93	7.60	6.96	6.36	6.24	6.52	6.42	6.14	6.19	6.14
10	6-month	7.60	8.67	7.80	7.25	6.84	6.22	6.21	6.43	6.36	6.11	6.18	6.13
	Certificates of deposit, secondary market[3,8]												
11	1-month	7.59	9.11	8.15	8.27	7.10	6.45	6.47	6.65	6.76	6.35	6.36	6.30
12	3-month	7.73	9.09	8.15	7.82	7.17	6.52	6.45	6.71	6.70	6.35	6.35	6.31
13	6-month	7.91	9.08	8.17	7.64	7.17	6.51	6.50	6.70	6.69	6.38	6.45	6.39
14	Eurodollar deposits, 3-month[3,9]	7.85	9.16	8.16	7.87	7.23	6.60	6.44	6.73	6.78	6.50	6.29	6.35
	U.S. Treasury bills												
	Secondary market[3,4]												
15	3-month	6.67	8.11	7.50	6.74	6.22	5.94	5.91	6.04	6.05	5.83	5.87	5.82
16	6-month	6.91	8.03	7.46	6.70	6.28	5.93	5.92	6.03	6.04	5.85	5.89	5.83
17	1-year	7.13	7.92	7.35	6.61	6.25	5.91	6.00	6.02	6.09	5.94	6.01	5.94
	Auction average[3,4,12]												
18	3-month	6.68	8.12	7.51	6.81	6.30	5.95	5.91	6.01	6.09	5.85	5.83	5.86
19	6-month	6.92	8.04	7.47	6.76	6.34	5.93	5.91	6.01	6.06	5.91	5.82	5.84
20	1-year	7.17	7.91	7.36	6.58	6.22	5.85	6.06	n.a.	n.a.	6.06	n.a.	n.a.
	CAPITAL MARKET RATES												
	U.S. Treasury notes and bonds												
	Constant maturities[13]												
21	1-year	7.65	8.53	7.89	7.05	6.64	6.27	6.40	6.40	6.48	6.32	6.41	6.34
22	2-year	8.10	8.57	8.16	7.31	7.13	6.87	7.10	7.05	7.13	7.02	7.15	7.10
23	3-year	8.26	8.55	8.26	7.47	7.38	7.08	7.35	7.27	7.36	7.26	7.42	7.36
24	5-year	8.47	8.50	8.37	7.73	7.70	7.47	7.77	7.65	7.75	7.70	7.85	7.79
25	7-year	8.71	8.52	8.52	8.00	7.97	7.73	8.00	7.88	8.00	7.94	8.07	8.01
26	10-year	8.85	8.49	8.55	8.08	8.09	7.85	8.11	8.00	8.10	8.06	8.18	8.10
27	30-year	8.96	8.45	8.61	8.24	8.27	8.03	8.29	8.16	8.27	8.24	8.36	8.28
	Composite[14]												
28	Over 10 years (long-term)	8.98	8.58	8.74	8.31	8.33	8.12	8.38	8.26	8.38	8.34	8.45	8.37
	State and local notes and bonds												
	Moody's series[15]												
29	Aaa	7.36	7.00	6.96	6.63	6.57	6.41	6.76	6.47	6.81	6.52	7.03	6.97
30	Baa	7.83	7.40	7.29	7.10	7.17	7.03	7.29	7.00	7.34	7.25	7.47	7.40
31	*Bond Buyer* series[16]	7.68	7.23	7.27	7.09	7.08	6.91	7.10	7.01	7.06	7.06	7.13	7.14
	Corporate bonds												
	Seasoned issues[17]												
32	All industries	10.18	9.66	9.77	9.63	9.62	9.36	9.43	9.39	9.44	9.40	9.47	9.43
33	Aaa	9.71	9.26	9.32	9.05	9.04	8.83	8.93	8.85	8.92	8.91	8.97	8.92
34	Aa	9.94	9.46	9.56	9.39	9.37	9.16	9.21	9.16	9.22	9.17	9.23	9.23
35	A	10.24	9.74	9.82	9.64	9.61	9.38	9.50	9.44	9.49	9.47	9.54	9.49
36	Baa	10.83	10.18	10.36	10.43	10.45	10.07	10.09	10.09	10.11	10.05	10.13	10.06
37	A-rated, recently offered utility bonds[18]	10.20	9.79	10.01	9.95	9.83	9.54	9.58	9.64	9.62	9.54	9.60	9.49
	MEMO: Dividend/price ratio[19]												
38	Preferred stocks	9.23	9.05	n.a.	8.72	8.71	8.46	8.56	8.40	8.58	8.51	8.56	8.58
39	Common stocks	3.64	3.45	n.a.	3.74	3.82	3.35	3.26	3.32	3.24	3.25	3.31	3.25

1. The daily effective federal funds rate is a weighted average of rates on trades through N.Y. brokers.
2. Weekly figures are averages of 7 calendar days ending on Wednesday of the current week; monthly figures include each calendar day in the month.
3. Annualized using a 360-day year or bank interest.
4. Quoted on a discount basis.
5. An average of offering rates on commercial paper placed by several leading dealers for firms whose bond rating is AA or the equivalent.
6. An average of offering rates on paper directly placed by finance companies.
7. Representative closing yields for acceptances of the highest rated money center banks.
8. An average of dealer offering rates on nationally traded certificates of deposit.
9. Bid rates for Eurodollar deposits at 11 a.m. London time.
10. One of several base rates used by banks to price short-term business loans.
11. Rate for the Federal Reserve Bank of New York.
12. Auction date for daily data; weekly and monthly averages computed on an issue-date basis.
13. Yields on actively traded issues adjusted to constant maturities. Source: U.S. Treasury.
14. Unweighted average of rates on all outstanding bonds neither due nor callable in less than 10 years, including one very low yielding "flower" bond.
15. General obligation based on Thursday figures; Moody's Investors Service.
16. General obligations only, with 20 years to maturity, issued by 20 state and local governmental units of mixed quality. Based on figures for Thursday.
17. Daily figures from Moody's Investors Service. Based on yields to maturity on selected long-term bonds.
18. Compilation of the Federal Reserve. This series is an estimate of the yield on recently-offered, A-rated utility bonds with a 30-year maturity and 5 years of call protection. Weekly data are based on Friday quotations.
19. Standard and Poor's corporate series. Preferred stock ratio based on a sample of ten issues: four public utilities, four industrials, one financial, and one transportation. Common stock ratios on the 500 stocks in the price index.

NOTE. These data also appear in the Board's H.15 (519) and G.13 (415) releases. For address, see inside front cover.

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1.36 STOCK MARKET Selected Statistics

Indicator	1988	1989	1990	1990						1991		
				July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
	Prices and trading (averages of daily figures)											
Common stock prices												
1 New York Stock Exchange (Dec. 31, 1965 = 50)	149.97	180.13	183.48	196.61	181.45	173.22	168.05	172.21	179.57	177.95	197.75	203.56
2 Industrial	180.83	228.04	225.81	245.86	226.73	216.81	208.58	212.81	221.86	220.69	246.74	255.36
3 Transportation	134.09	174.90	158.64	173.18	147.41	136.95	131.99	132.96	141.31	145.89	166.06	166.26
4 Utility	72.22	94.33	90.61	89.85	85.81	83.30	87.27	89.69	91.56	88.59	92.08	92.29
5 Finance	127.41	162.01	133.23	143.11	128.14	118.59	108.01	113.76	122.18	121.39	141.03	145.41
6 Standard & Poor's Corporation (1941–43 = 10)[1]	265.88	323.05	334.63	360.03	330.75	315.41	307.12	315.29	328.75	325.49	362.26	372.28
7 American Stock Exchange (Aug. 31, 1973 = 50)[2]	295.08	356.67	338.36	359.09	333.49	318.53	296.67	294.88	305.54	304.08	338.11	353.98
Volume of trading (thousands of shares)												
8 New York Stock Exchange	161,386	165,568	156,842	160,490	174,446	142,054	159,590	149,916	155,836	166,323	226,635	196,343
9 American Stock Exchange	9,955	13,124	13,155	12,529	15,881	11,668	11,294	10,368	11,620	10,870	16,649	15,326
	Customer financing (end-of-period balances, in millions of dollars)											
10 **Margin credit at broker-dealers**[3]	**32,740**	**34,320**	**28,210**	**32,130**	**30,350**	**29,640**	**28,650**	**27,820**	**28,210**	**27,390**	**28,860**	**26,595**
Free credit balances at brokers[4]												
11 Margin-account[5]	5,660	7,040	8,050	6,385	7,140	7,285	7,245	7,300	8,050	7,435	7,190	7,320
12 Cash-account	16,595	18,505	19,285	17,035	16,745	16,185	15,820	17,025	19,285	18,825	19,435	19,555

	Margin requirements (percent of market value and effective date)[6]					
	Mar. 11, 1968	June 8, 1968	May 6, 1970	Dec. 6, 1971	Nov. 24, 1972	Jan. 3, 1974
13 Margin stocks	70	80	65	55	65	50
14 Convertible bonds	50	60	50	50	50	50
15 Short sales	70	80	65	55	65	50

1. Effective July 1976, includes a new financial group, banks and insurance companies. With this change the index includes 400 industrial stocks (formerly 425), 20 transportation (formerly 15 rail), 40 public utility (formerly 60), and 40 financial.

2. Beginning July 5, 1983, the American Stock Exchange rebased its index effectively cutting previous readings in half.

3. Beginning July 1983, under the revised Regulation T, margin credit at broker-dealers includes credit extended against stocks, convertible bonds, stocks acquired through exercise of subscription rights, corporate bonds, and government securities. Separate reporting of data for margin stocks, convertible bonds, and subscription issues was discontinued in April 1984.

4. Free credit balances are in accounts with no unfulfilled commitments to the brokers and are subject to withdrawal by customers on demand.

5. New series beginning June 1984.

6. These regulations, adopted by the Board of Governors pursuant to the Securities Exchange Act of 1934, limit the amount of credit to purchase and carry "margin securities" (as defined in the regulations) when such credit is collateralized by securities. Margin requirements on securities other than options are the difference between the market value (100 percent) and the maximum loan value of collateral as prescribed by the Board. Regulation T was adopted effective Oct. 15, 1934; Regulation U, effective May 1, 1936; Regulation G, effective Mar. 11, 1968; and Regulation X, effective Nov. 1, 1971.

On Jan. 1, 1977, the Board of Governors for the first time established in Regulation T the initial margin required for writing options on securities, setting it at 30 percent of the current market-value of the stock underlying the option. On Sept. 30, 1985, the Board changed the required initial margin, allowing it to be the same as the option maintenance margin required by the appropriate exchange or self-regulatory organization; such maintenance margin rules must be approved by the Securities and Exchange Commission. Effective Jan. 31, 1986, the SEC approved new maintenance margin rules, permitting margins to be the price of the option plus 15 percent of the market value of the stock underlying the option.

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1.37 SELECTED FINANCIAL INSTITUTIONS Selected Assets and Liabilities

Millions of dollars, end of period

Account	1988	1989	1990									1991
			Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
	SAIF-insured institutions											
1 **Assets**	**1,350,500**	**1,249,055**	**1,210,338**	**1,197,787**	**1,174,615**	**1,162,561**	**1,157,157**	**1,124,891**r	**1,115,358**r	**1,107,489**r	**1,083,579**r	**1,064,867**
2 Mortgages	764,513	733,729	715,422	708,550	691,239	689,080	684,967	665,955	662,448r	653,515r	633,456r	624,621
3 Mortgage-backed securities	214,587	170,532	166,167	165,741	159,173	158,146	156,398	154,196	153,425	155,577	155,307r	151,515
4 Contra-assets to mortgage assets[1]	37,950	25,457	21,999	22,044	20,337	19,550	19,321	18,459r	17,031	16,903r	16,877r	15,099
5 Commercial loans	33,889	32,150	30,931	30,351	28,753	28,483	27,868	26,774r	26,053	25,262r	24,123r	23,660
6 Consumer loans	61,922	58,685	56,639	55,659	55,171	54,667	53,387	50,517	49,322r	48,552	47,224r	46,625
7 Contra-assets to nonmortgage loans[2]	3,056	3,592	2,227	1,771	1,980	1,978	2,022	1,957r	1,711r	1,674r	1,879r	1,556
8 Cash and investment securities	186,986	166,053	153,346	152,391	155,674	150,396	153,052	148,040r	145,303r	146,019r	146,558r	140,558
9 Other[3]	129,610	116,955	112,059	108,910	106,922	103,318	102,829	99,824r	97,547r	97,141r	95,637r	94,544
10 **Liabilities and net worth**	**1,350,500**	**1,249,055**	**1,210,338**	**1,197,787**	**1,174,615**	**1,162,561**	**1,157,157**	**1,124,891**r	**1,115,358**r	**1,107,489**r	**1,083,579**r	**1,064,867**
11 Savings capital	971,700	945,656	916,069	902,653	890,497	885,272	878,730	857,687	851,810	846,820	835,502r	823,534
12 Borrowed money	299,400	252,230	246,646	241,943	230,169	222,442	221,872	212,224	206,771	202,316	195,628r	187,319
13 FHLBB	134,168	124,577	115,620	114,047	109,733	106,127	105,882	101,731	100,574	100,493	100,391	95,837
14 Other	165,232	127,653	131,026	127,896	120,436	116,315	115,990	110,493	106,197	101,823	95,237r	91,482
15 Other	24,216	27,556	27,341	28,807	25,151	26,749	28,240	23,862r	25,585	26,131r	21,315r	22,097
16 Net worth	n.a.	23,612	20,282	24,379	28,803	28,099	28,316	31,119r	31,192r	32,222r	31,134r	31,918
	SAIF-insured federal savings banks											
17 **Assets**	**425,966**	**498,522**	**593,345**	**570,795**	**583,392**	**580,847**	**584,632**	**591,136**	**588,880**	**585,847**	**576,531**	**567,373**
18 Mortgages	230,734	283,844	333,300	317,985	323,516	328,236	328,895	332,927	332,431	328,122	320,233	316,889
19 Mortgage-backed securities	64,957	70,499	81,030	77,781	78,001	80,474	80,994	82,418	82,219	84,190	81,205	79,451
20 Contra-assets to mortgage assets[1]	13,140	13,548	11,590	10,798	10,200	9,227	9,339	9,964	9,578	9,305	9,591	8,222
21 Commercial loans	16,731	18,143	20,324	19,713	19,683	18,810	18,662	18,767	18,458	18,197	17,674	17,299
22 Consumer loans	24,222	28,212	20,324	32,407	32,745	31,003	31,183	30,750	30,682	30,421	29,933	31,179
23 Contra-assets to nonmortgage loans[2]	889	1,193	908	707	970	870	813	980	572	809	990	770
24 Finance leases plus interest	880	1,101	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
25 Cash and investment	61,029	64,538	72,618	70,999	75,081	71,354	73,756	73,602	75,117	72,454	75,940	71,066
26 Other	35,412	39,981	46,180	44,840	47,723	44,150	44,129	46,043	45,287	45,319	45,008	44,768
27 **Liabilities and net worth**	**425,966**	**498,522**	**593,345**	**570,795**	**583,392**	**580,847**	**584,632**	**591,136**	**588,880**	**585,847**	**576,531**	**567,373**
28 Savings capital	298,197	360,547	429,469	413,009	427,379	423,472	424,260	434,705	436,080	436,903	434,297	428,822
29 Borrowed money	99,286	108,448	126,240	123,415	121,721	118,393	120,592	119,991	115,472	111,270	107,270	102,313
30 FHLBB	46,265	57,032	63,120	61,057	60,666	61,287	62,209	61,605	60,256	60,265	59,949	57,703
31 Other	53,021	51,416	63,120	62,358	61,055	57,106	58,383	58,386	55,216	51,005	47,321	44,610
32 Other	8,075	9,041	9,982	10,307	8,889	9,245	10,128	8,253	9,063	9,824	8,193	8,356
33 Net worth	20,218	22,716	23,505	21,138	21,944	26,424	26,420	24,859	24,837	24,931	24,172	25,285

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1.37—Continued

Account	1988	1989	1990									1991
			Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
	Credit unions[4]											
34 **Total assets/liabilities and capital**	**174,593**	**183,688**	**193,208**	**195,020**	**195,302**	**194,523**	**196,625**	**197,272**	↑	↑	↑	↑
35 Federal	114,566	120,666	127,250	128,648	128,142	127,564	128,715	129,086				
36 State	60,027	63,022	65,958	66,372	67,160	66,959	67,910	68,186				
37 Loans outstanding	113,191	122,608	122,616	123,205	123,968	124,343	126,156	127,341	n.a.	n.a.	n.a.	n.a.
38 Federal	73,766	80,272	80,205	80,550	81,063	81,063	82,040	82,823				
39 State	39,425	42,336	42,411	42,655	42,905	43,280	44,116	44,518				
40 Savings	159,010	167,371	175,745	176,701	178,127	176,360	178,081	177,532				
41 Federal	104,431	109,653	115,554	116,402	116,717	115,305	116,411	115,469				
42 State	54,579	57,718	60,191	60,299	61,408	61,056	61,670	62,063	↓	↓	↓	↓
	Life insurance companies[5]											
43 **Assets**	↑	↑	↑	↑	**1,376,660**	↑	↑	**1,387,463**	↑	↑	**1,411,881**	↑
Securities												
44 Government					195,287			202,962			208,782	
45 United States[6]					167,735			175,156			180,200	
46 State and local					10,963			11,818			12,038	
47 Foreign[7]					16,589			15,988			16,544	
48 Business	n.a.	n.a.	n.a.	n.a.	705,070	n.a.	n.a.	709,470	n.a.	n.a.	724,603	n.a.
49 Bonds					570,245			588,251			596,053	
50 Stocks					134,825			121,219			128,550	
51 Mortgages					264,865			266,063			267,922	
52 Real estate					44,188			44,544			44,718	
53 Policy loans					63,144			60,641			61,562	
54 Other assets	↓	↓	↓	↓	104,106	↓	↓	103,783	↓	↓	104,294	↓

1. Contra-assets are credit-balance accounts that must be subtracted from the corresponding gross asset categories to yield net asset levels. Contra-assets to mortgage loans, contracts, and pass-through securities include loans in process, unearned discounts and deferred loan fees, valuation allowances for mortgages "held for sale," and specific reserves and other valuation allowances.

2. Contra-assets are credit-balance accounts that must be subtracted from the corresponding gross asset categories to yield net asset levels. Contra-assets to nonmortgage loans include loans in process, unearned discounts and deferred loan fees, and specific reserves and valuation allowances.

3. Holding of stock in Federal Home Loan Bank and Finance leases plus interest are included in "Other" (line 9).

4. Data include all federally insured credit unions, both federal and state chartered, serving natural persons.

5. Data are no longer available on a monthly basis for life insurance companies.

6. Direct and guaranteed obligations. Excludes federal agency issues not guaranteed, which are shown in the table under "Business" securities.

7. Issues of foreign governments and their subdivisions and bonds of the International Bank for Reconstruction and Development.

NOTE. *SAIF-insured institutions:* Estimates by the OTS for all institutions insured by the SAIF and based on the OTS thrift Financial Report.

SAIF-insured federal savings banks: Estimates by the OTS for federal savings banks insured by the SAIF and based on the OTS thrift Financial Report.

Credit unions: Estimates by the National Credit Union Administration for federally chartered and federally insured state-chartered credit unions serving natural persons.

Life insurance companies: Estimates of the American Council of Life Insurance for all life insurance companies in the United States. Annual figures are annual-statement asset values, with bonds carried on an amortized basis and stocks at year-end market value. Adjustments for interest due and accrued and for differences between market and book values are not made on each item separately but are included, in total, in "other assets."

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1.38 FEDERAL FISCAL AND FINANCING OPERATIONS

Millions of dollars

Type of account or operation	Fiscal year 1988	Fiscal year 1989	Fiscal year 1990	Calendar year 1990 Oct.	1990 Nov.	1990 Dec.	1991 Jan.	1991 Feb.	1991 Mar.
U.S. budget[1]									
1 Receipts, total	908,166	990,701	1,031,231[r]	77,061	70,507	101,900	100,713	67,657	64,805
2 On-budget	666,675	727,035	749,577[r]	57,101	45,531	82,059	70,023	45,954	39,011
3 Off-budget	241,491	263,666	281,654	19,960	24,976	19,841	30,690	22,063	25,794
4 Outlays, total	1,063,318	1,144,020	1,251,620[r]	108,346	118,218	109,212	99,023[r]	93,834[r]	105,650
5 On-budget	860,627	933,107	1,026,554[r]	89,433	96,769	94,679	79,105[r]	72,667[r]	83,114
6 Off-budget	202,691	210,911	225,065	18,912	21,448	14,532	19,918	21,167	22,536
7 Surplus, or deficit (−), total	−155,151	−153,320	−220,390	−31,285	−47,711	−7,311	1,690[r]	−26,177[r]	−40,845
8 On-budget	−193,952	−206,072	−276,977	−32,332	−51,238	−12,620	−9,082[r]	−27,073[r]	−44,103
9 Off-budget	38,800	52,753	56,590	1,048	3,528	5,309	10,772	896	3,258
Source of financing (total)									
10 Borrowing from the public	166,139	141,806	264,453	32,265	46,776	19,700	31,764	34,611	−9,913
11 Operating cash (decrease, or increase (−))	−7,962	3,425	818	4,720	12,533	−9,286	−30,627	2,341	28,473
12 Other[2]	−3,026	8,089	−44,881	−5,700	−11,59	−3,103	−2,827[r]	−10,775[r]	22,285
MEMO									
13 Treasury operating balance (level, end of period)	44,398	40,973	40,155	35,435	22,902	32,188	62,815	60,474	32,001
14 Federal Reserve Banks	13,023	13,452	7,638	7,607	5,495	8,960	27,810	23,898	10,922
15 Tax and loan accounts	31,375	27,521	32,517	27,828	17,406	23,228	35,006	36,577	21,078

1. In accordance with the Balanced Budget and Emergency Deficit Control Act of 1985, all former off-budget entries are now presented on-budget. The Federal Financing Bank (FFB) activities are now shown as separate accounts under the agencies that use the FFB to finance their programs. The act has also moved two social security trust funds (Federal old-age survivors insurance and Federal disability insurance trust funds) off-budget.

2. Includes SDRs; reserve position on the U.S. quota in the IMF; loans to international monetary fund; other cash and monetary assets; accrued interest payable to the public; allocations of special drawing rights; deposit funds; miscellaneous liability (including checks outstanding) and asset accounts; seigniorage; increment on gold; net gain/loss for U.S. currency valuation adjustment; net gain/loss for IMF valuation adjustment; and profit on the sale of gold.

SOURCE. *Monthly Treasury Statement of Receipts and Outlays of the U.S. Government* and the *Budget of the U.S. Government*.

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1.39 U.S. BUDGET RECEIPTS AND OUTLAYS[1]

Millions of dollars

Source or type	Fiscal year 1989	Fiscal year 1990	Calendar year 1989 H1	Calendar year 1989 H2	Calendar year 1990 H1	Calendar year 1990 H2	1991 Jan.	1991 Feb.	1991 Mar.
RECEIPTS									
1 **All sources**	**990,701**	**1,031,232**r	**527,574**	**470,276**	**548,861**	**503,122**r	**100,713**	**67,657**	**64,805**
2 Individual income taxes, net	445,690	466,884	233,572	218,706	243,087	230,745	50,882	27,929	11,288
3 Withheld	361,386	390,480	174,230	193,296	190,219	207,469	29,390	32,737	30,478
4 Presidential Election Campaign Fund	32	32	28	3	30	3	0	4	9
5 Nonwithheld	154,839	149,189	121,563	33,303	117,675	31,728	21,799	1,186	4,426
6 Refunds	70,567	72,817	62,251	7,898	64,838	8,455	308	5,998	23,625
Corporation income taxes									
7 Gross receipts	117,015	110,017	61,585	52,269	58,830	54,044	5,025	3,611	14,338
8 Refunds	13,723	16,510	7,259	6,842	8,326	7,603	1,197	1,116	1,531
9 Social insurance taxes and contributions, net	359,416	380,047	200,127	162,574	210,476	178,468	39,604	29,872	33,045
10 Employment taxes and contributions[2]	332,859	353,891	184,569	152,407	195,269	167,224	38,472	27,824	32,416
11 Self-employment taxes and contributions[3]	18,504	21,795	16,371	1,947	19,017	2,638	1,795	1,445	1,463
12 Unemployment insurance	22,011	21,635	13,279	7,909	12,929	8,996	778	1,678	226
13 Other net receipts[4]	4,546	4,522	2,277	2,260	2,278	2,249	354	370	402
14 Excise taxes	34,386	35,345	16,814	16,799	18,153	17,535	2,931	2,594	4,149
15 Customs deposits	16,334	16,707	7,918	8,667	8,096	8,568	1,324	1,215	1,271
16 Estate and gift taxes	8,745	11,500	4,583	4,451	6,442	5,333	906	772	864
17 Miscellaneous receipts[5]	22,839	27,240r	10,235	13,651	12,106	16,032r	1,237	2,780	1,381
OUTLAYS									
18 **All types**	**1,144,020**	**1,251,620**r	**565,425**	**587,394**	**640,867**	**647,225**r	**99,023**r	**93,834**r	**105,650**
19 National defense	303,559	299,335	148,098	149,613	152,733	149,497r	20,811r	16,881r	15,743
20 International affairs	9,574	13,760	6,567	5,971	6,770	8,943	465r	1,026r	2,001
21 General science, space, and technology	12,838	14,420	6,238	7,091	6,974	8,081	1,013	1,188	1,317
22 Energy	3,702	2,470	2,221	1,449	1,216	979	71	31	61
23 Natural resources and environment	16,182	17,009	7,022	9,183	7,343	9,933r	1,398	1,183	1,283
24 Agriculture	16,948	11,998	9,619	4,132	7,450	6,878	1,516	578	1,240
25 Commerce and housing credit	29,091	67,495	4,129	22,295	38,672	37,491	−144	−2,257	5,929
26 Transportation	27,608	29,495	12,953	14,982	13,754	16,218	2,658	2,134	2,139
27 Community and regional development	5,361	8,466	1,833	4,879	3,987	3,939	663	494	497
28 Education, training, employment, and social services	36,694	37,479	18,083	18,663	19,537	18,988	4,045	3,509	3,782
29 Health	48,390	58,101	24,078	25,339	29,488	31,424	5,663	5,464	5,623
30 Social security and medicare	317,506	346,383	162,195	162,322	175,997	176,353	30,625	30,476	30,643
31 Income security	136,031	148,299	70,937	67,950	78,475	75,948	14,299	15,475	16,836
32 Veterans benefits and services	30,066	29,112	14,891	14,864	15,217	15,479	962	2,591	2,731
33 Administration of justice	9,422	10,076	4,801	4,909	4,868	5,265	951	1,010	941
34 General government	9,124	10,822	3,858	4,760	4,916	6,982	1,071	147	717
35 General-purpose fiscal assistance	n.a.	n.a.	0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
36 Net interest[6]	169,317	183,790	86,009	87,927	91,155	94,650	16,064	16,782	17,120
37 Undistributed offsetting receipts[7]	−37,212	−36,615	−18,131	−18,935	−17,688	−19,829	−3,109	−2,879	−2,952

1. Functional details do not add to total outlays for calendar year data because revisions to monthly totals have not been distributed among functions. Fiscal year total for outlays does not correspond to calendar year data because revisions from the *Budget* have not been fully distributed across months.
2. Old-age, disability, and hospital insurance, and railroad retirement accounts.
3. Old-age, disability, and hospital insurance.
4. Federal employee retirement contributions and civil service retirement and disability fund.
5. Deposits of earnings by Federal Reserve Banks and other miscellaneous receipts.
6. Net interest function includes interest received by trust funds.
7. Consists of rents and royalties on the outer continental shelf, U.S. government contributions for employee retirement.

SOURCES. U.S. Department of the Treasury, *Monthly Treasury Statement of Receipts and Outlays of the U.S. Government*, and the U.S. Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 1990*.

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1.40 FEDERAL DEBT SUBJECT TO STATUTORY LIMITATION

Billions of dollars

Item	1989				1990				1991
	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31
1 **Federal debt outstanding**	**2,763.6**	**2,824.0**	**2,881.1**	**2,975.5**	**3,081.9**	**3,175.5**	**3,266.1**	**3,397.3**	**3,491.7**
2 Public debt securities	2,740.9	2,799.9	2,857.4	2,953.0	3,052.0	3,143.8	3,233.3	3,364.8	3,465.2
3 Held by public	2,133.4	2,142.1	2,180.7	2,245.2	2,329.3	2,368.8	2,437.6	2,536.6	n.a.
4 Held by agencies	607.5	657.8	676.7	707.8	722.7	775.0	795.8	828.3	n.a.
5 Agency securities	22.7	24.0	23.7	22.5	29.9	31.7	32.8	32.5	n.a.
6 Held by public	22.3	23.6	23.5	22.4	29.8	31.6	32.6	32.4	n.a.
7 Held by agencies	.4	.5	.1	.1	.2	.2	.2	.1	n.a.
8 **Debt subject to statutory limit**	**2,725.6**	**2,784.6**	**2,829.8**	**2,921.7**	**2,988.9**	**3,077.0**	**3,161.2**	**3,281.7**	**3,377.1**
9 Public debt securities	2,725.5	2,784.3	2,829.5	2,921.4	2,988.6	3,076.6	3,160.9	3,281.3	3,376.7
10 Other debt[1]	.2	.2	.3	.3	.3	.4	.4	.4	.4
11 MEMO: Statutory debt limit	2,800.0	2,800.0	2,870.0	3,122.7	3,122.7	3,122.7	3,195.0	4,145.0	4,145.0

1. Includes guaranteed debt of Treasury and other federal agencies, specified participation certificates, notes to international lending organizations, and District of Columbia stadium bonds.

SOURCES. *Treasury Bulletin* and *Monthly Statement of the Public Debt of the United States*.

1.41 GROSS PUBLIC DEBT OF U.S. TREASURY Types and Ownership

Billions of dollars, end of period

Type and holder	1987	1988	1989	1990	1990			1991
					Q2	Q3	Q4	Q1
1 **Total gross public debt**	**2,431.7**	**2,684.4**	**2,953.0**	**3,364.8**	**3,143.8**	**3,233.3**	**3,364.8**	**3,465.2**
By type								
2 Interest-bearing debt	2,428.9	2,663.1	2,931.8	3,362.0	3,121.5	3,210.9	3,362.0	3,441.4
3 Marketable	1,724.7	1,821.3	1,945.4	2,195.8	2,028.0	2,092.8	2,195.8	2,227.9
4 Bills	389.5	414.0	430.6	527.4	453.5	482.5	527.4	533.3
5 Notes	1,037.9	1,083.6	1,151.5	1,265.2	1,192.7	1,218.1	1,265.2	1,280.4
6 Bonds	282.5	308.9	348.2	388.2	366.8	377.2	388.2	399.3
7 Nonmarketable[1]	704.2	841.8	986.4	1,166.2	1,093.5	1,118.2	1,166.2	1,213.5
8 State and local government series	139.3	151.5	163.3	160.8	164.3	161.3	160.8	159.4
9 Foreign issues[2]	4.0	6.6	6.8	43.5	36.4	36.0	43.5	42.8
10 Government	4.0	6.6	6.8	43.5	36.4	36.0	43.5	42.8
11 Public	.0	.0	.0	.0	.0	.0	.0	.0
12 Savings bonds and notes	99.2	107.6	115.7	124.1	120.1	122.2	124.1	127.7
13 Government account series[3]	461.3	575.6	695.6	813.8	758.7	779.4	813.8	853.1
14 Non-interest-bearing debt	2.8	21.3	21.2	2.8	22.3	22.4	2.8	23.8
By holder[4]								
15 U.S. government agencies and trust funds	477.6	589.2	707.8	828.3	775.0	795.8	828.3	▲
16 Federal Reserve Banks	222.6	238.4	228.4	259.8	231.4	232.5	259.8	
17 Private investors	1,731.4	1,858.5	2,015.8	2,288.3	2,141.8	2,207.3	2,288.3	
18 Commercial banks	201.5	193.8	174.8[r]	n.a.	189.2[r]	188.0	n.a.	
19 Money market funds	14.6	11.8	14.9[r]	n.a.	28.1	33.6	n.a.	
20 Insurance companies	104.9	107.3	130.1[r]	n.a.	137.0	138.9	n.a.	
21 Other companies	84.6	87.1	98.8[r]	n.a.	112.1	114.6	n.a.	n.a.
22 State and local Treasurys	284.6	313.6	338.7[r]	n.a.	345.7	344.0	n.a.	
Individuals								
23 Savings bonds	101.1	109.6	117.7	126.2	121.9	123.9	126.2	
24 Other securities	71.3	79.2	98.8[r]	n.a.	112.1	114.6	n.a.	
25 Foreign and international[5]	299.7	362.2	392.9[r]	n.a.	392.3[r]	404.9	n.a.	
26 Other miscellaneous investors[6]	569.1	593.4	672.5	n.a.	n.a.	n.a.	n.a.	▼

1. Includes (not shown separately): Securities issued to the Rural Electrification Administration; depository bonds, retirement plan bonds, and individual retirement bonds.
2. Nonmarketable dollar-denominated and foreign currency-denominated series held by foreigners.
3. Held almost entirely by U.S. Treasury agencies and trust funds.
4. Data for Federal Reserve Banks and U.S. Treasury agencies and trust funds are actual holdings; data for other groups are Treasury estimates.
5. Consists of investments of foreign and international accounts. Excludes non-interest-bearing notes issued to the International Monetary Fund.
6. Includes savings and loan associations, nonprofit institutions, credit unions, mutual savings banks, corporate pension trust funds, dealers and brokers, certain U.S. Treasury deposit accounts, and federally-sponsored agencies.

SOURCES. Data by type of security, U.S. Treasury Department, *Monthly Statement of the Public Debt of the United States;* data by holder and the *Treasury Bulletin*.

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1.42 U.S. GOVERNMENT SECURITIES DEALERS Transactions[1]

Millions of dollars, daily averages

	Item	1990	1991		1991, week ending								
		Dec.	Jan.	Feb.	Jan. 30	Feb. 6	Feb. 13	Feb. 20	Feb. 27	Mar. 6	Mar. 13	Mar. 20	Mar. 27
	IMMEDIATE TRANSACTIONS[2]												
	By type of security												
	U.S. government securities												
1	Bills	32,387	35,403	32,240	28,449	40,113	30,613	30,502	29,602	30,757	40,782	32,542	27,073
	Coupon securities												
2	Maturing in less than 3.5 years	28,498	38,084	42,240	32,661	57,607	40,351	39,528	36,705	31,456	38,501	36,362	35,569
3	Maturing in 3.5 to 7.5 years	24,702	28,005	30,579	25,534	32,135	32,022	29,310	29,987	26,452	28,473	29,859	23,184
4	Maturing in 7.5 to 15 years	11,161	10,873	16,105	10,583	21,879	18,236	13,714	12,721	11,230	13,956	13,786	10,467
5	Maturing in 15 years or more	13,055	14,905	17,854	13,780	18,902	20,719	18,192	14,384	14,985	17,059	15,433	11,078
	Federal agency securities												
	Debt												
6	Maturing in less than 3.5 years	4,968	4,716	3,946	4,671	4,456	4,026	3,531	3,872	3,959	4,091	4,440	4,912
7	Maturing in 3.5 to 7.5 years	509	453	607	392	786	721	508	457	576	487	686	618
8	Maturing in 7.5 years or more	614	1,079	677	505	923	806	613	465	428	846	692	505
	Mortgage-backed												
9	Pass-throughs	12,308	10,991	10,070	9,468	11,283	11,728	7,788	10,060	8,380	11,358	10,884	8,557
10	All others[3]	1,340	1,066	1,416	1,106	1,277	1,456	1,205	1,715	1,335	1,205	1,233	1,261
	By type of counterparty												
	Primary dealers and brokers												
11	U.S. government securities	66,700	78,825	85,733	67,754	102,536	87,010	81,696	77,562	73,171	89,342	81,204	66,674
	Federal agency												
12	Debt securities	1,842	1,985	1,439	1,702	1,878	1,699	1,170	1,148	1,174	1,463	1,766	1,676
13	Mortgage backed securities	7,230	6,048	5,627	5,355	5,591	6,401	4,663	5,957	5,079	6,626	5,874	5,317
	Customers												
14	U.S. government securities	43,102	48,445	53,285	43,253	68,100	54,932	49,549	45,836	41,709	49,428	46,777	40,696
	Federal agency												
15	Debt securities	4,248	4,263	3,792	3,865	4,286	3,854	3,482	3,646	3,789	3,961	4,051	4,359
16	Mortgage-backed securities	6,418	6,008	5,858	5,219	6,969	6,783	4,331	5,817	4,637	5,937	6,243	4,501
	FUTURE AND FORWARD TRANSACTIONS[4]												
	By type of deliverable security												
	U.S. government securities												
17	Bills	4,833	6,339	4,669	3,089	7,506	3,642	4,344	3,662	5,115	6,268	3,795	3,591
	Coupon securities												
18	Maturing in less than 3.5 years	1,093	1,470	2,258	1,839	2,873	2,012	2,398	2,012	1,557	1,445	1,370	1,212
19	Maturing in 3.5 to 7.5 years	810	804	867	750	910	1,103	734	782	616	922	1,227	479
20	Maturing in 7.5 to 15 years	1,037	861	1,419	532	1,594	2,253	699	1,199	1,239	867	1,392	930
21	Maturing in 15 years or more	7,861	9,362	9,507	7,256	9,051	10,928	9,606	8,269	9,921	10,488	10,497	6,974
	Federal agency securities												
	Debt												
22	Maturing in less than 3.5 years	113	121	137	320	53	177	201	126	10	39	167	191
23	Maturing in 3.5 to 7.5 years	36	40	23	4	9	59	6	19	12	45	50	31
24	Maturing in 7.5 years or more	39	62	52	15	26	31	72	80	29	46	9	51
	Mortgage-backed												
25	Pass-throughs	6,603	9,203	9,662	5,741	9,199	11,688	11,168	6,995	7,189	9,597	8,545	8,021
26	All others[3]	780	1,112	1,079	974	1,477	702	1,268	930	1,170	1,436	1,273	1,104
	OPTION TRANSACTIONS[5]												
	By type of underlying securities												
	U.S. government securities												
27	Bills	10	64	102	160	120	78	236	0	0	0	10	0
	Coupon securities												
28	Maturing in less than 3.5 years	650	1,136	1,594	715	2,764	1,281	1,012	1,651	1,108	1,118	980	636
29	Maturing in 3.5 to 7.5 years	270	245	304	394	244	437	274	253	278	370	381	188
30	Maturing in 7.5 to 15 years	195	187	228	231	180	285	225	177	404	320	363	198
31	Maturing in 15 years or more	1,648	2,691[r]	2,659	2,134[r]	2,601	2,436	3,511	2,268	1,706	2,075	1,840	1,489
	Federal agency securities												
	Debt												
32	Maturing in less than 3.5 years	1	0[r]	2	0[r]	1	0	7	0	0	1	0	0
33	Maturing in 3.5 to 7.5 years	0	0	0	0	0	0	1	0	0	0	0	0
34	Maturing in 7.5 years or more	0	0	1	0	0	0	0	4	0	0	0	0
	Mortgage-backed												
35	Pass-throughs	382	356	365	306	376	645	191	285	189	430	383	175
36	All others[3]	0	2	1	0	0	0	0	2	0	0	0	1

1. Transactions are market purchases and sales of securities as reported to the Federal Reserve Bank of New York by the U.S. government securities dealers on its published list of primary dealers. Averages for transactions are based on the number of trading days in the period. Immediate, forward, and future transactions are reported at principal value, which does not include accrued interest; option transactions are reported at the face value of the underlying securities.

Dealers report cumulative transactions for each week ending Wednesday.

2. Transactions for immediate delivery include purchases or sales of securities (other than mortgage-backed agency securities) for which delivery is scheduled in five business days or less and "when-issued" securities that settle on the issue date of offering. Transactions for immediate delivery of mortgage-backed securities include purchases and sales for which delivery is scheduled in thirty days or less. Stripped securities are reported at market value by maturity of coupon or corpus.

3. Includes securities such as CMOs, REMICs; IOs, and POs.

4. Futures transactions are standardized agreements arranged on an exchange. Forward transactions are agreements made in the over-the-counter market that specify delayed delivery. All futures transactions are included regardless of time to delivery. Forward contracts for U.S. government securities and federal agency debt securities are included when the time to delivery is more than five days. Forward contracts for mortgage-backed securities are included when the time to delivery is more than thirty days.

5. Options transactions are purchases or sales of put and call options, whether arranged on an organized exchange or in the over-the-counter market and include options on futures contracts on U.S. government and federal agency securities.

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1.43 U.S. GOVERNMENT SECURITIES DEALERS Positions and Financing[1]

Millions of dollars

Item	1990	1991		1991, week ending								
	Dec.	Jan.	Feb.	Jan. 23	Jan. 30	Feb. 6	Feb. 13	Feb. 20	Feb. 27	Mar. 6	Mar. 13	Mar. 20
	Positions[2]											
NET IMMEDIATE[3]												
By type of security												
U.S. government securities												
1 Bills	14,443	11,468	12,635	12,237	10,004	11,307	15,836	12,181	11,290	10,778	17,496	14,112
Coupon securities												
2 Maturing in less than 3.5 years	7,333	4,315	7,602	5,193	5,082	8,664	7,773	12,253	2,712	1,717	250	206
3 Maturing in 3.5 to 7.5 years	−1,780	−1,311	−3,939	−3,413	−1,857	−5,528	−4,118	−6,142	−633	−878	−210	103
4 Maturing in 7.5 to 15 years	−7,711	−7,520	−5,186	−7,441	−8,500	−7,308	−4,794	−4,474	−4,593	−4,344	−3,967	−5,385
5 Maturing in 15 years or more	−9,616	−13,762	−12,537	−13,985	−13,324	−12,030	−10,988	−12,617	−13,895	−16,350	−16,661	−15,707
Federal agency securities												
Debt												
6 Maturing in less than 3.5 years	3,867	4,006	5,128	3,428	3,892	3,968	4,461	5,291	6,389	6,783	3,810	5,352
7 Maturing in 3.5 to 7.5 years	2,135	1,930	2,212	1,824	1,975	2,240	2,184	2,162	2,222	2,513	2,792	2,569
8 Maturing in 7.5 years or more	4,407	7,392	7,152	7,573	7,363	7,485	7,088	7,062	7,054	6,926	6,421	6,064
Mortgage-backed												
9 Pass-throughs	21,431	23,290	24,668	21,408	21,778	23,495	27,571	25,590	22,040	23,320	25,797	24,893
10 All others[4]	12,881	10,665	10,599	9,988	10,360	10,158	11,033	10,473	10,783	9,805	9,178	8,929
Other money market instruments												
11 Certificates of deposit	2,526	2,936	2,828	3,043	3,189	3,488	3,161	2,796	2,022	2,400	2,451	2,531
12 Commercial paper	7,132	6,243	6,020	5,759	6,531	7,441	5,633	5,708	5,482	6,144	5,821	5,764
13 Bankers' acceptances	863	1,041	1,020	999	1,214	1,105	942	1,039	1,043	762	1,022	945
FUTURE AND FORWARD[5]												
By type of deliverable security												
U.S. government securities												
14 Bills	−19,084	−21,345	−15,708	−19,460	−18,872	−19,314	−19,301	−14,857	−11,165	−6,679	−11,199	−11,531
Coupon securities												
15 Maturing in less than 3.5 years	−1,347	−1,273	−1,744	−2,518	705	−1,565	−2,617	−1,334	−1,496	−1,318	−1,388	−801
16 Maturing in 3.5 to 7.5 years	−3,308	−3,147	−2,094	−2,571	−2,867	−2,887	−2,013	−2,131	−1,607	−1,056	−1,561	−235
17 Maturing in 7.5 to 15 years	−1,000	−917	−498	−920	−937	−328	−776	−621	−289	−166	−813	672
18 Maturing in 15 years or more	−5,865	−5,487	−4,529	−5,764	−6,157	−7,048	−5,043	−3,906	−2,792	−2,342	−3,700	−2,964
Federal agency securities												
Debt												
19 Maturing in less than 3.5 years	189	236	218	225	434	267	227	234	171	90	108	−52
20 Maturing in 3.5 to 7.5 years	54	15	120	110	10	25	214	75	142	194	1	317
21 Maturing in 7.5 years or more	−117	−84	−38	−124	−50	−66	−39	−47	−7	−22	−10	−23
Mortgage-backed												
22 Pass-throughs	−9,587	−11,001	−14,009	−8,911	−9,161	−13,079	−18,492	−14,658	−10,075	−11,203	−11,354	−8,987
23 All others[4]	−2,150	−547	−674	31	−677	−266	−1,043	−674	−710	−291	−430	853
Other money market instruments												
24 Certificates of deposit	48,860	53,410	17,964	56,755	50,752	54,058	19,020	4,907	2,498	−6,326	5,445	15,391
25 Commercial paper	0	0	0	0	0	0	0	0	0	0	0	−50
26 Bankers' acceptances	0	0	0	0	0	0	0	0	0	0	0	0
	Financing[6]											
Reverse repurchase agreements												
27 Overnight and continuing	145,088	161,799	166,419	158,837	163,110	163,877	158,693	169,523	170,914	182,558	183,511	178,461
28 Term	211,555	222,596	238,768	226,668	225,547	248,830	246,055	233,033	231,059	221,502	233,812	238,384
Repurchase agreements												
29 Overnight and continuing	244,723	261,845	273,462	258,038	258,273	271,015	258,164	284,136	277,814	290,048	280,431	282,021
30 Term	176,412	189,444	206,983	196,142	195,086	208,564	219,607	201,160	201,593	187,622	204,997	211,004
Securities borrowed												
31 Overnight and continuing	55,446	53,229	50,385	52,199	51,965	52,860	48,922	49,962	50,199	50,041	49,339	52,353
32 Term	22,406	24,357	23,369	24,576	24,099	23,451	22,235	22,978	24,532	25,416	25,013	23,022
Securities lent												
33 Overnight and continuing	6,176	6,463	6,934	6,352	6,196	6,751	6,375	7,207	7,325	7,292	6,579	6,975
34 Term	1,206	719	931	835	778	725	784	871	1,328	826	831	1,029
Collateralized loans												
35 Overnight and continuing	6,097	5,950	5,109	6,062	6,291	6,806	5,640	4,639	3,772	3,851	4,841	4,264
36 Term	890	1,066	1,599	1,392	1,320	1,384	1,572	1,648	1,740	1,740	1,567	1,525
MEMO: Matched book[7]												
Reverse repurchases												
37 Overnight and continuing	94,705	106,486	109,746	104,915	109,985	106,930	107,462	112,897	110,232	117,176	112,749	118,468
38 Term	168,822	181,794	195,243	185,169	183,574	203,506	200,490	190,709	189,774	178,956	188,760	188,987
Repurchases												
39 Overnight and continuing	123,020	141,455	144,722	138,640	142,516	146,452	134,462	147,567	148,540	159,509	148,983	146,205
40 Term	129,305	140,092	158,034	144,241	146,257	161,940	168,977	153,053	151,409	139,251	152,061	157,669

1. Data for positions and financing are obtained from reports submitted to the Federal Reserve Bank of New York by the U.S. government securities dealers on its published list of primary dealers. Weekly figures are close-of-business Wednesday data; monthly figures are averages of weekly data. Data for positions and financing are averages of close-of-business Wednesday data.

2. Securities positions are reported at market value.

3. Net immediate positions include securities purchased or sold (other than mortgage-backed agency securities) that have been delivered or are scheduled to be delivered in five business days or less and "when-issued" securities settle on the issue date of offering. Net immediate positions of mortgage-backed securities include securities purchased or sold that have been delivered or are scheduled to be delivered in thirty days or less.

4. Includes securities such as CMOs, REMICs, IOs, and POs.

5. Futures positions are standardized contracts arranged on an exchange. Forward positions reflect agreements made in the over-the-counter market that specify delayed delivery. All futures positions are included regardless of time to delivery. Forward contracts for U.S. government securities and for federal agency debt securities are included when the time to delivery is more than five business days. Forward contracts for mortgage-backed securities are included when the time to delivery is more than thirty days.

6. Overnight financing refers to agreements made on one business day that mature on the next business day; continuing contracts are agreements that remain in effect for more than one business day but have no specific maturity and can be terminated without a requirement for advance notice by either party; term agreements have a fixed maturity of more than one business day.

7. Matched-book data reflect financial intermediation activity in which the borrowing and lending transactions are matched. Matched-book data are included in the financing breakdowns listed above. The reverse repurchase and repurchase numbers are not always equal due to the "matching" of securities of different values or types of collateralization.

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1.44 FEDERAL AND FEDERALLY SPONSORED CREDIT AGENCIES Debt Outstanding

Millions of dollars, end of period

Agency	1986	1987	1988	1989	1990			1991	
					Oct.	Nov.	Dec.	Jan.	Feb.
1 **Federal and federally sponsored agencies**	**307,361**	**341,386**	**381,498**	**411,805**	**431,519**	**430,842**	**434,668**	**445,430**	**441,440**
2 Federal agencies	36,958	37,981	35,668	35,664	42,685	42,191	42,159	42,141	42,191
3 Defense Department[1]	33	13	8	7	7	7	7	7	7
4 Export-Import Bank[2,3]	14,211	11,978	11,033	10,985	11,346	11,346	11,376	11,376	11,376
5 Federal Housing Administration[4]	138	183	150	328	382	387	393	329	361
6 Government National Mortgage Association participation certificates[5]	2,165	1,615	0	0	0	0	0	0	0
7 Postal Service[6]	3,104	6,103	6,142	6,445	6,948	6,948	6,948	6,948	6,948
8 Tennessee Valley Authority	17,222	18,089	18,335	17,899	24,002	23,510	23,435	23,481	23,499
9 United States Railway Association[6]	85	0	0	0	0	0	0	0	0
10 Federally sponsored agencies[7]	270,553	303,405	345,830	375,407	388,834	388,651	392,509	403,289	399,249
11 Federal Home Loan Banks	88,758	115,727	135,836	136,108	117,120	116,627	117,895	115,402	112,874
12 Federal Home Loan Mortgage Corporation	13,589	17,645	22,797	26,148	29,073	30,035	30,941	33,157	32,640
13 Federal National Mortgage Association	93,563	97,057	105,459	116,064	119,775	122,257	123,403	125,849	125,974
14 Farm Credit Banks[8]	62,478	55,275	53,127	54,864	56,788	53,469	53,590	53,717	52,480
15 Student Loan Marketing Association[9]	12,171	16,503	22,073	28,705	33,592	33,777	34,194	35,736	35,854
16 Financing Corporation[10]	0	1,200	5,850	8,170	8,170	8,170	8,170	8,170	8,170
17 Farm Credit Financial Assistance Corporation[11]	0	0	690	847	1,261	1,261	1,261	1,261	1,261
18 Resolution Funding Corporation[12]	0	0	0	4,522	23,055	23,055	23,055	29,996	29,996
MEMO									
19 **Federal Financing Bank debt[13]**	**157,510**	**152,417**	**142,850**	**134,873**	**180,538**	**177,620**	**179,083**	**181,062**	**181,714**
Lending to federal and federally sponsored agencies									
20 Export-Import Bank[3]	14,205	11,972	11,027	10,979	11,340	11,340	11,370	11,370	11,370
21 Postal Service[6]	2,854	5,853	5,892	6,195	6,698	6,698	6,698	6,698	6,698
22 Student Loan Marketing Association	4,970	4,940	4,910	4,880	4,880	4,850	4,850	4,850	4,850
23 Tennessee Valley Authority	15,797	16,709	16,955	16,519	14,622	14,130	14,055	14,101	14,119
24 United States Railway Association[6]	85	0	0	0	0	0	0	0	0
Other Lending[14]									
25 Farmers Home Administration	65,374	59,674	58,496	53,311	52,324	52,324	52,324	52,169	52,544
26 Rural Electrification Administration	21,680	21,191	19,246	19,265	18,966	18,968	18,890	18,906	18,906
27 Other	32,545	32,078	26,324	23,724	71,708	69,310	70,896	72,968	73,227

1. Consists of mortgages assumed by the Defense Department between 1957 and 1963 under family housing and homeowners assistance programs.
2. Includes participation certificates reclassified as debt beginning Oct. 1, 1976.
3. Off-budget Aug. 17, 1974, through Sept. 30, 1976; on-budget thereafter.
4. Consists of debentures issued in payment of Federal Housing Administration insurance claims. Once issued, these securities may be sold privately on the securities market.
5. Certificates of participation issued before fiscal 1969 by the Government National Mortgage Association acting as trustee for the Farmers Home Administration; Department of Health, Education, and Welfare; Department of Housing and Urban Development; Small Business Administration; and the Veterans Administration.
6. Off-budget.
7. Includes outstanding noncontingent liabilities: notes, bonds, and debentures. Some data are estimated.
8. Excludes borrowing by the Farm Credit Financial Assistance Corporation, shown in line 17.
9. Before late 1981, the Association obtained financing through the Federal Financing Bank (FFB). Borrowing excludes that obtained from the FFB, which is shown on line 21.
10. The Financing Corporation, established in August 1987 to recapitalize the Federal Savings and Loan Insurance Corporation, undertook its first borrowing in October 1987.
11. The Farm Credit Financial Assistance Corporation (established in January 1988 to provide assistance to the Farm Credit System) undertook its first borrowing in July 1988.
12. The Resolution Funding Corporation, established by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, undertook its first borrowing in October 1989.
13. Includes FFB purchases of agency assets and guaranteed loans; the latter contain loans guaranteed by numerous agencies with the guarantees of any particular agency being generally small. The Farmers Home Administration item consists exclusively of agency assets, while the Rural Electrification Administration entry contains both agency assets and guaranteed loans.
14. The FFB, which began operations in 1974, is authorized to purchase or sell obligations issued, sold, or guaranteed by other federal agencies. Since FFB incurs debt solely for the purpose of lending to other agencies, its debt is not included in the main portion of the table in order to avoid double counting.

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1.45 NEW SECURITY ISSUES Tax-Exempt State and Local Governments

Millions of dollars

Type of issue or issuer, or use	1988	1989	1990	1990					1991		
				Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
1 **All issues, new and refunding**[1]	**114,522**	**113,646**	**120,339**	**10,899**	**13,930**	**8,512**	**9,961**	**12,250**	**7,230**	**11,335**r	**10,864**
Type of issue											
2 General obligation	30,312	35,774	39,610	3,400	3,763	3,530	3,024	3,536	2,343	4,838	4,219
3 Revenue	84,210	77,873	81,295	7,499	10,167	4,982	6,937	8,714	4,887	6,497r	6,645
Type of issuer											
4 State	8,830	11,819	15,149	1,568	2,317	1,470	1,337	1,396	713	2,027	1,195
5 Special district and statutory authority[2]	74,409	71,022	72,661	6,962	8,188	4,512	5,879	7,032	4,563	4,903	6,599
6 Municipalities, counties, and townships	31,193	30,805	32,510	2,369	3,425	2,530	2,745	3,822	1,954	4,405	3,070
7 **Issues for new capital, total**	**79,665**	**84,062**	**103,235**	**9,061**	**12,713**	**7,936**	**9,058**	**10,707**	**6,977**	**10,403**r	**9,675**
Use of proceeds											
8 Education	15,021	15,133	17,042	1,345	1,472	1,743	1,009	1,418	1,079	1,579	2,583
9 Transportation	6,825	6,870	11,650	540	920	1,069	727	2,008	711	146	421
10 Utilities and conservation	8,496	11,427	11,739	1,002	687	806	1,301	776	1,196	2,046	1,886
11 Social welfare	19,027	16,703	23,099	2,554	3,995	1,153	1,992	2,001	891	1,089	2,140
12 Industrial aid	5,624	5,036	6,117	700	674	497	540	933	607	768	554
13 Other purposes	24,672	28,894	34,607	2,919	4,965	2,668	4,392	3,571	2,493r	4,775	2,091

1. Par amounts of long-term issues based on date of sale.
2. Includes school districts beginning 1986.

SOURCES. Investment Dealer's Digest beginning April 1990. Securities Data/Bond Buyer Municipal Data Base beginning 1986. Public Securities Association for earlier data.

1.46 NEW SECURITY ISSUES U.S. Corporations

Millions of dollars

Type of issue or issuer, or use	1988	1989	1990	1990						1991	
				July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.r	Feb.
1 **All issues**[1]	**410,849**r	**376,627**r	**234,961**r	**19,966**	**13,773**r	**14,987**r	**20,384**r	**24,948**r	**20,886**r	**17,238**	**28,552**
2 **Bonds**[2]	**353,048**r	**318,756**r	**234,961**r	**17,719**	**12,965**r	**14,561**r	**19,422**r	**23,713**r	**19,097**r	**16,269**	**26,800**
Type of offering											
3 Public, domestic	202,170r	181,276r	188,469r	14,414	11,769r	12,652r	17,557r	22,007r	18,421r	15,469	23,700
4 Private placement, domestic[3]	127,700	114,629	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
5 Sold abroad	23,178	22,851	23,054	3,305	1,196	1,909	1,865	1,706	676	800	2,800
Industry group											
6 Manufacturing	70,306r	76,345	38,188r	2,015	854	2,598r	3,531r	6,582	2,782	3,128	7,226
7 Commercial and miscellaneous	62,790r	49,726r	11,098r	1,862r	304r	138	548	821r	1,061r	1,408	1,687
8 Transportation	10,275r	10,105	4,926r	270	489	533	230	457r	351	711	563
9 Public utility	19,579r	17,130r	13,893r	703	818	928	796	2,209r	2,032r	700	1,305
10 Communication	5,593r	8,461r	4,516r	120r	48r	250r	228r	593r	1,270r	97	507
11 Real estate and financial	184,503r	156,991r	138,907r	12,748r	10,453r	10,113r	14,089r	13,050r	11,601r	10,225	15,512
12 **Stocks**[2]	**57,802**	**57,870**	n.a.	**2,247**	**808**	**426**	**962**	**1,235**	**1,789**	**896**	**1,802**
Type											
13 Preferred	6,544	6,194	3,998	350	145	100	550	265	175	0	150
14 Common	35,911	26,030	19,443	1,897	663	327	412	970	1,614	896	1,652
15 Private placement[3]	15,346	25,647	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Industry group											
16 Manufacturing	7,608	9,308	n.a.	348	125	0	60	154	46	60	183
17 Commercial and miscellaneous	8,449	7,446	5,026	507	251	172	194	42	110	18	546
18 Transportation	1,535	1,929	126	0	71	0	7	0	5	242	0
19 Public utility	1,898	3,090	4,229	173	139	39	297	462	288	218	335
20 Communication	515	1,904	416	0	0	0	0	0	6	0	0
21 Real estate and financial	37,798	34,028	11,055	862	218	215	400	574	1,327	359	737

1. Figures which represent gross proceeds of issues maturing in more than one year, are principal amount or number of units multiplied by offering price. Excludes secondary offerings, employee stock plans, investment companies other than closed-end, intracorporate transactions, equities sold abroad, and Yankee bonds. Stock data include ownership securities issued by limited partnerships.
2. Monthly data include only public offerings.
3. Data are not available on a monthly basis. Before 1987, annual totals include underwritten issues only.

SOURCES. IDD Information Services, Inc., the Board of Governors of the Federal Reserve System, and before 1989, the U.S. Securities and Exchange Commission.

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1.47 OPEN-END INVESTMENT COMPANIES Net Sales and Asset Position

Millions of dollars

Item	1989	1990	1990						1991	
			July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.[r]	Feb.
INVESTMENT COMPANIES[1]										
1 **Sales of own shares**[2]	**306,445**	**345,780**	**29,444**	**29,227**	**23,387**	**27,511**	**25,583**	**34,553**	**38,012**	**30,605**
2 Redemptions of own shares[3]	272,165	289,573	22,933	24,837	21,053	23,112	22,085	29,484	27,648	23,390
3 Net sales	34,280	56,207	6,511	4,390	2,334	4,399	3,498	5,069	10,364	7,215
4 **Assets**[4]	**553,871**	**570,744**	**586,526**	**554,722**	**535,787**	**538,306**	**557,676**	**570,744**	**590,296**	**616,472**
5 Cash position[5]	44,780	48,638	48,944	51,103	51,128	51,847	52,829	48,638	53,549	53,899
6 Other	509,091	522,106	537,582	503,619	484,659	486,459	504,847	522,106	536,747	562,573

1. Data on sales and redemptions exclude money market mutual funds but include limited maturity municipal bond funds. Data on asset positions exclude both money market mutual funds and limited maturity municipal bond funds.
2. Includes reinvestment of investment income dividends. Excludes reinvestment of capital gains distributions and share issue of conversions from one fund to another in the same group.
3. Excludes share redemption resulting from conversions from one fund to another in the same group.
4. Market value at end of period, less current liabilities.
5. Also includes all U.S. government securities and other short-term debt securities.

NOTE. Investment Company Institute data based on reports of members, which comprise substantially all open-end investment companies registered with the Securities and Exchange Commission. Data reflect newly formed companies after their initial offering of securities.

1.48 CORPORATE PROFITS AND THEIR DISTRIBUTION

Billions of dollars; quarterly data are at seasonally adjusted annual rates.

Account	1988	1989	1990[r]	1989				1990			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1 Corporate profits with inventory valuation and capital consumption adjustment	337.6	311.6	299.9	327.3	321.4	306.7	290.9	296.8	306.6	300.7	288.9
2 Profits before tax	316.7	307.7	306.4	335.1	314.6	291.4	289.8	296.9	299.3	318.5	304.1
3 Profits tax liability	136.2	135.1	133.0	148.3	140.8	127.8	123.5	129.9	133.1	139.1	126.5
4 Profits after tax	180.5	172.6	173.4	186.7	173.8	163.6	166.3	167.1	166.1	179.4	177.6
5 Dividends	110.0	123.5	133.9	119.1	122.1	125.0	127.7	130.3	133.0	135.1	137.2
6 Undistributed profits	70.5	49.1	39.5	67.6	51.7	38.6	38.6	36.8	33.2	44.3	40.4
7 Inventory valuation	−27.0	−21.7	−11.4	−43.0	−23.1	−6.1	−14.5	−11.4	−.5	−19.8	−13.8[r]
8 Capital consumption adjustment	47.8	25.5	4.9	35.2	29.9	21.4	15.6	11.3	7.7	2.0	−1.4[r]

SOURCE. *Survey of Current Business* (Department of Commerce).

1.50 TOTAL NONFARM BUSINESS EXPENDITURES on New Plant and Equipment ▲

Billions of dollars; quarterly data are at seasonally adjusted annual rates.

Industry	1989	1990	1991	1989		1990				1991	
				Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
1 **Total nonfarm business**	**507.40**	**532.96**	**546.41**	**514.95**	**519.58**	**532.45**	**535.49**	**534.86**	**529.02**	**540.82**	**547.91**
Manufacturing											
2 Durable goods industries	82.56	82.99	80.88	83.60	83.41	86.35	84.34	82.67	78.62	81.36	80.86
3 Nondurable goods industries	101.24	109.79	112.51	102.40	108.47	105.02	110.82	111.81	111.52	107.37	113.28
Nonmanufacturing											
4 Mining	9.21	9.87	9.85	9.24	9.38	9.58	9.84	9.98	10.09	10.02	10.12
Transportation											
5 Railroad	6.26	6.41	6.18	6.36	6.80	6.45	6.66	5.60	6.90	5.80	6.07
6 Air	6.73	8.98	10.06	8.89	5.75	9.35	9.36	10.05	7.17	9.61	8.86
7 Other	5.85	6.20	6.82	5.78	5.69	6.33	5.84	5.76	6.88	6.83	6.67
Public utilities											
8 Electric	44.81	43.98	46.66	44.44	44.66	43.37	42.62	43.63	46.31	45.87	46.61
9 Gas and other	21.47	23.02	22.41	20.75	21.15	22.34	21.65	23.85	24.22	22.85	21.97
10 Commercial and other[2]	229.28	241.72	251.04	233.50	234.25	243.66	244.37	241.51	237.32	251.11	253.48

▲Trade and services are no longer being reported separately. They are included in Commercial and other, line 10.
1. Anticipated by business.
2. "Other" consists of construction; wholesale and retail trade; finance and insurance; personal and business services; and communication.
SOURCE. *Survey of Current Business* (Department of Commerce).

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1.51 DOMESTIC FINANCE COMPANIES Assets and Liabilities[1]

Billions of dollars, end of period

Account	1987	1988	1989	1989			1990			
				Q2	Q3	Q4	Q1	Q2	Q3	Q4
ASSETS										
Accounts receivable, gross[2]										
1 Consumer	141.1	146.2	140.8	143.9	146.3	140.8	137.9	138.6	140.9	136.0
2 Business	207.4	236.5	256.0	250.9	246.8	256.0	262.9	274.8	275.4	290.8
3 Real estate	39.5	43.5	48.9	47.1	48.7	48.9	52.1	55.4	57.7	59.9
4 Total	388.1	426.2	445.8	441.9	441.8	445.8	452.8	468.8	474.0	486.7
Less:										
5 Reserves for unearned income	45.3	50.0	52.0	52.2	52.9	52.0	51.9	54.3	55.1	56.6
6 Reserves for losses	6.8	7.3	7.7	7.5	7.7	7.7	7.9	8.2	8.6	8.9
7 Accounts receivable, net	336.0	368.9	386.1	382.2	381.3	386.1	393.0	406.3	410.3	421.2
8 All other	58.3	72.4	91.6	81.4	85.2	91.6	92.5	95.5	102.8	103.6
9 Total assets	**394.2**	**441.3**	**477.6**	**463.6**	**466.4**	**477.6**	**485.5**	**501.9**	**513.1**	**524.8**
LIABILITIES										
10 Bank loans	16.4	15.4	14.5	12.1	12.2	14.5	13.9	15.8	15.6	18.6
11 Commercial paper	128.4	142.0	149.5	149.0	147.2	149.5	152.9	152.4	148.6	152.7
Debt										
12 Other short-term	28.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
13 Long-term	137.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
14 Due to parent	n.a.	50.6	63.8	59.8	60.3	63.8	70.5	72.8	82.0	77.3
15 Not elsewhere classified	n.a.	137.9	147.8	140.5	145.1	147.8	145.7	153.0	156.6	157.4
16 All other liabilities	52.8	59.8	62.6	63.5	61.8	62.6	61.7	66.1	68.7	78.7
17 Capital, surplus, and undivided profits	31.5	35.6	39.4	38.8	39.8	39.4	40.7	41.8	41.6	40.2
18 Total liabilities and capital	**394.2**	**441.3**	**477.6**	**463.6**	**466.4**	**477.6**	**485.5**	**501.9**	**513.1**	**524.8**

1. Components may not sum to totals because of rounding.

2. Excludes pools of securitized assets.

1.52 DOMESTIC FINANCE COMPANIES Business Credit Outstanding and Net Change[1]

Millions of dollars, seasonally adjusted

Type	1988	1989	1990	1990				1991	
				Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
1 Total	**234,578**	**258,504**	**292,117**	**285,654**	**287,921**	**287,819**	**292,117**	**294,134**[r]	**293,825**
Retail financing of installment sales									
2 Automotive	36,957	39,139	37,756	38,470	39,150	38,600	37,756	38,062	37,564
3 Equipment	28,199	29,674	31,867	30,607	30,487	30,729	31,867	31,984	32,116
4 Pools of securitized assets[2]	n.a.	698	951	946	902	927	951	911	879
Wholesale									
5 Automotive	32,357	33,074	31,385	37,082	35,258	33,111	31,385	32,467	30,550
6 Equipment	5,954	6,896	11,504	9,791	10,698	10,847	11,504	11,543	11,205
7 All other	9,312	9,918	9,043	9,597	9,477	9,447	9,043	9,381	9,094
8 Pools of securitized assets[2]	n.a.	0	2,950	863	679	649	2,950	2,836	3,353
Leasing									
9 Automotive	24,875	27,074	39,622	30,453	31,303	31,601	39,622	39,303[r]	39,234
10 Equipment	57,658	68,112	75,240	79,158	80,833	81,427	75,240	76,576	78,881
11 Pools of securitized assets[2]	n.a.	1,247	1,849	1,655	1,724	1,884	1,849	1,854	1,810
12 Loans on commercial accounts receivable and factored commercial accounts receivable	18,103	19,081	23,231	20,538	20,740	21,652	23,231	22,130	22,280
13 All other business credit	21,162	23,590	26,720	26,495	26,670	26,944	26,720	27,086	26,861
	Net change (during period)								
14 Total	**22,434**	**22,580**	**31,396**	**2,611**	**2,267**	**−101**	**4,298**	**2,017**[r]	**−309**
Retail financing of installment sales									
15 Automotive	819	2,182	−1,383	−141	680	−549	−844	306	−499
16 Equipment	1,386	1,475	2,195	−100	−120	243	1,138	118	131
17 Pools of securitized assets[2]	n.a.	−26	253	−41	−44	25	24	−40	−32
Wholesale									
18 Automotive	2,288	716	−1,689	2,653	−1,823	−2,147	−1,727	1,083	−1,918
19 Equipment	377	940	2,389	−21	907	149	657	39	−338
20 All other	983	605	−874	−110	−120	−29	−404	338	−287
21 Pools of securitized assets[2]	n.a.	0	2,950	213	−184	−30	2,301	−114	517
Leasing									
22 Automotive	2,777	2,201	12,548	−488	850	298	8,021	−319[r]	−69
23 Equipment	9,752	9,187	7,128	444	1,675	594	−6,188	1,337	2,305
24 Pools of securitized assets[2]	n.a.	526	602	−48	69	160	−35	5	−44
25 Loans on commercial accounts receivable and factored commercial accounts receivable	−65	979	4,149	564	202	912	1,579	−1,101	150
26 All other business credit	4,119	3,796	3,131	−314	175	273	−223	366	−225

1. These data also appear in the Board's G.20 (422) release. For address, see inside front cover.

2. Data on pools of securitized assets are not seasonally adjusted.

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1.53 MORTGAGE MARKETS

Millions of dollars; exceptions noted.

Item	1988	1989	1990	1990				1991		
				Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
	Terms and yields in primary and secondary markets									
PRIMARY MARKETS										
Conventional mortgages on new homes										
Terms[1]										
1 Purchase price (thousands of dollars)	150.0	159.6	153.2	156.6	146.1	151.5	156.3	148.3	153.2	136.7
2 Amount of loan (thousands of dollars)	110.5	117.0	112.4	114.8	105.1	111.2	115.4	112.3	113.8	100.4
3 Loan/price ratio (percent)	75.5	74.5	74.8	74.7	73.5	75.0	74.9	77.2	76.3	74.6
4 Maturity (years)	28.0	28.1	27.3	27.2	26.9	27.1	28.6	28.1	28.3	25.7
5 Fees and charges (percent of loan amount)[2]	2.19	2.06	1.93	1.78	1.80	1.68	1.85	1.75	1.73	1.59
6 Contract rate (percent per year)	8.81	9.76	9.68	9.60	9.68	9.61	9.45	9.36	9.28	9.16
Yield (percent per year)										
7 OTS series[3]	9.18	10.11	10.01	9.90	9.98	9.90	9.76	9.65	9.57	9.43
8 HUD series[4]	10.30	10.21	10.08	10.18	10.11	9.86	9.66	9.53	9.49	9.49
SECONDARY MARKETS										
Yield (percent per year)										
9 FHA mortgages (HUD series)[5]	10.49	10.24	10.17	10.24	10.23	9.81	9.66	9.58	9.57	9.61
10 GNMA securities[6]	9.83	9.71	9.51	9.65	9.66	9.46	9.08	8.87	8.66	8.75
	Activity in secondary markets									
FEDERAL NATIONAL MORTGAGE ASSOCIATION										
Mortgage holdings (end of period)										
11 Total	101,329	104,974	113,329	113,718	114,216	115,085	116,628	117,445	118,284	119,196
12 FHA/VA-insured	19,762	19,640	21,028	21,364	21,495	21,530	21,751	21,854	21,947	21,976
13 Conventional	81,567	85,335	92,302	92,354	92,721	93,555	94,877	95,591	96,337	97,220
Mortgage transactions (during period)										
14 Purchases	23,110	22,518	23,959	2,123	2,077	2,078	2,410	1,781	1,792	1,987
Mortgage commitments[7]										
15 Issued (during period)[8]	n.a.	n.a.	n.a.	2,073	1,849	2,426	2,104	1,889	1,779	3,087
16 To sell (during period)[9]	n.a.	n.a.	n.a.	644	92	0	0	2	0	109
FEDERAL HOME LOAN MORTGAGE CORPORATION										
Mortgage holdings (end of period)[9]										
17 Total	15,105	20,105	20,419	20,508	20,790	21,301	21,857	n.a.	n.a.	n.a.
18 FHA/VA	620	590	547	536	530	524	518	n.a.	n.a.	n.a.
19 Conventional	14,485	19,516	19,871	19,972	20,260	20,777	21,339	n.a.	n.a.	n.a.
Mortgage transactions (during period)										
20 Purchases	44,077	78,588	75,517	5,798	6,118	6,981	10,637	n.a.	n.a.	n.a.
21 Sales	39,780	73,446	73,817	5,707	5,734	6,314	9,918	4,507	4,465	6,184
Mortgage commitments[10]										
22 Contracted (during period)	66,026	88,519	102,401	6,643	10,972	10,164	12,938	n.a.	n.a.	n.a.

1. Weighted averages based on sample surveys of mortgages originated by major institutional lender groups; compiled by the Federal Home Loan Bank Board in cooperation with the Federal Deposit Insurance Corporation.
2. Includes all fees, commissions, discounts, and "points" paid (by the borrower or the seller) to obtain a loan.
3. Average effective interest rates on loans closed, assuming prepayment at the end of 10 years.
4. Average contract rates on new commitments for conventional first mortgages; from Department of Housing and Urban Development.
5. Average gross yields on 30-year, minimum-downpayment, Federal Housing Administration-insured first mortgages for immediate delivery in the private secondary market. Based on transactions on first day of subsequent month. Large monthly movements in average yields may reflect market adjustments to changes in maximum permissable contract rates.
6. Average net yields to investors on Government National Mortgage Association guaranteed, mortgage-backed, fully modified pass-through securities, assuming prepayment in 12 years on pools of 30-year FHA/VA mortgages carrying the prevailing ceiling rate. Monthly figures are averages of Friday figures from the *Wall Street Journal*.
7. Includes some multifamily and nonprofit hospital loan commitments in addition to 1- to 4-family loan commitments accepted in FNMA's free market auction system, and through the FNMA-GNMA tandem plans.
8. Does not include standby commitments issued, but includes standby commitments converted.
9. Includes participation as well as whole loans.
10. Includes conventional and government-underwritten loans. FHLMC's mortgage commitments and mortgage transactions include activity under mortgage/securities swap programs, while the corresponding data for FNMA exclude swap activity.

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1.54 MORTGAGE DEBT OUTSTANDING[1]

Millions of dollars, end of period

Type of holder, and type of property	1988	1989	1990	1989	1990			
				Q4	Q1	Q2	Q3	Q4[p]
1 **All holders**	**3,265,352**	**3,552,716**	**3,858,580**	**3,552,716**	**3,693,622**	**3,757,289**	**3,813,083**	**3,858,580**
2 1- to 4-family	2,184,449	2,408,575	2,690,678	2,408,575	2,530,708	2,593,951	2,643,112	2,690,678
3 Multifamily	290,651	302,537	300,173	302,537	304,758	300,644	301,756	300,173
4 Commercial	704,970	757,538	783,498	757,538	774,253	778,694	783,916	783,498
5 Farm	85,282	84,066	84,231	84,066	83,903	84,000	84,299	84,231
6 Selected financial institutions	1,826,706	1,927,883	1,918,662	1,927,883	1,935,745	1,937,175	1,930,841	1,918,662
7 Commercial banks[2]	669,237	763,415	841,814	763,415	783,542	811,407	828,178	841,814
8 1- to 4-family	317,585	368,518	427,740	368,518	381,221	405,545	418,225	427,740
9 Multifamily	33,158	37,996	36,180	37,996	36,833	37,274	36,737	36,180
10 Commercial	302,989	340,204	360,243	340,204	348,676	351,412	355,843	360,243
11 Farm	15,505	16,697	17,651	16,697	16,812	17,176	17,373	17,651
12 Savings institutions[3]	924,606	910,254	809,829	910,254	891,921	860,903	836,600	809,829
13 1- to 4-family	671,722	669,220	610,809	669,220	658,405	642,110	626,789	610,809
14 Multifamily	110,775	106,014	91,789	106,014	103,841	97,359	94,714	91,789
15 Commercial	141,433	134,370	106,708	134,370	129,056	120,866	114,567	106,708
16 Farm	676	650	524	650	619	568	530	524
17 Life insurance companies	232,863	254,214	267,018	254,214	260,282	264,865	266,063	267,018
18 1- to 4-family	11,164	12,231	12,837	12,231	12,525	12,740	12,773	12,837
19 Multifamily	24,560	26,907	28,171	26,907	27,555	28,027	28,100	28,171
20 Commercial	187,549	205,472	215,121	205,472	210,422	214,024	214,585	215,121
21 Farm	9,590	9,604	10,890	9,604	9,780	10,075	10,605	10,890
22 Finance companies[4]	37,846	45,476	48,777	45,476	45,808	47,104	49,784	48,777
23 Federal and related agencies	200,570	209,498	247,693	209,498	216,146	227,818	242,695	247,693
24 Government National Mortgage Association	26	23	21	23	22	21	21	21
25 1- to 4-family	26	23	21	23	22	21	21	21
26 Multifamily	0	0	0	0	0	0	0	0
27 Farmers Home Administration[5]	42,018	41,176	41,324	41,176	41,125	41,175	41,269	41,324
28 1- to 4-family	18,347	18,422	18,494	18,422	18,419	18,434	18,476	18,494
29 Multifamily	8,513	9,054	9,623	9,054	9,199	9,361	9,477	9,623
30 Commercial	5,343	4,443	4,671	4,443	4,510	4,545	4,608	4,671
31 Farm	9,815	9,257	8,536	9,257	8,997	8,835	8,708	8,536
32 Federal Housing and Veterans Administration	5,973	6,087	8,570	6,087	6,355	6,792	7,938	8,570
33 1- to 4-family	2,672	2,875	3,362	2,875	3,027	3,054	3,248	3,362
34 Multifamily	3,301	3,212	5,208	3,212	3,328	3,738	4,690	5,208
35 Federal National Mortgage Association	103,013	110,721	115,508	110,721	112,353	112,855	113,718	115,508
36 1- to 4-family	95,833	102,295	104,900	102,295	103,300	103,431	103,722	104,900
37 Multifamily	7,180	8,426	10,608	8,426	9,053	9,424	9,996	10,608
38 Federal Land Banks	32,115	29,640	29,145	29,640	29,325	29,595	29,441	29,145
39 1- to 4-family	1,890	1,210	1,820	1,210	1,197	1,741	1,766	1,820
40 Farm	30,225	28,430	27,325	28,430	28,128	27,854	27,675	27,325
41 Federal Home Loan Mortgage Corporation	17,425	21,851	20,525	21,851	19,823	19,979	20,508	20,525
42 1- to 4-family	15,077	18,248	17,870	18,248	16,772	17,316	17,810	17,870
43 Multifamily	2,348	3,603	2,655	3,603	3,051	2,663	2,697	2,655
44 Mortgage pools or trusts[6]	811,847	946,766	1,101,589	946,766	984,811	1,024,893	1,060,640	1,101,589
45 Government National Mortgage Association	340,527	368,367	404,076	368,367	376,962	385,456	394,859	404,076
46 1- to 4-family	331,257	358,142	393,656	358,142	366,300	374,960	384,474	393,656
47 Multifamily	9,270	10,225	10,419	10,225	10,662	10,496	10,385	10,419
48 Federal Home Loan Mortgage Corporation	226,406	272,870	309,486	272,870	281,736	295,340	301,797	309,486
49 1- to 4-family	219,988	266,060	301,450	266,060	274,084	287,232	293,721	301,450
50 Multifamily	6,418	6,810	8,036	6,810	7,652	8,108	8,077	8,036
51 Federal National Mortgage Association	178,250	228,232	303,880	228,232	246,391	263,330	281,806	303,880
52 1- to 4-family	172,331	219,577	295,438	219,577	237,916	254,811	273,335	295,438
53 Multifamily	5,919	8,655	8,442	8,655	8,475	8,519	8,471	8,442
54 Farmers Home Administration[5]	104	80	68	80	76	72	70	68
55 1- to 4-family	26	21	17	21	20	19	18	17
56 Multifamily	0	0	0	0	0	0	0	0
57 Commercial	38	26	24	26	25	24	24	24
58 Farm	40	33	27	33	31	30	29	27
59 Individuals and others[7]	426,229	468,569	590,637	468,569	556,920	567,403	578,908	590,637
60 1- to 4-family	259,971	294,517	402,385	294,517	374,143	382,343	393,027	402,385
61 Multifamily	79,209	81,634	80,978	81,634	83,666	82,040	80,636	80,978
62 Commercial	67,618	73,023	87,995	73,023	79,576	83,557	85,865	87,995
63 Farm	19,431	19,395	19,278	19,395	19,536	19,463	19,379	19,278

1. Based on data from various institutional and governmental sources, with some quarters estimated in part by the Federal Reserve. Multifamily debt refers to loans on structures of five or more units.

2. Includes loans held by nondeposit trust companies but not bank trust departments.

3. Includes savings banks and savings and loan associations. Beginning 1987:1, data reported by FSLIC-insured institutions include loans in process and other contra assets (credit balance accounts that must be subtracted from the corresponding gross asset categories to yield net asset levels).

4. Assumed to be entirely 1- to 4-family loans.

5. Farmers Home Administration-guaranteed securities sold to the Federal Financing Bank were reallocated from FmHA mortgage pools to FmHA mortgage holdings in 1986:4, because of accounting changes by the Farmers Home Administration.

6. Outstanding principal balances of mortgage pools backing securities insured or guaranteed by the agency indicated. Includes private pools which are not shown as a separate line item.

7. Other holders include mortgage companies, real estate investment trusts, state and local credit agencies, state and local retirement funds, noninsured pension funds, credit unions, and other U.S. agencies.

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1.55 CONSUMER INSTALLMENT CREDIT[1] Total Outstanding, and Net Change, seasonally adjusted

Millions of dollars, amounts outstanding, end of period

Holder, and type of credit	1989	1990	1990							1991	
			June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
	Seasonally adjusted										
1 **Total**	**716,624**	**739,014**	**724,601**	**729,329**	**732,385**	**735,222**	**736,595**	**739,357**	**739,014**	**736,756**r	**734,461**
2 Automobile	290,770	285,336	287,168	286,791	285,283	285,261	284,402	284,483	285,336	283,593r	280,501
3 Revolving	197,110	218,235	208,362	212,138	214,492	216,804	218,381	219,757	218,235	219,463r	220,838
4 Mobile home	22,343	21,816	22,733	22,795	22,976	22,672	22,491	22,518	21,816	22,684	22,446
5 Other	206,401	213,628	206,338	207,605	209,635	210,484	211,320	212,599	213,628	211,015r	210,676
	Not seasonally adjusted										
6 **Total**	**727,561**	**750,941**	**722,953**	**727,196**	**734,511**	**737,260**	**737,252**	**740,346**	**750,941**	**740,602**r	**733,940**
By major holder											
7 Commercial banks	343,865	351,695	335,998	339,124	342,987	344,941	344,875	346,128	351,695	345,027r	343,923
8 Finance companies	140,832	136,154	138,642	138,796	139,496	140,890	141,329	139,195	136,154	134,739	132,750
9 Credit unions	90,875	91,203	90,137	90,631	91,306	91,311	91,406	91,174	91,203	90,335r	89,990
10 Retailers	42,638	42,111	37,382	36,804	37,231	36,682	36,047	37,470	42,111	39,828	37,866
11 Savings institutions	57,228	49,594	52,902	52,503	52,399	51,358	50,787	50,310	49,594	49,117	47,687
12 Gasoline companies	3,935	4,747	4,192	4,396	4,722	4,723	4,718	4,701	4,747	4,748	4,333
13 Pools of securitized assets[2]	48,188	75,437	63,700	64,942	66,370	67,355	68,090	71,368	75,437	76,808r	77,391
By major type of credit[3]											
14 Automobile	290,421	284,908	287,254	287,479	288,221	289,255	287,730	285,877	284,908	281,750r	279,098
15 Commercial banks	126,613	126,117r	126,988	126,986	128,079	128,937	128,133	127,039	126,117r	124,494	123,394
16 Finance companies	82,721	74,397	78,273	77,716	77,205	78,116	78,033	75,224	74,397	72,015	70,287
17 Pools of securitized assets[2]	18,191	24,198	21,043	21,692	21,562	21,239	20,786	23,159	24,198	25,690r	26,514
18 Revolving	208,188	230,456	206,820	209,582	213,119	214,853	216,285	219,713	230,456	224,006r	221,015
19 Commercial banks	130,956	133,295	122,116	124,569	125,967	126,995	127,950	129,111	133,295	128,774r	128,442
20 Retailers	37,967	37,535	32,884	32,325	32,735	32,212	31,601	32,993	37,535	35,330	33,448
21 Gasoline companies	3,935	4,747	4,192	4,396	4,722	4,723	4,718	4,701	4,747	4,748	4,333
22 Pools of securitized assets[2]	22,977	43,887	36,076	36,786	38,194	39,606	40,798	41,797	43,887	44,302	44,161
23 Mobile home	22,283	21,757	22,644	22,873	23,033	22,815	22,720	22,646	21,757	22,818	22,540
24 Commercial banks	9,155	9,934	9,296	9,443	9,541	9,396	9,363	9,351	9,934	9,838	9,824
25 Finance companies	4,716	3,956	5,266	5,328	5,358	5,423	5,400	5,364	3,956	5,141	5,059
26 Other	206,669	213,820	206,235	207,252	210,138	210,337	210,517	212,110	213,820	212,028r	211,287
27 Commercial banks	77,141	82,349	77,598	78,126	79,400	79,613	79,429	80,627	82,349	81,921r	82,263
28 Finance companies	53,395	57,801	55,103	55,752	56,933	57,351	57,896	58,607	57,801	57,583	57,404
29 Retailers	4,671	4,576	4,498	4,479	4,496	4,470	4,446	4,477	4,576	4,498	4,418
30 Pools of securitized assets[2]	7,020	7,352	6,581	6,464	6,614	6,510	6,506	6,412	7,352	6,816	6,716

1. The Board's series cover most short- and intermediate-term credit extended to individuals that is scheduled to be repaid (or has the option of repayment) in two or more installments.
These data also appear in the Board's G.19 (421) release. For address, see inside front cover.

2. Outstanding balances of pools upon which securities have been issued; these balances are no longer carried on the balance sheets of the loan originator.

3. Totals include estimates for certain holders for which only consumer credit totals are available.

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1.56 TERMS OF CONSUMER INSTALLMENT CREDIT[1]

Percent unless noted otherwise

	Item	1988	1989	1990	1990					1991	
					Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
	INTEREST RATES										
	Commercial banks[2]										
1	48-month new car[3]	10.85	12.07	11.78	11.89	n.a.	n.a.	11.62	n.a.	n.a.	11.60
2	24-month personal	14.68	15.44	15.46	15.46	n.a.	n.a.	15.69	n.a.	n.a.	15.42
3	120-month mobile home[3]	13.54	14.11	14.02	14.09	n.a.	n.a.	13.99	n.a.	n.a.	13.88
4	Credit card	17.78	18.02	18.17	18.18	n.a.	n.a.	18.23	n.a.	n.a.	18.28
	Auto finance companies										
5	New car	12.60	12.62	12.54	12.62	12.34	12.57	12.74	12.86	12.99	13.16
6	Used car	15.11	16.18	15.99	15.98	16.03	16.12	16.07	16.04	15.70	15.90
	OTHER TERMS[4]										
	Maturity (months)										
7	New car	56.2	54.2	54.6	54.8	54.3	54.6	54.6	54.7	54.9	55.2
8	Used car	46.7	46.6	46.1	46.2	46.1	46.1	46.0	45.8	47.4	47.1
	Loan-to-value ratio										
9	New car	94	91	87	86	85	85	85	85	88	88
10	Used car	98	97	95	96	95	95	95	94	96	96
	Amount financed (dollars)										
11	New car	11,663	12,001	12,071	11,939	11,837	11,917	11,986	12,140	12,229	12,081
12	Used car	7,824	7,954	8,289	8,415	8,403	8,423	8,494	8,530	8,600	8,605

1. These data also appear in the Board's G.19 (421) release. For address, see inside front cover.
2. Data for midmonth of quarter only.
3. Before 1983 the maturity for new car loans was 36 months, and for mobile home loans was 84 months.
4. At auto finance companies.

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1.57 FUNDS RAISED IN U.S. CREDIT MARKETS

Billions of dollars; quarterly data are at seasonally adjusted annual rates.

Transaction category, sector	1986	1987	1988	1989	1990	1989			1990			
						Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Nonfinancial sectors											
1 **Total net borrowing by domestic nonfinancial sectors**	**836.9**	**687.0**	**760.8**	**678.2**	**662.1**	**666.8**	**678.8**	**620.2**	**788.6**	**611.8**	**687.2**	**561.0**
By sector and instrument												
2 U.S. government	215.0	144.9	157.5	151.6	272.5	100.1	173.9	185.0	247.3	228.2	286.1	328.4
3 Treasury securities	214.7	143.4	140.0	150.0	264.4	95.0	166.8	189.6	217.8	222.9	287.5	329.4
4 Agency issues and mortgages	.4	1.5	17.4	1.6	8.2	5.1	7.1	−4.6	29.6	5.4	−1.3	−1.0
5 Private domestic nonfinancial sectors	621.9	542.1	603.3	526.6	389.6	566.7	504.9	435.2	541.3	383.6	401.0	232.6
6 Debt capital instruments	465.8	453.2	459.2	379.8	309.6	390.1	369.2	347.0	393.7	318.9	282.8	243.0
7 Tax-exempt obligations	22.7	49.3	49.8	30.4	19.4	28.7	34.1	19.1	13.0	24.7	29.8	10.1
8 Corporate bonds	126.8	79.4	102.9	73.7	61.5	86.5	62.7	87.4	45.2	75.2	46.0	79.6
9 Mortgages	316.3	324.5	306.5	275.7	228.7	275.0	272.4	240.5	335.6	218.9	207.0	153.3
10 Home mortgages	218.7	234.9	231.0	218.0	214.4	211.3	221.0	214.3	272.8	228.2	179.3	177.4
11 Multifamily residential	33.5	24.4	16.7	16.4	−.7	21.4	11.8	9.5	22.1	−18.2	3.1	−9.7
12 Commercial	73.6	71.6	60.8	42.7	14.8	41.5	40.9	19.9	40.1	10.9	22.7	−14.6
13 Farm	−9.5	−6.4	−2.1	−1.5	.2	.9	−1.3	−3.2	.5	−1.9	1.9	.2
14 Other debt instruments	156.1	88.9	144.1	146.8	80.0	176.5	135.6	88.2	147.6	64.7	118.2	−10.4
15 Consumer credit	58.0	33.5	50.2	39.1	18.4	36.9	37.1	44.1	14.9	10.5	26.6	21.6
16 Bank loans n.e.c.	66.9	10.0	39.8	39.9	−3.0	45.1	50.8	7.7	18.7	6.5	5.6	−43.0
17 Open market paper	−9.3	2.3	11.9	20.4	9.7	39.5	16.9	−6.9	69.6	−6.2	17.3	−41.7
18 Other	40.5	43.2	42.2	47.4	54.9	55.0	30.9	43.3	44.3	53.9	68.7	52.6
19 By borrowing sector	621.9	542.1	603.3	526.6	389.6	566.7	504.9	435.2	541.3	383.6	401.0	232.6
20 State and local governments	36.2	48.8	45.6	29.6	14.6	33.3	28.6	16.5	8.9	17.7	28.7	3.1
21 Households	293.0	302.2	314.9	285.0	260.1	264.0	290.8	291.8	335.0	269.7	246.8	189.0
22 Nonfinancial business	292.7	191.0	242.8	211.9	114.9	269.4	185.4	126.9	197.4	96.2	125.6	40.4
23 Farm	−16.3	−10.6	−7.5	1.6	3.0	−5.0	−2.1	8.9	6.3	−4.8	5.2	5.1
24 Nonfarm noncorporate	99.2	77.9	65.7	50.8	14.3	56.9	40.2	35.0	44.4	5.2	22.3	−14.5
25 Corporate	209.7	123.7	184.6	159.5	97.6	217.4	147.3	83.1	146.8	95.8	98.1	49.8
26 Foreign net borrowing in United States	9.7	4.5	6.3	10.9	23.3	−6.9	30.4	16.9	−3.5	42.5	32.9	21.2
27 Bonds	3.1	7.4	6.9	5.3	21.1	11.5	8.1	−1.0	28.1	27.4	3.2	25.7
28 Bank loans n.e.c.	−1.0	−3.6	−1.8	−.1	−2.8	−3.2	3.7	−4.3	−6.7	−2.0	1.9	−4.3
29 Open market paper	11.5	2.1	8.7	13.3	12.3	−6.6	20.7	22.2	−16.4	23.1	27.3	15.3
30 U.S. government loans	−3.9	−1.4	−7.5	−7.5	−7.4	−8.7	−2.1	.1	−8.5	−6.1	.5	−15.5
31 **Total domestic plus foreign**	**846.6**	**691.5**	**767.1**	**689.1**	**685.4**	**659.9**	**709.2**	**637.1**	**785.1**	**654.3**	**720.1**	**582.2**
	Financial sectors											
32 **Total net borrowing by financial sectors**	**285.1**	**300.2**	**247.6**	**205.5**	**199.4**	**154.1**	**123.9**	**187.3**	**198.6**	**172.6**	**170.9**	**255.4**
By instrument												
33 U.S. government related	154.1	171.8	119.8	151.0	170.6	128.8	124.8	156.4	176.2	183.8	137.5	184.8
34 Sponsored credit agency securities	15.2	30.2	44.9	25.2	22.6	22.5	13.2	−4.7	14.3	17.0	20.6	38.8
35 Mortgage pool securities	139.2	142.3	74.9	125.8	148.0	106.3	111.6	161.1	162.0	166.8	116.9	146.1
36 Loans from U.S. government	−.4	−.8	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
37 Private financial sectors	131.0	128.4	127.8	54.5	28.8	25.3	−.9	30.9	22.3	−11.3	33.5	70.5
38 Corporate bonds	82.9	78.9	51.7	36.8	44.1	28.5	26.7	39.6	37.7	64.0	22.3	52.4
39 Mortgages	.1	.4	.3	.0	.7	.0	.3	−.4	−.7	.8	2.6	.0
40 Bank loans n.e.c.	4.0	−3.2	1.4	1.8	.7	−.1	2.0	4.2	−2.2	−.6	1.9	3.8
41 Open market paper	24.2	27.9	54.8	26.9	8.0	10.1	11.0	36.3	9.5	−44.6	37.2	29.8
42 Loans from Federal Home Loan Banks	19.8	24.4	19.7	−11.0	−24.7	−13.1	−41.0	−48.8	−22.0	−30.9	−30.5	−15.5
By sector												
43 **Total**	**285.1**	**300.2**	**247.6**	**205.5**	**199.4**	**154.1**	**123.9**	**187.3**	**198.6**	**172.6**	**170.9**	**255.4**
44 Sponsored credit agencies	14.9	29.5	44.9	25.2	22.6	22.5	13.2	−4.7	14.3	17.0	20.6	38.8
45 Mortgage pools	139.2	142.3	74.9	125.8	148.0	106.3	111.6	161.1	162.0	166.8	116.9	146.1
46 Private financial sectors	131.0	128.4	127.8	54.5	28.8	25.3	−.9	30.9	22.3	−11.3	33.5	70.5
47 Commercial banks	−3.6	6.2	−3.0	−1.4	−1.1	2.5	3.5	−.7	−4.9	−7.9	−12.5	21.0
48 Bank affiliates	15.2	14.3	5.2	6.2	−27.7	2.9	16.5	−3.9	−10.0	−32.2	−40.2	−28.5
49 Savings and loan associations	20.9	19.6	19.9	−14.1	−32.4	−16.3	−44.7	−56.2	−15.8	−53.5	−36.5	−24.0
50 Mutual savings banks	4.2	8.1	1.9	−1.4	−.1	.0	−2.3	.7	−8.3	6.5	.3	1.1
51 Finance companies	54.7	40.8	67.7	46.3	50.9	40.4	23.5	52.6	27.1	27.5	91.3	57.8
52 REITs	.8	.3	3.5	−1.9	−.3	−2.8	−3.1	.1	−.5	−2.0	1.3	−.1
53 SCO Issuers	39.0	39.1	32.5	20.8	39.5	−1.4	5.7	38.2	34.7	50.3	29.7	43.3

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1.57—Continued

Transaction category, sector	1986	1987	1988	1989	1990	1989			1990			
						Q2	Q3	Q4	Q1	Q2	Q3	Q4
	All sectors											
54 **Total net borrowing**	**1,131.7**	**991.7**	**1,014.7**	**894.5**	**884.8**	**814.0**	**833.0**	**824.4**	**983.7**	**826.8**	**891.0**	**837.5**
55 U.S. government securities	369.5	317.5	277.2	302.6	443.1	228.9	298.7	341.4	423.6	412.1	423.6	513.3
56 State and local obligations	22.7	49.3	49.8	30.4	19.4	28.7	34.1	19.1	13.0	24.7	29.8	10.1
57 Corporate and foreign bonds	212.8	165.7	161.5	115.8	126.7	126.5	97.6	125.9	111.0	166.6	71.4	157.7
58 Mortgages	316.4	324.9	306.7	275.7	229.4	275.0	272.7	240.1	334.9	219.7	209.5	153.4
59 Consumer credit	58.0	33.5	50.2	39.1	18.4	36.9	37.1	44.1	14.9	10.5	26.6	21.6
60 Bank loans n.e.c.	69.9	3.2	39.4	41.5	−5.1	41.9	56.5	7.5	9.8	4.0	9.4	−43.5
61 Open market paper	26.4	32.3	75.4	60.6	30.0	42.9	48.5	51.6	62.6	−27.7	81.9	3.3
62 Other loans	56.1	65.5	54.4	28.9	22.8	33.2	−12.2	−5.4	13.9	17.0	38.8	21.6
63 MEMO: U.S. government, cash balance	.0	−7.9	10.4	−5.9	8.6	20.7	−22.7	−7.3	22.9	−38.1	21.1	28.3
Totals net of changes in U.S. government cash balances												
64 Net borrowing by domestic nonfinancial	836.9	694.9	750.4	684.1	653.6	646.1	701.6	627.6	765.7	649.9	666.1	532.6
65 Net borrowing by U.S. government	215.0	152.8	147.1	157.5	264.0	79.4	196.7	192.4	224.4	266.3	265.1	300.1
	External corporate equity funds raised in United States											
66 **Total net share issues**	**86.8**	**10.9**	**−124.2**	**−63.7**	**17.2**	**−43.0**	**−61.0**	**14.9**	**−4.7**	**51.3**	**−9.6**	**31.7**
67 Mutual funds	159.0	73.9	1.1	41.3	66.9	34.0	57.9	72.4	53.1	76.5	51.7	86.2
68 All other	−72.2	−63.0	−125.3	−105.1	−49.7	−77.0	−118.9	−57.6	−57.8	−25.2	−61.3	−54.4
69 Nonfinancial corporations	−85.0	−75.5	−129.5	−124.2	−63.0	−98.7	−146.3	−79.3	−69.0	−48.0	−74.0	−61.0
70 Financial corporations	11.6	14.6	3.3	2.4	6.1	4.3	−.1	4.5	10.0	.3	12.6	1.5
71 Foreign shares purchased in United States	1.2	−2.1	.9	16.7	7.2	17.4	27.5	17.2	1.3	22.5	.1	5.1

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1.58 DIRECT AND INDIRECT SOURCES OF FUNDS TO CREDIT MARKETS

Billions of dollars, except as noted; quarterly data are at seasonally adjusted annual rates.

	Transaction category, or sector	1986	1987	1988	1989	1990	1989			1990			
							Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	**Total funds advanced in credit markets to domestic nonfinancial sectors**	**836.9**	**687.0**	**760.8**	**678.2**	**662.1**	**666.8**	**678.8**	**620.2**	**788.6**	**611.8**	**687.2**	**561.0**
	By public agencies and foreign												
2	Total net advances	280.2	248.8	210.7	187.6	278.7	15.5	218.3	203.8	234.4	314.3	316.1	249.9
3	U.S. government securities	69.4	70.1	85.2	30.7	79.9	−103.3	115.7	27.1	17.3	97.1	134.9	70.2
4	Residential mortgages	136.3	139.1	86.3	137.9	179.0	119.7	127.7	178.3	182.2	206.7	160.8	166.3
5	FHLB advances to thrifts	19.8	24.4	19.7	−11.0	−24.7	−13.1	−41.0	−48.8	−22.0	−30.9	−30.5	−15.5
6	Other loans and securities	54.7	15.1	19.4	30.0	44.5	12.1	15.8	47.1	56.8	41.3	50.9	28.9
	Total advanced, by sector												
7	U.S. government	9.7	−7.9	−9.4	−2.4	34.0	−6.0	−9.3	5.7	33.5	41.3	59.1	2.0
8	Sponsored credit agencies	153.3	169.3	112.0	125.3	170.1	28.0	126.4	158.4	184.2	166.3	155.6	174.4
9	Monetary authorities	19.4	24.7	10.5	−7.3	8.1	−1.6	−31.2	−4.6	−6.3	40.4	24.4	−25.9
10	Foreign	97.8	62.7	97.6	72.1	66.4	−4.9	132.4	44.2	22.9	66.4	77.0	99.4
	Agency and foreign borrowing not in line 1												
11	Sponsored credit agencies and mortgage pools	154.1	171.8	119.8	151.0	170.6	128.8	124.8	156.4	176.2	183.8	137.5	184.8
12	Foreign	9.7	4.5	6.3	10.9	23.3	−6.9	30.4	16.9	−3.5	42.5	32.9	21.2
	Private domestic funds advanced												
13	Total net advances	720.5	614.5	676.2	652.5	577.3	773.3	615.7	589.7	727.0	523.8	541.5	517.1
14	U.S. government securities	300.1	247.4	192.1	271.9	363.2	332.2	183.0	314.3	406.2	314.9	288.8	443.0
15	State and local obligations	22.7	49.3	49.8	30.4	19.4	28.7	34.1	19.1	13.0	24.7	29.8	10.1
16	Corporate and foreign bonds	89.7	66.9	91.3	66.1	67.7	91.1	65.6	70.6	57.0	81.7	47.2	84.8
17	Residential mortgages	115.9	120.2	161.3	96.5	34.8	113.0	105.1	45.5	112.7	3.3	21.6	1.5
18	Other mortgages and loans	212.0	155.2	201.4	176.6	67.6	195.2	186.9	91.5	116.1	68.3	123.6	−37.7
19	LESS: Federal Home Loan Bank advances	19.8	24.4	19.7	−11.0	−24.7	−13.1	−41.0	−48.8	−22.0	−30.9	−30.5	−15.5
	Private financial intermediation												
20	Credit market funds advanced by private financial institutions	730.0	528.4	562.3	511.1	394.1	600.9	345.9	623.4	379.9	275.8	404.8	515.8
21	Commercial banking	198.1	135.4	156.3	177.3	119.9	160.9	183.7	184.3	188.1	126.1	104.6	60.7
22	Savings institutions	107.6	136.8	120.4	−90.9	−141.0	−42.3	−135.8	−201.9	−56.6	−210.3	−167.4	−129.6
23	Insurance and pension funds	160.1	179.7	198.7	177.9	226.1	188.1	136.1	205.1	168.8	238.9	231.0	265.5
24	Other finance	264.2	76.6	86.9	246.8	189.1	294.2	161.9	436.0	79.5	121.1	236.6	319.2
25	Sources of funds	730.0	528.4	562.3	511.1	394.1	600.9	345.9	623.4	379.9	275.8	404.8	515.8
26	Private domestic deposits and RPs	277.1	162.8	229.2	225.2	72.8	267.4	284.4	208.0	113.0	36.7	91.8	49.6
27	Credit market borrowing	131.0	128.4	127.8	54.5	28.8	25.3	−.9	30.9	22.3	−11.3	33.5	70.5
28	Other sources	321.8	237.1	205.3	231.4	292.5	308.2	62.3	384.6	244.6	250.3	279.6	395.6
29	Foreign funds	12.9	43.7	9.3	−9.9	46.5	−35.4	30.4	−20.6	46.4	13.4	122.2	4.2
30	Treasury balances	1.7	−5.8	7.3	−3.4	5.3	13.9	−19.9	5.0	13.1	−13.4	18.2	3.4
31	Insurance and pension reserves	119.9	135.4	177.6	140.5	209.2	123.2	82.6	193.9	144.8	219.2	219.8	252.8
32	Other, net	187.3	63.9	11.0	104.2	31.5	206.4	−30.8	206.3	40.3	31.1	−80.7	135.2
	Private domestic nonfinancial investors												
33	Direct lending in credit markets	121.5	214.6	241.7	195.9	212.0	197.7	268.9	−2.8	369.3	236.8	170.1	71.9
34	U.S. government securities	27.0	86.0	129.0	134.3	198.4	136.2	196.8	4.3	250.7	186.2	178.1	178.5
35	State and local obligations	−19.9	61.8	53.5	28.4	−1.3	5.1	39.0	12.8	.4	13.0	16.0	−34.3
36	Corporate and foreign bonds	52.9	23.3	−9.4	.7	−26.6	9.4	−4.7	14.6	38.0	−27.2	−82.4	−34.8
37	Open market paper	9.9	15.8	36.4	5.4	15.9	17.8	21.4	−64.6	45.3	39.8	13.7	−35.3
38	Other	51.7	27.6	32.2	27.1	25.6	29.2	16.4	30.1	34.9	24.9	44.8	−2.1
39	Deposits and currency	297.5	179.3	232.8	241.3	100.1	290.6	261.8	230.6	138.0	60.3	137.8	64.3
40	Currency	14.4	19.0	14.7	11.7	22.6	12.8	6.0	10.1	26.1	23.1	32.2	9.1
41	Checkable deposits	96.4	−.9	12.9	1.5	−1.0	−41.7	14.7	65.8	−11.0	−4.2	16.9	−5.6
42	Small time and savings accounts	120.6	76.0	122.4	100.5	67.5	99.0	163.1	109.1	111.3	29.3	63.0	66.6
43	Money market fund shares	43.2	28.9	20.2	85.2	62.4	119.2	116.7	65.6	72.2	4.7	110.9	62.0
44	Large time deposits	−3.2	37.2	40.8	23.1	−45.8	61.1	−23.8	−13.4	−24.6	−15.4	−78.8	−64.2
45	Security RPs	20.2	21.6	32.9	14.9	−10.5	29.8	13.7	−19.2	−34.9	22.3	−20.2	−9.1
46	Deposits in foreign countries	5.9	−2.5	−11.2	4.4	4.7	10.4	−28.6	12.4	−1.1	.6	13.9	5.6
47	**Total of credit market instruments, deposits, and currency**	**419.0**	**393.9**	**474.5**	**437.2**	**312.1**	**488.3**	**530.7**	**227.7**	**507.3**	**297.1**	**307.9**	**136.2**
48	Public holdings as percent of total	33.1	36.0	27.5	27.2	40.7	2.3	30.8	32.0	29.9	48.0	43.9	42.9
49	Private financial intermediation (in percent)	101.3	86.0	83.2	78.3	68.3	77.7	56.2	105.7	52.3	52.7	74.8	99.7
50	Total foreign funds	110.7	106.4	106.9	62.2	113.0	−40.3	162.8	23.6	69.3	79.8	199.2	103.6
	MEMO: Corporate equities not included above												
51	**Total net issues**	**86.8**	**10.9**	**−124.2**	**−63.7**	**17.2**	**−43.0**	**−61.0**	**14.9**	**−4.7**	**51.3**	**−9.6**	**31.7**
52	Mutual fund shares	159.0	73.9	1.1	41.3	66.9	34.0	57.9	72.4	53.1	76.5	51.7	86.2
53	Other equities	−72.2	−63.0	−125.3	−105.1	−49.7	−77.0	−118.9	−57.6	−57.8	−25.2	−61.3	−54.4
54	Acquisitions by financial institutions	50.9	32.0	−2.9	17.2	30.1	−14.1	6.1	76.9	42.1	72.1	−36.5	42.8
55	Other net purchases	35.9	−21.2	−121.4	−80.9	−12.9	−28.9	−67.1	−62.1	−46.8	−20.8	26.9	−11.0

NOTES BY LINE NUMBER.

1. Line 1 of table 1.57.
2. Sum of lines 3–6 or 7–10.
6. Includes farm and commercial mortgages.
11. Credit market funds raised by federally sponsored credit agencies, and net issues of federally related mortgage pool securities.
13. Line 1 less line 2 plus line 11 and 12. Also line 20 less line 27 plus line 33. Also sum of lines 28 and 47 less lines 40 and 46.
18. Includes farm and commercial mortgages.
26. Line 39 less lines 40 and 46.
27. Excludes equity issues and investment company shares. Includes line 19.
29. Foreign deposits at commercial banks, bank borrowings from foreign branches, and liabilities of foreign banking agencies to foreign affiliates, less claims on foreign affiliates and deposits by banking in foreign banks.
30. Demand deposits and note balances at commercial banks.
31. Excludes net investment of these reserves in corporate equities.
32. Mainly retained earnings and net miscellaneous liabilities.
33. Line 13 less line 20 plus line 27.
34–38. Lines 14–18 less amounts acquired by private finance plus amounts borrowed by private finance. Line 38 includes mortgages.
40. Mainly an offset to line 9.
47. Lines 33 plus 39, or line 13 less line 28 plus 40 and 46.
48. Line 2/line 1.
49. Line 20/line 13.
50. Sum of lines 10 and 29.
51, 53. Includes issues by financial institutions.

NOTE. Full statements for sectors and transaction types in flows and in amounts outstanding may be obtained from Flow of Funds Section, Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

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Federal Reserve Bank of St. Louis

1.59 SUMMARY OF CREDIT MARKET DEBT OUTSTANDING

Billions of dollars; period-end levels.

Transaction category, sector	1986	1987	1988	1989	1989			1990			
					Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Nonfinancial sectors										
1 **Total credit market debt owed by domestic nonfinancial sectors**	**7,646.3**	**8,343.9**	**9,096.0**	**9,805.2**	**9,438.7**	**9,605.1**	**9,805.2**	**10,069.4**	**10,226.6**	**10,394.1**	**10,579.9**
By sector and instrument											
2 U.S. government	1,815.4	1,960.3	2,117.8	2,269.4	2,165.7	2,206.1	2,269.4	2,360.9	2,401.7	2,470.2	2,568.9
3 Treasury securities	1,811.7	1,955.2	2,095.2	2,245.2	2,142.1	2,180.7	2,245.2	2,329.3	2,368.8	2,437.6	2,536.5
4 Agency issues and mortgages	3.6	5.2	22.6	24.2	23.6	25.4	24.2	31.6	32.9	32.6	32.4
5 Private domestic nonfinancial sectors	5,831.0	6,383.6	6,978.2	7,535.8	7,273.0	7,399.0	7,535.8	7,708.6	7,824.9	7,923.9	8,011.0
6 Debt capital instruments	3,962.7	4,427.9	4,886.4	5,283.3	5,091.4	5,189.9	5,283.3	5,449.4	5,533.8	5,610.6	5,678.2
7 Tax-exempt obligations	679.1	728.4	790.8	821.2	804.9	816.4	821.2	822.4	827.4	838.0	840.6
8 Corporate bonds	669.4	748.8	851.7	925.4	887.9	903.5	925.4	936.7	955.5	967.0	986.9
9 Mortgages	2,614.2	2,950.7	3,243.8	3,536.6	3,398.6	3,470.0	3,536.6	3,690.4	3,750.9	3,805.6	3,850.7
10 Home mortgages	1,720.8	1,943.1	2,173.9	2,404.3	2,287.6	2,347.6	2,404.3	2,530.7	2,594.0	2,643.1	2,690.7
11 Multifamily residential	246.2	270.0	286.7	304.4	298.3	301.2	304.4	303.7	298.9	299.8	298.1
12 Commercial	551.4	648.7	696.4	742.6	725.9	734.9	742.6	772.1	773.9	778.4	777.7
13 Farm	95.8	88.9	86.8	85.3	86.8	86.3	85.3	83.9	84.0	84.3	84.2
14 Other debt instruments	1,868.2	1,955.7	2,091.9	2,252.6	2,181.6	2,209.1	2,252.6	2,259.1	2,291.2	2,313.3	2,332.8
15 Consumer credit	659.8	693.2	743.5	790.6	756.7	771.0	790.6	774.3	783.3	793.9	809.0
16 Bank loans n.e.c.	666.0	673.3	713.1	763.0	740.3	750.7	763.0	756.2	761.6	761.1	760.2
17 Open market paper	62.9	73.8	85.7	107.1	110.1	113.3	107.1	126.0	128.7	131.8	116.9
18 Other	479.6	515.3	549.6	591.9	574.5	574.1	591.9	602.6	617.6	626.5	646.8
19 By borrowing sector	5,831.0	6,383.6	6,978.2	7,535.8	7,273.0	7,399.0	7,535.8	7,708.6	7,824.9	7,923.9	8,011.0
20 State and local governments	510.1	558.9	604.5	634.1	619.9	629.9	634.1	634.3	637.6	647.9	648.8
21 Households	2,596.1	2,879.1	3,191.5	3,501.8	3,330.7	3,411.4	3,501.8	3,625.0	3,699.7	3,768.4	3,834.1
22 Nonfinancial business	2,724.8	2,945.6	3,182.2	3,400.0	3,322.5	3,357.6	3,400.0	3,449.3	3,487.6	3,507.6	3,528.2
23 Farm	156.6	145.5	137.6	139.2	139.5	139.2	139.2	137.4	140.2	141.5	140.9
24 Nonfarm noncorporate	997.6	1,075.4	1,145.1	1,195.9	1,177.6	1,183.0	1,195.9	1,208.0	1,208.9	1,209.8	1,210.2
25 Corporate	1,570.6	1,724.6	1,899.5	2,064.8	2,005.3	2,035.5	2,064.8	2,103.9	2,138.6	2,156.3	2,177.1
26 Foreign credit market debt held in United States	238.3	244.6	253.9	261.5	252.2	257.7	261.5	260.4	272.0	279.3	284.8
27 Bonds	74.9	82.3	89.2	94.5	92.1	94.2	94.5	102.1	107.7	108.6	115.6
28 Bank loans n.e.c.	26.9	23.3	21.5	21.4	21.5	22.6	21.4	19.0	19.3	19.8	18.6
29 Open market paper	37.4	41.2	49.9	63.0	52.7	57.5	63.0	59.3	65.1	71.5	75.3
30 U.S. government loans	99.1	97.7	93.2	82.6	85.8	83.4	82.6	80.0	80.0	79.4	75.3
31 **Total domestic plus foreign**	**7,884.7**	**8,588.5**	**9,349.9**	**10,066.8**	**9,690.8**	**9,862.8**	**10,066.8**	**10,329.8**	**10,498.7**	**10,673.3**	**10,864.7**
	Financial sectors										
32 **Total credit market debt owed by financial sectors**	**1,529.8**	**1,836.8**	**2,084.4**	**2,322.4**	**2,234.1**	**2,263.8**	**2,322.4**	**2,356.3**	**2,403.3**	**2,444.4**	**2,520.2**
By instrument											
33 U.S. government related	810.3	978.6	1,098.4	1,249.3	1,169.5	1,203.6	1,249.3	1,286.1	1,328.0	1,365.4	1,418.5
34 Sponsored credit agency securities	273.0	303.2	348.1	373.3	369.0	370.4	373.3	376.0	378.9	381.9	396.0
35 Mortgage pool securities	531.6	670.4	745.3	871.0	795.6	828.2	871.0	905.2	944.2	978.5	1,017.5
36 Loans from U.S. government	5.7	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
37 Private financial sectors	719.5	858.2	986.1	1,073.0	1,064.6	1,060.2	1,073.0	1,070.2	1,075.3	1,079.0	1,101.8
38 Corporate bonds	287.4	366.3	418.0	482.7	466.1	472.7	482.7	491.7	508.2	513.6	526.8
39 Mortgages	2.7	3.1	3.4	3.4	3.5	3.5	3.4	3.2	3.5	4.1	4.1
40 Bank loans n.e.c.	36.1	32.8	34.2	36.0	33.8	34.1	36.0	33.2	34.8	34.9	36.7
41 Open market paper	284.6	322.9	377.7	409.1	399.4	398.8	409.1	409.1	402.5	408.4	417.1
42 Loans from Federal Home Loan Banks	108.6	133.1	152.8	141.8	161.9	151.1	141.8	132.9	126.3	117.9	117.1
43 **Total, by sector**	**1,529.8**	**1,836.8**	**2,084.4**	**2,322.4**	**2,234.1**	**2,263.8**	**2,322.4**	**2,356.3**	**2,403.3**	**2,444.4**	**2,520.2**
44 Sponsored credit agencies	278.7	308.2	353.1	378.3	374.0	375.4	378.3	381.0	383.8	386.8	400.9
45 Mortgage pools	531.6	670.4	745.3	871.0	795.6	828.2	871.0	905.2	944.2	978.5	1,017.5
46 Private financial sectors	719.5	858.2	986.1	1,073.0	1,064.6	1,060.2	1,073.0	1,070.2	1,075.3	1,079.0	1,101.8
47 Commercial banks	75.6	81.8	78.8	77.4	75.7	77.0	77.4	73.4	73.3	70.7	76.3
48 Bank affiliates	116.8	131.1	136.2	142.5	141.2	144.0	142.5	141.5	133.8	122.5	114.7
49 Savings and loan associations	119.8	139.4	159.3	145.2	167.9	155.7	145.2	137.1	125.6	115.1	112.7
50 Mutual savings banks	8.6	16.7	18.6	17.2	17.7	17.5	17.2	15.4	16.7	17.3	17.1
51 Finance companies	328.1	378.8	446.1	496.2	478.0	481.2	496.2	499.6	510.3	530.1	546.6
52 REITs	6.5	7.3	11.4	10.1	10.6	10.0	10.1	10.1	9.8	10.2	10.3
53 SCO issuers	64.0	103.1	135.7	184.4	173.5	174.9	184.4	193.1	205.7	213.1	224.0
	All sectors										
54 **Total credit market debt**	**9,414.4**	**10,425.3**	**11,434.3**	**12,389.1**	**11,925.0**	**12,126.6**	**12,389.1**	**12,686.1**	**12,902.0**	**13,117.7**	**13,384.9**
55 U.S. government securities	2,620.0	2,933.9	3,211.1	3,513.7	3,330.3	3,404.7	3,513.7	3,642.0	3,724.8	3,830.6	3,982.4
56 State and local obligations	679.1	728.4	790.8	821.2	804.9	816.4	821.2	822.4	827.4	838.0	840.6
57 Corporate and foreign bonds	1,031.7	1,197.4	1,358.9	1,502.6	1,446.1	1,470.5	1,502.6	1,530.5	1,571.4	1,589.3	1,629.3
58 Mortgages	2,617.0	2,953.8	3,247.2	3,540.1	3,402.1	3,473.6	3,540.1	3,693.6	3,754.3	3,809.7	3,854.8
59 Consumer credit	659.8	693.2	743.5	790.6	756.7	771.0	790.6	774.3	783.3	793.9	809.0
60 Bank loans n.e.c.	729.0	729.5	768.9	820.3	795.6	807.4	820.3	808.4	815.7	815.8	815.5
61 Open market paper	384.9	437.9	513.4	579.2	562.2	569.6	579.2	594.5	596.3	611.7	609.2
62 Other loans	693.1	751.1	800.5	821.4	827.1	813.5	821.4	820.5	828.9	828.8	844.2

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1.60 SUMMARY OF CREDIT MARKET CLAIMS, BY HOLDER

Billions of dollars, except as noted; period-end levels.

Transaction category, or sector	1986	1987	1988	1989	1989			1990			
					Q2	Q3	Q4	Q1	Q2	Q3	Q4
1 **Total funds advanced in credit markets to domestic nonfinancial sectors**	**7,646.3**	**8,343.9**	**9,096.0**	**9,805.2**	**9,438.7**	**9,605.1**	**9,805.2**	**10,069.4**	**10,226.6**	**10,394.1**	**10,579.9**
By public agencies and foreign											
2 Total held	1,779.4	2,006.6	2,199.7	2,379.3	2,263.5	2,317.4	2,379.3	2,419.9	2,503.0	2,582.0	2,656.5
3 U.S. government securities	509.8	570.9	651.5	682.1	642.7	668.6	682.1	679.2	706.9	737.4	762.0
4 Residential mortgages	678.5	814.1	900.4	1,038.4	954.4	991.1	1,038.4	1,077.7	1,126.5	1,171.8	1,215.9
5 FHLB advances to thrifts	108.6	133.1	152.8	141.8	161.9	151.1	141.8	132.9	126.3	117.9	117.1
6 Other loans and securities	482.4	488.6	495.1	517.0	504.5	506.6	517.0	530.2	543.3	555.0	561.4
7 Total held, by type of lender	1,779.4	2,006.6	2,199.7	2,379.3	2,263.5	2,317.4	2,379.3	2,419.9	2,503.0	2,582.0	2,656.5
8 U.S. government	255.3	240.0	217.6	207.1	211.5	207.8	207.1	216.2	227.8	242.0	241.2
9 Sponsored credit agencies and mortgage pools	835.9	1,001.0	1,113.0	1,238.2	1,157.8	1,193.5	1,238.2	1,274.0	1,315.0	1,358.0	1,406.8
10 Monetary authority	205.5	230.1	240.6	233.3	238.4	227.6	233.3	224.4	237.8	240.8	241.4
11 Foreign	482.8	535.5	628.5	700.6	655.7	688.5	700.6	705.2	722.4	741.3	767.1
Agency and foreign debt not in line 1											
12 Sponsored credit agencies and mortgage pools	810.3	978.6	1,098.4	1,249.3	1,169.5	1,203.6	1,249.3	1,286.1	1,328.0	1,365.4	1,418.5
13 Foreign	238.3	244.6	253.9	261.5	252.2	257.7	261.5	260.4	272.0	279.3	284.8
Private domestic holdings											
14 Total private holdings	6,915.6	7,560.4	8,248.5	8,936.8	8,596.9	8,749.0	8,936.8	9,196.0	9,323.7	9,456.7	9,626.7
15 U.S. government securities	2,110.1	2,363.0	2,559.7	2,831.6	2,687.6	2,736.1	2,831.6	2,962.8	3,017.9	3,093.2	3,220.3
16 State and local obligations	679.1	728.4	790.8	821.2	804.9	816.4	821.2	822.4	827.4	838.0	840.6
17 Corporate and foreign bonds	606.6	674.3	765.6	831.6	797.7	814.5	831.6	847.6	866.2	878.5	899.3
18 Residential mortgages	1,288.5	1,399.0	1,560.2	1,670.4	1,631.5	1,657.7	1,670.4	1,756.7	1,766.4	1,771.1	1,772.9
19 Other mortgages and loans	2,339.8	2,528.7	2,724.9	2,923.8	2,837.0	2,875.3	2,923.8	2,939.4	2,972.1	2,993.8	3,010.6
20 Less: Federal Home Loan Bank advances	108.6	133.1	152.8	141.8	161.9	151.1	141.8	132.9	126.3	117.9	117.1
Private financial intermediation											
21 Credit market claims held by private financial institutions	6,018.0	6,564.5	7,128.6	7,662.7	7,424.6	7,507.8	7,662.7	7,850.5	7,915.0	8,000.6	8,123.5
22 Commercial banking	2,187.6	2,323.0	2,479.3	2,656.6	2,549.0	2,599.6	2,656.6	2,680.4	2,720.7	2,751.1	2,776.5
23 Savings institutions	1,297.9	1,445.5	1,567.7	1,480.7	1,561.0	1,530.3	1,480.7	1,461.3	1,409.5	1,371.5	1,339.7
24 Insurance and pension funds	1,525.4	1,705.1	1,903.8	2,081.6	1,999.0	2,031.6	2,081.6	2,152.5	2,198.4	2,242.5	2,307.6
25 Other finance	1,007.1	1,091.0	1,177.9	1,443.8	1,315.6	1,346.2	1,443.8	1,556.4	1,586.4	1,635.5	1,699.6
26 Sources of funds	6,018.0	6,564.5	7,128.6	7,662.7	7,424.6	7,507.8	7,662.7	7,850.5	7,915.0	8,000.6	8,123.5
27 Private domestic deposits and RPs	3,199.0	3,354.2	3,599.1	3,824.3	3,679.1	3,742.5	3,824.3	3,846.6	3,837.6	3,852.9	3,897.0
28 Credit market debt	719.5	858.2	986.1	1,073.0	1,064.6	1,060.2	1,073.0	1,070.2	1,075.3	1,079.0	1,101.8
29 Other sources	2,099.5	2,352.1	2,543.5	2,765.5	2,680.9	2,705.1	2,765.5	2,933.7	3,002.1	3,068.8	3,124.7
30 Foreign funds	18.6	62.3	71.5	61.6	49.4	55.0	61.6	63.4	66.3	94.1	108.2
31 Treasury balances	27.5	21.6	29.0	25.6	34.4	30.3	25.6	16.7	32.1	36.6	30.9
32 Insurance and pension reserves	1,398.5	1,527.8	1,692.5	1,826.0	1,770.0	1,785.7	1,826.0	1,861.5	1,907.7	1,940.6	1,996.7
33 Other, net	655.0	740.3	750.5	852.3	827.2	834.0	852.3	992.1	996.0	997.5	988.8
Private domestic nonfinancial investors											
34 Credit market claims	1,617.0	1,854.1	2,106.0	2,347.1	2,236.9	2,301.5	2,347.1	2,415.6	2,484.1	2,535.0	2,605.0
35 U.S. government securities	848.7	936.7	1,072.2	1,206.4	1,122.9	1,171.3	1,206.4	1,256.2	1,288.7	1,332.3	1,414.4
36 Tax-exempt obligations	212.6	274.4	340.9	369.3	353.8	363.1	369.3	362.5	368.5	372.4	368.1
37 Corporate and foreign bonds	90.5	114.0	100.4	130.5	128.2	131.1	130.5	152.1	156.2	151.8	138.4
38 Open market paper	145.1	178.5	218.0	228.7	236.7	239.3	228.7	230.1	247.2	247.9	244.6
39 Other	320.1	350.4	374.4	412.1	395.3	396.8	412.1	414.8	423.3	430.6	439.5
40 Deposits and currency	3,410.1	3,583.9	3,832.3	4,073.6	3,926.2	3,979.0	4,073.6	4,094.9	4,096.7	4,118.3	4,173.7
41 Currency	186.3	205.4	220.1	231.8	226.4	224.4	231.8	234.4	242.7	247.2	254.4
42 Checkable deposits	516.6	515.4	527.2	528.7	495.0	486.1	528.7	501.2	510.7	501.2	527.7
43 Small time and savings accounts	1,948.3	2,017.1	2,156.2	2,256.7	2,189.3	2,224.4	2,256.7	2,289.4	2,292.3	2,302.4	2,324.2
44 Money market fund shares	268.9	297.8	318.0	403.3	362.1	391.0	403.3	436.7	426.3	454.5	465.7
45 Large time deposits	336.7	373.9	414.7	437.8	435.7	440.0	437.8	431.1	415.8	407.1	392.0
46 Security RPs	128.5	150.1	182.9	197.9	196.9	200.9	197.9	188.3	192.5	187.9	187.4
47 Deposits in foreign countries	24.8	24.3	13.1	17.6	20.7	12.1	17.6	13.9	16.4	18.3	22.3
48 **Total of credit market instruments, deposits, and currency**	**5,027.2**	**5,438.0**	**5,938.2**	**6,420.7**	**6,163.0**	**6,280.5**	**6,420.7**	**6,510.6**	**6,580.7**	**6,653.3**	**6,778.7**
49 Public holdings as percent of total	22.6	23.4	23.5	23.6	23.4	23.5	23.6	23.4	23.8	24.2	24.5
50 Private financial intermediation (in percent)	87.0	86.8	86.4	85.7	86.4	85.8	85.7	85.4	84.9	84.6	84.4
51 Total foreign funds	501.3	597.8	700.1	762.3	705.1	743.5	762.3	768.6	788.7	835.4	875.2
Memo: Corporate equities not included above											
52 **Total market value**	**3,360.6**	**3,325.0**	**3,619.8**	**4,378.9**	**4,069.7**	**4,395.4**	**4,378.9**	**4,170.3**	**4,336.4**	**3,846.4**	**3,995.8**
53 Mutual fund shares	413.5	460.1	478.3	555.1	514.8	543.9	555.1	550.3	587.9	547.3	579.9
54 Other equities	2,947.1	2,864.9	3,141.6	3,823.8	3,555.0	3,851.5	3,823.8	3,620.0	3,748.5	3,299.1	3,415.9
55 Holdings by financial institutions	974.6	1,039.5	1,176.1	1,492.3	1,343.0	1,478.5	1,492.3	1,435.6	1,543.0	1,312.1	1,408.3
56 Other holdings	2,385.9	2,285.5	2,443.7	2,886.6	2,726.8	2,917.0	2,886.6	2,734.6	2,793.4	2,534.3	2,587.4

Notes by line number.

1. Line 1 of table 1.59.
2. Sum of lines 3–6 or 8–11.
6. Includes farm and commercial mortgages.
12. Credit market debt of federally sponsored agencies, and net issues of federally related mortgage pool securities.
14. Line 1 less line 2 plus line 12 and 13. Also line 21 less line 28 plus line 34. Also sum of lines 29 and 48 less lines 41 and 47.
19. Includes farm and commercial mortgages.
27. Line 40 less lines 41 and 47.
28. Excludes equity issues and investment company shares. Includes line 20.
30. Foreign deposits at commercial banks plus bank borrowings from foreign affiliates, less claims on foreign affiliates and deposits by banking in foreign banks.
31. Demand deposits and note balances at commercial banks.
32. Excludes net investment of these reserves in corporate equities.
33. Mainly retained earnings and net miscellaneous liabilities.
34. Line 14 less line 21 plus line 28.
35–39. Lines 15–19 less amounts acquired by private finance plus amounts borrowed by private finance. Line 39 includes mortgages.
41. Mainly an offset to line 10.
48. Lines 34 plus 40, or line 14 less line 29 plus 41 and 47.
49. Line 2/line 1 and 13.
50. Line 21/line 14.
51. Sum of lines 11 and 30.
52–54. Includes issues by financial institutions.

Note. Full statements for sectors and transaction types in flows and in amounts outstanding may be obtained from Flow of Funds Section, Stop 95, Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

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2.10 NONFINANCIAL BUSINESS ACTIVITY Selected Measures

1977 = 100; monthly and quarterly data are seasonally adjusted. Exceptions noted.

Measure	1988	1989	1990	1990						1991		
				July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.[r]	Feb.[r]	Mar.
1 **Industrial production (1987 = 100)[1]**	**105.4**	**108.1**	**109.2**	**110.4**	**110.5**	**110.6**	**109.9**	**108.3**	**107.2**	**106.6**	**105.7**	**105.3**
Market groupings												
2 Products, total (1987 = 100)	105.3	108.6	110.1	110.9	110.9	111.4	111.0	109.3	108.4	107.8	106.8	106.6
3 Final, total (1987 = 100)	105.6	109.1	110.9	111.7	111.9	112.6	112.3	110.2	109.2	109.1	108.3	108.3
4 Consumer goods (1987 = 100)	104.0	106.7	107.3	107.5	107.8	108.7	108.6	106.5	105.7[r]	105.5	104.5	104.9
5 Equipment (1987 = 100)	107.6	112.3	115.5	117.2	117.2	117.8	117.0	115.1	113.6[r]	113.7	113.2	112.7
6 Intermediate (1987 = 100)	104.4	106.8	107.7	108.4	107.9	107.4	107.0	106.2	106.0[r]	104.0	102.2	101.3
7 Materials (1987 = 100)	105.6	107.4	107.8	109.6	109.7	109.4	108.3	106.8	105.3[r]	104.7	103.9	103.4
Industry groupings												
8 Manufacturing (1987 = 100)	105.8	108.9	109.9	111.1	111.1	111.2	110.7	108.9	107.5[r]	107.0	106.0	105.5
Capacity utilization (percent)[2]												
9 Manufacturing	83.9	83.9	82.3	83.1	82.9	82.8	82.2	80.7	79.4	78.9	77.9	77.4
10 Construction contracts (1982 = 100)[3]	166.7	172.9	153.6[r]	153.0	149.0	146.0	147.0	146.0	130.0	132.0	133.0	128.0
11 Nonagricultural employment, total[4]	128.0	131.5	133.8	134.3	134.1	134.1	133.9	133.6	133.4	133.2	132.8	132.6
12 Goods-producing, total	103.4	104.0	102.7	103.1	102.8	102.4	101.8	100.7	100.3	99.4	98.8	98.2
13 Manufacturing, total	98.3	98.7	96.8	97.2	96.9	96.6	96.3	95.2	95.0	94.6	93.8	93.3
14 Manufacturing, production- worker	93.5	93.8	91.5	92.0	91.7	91.2	90.9	89.6	89.3	88.9	87.9	87.4
15 Service-producing	138.3	142.9	146.8	147.3	147.3	147.4	147.4	147.4	147.2	147.3	147.0	147.0
16 Personal income, total	253.2	272.7	289.0	290.1	290.8	292.2	292.1	293.4[r]	295.1[r]	293.9	294.6	n.a.
17 Wages and salary disbursements	244.6	258.9	272.2	274.4	274.5	276.4	274.8	274.8	277.1	275.5	275.9	n.a.
18 Manufacturing	196.5	203.1	205.0	206.9	206.7	207.0	206.0	202.9	205.4[r]	202.5	201.1	n.a.
19 Disposable personal income[5]	252.2	270.1	286.1	286.9	287.6	288.7	288.7[r]	290.1[r]	291.6[r]	290.3	291.2	n.a.
20 Retail sales[6]	228.2[r]	241.7[r]	250.9[r]	251.1[r]	251.7[r]	254.0[r]	253.5[r]	254.3[r]	249.4[r]	246.2	251.2	249.2
Prices[7]												
21 Consumer (1982–84 = 100)	118.3	124.0	130.7	130.4	131.6	132.7	133.5	133.8	133.8	134.6	134.8	135.0
22 Producer finished goods (1982 = 100)	108.0	113.6	119.2	118.2	119.3	120.4	122.3	122.9	121.9	121.9	121.2	120.6

1. A major revision of the industrial production index and the capacity utilization rates was released in April 1990. See "Industrial Production: 1989 Developments and Historical Revision" in the *Federal Reserve Bulletin*, vol. 76 (April 1990), pp. 187–204.

2. Ratios of indexes of production to indexes of capacity. Based on data from Federal Reserve, McGraw-Hill Economics Department, Department of Commerce, and other sources.

3. Index of dollar value of total construction contracts, including residential, nonresidential and heavy engineering, from McGraw-Hill Information Systems Company, F. W. Dodge Division.

4. Based on data in *Employment and Earnings* (U.S. Department of Labor). Series covers employees only, excluding personnel in the Armed Forces.

5. Based on data in *Survey of Current Business* (U.S. Department of Commerce).

6. Based on Bureau of Census data published in *Survey of Current Business*.

7. Data without seasonal adjustment, as published in *Monthly Labor Review*. Seasonally adjusted data for changes in the price indexes may be obtained from the Bureau of Labor Statistics, U.S. Department of Labor.

NOTE. Basic data (not index numbers) for series mentioned in notes 4, 5,and 6, and indexes for series mentioned in notes 3 and 7 may also be found in the *Survey of Current Business*.

Figures for industrial production for the latest month are preliminary and the prior three months have been revised. See "Recent Developments in Industrial Capacity and Utilization," *Federal Reserve Bulletin*, vol. 76 (June 1990), pp. 411–35.

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2.11 LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT

Thousands of persons; monthly data are seasonally adjusted. Exceptions noted.

Category	1988	1989	1990	1990					1991		
				Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
HOUSEHOLD SURVEY DATA											
1 **Noninstitutional population**[1]	**186,837**	**188,601**	**190,216**	**190,411**	**190,568**	**190,717**	**190,854**	**190,999**	**191,116**	**191,248**	**191,384**
2 Labor force (including Armed Forces)[1]	123,893	126,077	126,954	126,855	127,137	127,067	126,880	127,307	126,777	127,209	127,467
3 Civilian labor force	121,669	123,869	124,787	124,705	124,970	124,875	124,723	125,174	124,638	125,076	125,326
Employment											
4 Nonagricultural industries[2]	111,800	114,142	114,728	114,538	114,689	114,558	114,201	114,321	113,759	113,696	113,656
5 Agriculture	3,169	3,199	3,186	3,152	3,194	3,175	3,185	3,253	3,163	3,222	3,098
Unemployment											
6 Number	6,701	6,528	6,874	7,015	7,087	7,142	7,337	7,600	7,715	8,158	8,572
7 Rate (percent of civilian labor force)	5.5	5.3	5.5	5.6	5.7	5.7	5.9	6.1	6.2	6.5	6.8
8 Not in labor force	62,944	62,524	63,262	63,556	63,431	63,650	63,974	63,692	64,339	64,039	63,917
ESTABLISHMENT SURVEY DATA											
9 **Nonagricultural payroll employment**[3]	**105,536**	**108,413**	**110,330**	**110,613**	**110,612**	**110,432**	**110,165**	**110,004**	**109,813**r	**109,522**r	**109,316**
10 Manufacturing	19,350	19,426	19,064	19,084	19,019	18,951	18,744	18,693	18,615r	18,466r	18,374
11 Mining	713	700	735	735	736	733	738	740	737	737r	735
12 Contract construction	5,110	5,200	5,205	5,194	5,176	5,093	5,029	4,983	4,841r	4,860	4,788
13 Transportation and public utilities	5,527	5,648	5,838	5,846	5,870	5,870	5,866	5,882	5,883r	5,849r	5,844
14 Trade	25,132	25,851	26,151	26,222	26,214	26,147	26,082	26,001	25,974r	25,843r	25,774
15 Finance	6,649	6,724	6,833	6,852	6,851	6,843	6,833	6,829	6,829r	6,819r	6,821
16 Service	25,669	27,096	28,209	28,387	28,440	28,475	28,548	28,573	28,622r	28,601r	28,624
17 Government	17,386	17,769	18,295	18,293	18,306	18,320	18,325	18,303	18,312r	18,347r	18,356

1. Persons 16 years of age and over. Monthly figures, which are based on sample data, relate to the calendar week that contains the 12th day; annual data are averages of monthly figures. By definition, seasonality does not exist in population figures. Based on data from *Employment and Earnings* (U.S. Department of Labor).

2. Includes self-employed, unpaid family, and domestic service workers.

3. Data include all full- and part-time employees who worked during, or received pay for, the pay period that includes the 12th day of the month, and exclude proprietors, self-employed persons, domestic servants, unpaid family workers, and members of the Armed Forces. Data are adjusted to the March 1984 benchmark and only seasonally adjusted data are available at this time. Based on data from *Employment and Earnings* (U.S. Department of Labor).

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2.12 OUTPUT, CAPACITY, AND CAPACITY UTILIZATION[1]

Seasonally adjusted

Series	1990 Q2	1990 Q3	1990 Q4r	1991 Q1	1990 Q2	1990 Q3	1990 Q4r	1991 Q1	1990 Q2	1990 Q3	1990 Q4r	1991 Q1
	Output (1987 = 100)				Capacity (percent of 1987 output)				Utilization rate (percent)			
1 **Total industry**	**109.4**	**110.5**	**108.5**	**105.9**	**131.1**	**131.9**	**132.8**	**133.6**	**83.5**	**83.7**	**81.7**	**79.3**
2 Manufacturing	110.2	111.1	109.0	106.1	133.0	134.0	135.0	136.0	82.8	82.9	80.8	78.1
3 Primary processing	106.3	107.6	104.7	100.5	124.8	125.5	126.1	126.8	85.2	85.8	83.0	79.2
4 Advanced processing	112.1	112.8	111.0	108.7	136.9	138.0	139.1	140.2	81.9	81.7	79.8	77.6
5 Durable	112.4	113.6	110.0	106.2	137.1	138.0	139.0	139.9	82.0	82.3	79.1	75.9
6 Lumber and products	102.3	101.5	95.7	91.6	123.5	124.0	124.6	125.0	82.8	81.8	76.8	73.3
7 Primary metals	107.4	112.2	107.3	98.5	127.4	127.7	127.9	128.2	84.2	87.9	83.9	76.8
8 Iron and steel	107.5	114.3	110.0	98.1	132.2	132.5	132.7	133.0	81.3	86.3	82.9	73.7
9 Nonferrous	107.1	109.2	103.4	99.1	120.6	120.9	121.1	121.3	88.8	90.3	85.3	81.7
10 Nonelectrical machinery	126.7	128.5	126.4	124.7	153.1	154.7	156.3	157.9	82.8	83.1	80.8	79.0
11 Electrical machinery	112.2	112.4	109.9	108.1	138.7	140.0	141.4	142.7	80.9	80.3	77.8	75.7
12 Motor vehicles and parts	102.6	103.7	89.4	81.0	132.4	132.7	132.9	133.4	77.5	78.2	67.2	60.7
13 Aerospace and miscellaneous transportation equipment	113.6	114.5	113.3	110.5	134.3	135.2	136.1	137.0	84.6	84.7	83.3	80.7
14 Nondurable	107.5	108.1	107.8	106.0	127.9	128.9	129.9	130.9	84.0	83.8	83.0	81.0
15 Textile mill products	102.4	101.3	98.2	94.6	116.3	116.6	117.0	117.3	88.1	86.9	84.0	80.7
16 Paper and products	104.5	107.2	105.8	102.2	114.5	115.1	115.7	116.4	91.3	93.2	91.4	87.8
17 Chemicals and products	109.9	110.8	110.2	109.2	134.6	135.9	137.1	138.4	81.6	81.5	80.4	78.9
18 Plastics materials	116.3	117.2	118.1	.....	128.4	130.6	132.9	.....	90.6	89.7	88.9	.....
19 Petroleum products	106.0	110.0	107.4	107.0	121.2	121.3	121.4	121.4	87.4	90.7	88.5	88.1
20 Mining	102.5	103.4	103.1	102.9	115.0	114.5	114.0	113.6	89.1	90.3	90.4	90.6
21 Utilities	107.8	110.5	108.3	105.9	126.6	127.1	127.6	128.1	85.2	86.9	84.8	82.7
22 Electric	111.0	112.9	111.2	108.9	121.9	122.6	123.2	123.8	91.1	92.1	90.2	87.9

Series	Previous cycle[2] High	Previous cycle[2] Low	Latest cycle[3] High	Latest cycle[3] Low	1990 Mar.	1990 Aug.	1990 Sept.	1990 Oct.	1990 Nov.	1990 Dec.r	1991 Jan.r	1991 Feb.r	1991 Mar.p
	Capacity utilization rate (percent)												
23 **Total industry**	**89.2**	**72.6**	**87.3**	**71.8**	**83.4**	**83.7**	**83.6**	**83.0**	**81.6**	**80.6**	**80.0**	**79.1**	**78.7**
24 Manufacturing	88.9	70.8	87.3	70.0	83.0	82.9	82.8	82.2	80.7	79.4	78.9	77.9	77.4
25 Primary processing	92.2	68.9	89.7	66.8	85.3	86.1	85.1	84.3	83.2	81.5	80.4	78.9	78.4
26 Advanced processing	87.5	72.0	86.3	71.4	82.0	81.6	81.8	81.3	79.6	78.5	78.2	77.5	77.0
27 Durable	88.8	68.5	86.9	65.0	82.0	82.3	82.2	81.2	79.1	77.2	76.7	75.9	75.2
28 Lumber and products	90.1	62.2	87.6	60.9	85.3	81.0	80.7	78.9	76.6	74.9	74.8	72.7	72.4
29 Primary metals	100.6	66.2	102.4	46.8	82.8	89.8	87.4	85.0	85.3	81.4	76.4	76.8	77.3
30 Iron and steel	105.8	66.6	110.4	38.3	80.3	89.3	86.0	83.2	84.8	80.8	72.3	73.6	75.3
31 Nonferrous	92.9	61.3	90.5	62.2	86.6	90.5	89.6	87.7	85.9	82.3	82.7	81.8	80.5
32 Nonelectrical machinery	96.4	74.5	92.1	64.9	82.3	83.2	82.8	82.2	80.8	79.5	79.7	79.0	78.2
33 Electrical machinery	87.8	63.8	89.4	71.1	81.5	80.4	80.1	78.6	78.1	76.6	75.7	76.0	75.5
34 Motor vehicles and parts	93.4	51.1	93.0	44.5	78.3	76.1	81.0	78.1	64.5	59.0	62.3	59.8	60.0
35 Aerospace and miscellaneous transportation equipment	77.0	66.6	81.1	66.9	83.7	84.4	84.3	84.0	83.1	82.8	81.7	80.7	79.6
36 Nondurable	87.9	71.8	87.0	76.9	84.3	83.8	83.6	83.6	82.9	82.4	81.8	80.7	80.4
37 Textile mill products	92.0	60.4	91.7	73.8	86.0	86.1	86.3	86.6	83.3	82.1	82.3	79.8	79.9
38 Paper and products	96.9	69.0	94.2	82.0	90.1	92.5	93.3	92.5	90.9	91.0	89.7	87.0	86.8
39 Chemicals and products	87.9	69.9	85.1	70.1	81.8	81.8	81.4	81.0	80.2	79.9	79.5	78.7	78.4
40 Plastics materials	102.0	50.6	90.9	63.4	88.3	89.7	88.9	90.0	90.2	86.5	86.2	.....	.....
41 Petroleum products	96.7	81.1	89.5	68.2	90.1	90.8	90.1	89.5	88.9	87.0	86.4	88.6	89.3
42 Mining	94.4	88.4	96.6	80.6	87.6	89.4	90.9	89.9	90.6	90.8	89.7	91.4	90.6
43 Utilities	95.6	82.5	88.3	76.2	84.1	87.6	86.7	85.6	83.8	85.1	84.2	81.4	82.4
44 Electric	99.0	82.7	88.3	78.7	90.3	92.7	91.9	91.2	88.9	90.6	89.6	86.5	87.7

1. These data also appear in the Board's G.17 (419) release. For address, see inside front cover. For a detailed description of the series, see "Recent Developments in Industrial Capacity and Utilization," *Federal Reserve Bulletin*, vol. 76 (June 1990), pages 411–35.
2. Monthly high 1973; monthly low 1975.
3. Monthly highs 1978 through 1980; monthly lows 1982.

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2.13 INDUSTRIAL PRODUCTION Indexes and Gross Value[1]

Monthly data are seasonally adjusted

Groups	1987 proportion	1990 avg.	1990 Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.[r]	1991 Jan.[r]	Feb.[r]	Mar.[p]
			Index (1987 = 100)												
MAJOR MARKET															
1 **Total index**	**100.0**	**109.2**	**108.9**	**108.8**	**109.4**	**110.1**	**110.4**	**110.5**	**110.6**	**109.9**	**108.3**	**107.2**	**106.6**	**105.7**	**105.3**
2 Products	60.8	110.1	110.1	109.8	110.5	110.9	110.9	110.9	111.4	111.0	109.3	108.4	107.8	106.8	106.6
3 Final products	46.0	110.9	110.7	110.4	111.2	111.7	111.7	111.9	112.6	112.3	110.2	109.2	109.1	108.3	108.3
4 Consumer goods	26.0	107.3	107.5	107.2	107.4	107.8	107.5	107.8	108.7	108.6	106.5	105.7	105.5	104.5	104.9
5 Durable consumer goods	5.6	106.2	110.8	107.3	109.3	112.1	108.3	107.4	110.4	106.9	99.4	96.0	97.4	94.8	94.8
6 Automotive products	2.5	102.3	109.3	102.4	107.0	112.2	106.7	104.6	111.8	107.1	93.5	86.7	90.4	86.8	87.5
7 Autos and trucks	1.5	97.4	107.7	95.8	105.6	112.9	104.8	101.5	113.0	107.5	84.2	74.6	79.6	75.2	77.2
8 Autos, consumer	.9	92.2	100.5	87.7	96.8	103.8	98.0	97.2	111.5	104.6	80.7	77.2	83.2	79.1	76.8
9 Trucks, consumer	.6	106.1	120.0	109.3	120.4	128.3	116.1	108.8	115.4	112.2	90.2	70.2	73.7	68.6	78.0
10 Auto parts and allied goods	1.0	109.6	111.6	112.2	108.9	111.2	109.5	109.3	110.0	106.4	107.3	104.8	106.6	104.1	102.9
11 Other	3.1	109.4	112.0	111.2	111.1	112.0	109.5	109.6	109.3	106.8	104.1	103.4	103.0	101.2	100.5
12 Appliances, A/C, and TV	.8	102.0	108.1	104.4	103.6	107.5	100.2	101.9	101.0	94.6	90.8	89.9	92.8	93.7	93.2
13 Carpeting and furniture	.9	104.9	105.9	107.5	107.6	107.8	106.0	104.9	106.0	103.8	99.2	100.9	100.4	94.0	94.6
14 Miscellaneous home goods	1.4	116.4	118.0	117.3	117.5	117.2	116.9	116.8	116.1	115.5	114.6	112.5	110.3	109.9	108.4
15 Nondurable consumer goods	20.4	107.6	106.6	107.1	106.9	106.6	107.3	107.9	108.2	109.1	108.5	108.4	107.7	107.2	107.7
16 Foods and tobacco	9.1	105.9	105.8	105.6	105.2	104.4	105.1	105.7	105.3	106.7	107.8	107.5	106.4	106.3	106.8
17 Clothing	2.6	95.7	97.0	96.0	96.4	95.7	95.6	94.6	95.3	94.2	91.7	92.1	90.7	90.4	89.9
18 Chemical products	3.5	113.3	111.0	113.5	113.0	112.8	112.4	114.3	115.1	115.9	113.5	113.5	113.9	114.2	114.9
19 Paper products	2.5	119.7	116.4	118.1	118.6	118.3	120.3	119.3	121.9	123.4	122.8	122.7	122.1	120.3	120.1
20 Energy	2.7	105.9	103.1	104.1	104.1	105.3	106.7	109.0	108.0	108.8	106.4	106.6	106.4	104.7	106.6
21 Fuels	.7	102.9	101.8	101.6	98.2	102.6	104.6	106.0	105.6	104.0	101.1	98.1	99.8	103.5	105.0
22 Residential utilities	2.0	107.0	103.6	105.0	106.3	106.3	107.5	110.0	108.9	110.6	108.4	109.7	108.9	105.2	107.2
23 Equipment, total	20.0	115.5	114.9	114.7	116.2	116.8	117.2	117.2	117.8	117.0	115.1	113.6	113.7	113.2	112.7
24 Business equipment	13.9	123.1	122.2	121.6	123.5	124.4	125.0	125.4	126.4	125.4	122.9	121.2	121.8	121.1	120.5
25 Information processing and related	5.6	127.2	126.0	126.4	126.6	126.3	128.0	128.5	129.5	130.1	128.8	127.5	129.7	131.3	131.3
26 Office and computing	1.9	149.8	147.2	149.3	148.9	150.6	152.7	152.2	153.6	155.3	149.8	148.9	154.0	156.4	156.9
27 Industrial	4.0	115.3	113.9	114.2	115.8	116.0	117.2	117.9	117.4	115.4	115.3	112.3	111.6	109.7	108.2
28 Transit	2.5	129.9	130.6	126.2	132.5	137.4	135.5	135.4	140.5	137.5	126.3	123.4	125.9	123.2	123.5
29 Autos and trucks	1.2	96.8	104.5	95.2	105.7	112.2	103.1	101.5	111.0	106.5	83.9	75.3	79.8	75.5	77.3
30 Other	1.9	118.5	117.8	117.6	119.4	119.9	119.2	119.8	118.5	117.0	117.6	118.5	115.2	112.5	111.2
31 Defense and space equipment	5.4	97.3	97.5	97.3	97.6	97.6	97.8	97.7	97.3	97.3	96.2	95.8	94.4	94.3	93.8
32 Oil and gas well drilling	.6	109.0	106.0	114.3	118.6	119.5	116.2	106.9	107.4	107.1	109.7	107.3	106.4	108.2	107.7
33 Manufactured homes	.2	90.8	92.9	89.7	91.3	92.8	90.0	93.4	91.8	89.0	87.3	83.4	83.1	77.3	78.5
34 Intermediate products, total	14.7	107.7	108.2	108.0	108.3	108.3	108.4	107.9	107.4	107.0	106.2	106.0	104.0	102.2	101.3
35 Construction supplies	6.0	105.2	107.3	106.4	105.5	106.0	106.7	105.3	103.8	103.1	101.8	101.0	97.6	96.3	94.8
36 Business supplies	8.7	109.4	108.9	109.1	110.2	109.8	109.5	109.7	109.9	109.7	109.2	109.4	108.5	106.3	105.8
37 Materials, total	39.2	107.8	107.1	107.3	107.7	108.8	109.6	109.7	109.4	108.3	106.8	105.3	104.7	103.9	103.4
38 Durable goods materials	19.4	111.8	110.9	110.9	112.5	113.8	114.0	114.9	114.1	112.5	110.4	107.5	106.6	105.7	105.0
39 Durable consumer parts	4.2	104.0	104.5	103.2	108.5	108.5	108.1	110.4	109.0	106.0	98.5	91.1	93.7	91.1	89.2
40 Equipment parts	7.3	118.1	117.6	117.4	118.1	119.1	119.2	119.4	119.8	118.6	117.4	116.9	115.8	116.1	115.5
41 Other	7.9	110.2	108.1	108.9	109.6	111.8	112.4	113.1	111.6	110.4	110.2	107.4	104.9	103.9	103.6
42 Basic metal materials	2.8	111.9	107.5	110.2	109.2	113.6	115.5	116.3	115.8	112.0	112.7	109.6	103.7	104.5	105.2
43 Nondurable goods materials	9.0	106.0	105.2	106.1	105.2	106.1	107.8	106.8	106.9	106.5	105.6	104.9	105.1	103.3	103.3
44 Textile materials	1.2	96.7	94.9	95.6	97.4	99.4	100.2	97.8	98.1	97.9	95.1	91.4	92.7	91.1	91.5
45 Pulp and paper materials	1.9	106.4	103.0	106.0	104.5	104.8	109.0	106.9	109.4	108.6	107.2	108.5	105.8	103.5	102.8
46 Chemical materials	3.8	106.8	107.5	107.4	105.4	107.3	108.5	108.0	106.6	105.6	105.8	105.7	106.5	104.1	104.3
47 Other	2.1	109.5	108.7	109.8	109.8	108.8	109.9	109.3	110.1	110.8	109.4	107.6	109.0	108.2	108.6
48 Energy materials	10.9	102.1	102.0	101.8	101.1	102.1	103.3	103.0	103.0	102.3	101.6	102.0	101.2	101.0	100.6
49 Primary energy	7.2	101.3	101.2	100.3	100.1	101.2	103.3	102.1	101.0	100.7	101.4	101.9	101.6	103.0	101.9
50 Converted fuel materials	3.7	103.5	103.4	104.6	102.9	103.9	103.4	104.9	107.0	105.3	102.0	102.1	100.4	97.1	98.1
SPECIAL AGGREGATES															
51 Total excluding autos and trucks	97.3	109.5	109.0	109.2	109.5	110.0	110.6	110.7	110.6	110.0	109.0	108.1	107.4	106.5	106.1
52 Total excluding motor vehicles and parts	95.3	109.8	109.2	109.5	109.7	110.2	110.8	110.9	110.7	110.2	109.4	108.6	107.8	106.9	106.6
53 Total excluding office and computing machines	97.5	108.2	108.0	107.8	108.4	109.1	109.3	109.4	109.5	108.8	107.3	106.1	105.4	104.4	104.0
54 Consumer goods excluding autos and trucks	24.5	107.9	107.5	107.9	107.6	107.5	107.6	108.2	108.4	108.7	107.9	107.6	107.0	106.3	106.6
55 Consumer goods excluding energy	23.3	107.5	108.0	107.5	107.8	108.1	107.6	107.7	108.7	108.6	106.5	105.6	105.4	104.5	104.7
56 Business equipment excluding autos and trucks	12.7	125.6	124.0	124.2	125.3	125.6	127.2	127.8	128.0	127.2	126.8	125.6	125.9	125.6	124.8
57 Business equipment excluding office and computing equipment	12.0	118.7	118.2	117.2	119.4	120.2	120.5	121.1	122.0	120.6	118.6	116.7	116.6	115.4	114.7
58 Materials excluding energy	28.4	110.0	109.1	109.4	110.2	111.4	112.1	112.3	111.8	110.6	108.9	106.6	106.1	104.9	104.5

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2.13—Continued

Groups	SIC code	1987 proportion	1990 avg.	1990 Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.r	1991 Jan.r	Feb.r	Mar.p
				Index (1987 = 100)												
MAJOR INDUSTRY																
1 **Total index**	.....	**100.0**	**109.2**	**108.9**	**108.8**	**109.4**	**110.1**	**110.4**	**110.5**	**110.6**	**109.9**	**108.3**	**107.2**	**106.6**	**105.7**	**105.3**
2 Manufacturing	.....	84.4	109.9	109.8	109.5	110.3	110.8	111.1	111.1	111.2	110.7	108.9	107.5	107.0	106.0	105.5
3 Primary processing	.....	26.7	106.3	106.0	105.9	106.1	107.0	107.9	108.0	106.9	106.2	104.9	102.9	101.8	100.1	99.6
4 Advanced processing	.....	57.7	111.6	111.7	111.3	112.4	112.6	112.5	112.5	113.2	112.8	110.8	109.5	109.4	108.7	108.2
5 Durable	.....	47.3	111.6	111.9	111.1	112.6	113.4	113.4	113.5	113.8	112.5	109.9	107.5	107.0	106.2	105.5
6 Lumber and products	24	2.0	101.6	105.0	103.3	101.7	102.0	103.6	100.5	100.3	98.2	95.5	93.5	93.4	90.8	90.6
7 Furniture and fixtures	25	1.4	105.9	105.9	107.6	108.0	108.7	108.0	106.7	106.9	104.4	102.3	102.0	99.3	96.0	95.6
8 Clay, glass, and stone products	32	2.5	105.7	107.7	105.1	106.4	106.1	106.0	106.6	104.5	104.4	103.8	100.7	97.2	98.2	95.6
9 Primary metals	33	3.3	108.4	105.4	106.4	106.2	109.5	110.3	114.6	111.6	108.6	109.1	104.2	97.8	98.5	99.2
10 Iron and steel	331,2	1.9	109.9	106.1	106.7	105.5	110.3	110.6	118.3	113.9	110.3	112.6	107.3	96.0	97.9	100.3
11 Raw steel	.....	.1	109.6	105.9	104.9	107.6	111.8	113.9	118.5	111.6	112.8	109.5	100.6	104.7	97.9	98.7
12 Nonferrous	333–6,9	1.4	106.2	104.3	105.9	107.1	108.3	109.8	109.4	108.4	106.2	104.1	99.8	100.3	99.3	97.7
13 Fabricated metal products	34	5.4	105.9	105.5	105.0	107.1	106.7	107.7	107.9	106.8	106.4	104.3	101.9	101.6	98.9	97.5
14 Nonelectrical machinery	35	8.6	126.5	125.2	125.7	126.9	127.5	128.3	128.8	128.5	128.1	126.3	124.7	125.5	124.7	124.0
15 Office and computing machines	357	2.5	149.8	147.3	149.3	149.0	150.6	152.7	152.2	153.6	155.3	149.8	148.9	154.0	156.4	156.9
16 Electrical machinery	36	8.6	111.4	112.3	111.3	112.4	112.8	112.2	112.5	112.5	110.8	110.4	108.7	107.7	108.5	108.1
17 Transportation equipment	37	9.8	105.5	107.9	105.1	109.0	111.0	109.3	107.9	111.1	109.2	100.1	96.6	98.1	96.0	95.4
18 Motor vehicles and parts	371	4.7	96.8	103.5	95.8	104.0	108.0	102.7	101.0	107.5	103.8	85.8	78.5	83.0	79.8	80.1
19 Autos and light trucks	.....	2.3	96.6	106.7	94.6	104.3	111.6	103.8	100.9	112.8	107.1	83.7	74.9	80.1	75.8	77.2
20 Aerospace and miscellaneous transportation equipment	372–6,9	5.1	113.3	111.9	113.4	113.5	113.8	115.2	114.1	114.2	114.0	113.1	112.9	111.6	110.6	109.2
21 Instruments	38	3.3	116.8	115.7	115.8	116.5	115.0	116.9	117.5	118.4	118.1	118.1	117.3	118.8	119.1	118.1
22 Miscellaneous manufacturers	39	1.2	120.0	118.6	118.6	119.1	119.6	120.4	121.8	121.3	121.5	122.5	119.1	115.1	114.1	113.2
23 Nondurable	.....	37.2	107.8	107.2	107.5	107.4	107.6	108.1	108.1	108.0	108.4	107.7	107.4	106.9	105.7	105.5
24 Foods	20	8.8	107.6	107.1	107.0	106.8	106.1	107.1	107.7	107.6	108.8	109.6	109.1	108.4	108.1	108.4
25 Tobacco products	21	1.0	98.6	100.0	98.8	97.2	95.6	98.5	96.3	96.4	97.8	99.0	101.1	100.0	99.4	98.4
26 Textile mill products	22	1.8	100.8	99.8	100.9	102.7	103.6	102.9	100.4	100.7	101.2	97.4	96.1	96.4	93.6	93.8
27 Apparel products	23	2.4	98.8	99.8	98.7	99.2	99.3	99.2	98.8	98.4	97.2	95.5	94.9	92.9	93.1	92.3
28 Paper and products	26	3.6	105.3	102.8	105.3	104.0	104.2	107.8	106.5	107.5	106.8	105.1	105.4	104.1	101.2	101.2
29 Printing and publishing	27	6.4	111.9	111.4	112.0	112.8	112.0	111.4	110.9	111.6	112.9	112.4	112.8	112.4	110.5	109.5
30 Chemicals and products	28	8.6	110.3	109.5	110.3	109.2	110.3	110.4	111.1	110.9	110.7	110.0	109.9	109.7	109.0	108.9
31 Petroleum products	29	1.3	108.2	109.1	106.8	104.6	106.5	110.5	110.2	109.3	108.6	107.8	105.6	104.9	107.6	108.4
32 Rubber and plastic products	30	3.0	110.2	109.8	109.0	110.9	112.8	110.9	112.0	110.3	110.6	109.6	106.9	108.2	104.9	104.3
33 Leather and products	31	.3	100.0	103.3	102.6	103.5	102.0	102.5	99.6	100.3	95.3	89.9	92.6	89.6	88.2	86.6
34 Mining	.....	7.9	102.6	101.1	102.9	102.2	102.2	104.0	102.4	103.9	102.6	103.3	103.4	101.9	103.8	102.9
35 Metal	10	.3	153.1	141.4	152.7	148.7	156.7	164.8	155.7	163.6	146.8	153.4	162.0	143.0	153.0	153.6
36 Coal	11,12	1.2	113.2	112.9	114.2	110.0	113.5	118.5	110.2	116.8	114.7	112.9	110.6	108.4	112.8	110.8
37 Oil and gas extraction	13	5.7	95.5	94.6	95.7	96.0	94.6	95.5	95.8	95.8	95.8	97.3	96.7	96.4	98.3	97.3
38 Stone and earth minerals	14	.7	119.5	116.5	120.2	119.9	121.1	121.8	120.1	121.7	118.0	113.5	118.9	118.1	111.5	113.0
39 Utilities	.....	7.6	108.0	106.2	106.7	107.1	109.7	109.7	111.4	110.3	109.2	106.9	108.8	107.8	104.2	105.7
40 Electric	491,3PT	6.0	110.8	109.7	109.7	110.3	113.1	112.1	113.6	112.9	112.1	109.6	111.8	110.8	107.1	108.7
41 Gas	492,3PT	1.6	97.3	93.3	95.5	95.2	97.4	100.7	103.3	100.9	98.1	97.0	97.6	96.5	93.8	94.6
SPECIAL AGGREGATES																
42 Manufacturing excluding motor vehicles and parts	.....	79.8	110.7	110.2	110.3	110.7	111.0	111.6	111.7	111.4	111.1	110.3	109.1	108.4	107.5	107.0
43 Manufacturing excluding office and computing machines	.....	82.0	108.7	108.7	108.3	109.2	109.6	109.8	109.9	110.0	109.4	107.7	106.2	105.5	104.4	103.9
				Gross value (billions of 1982 dollars, annual rates)												
MAJOR MARKET																
44 **Products, total**	.....	**1,734.8**	**1,911.4**	**1,922.6**	**1,906.2**	**1,922.2**	**1,937.0**	**1,923.5**	**1,929.5**	**1,941.6**	**1,939.6**	**1,882.8**	**1,859.4**	**1,863.7**	**1,850.6**	**1,854.7**
45 Final	.....	1,350.9	1,497.7	1,507.5	1,493.9	1,506.0	1,523.4	1,508.7	1,516.3	1,529.1	1,523.7	1,470.8	1,450.8	1,462.2	1,457.7	1,464.3
46 Consumer goods	.....	833.4	882.9	893.4	883.9	885.9	893.8	886.0	885.9	895.2	892.7	865.2	857.6	860.6	856.6	863.7
47 Equipment	.....	517.5	614.8	614.1	610.0	620.1	629.6	622.7	630.4	633.9	631.0	605.6	593.2	601.6	601.1	600.5
48 Intermediate	.....	384.0	413.7	415.1	412.3	416.2	413.6	414.9	413.1	412.5	415.9	412.0	408.7	401.5	392.9	390.4

1. These data also appear in the Board's G.17 (419) release. For requests see address inside front cover.
A major revision of the industrial production index and the capacity utilization rates was released in April 1990. See "Industrial Production: 1989 Developments and Historical Revision," *Federal Reserve Bulletin*, vol. 76 (April 1990), pp. 187–204.

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2.14 HOUSING AND CONSTRUCTION

Monthly figures are at seasonally adjusted annual rates except as noted.

Item	1988	1989	1990	1990								1991	
				May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.r	Jan.r	Feb.
	Private residential real estate activity (thousands of units)												
NEW UNITS													
1 Permits authorized	1,456	1,339	1,096	1,065	1,108	1,082	1,050	992	920	906	844	797	863
2 1-family	994	932	792	802	796	780	762	737	708	671	645	609	693
3 2-or-more-family	462	407	304	263	312	302	288	255	212	235	199	188	170
4 Started	1,488	1,376	1,193	1,208	1,187	1,155	1,131	1,106	1,026	1,130	971	847	993
5 1-family	1,081	1,003	895	897	890	876	835	858	839	769	751	648	778
6 2-or-more-family	407	373	298	311	297	279	296	248	187	361	220	199	215
7 Under construction, end of period[1]	919	850	711r	857	847	831	815	790	766	756	744	719	716
8 1-family	570	535	449r	546	538	528	517	503	497	486	478	462	460
9 2-or-more-family	350	315	262r	311	309	303	298	287	269	270	266	257	256
10 Completed	1,530	1,423	1,308	1,351	1,294	1,312	1,307	1,314	1,275	1,246	1,155	1,111	1,073
11 1-family	1,085	1,026	966r	1,001	950	988	950	963	930	922	878	830	823
12 2-or-more-family	445	396	342	350	344	324	357	351	345	324	277	281	250
13 Mobile homes shipped	218	198	188	190	190	187	193	184	186	181	167	168	157
Merchant builder activity in 1-family units													
14 Number sold	675	650	535r	535	549	541	525	504	465	480r	460	402	467
15 Number for sale, end of period[1]	368	363	319	359	354	350	345	338	334	327	319	316	314
Price (thousands of dollars)[2]													
Median													
16 Units sold	113.3	120.4	122.3	125.0	125.0	118.7	118.4	113.0	120.0	118.9	127.0	120.0	127.5
Average													
17 Units sold	139.0	148.3	149.0r	150.6	150.4	149.8	144.7	142.1	153.0	143.3r	153.9	152.3	156.8
EXISTING UNITS (1-family)													
18 Number sold	3,594	3,439	3,316	3,350	3,370	3,320	3,410	3,160	3,070	3,150	3,130	2,900	3,160
Price of units sold (thousands of dollars)[2]													
19 Median	89.2	92.9	95.2	95.2	98.9	98.1	97.2	94.4	92.9	92.0	91.7	95.6	94.0
20 Average	112.5	118.0	118.3	118.5	122.5	121.1	120.7	116.8	115.9	115.6	114.1	123.0	119.7
	Value of new construction[3] (millions of dollars)												
CONSTRUCTION													
21 Total put in place	**422,076**	**432,068**	**433,999r**	**443,805**	**441,088**	**437,010**	**436,338**	**423,941**	**420,186r**	**415,737r**	**406,639**	**395,433**	**395,110**
22 Private	327,102	333,514	324,435r	333,992	329,556	331,269	323,518	317,516	309,354r	301,861r	295,482	291,901	285,414
23 Residential	198,101	196,551	186,852r	196,055	189,462	187,083	184,409	179,713	174,573r	169,292r	164,751	160,971	155,105
24 Nonresidential, total	129,001	136,963	137,583r	137,937	140,094	144,186	139,109	137,803	134,781r	132,569r	130,731	130,930	130,309
Buildings													
25 Industrial	14,931	18,506	20,563	20,847	20,405	23,609	20,239	19,862	19,598r	19,530r	20,748	20,806	20,703
26 Commercial	58,104	59,389	54,630	54,698	56,581	56,951	55,347	53,648	51,880r	49,806r	49,534	48,765	48,345
27 Other	17,278	17,848	18,824	18,379	19,272	19,792	19,801	20,267	19,606r	19,377r	18,428	18,562	18,647
28 Public utilities and other	38,688	41,220	43,566r	44,013	43,836	43,834	43,722	44,026	43,697r	43,856r	42,021	42,797	42,614
29 Public	94,971	98,551	109,564r	109,813	111,532	105,741	112,820	106,425	110,833r	113,877r	111,157	103,532	109,696
30 Military	3,579	3,520	3,735r	5,459	5,868	3,308	2,888	2,543	1,981r	2,982r	1,890	2,201	1,364
31 Highway	30,140	29,502	31,987	30,658	30,311	28,775	31,865	31,322	33,231r	35,289r	34,562	27,310	33,059
32 Conservation and development	4,726	4,969	4,735r	5,504	3,958	4,460	4,776	3,482	4,939r	5,068r	5,486	5,639	5,376
33 Other	56,526	60,560	69,107r	68,192	71,395	69,198	73,291	69,078	70,682r	70,538r	69,219	68,382	69,897

1. Not at annual rates.
2. Not seasonally adjusted.
3. Value of new construction data in recent periods may not be strictly comparable with data in previous periods because of changes by the Bureau of the Census in its estimating techniques. For a description of these changes see *Construction Reports* (C–30–76–5), issued by the Bureau in July 1976.

NOTE. Census Bureau estimates for all series except (1) mobile homes, which are private, domestic shipments as reported by the Manufactured Housing Institute and seasonally adjusted by the Census Bureau, and (2) sales and prices of existing units, which are published by the National Association of Realtors. All back and current figures are available from the originating agency. Permit authorizations are those reported to the Census Bureau from 16,000 jurisdictions beginning with 1978.

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2.15 CONSUMER AND PRODUCER PRICES

Percentage changes based on seasonally adjusted data, except as noted

Item	Change from 12 months earlier		Change from 3 months earlier (at annual rate)				Change from 1 month earlier					Index level Mar. 1991
	1990 Mar.	1991 Mar.	1990			1991	1990		1991			
			June	Sept.	Dec.	Mar.	Nov.	Dec.	Jan.	Feb.	Mar.	
CONSUMER PRICES[2] (1982–84=100)												
1 All items	**5.2**	**4.9**	**4.1**	**8.2**	**4.9**	**2.4**	**.3**	**.3**	**.4**	**.2**	**−.1**	**135.0**
2 Food	6.5	3.3	2.5	4.6	3.9	2.4	.4	.1	.6	−.2	.2	135.8
3 Energy items	6.3	4.4	1.2	44.2	18.0	−30.7	.5	−.4	−2.4	−4.0	−2.6	99.7
4 All items less food and energy	4.9	5.2	4.6	6.0	3.8	6.8	.3	.4	.8	.7	.1	140.9
5 Commodities	3.7	3.8	2.0	3.3	2.3	7.9	.2	.2	1.0	1.0	−.1	128.1
6 Services	5.5	6.0	5.5	7.2	4.8	6.4	.4	.4	.7	.6	.3	148.4
PRODUCER PRICES (1982=100)												
7 Finished goods	4.5	2.9	1.0	11.3	4.4	−3.9	.4	−.6	−.1	−.6	−.3	120.6
8 Consumer foods	5.2	.6	−1.6	2.3	1.3	.6	.1[r]	−.3[r]	−.3	.2	.2	125.1
9 Consumer energy	7.5	11.8	−4.6	118.7	17.7	−35.4	.2	−4.7	−2.5	−5.1	−3.2	74.9
10 Other consumer goods	4.0	4.1	3.8	3.5	3.1	5.6	.8[r]	−.1[r]	.8	.5	.2	132.7
11 Capital equipment	3.7	3.2	2.7	3.6	3.3	3.2	.2	.3	.3	.2	.2	125.8
12 Intermediate materials[3]	1.0	1.7	.4	13.4	3.8	−9.2	.3[r]	−.9[r]	−.4	−.9	−1.1	114.4
13 Excluding energy	.0	1.2	.7	4.0	2.0	−1.6	.3[r]	−.2[r]	.1	−.1	−.4	121.8
Crude materials												
14 Foods	1.4	−4.5	−3.8	−7.8	−5.3	−1.1	−1.0[r]	−.6[r]	−1.5	.0	1.2	110.1
15 Energy	6.9	−1.8	−39.2	305.8	−20.2	−52.7	−11.0[r]	−10.6[r]	6.3	−15.9	−7.3	77.2
16 Other	−5.0	−1.1	13.5	5.9	−18.5	−2.4	−2.3[r]	−1.4[r]	.3	.2	−1.1	132.7

1. Not seasonally adjusted.
2. Figures for consumer prices are those for all urban consumers and reflect a rental equivalence measure of homeownership after 1982.
3. Excludes intermediate materials for food manufacturing and manufactured animal feeds.

SOURCE. Bureau of Labor Statistics.

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2.16 GROSS NATIONAL PRODUCT AND INCOME

Billions of current dollars except as noted; quarterly data are at seasonally adjusted annual rates.

Account	1988	1989	1990[r]	1989	1990			
				Q4	Q1	Q2	Q3	Q4[r]
GROSS NATIONAL PRODUCT								
1 **Total**	**4,873.7**	**5,200.8**	**5,465.1**	**5,289.3**	**5,375.4**	**5,443.3**	**5,514.6**	**5,527.3**
By source								
2 Personal consumption expenditures	3,238.2	3,450.1	3,657.3	3,518.5	3,588.1	3,622.7	3,693.4	3,724.9
3 Durable goods	457.5	474.6	480.3	471.2	492.1	478.4	482.3	468.5
4 Nondurable goods	1,060.0	1,130.0	1,193.7	1,148.8	1,174.7	1,179.0	1,205.0	1,216.0
5 Services	1,720.7	1,845.5	1,983.3	1,898.5	1,921.3	1,965.3	2,006.2	2,040.4
6 Gross private domestic investment	747.1	771.2	741.0	762.7	747.2	759.0	759.7	698.3
7 Fixed investment	720.8	742.9	746.1	737.7	758.9	745.6	750.7	729.2
8 Nonresidential	488.4	511.9	524.1	511.8	523.1	516.5	532.8	524.0
9 Structures	139.9	146.2	147.0	147.1	148.8	147.2	149.8	142.1
10 Producers' durable equipment	348.4	365.7	377.1	364.7	374.3	369.3	383.0	381.9
11 Residential structures	232.5	231.0	222.0	225.9	235.9	229.1	217.9	205.2
12 Change in business inventories	26.2	28.3	−5.0	25.0	−11.8	13.4	9.0	−30.8
13 Nonfarm	29.8	23.3	−7.4	24.1	−17.0	13.0	6.8	−32.4
14 Net exports of goods and services	−74.1	−46.1	−31.2	−35.3	−30.0	−24.9	−41.3	−28.8
15 Exports	552.0	626.2	672.8	642.8	661.3	659.7	672.7	697.4
16 Imports	626.1	672.3	704.0	678.1	691.3	684.6	714.1	726.2
17 Government purchases of goods and services	962.5	1,025.6	1,098.1	1,043.3	1,070.1	1,086.4	1,102.8	1,132.9
18 Federal	380.3	400.0	424.0	399.9	410.6	421.9	425.8	437.6
19 State and local	582.3	625.6	674.1	643.4	659.6	664.6	677.0	695.3
By major type of product								
20 Final sales, total	4,847.5	5,172.5	5,470.2	5,264.3	5,387.2	5,429.9	5,505.6	5,558.2
21 Goods	1,908.9	2,044.4	2,148.3	2,060.9	2,122.8	2,133.1	2,161.4	2,175.9
22 Durable	840.3	894.7	939.0	894.2	941.4	930.1	943.4	941.2
23 Nondurable	1,068.6	1,149.7	1,209.3	1,166.7	1,181.4	1,203.0	1,218.0	1,234.7
24 Services	2,488.6	2,671.2	2,864.5	2,747.5	2,791.3	2,834.2	2,889.6	2,943.0
25 Structures	450.0	456.9	457.4	455.9	473.0	462.5	454.6	439.3
26 Change in business inventories	26.2	28.3	−5.0	25.0	−11.8	13.4	9.0	−30.8
27 Durable goods	19.9	11.9	−11.1	13.2	−21.6	.0	9.8	−32.5
28 Nondurable goods	6.4	16.4	6.0	11.9	9.8	13.4	−.8	1.7
MEMO								
29 **Total GNP in 1982 dollars**	**4,016.9**	**4,117.7**	**4,157.3**	**4,133.2**	**4,150.6**	**4,155.1**	**4,170.0**	**4,153.4**
NATIONAL INCOME								
30 **Total**	**3,984.9**	**4,223.3**	**4,420.1**	**4,267.1**	**4,350.3**	**4,411.3**	**4,452.4**	**4,466.5**
31 Compensation of employees	2,905.1	3,079.0	3,244.2	3,128.6	3,180.4	3,232.5	3,276.9	3,286.9
32 Wages and salaries	2,431.1	2,573.2	2,705.3	2,612.7	2,651.6	2,696.3	2,734.2	2,738.9
33 Government and government enterprises	446.6	476.6	508.0	486.7	497.1	505.7	511.3	518.1
34 Other	1,984.5	2,096.6	2,197.2	2,126.0	2,154.5	2,190.6	2,222.9	2,220.8
35 Supplement to wages and salaries	474.0	505.8	538.9	515.9	528.8	536.1	542.7	548.0
36 Employer contributions for social insurance	248.5	263.9	280.8	268.4	276.0	279.7	282.7	284.8
37 Other labor income	225.5	241.9	258.1	247.5	252.8	256.4	260.0	263.2
38 Proprietors' income[1]	354.2	379.3	402.5	381.7	404.0	401.7	397.9	406.2
39 Business and professional[1]	310.5	330.7	352.6	336.0	346.6	350.8	355.6	357.4
40 Farm[1]	43.7	48.6	49.9	45.7	57.4	51.0	42.4	48.8
41 Rental income of persons[2]	16.3	8.2	6.9	4.1	5.5	4.3	8.4	9.3
42 Corporate profits[1]	337.6	311.6	299.9	290.9	296.8	306.6	300.7	295.7
43 Profits before tax[3]	316.7	307.7	306.4	289.8	296.9	299.3	318.5	310.8
44 Inventory valuation adjustment	−27.0	−21.7	−11.4	−14.5	−11.4	−.5	−19.8	−13.8
45 Capital consumption adjustment	47.8	25.5	4.9	15.6	11.3	7.7	2.0	−1.4
46 Net interest	371.8	445.1	466.7	461.7	463.6	466.2	468.3	468.4

1. With inventory valuation and capital consumption adjustments.
2. With capital consumption adjustment.
3. For after-tax profits, dividends, and the like, see table 1.48.

SOURCE. *Survey of Current Business* (Department of Commerce).

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2.17 PERSONAL INCOME AND SAVING

Billions of current dollars; quarterly data are at seasonally adjusted annual rates. Exceptions noted.

Account	1988	1989	1990r	1989	1990			
				Q4	Q1	Q2	Q3	Q4r
PERSONAL INCOME AND SAVING								
1 **Total personal income**	**4,070.8**	**4,384.3**	**4,645.5**	**4,469.2**	**4,562.8**	**4,622.2**	**4,678.5**	**4,718.5**
2 Wage and salary disbursements	2,431.1	2,573.2	2,705.3	2,612.7	2,651.6	2,696.3	2,734.2	2,738.9
3 Commodity-producing industries	696.4	720.6	729.3	721.4	724.6	731.1	735.3	726.0
4 Manufacturing	524.0	541.8	546.8	540.9	541.2	548.1	551.8	546.1
5 Distributive industries	572.0	604.7	637.2	614.6	627.0	637.3	642.7	641.9
6 Service industries	716.2	771.4	830.8	790.0	802.9	822.2	844.9	853.0
7 Government and government enterprises	446.6	476.6	508.0	486.7	497.1	505.7	511.3	518.1
8 Other labor income	225.5	241.9	258.1	247.5	252.8	256.4	260.0	263.2
9 Proprietors' income[1]	354.2	379.3	402.5	381.7	404.0	401.7	397.9	406.2
10 Business and professional[1]	310.5	330.7	352.6	336.0	346.6	350.8	355.6	357.4
11 Farm[1]	43.7	48.6	49.9	45.7	57.4	51.0	42.4	48.8
12 Rental income of persons[2]	16.3	8.2	6.9	4.1	5.5	4.3	8.4	9.3
13 Dividends	102.2	114.4	123.8	118.2	120.5	122.9	124.9	126.7
14 Personal interest income	547.9	643.2	680.4	664.9	670.5	678.0	685.3	687.9
15 Transfer payments	587.7	636.9	694.8	655.9	680.9	686.7	696.4	715.1
16 *Old-age survivors, disability, and health insurance benefits*	300.5	325.3	350.7	334.1	347.2	347.6	351.1	356.8
17 LESS: Personal contributions for social insurance	194.1	212.8	226.2	215.8	222.9	224.1	228.6	228.9
18 EQUALS: Personal income	4,070.8	4,384.3	4,645.5	4,469.2	4,562.8	4,622.2	4,678.5	4,718.5
19 LESS: Personal tax and nontax payments	591.6	658.8	699.4	669.6	675.1	696.5	709.5	716.6
20 EQUALS: Disposable personal income	3,479.2	3,725.5	3,946.1	3,799.6	3,887.7	3,925.7	3,969.1	4,001.9
21 LESS: Personal outlays	3,333.6	3,553.7	3,766.0	3,625.5	3,696.4	3,730.6	3,802.6	3,834.4
22 EQUALS: Personal saving	145.6	171.8	180.1	174.1	191.3	195.1	166.5	167.5
MEMO								
Per capita (1982 dollars)								
23 Gross national product	16,302.4	16,549.6r	16,535.3	16,546.0	16,575.9	16,554.2	16,562.9r	16,449.4
24 Personal consumption expenditures	10,578.3	10,678.0r	10,665.8	10,688.2	10,692.1	10,672.5	10,711.5r	10,588.7
25 Disposable personal income	11,368.0	11,531.0	11,509.0	11,541.0	11,586.0	11,564.0	11,511.0	11,376.0
26 Saving rate (percent)	4.2	4.6	4.6	4.6	4.9	5.0	4.2	4.2
GROSS SAVING								
27 **Gross saving**	**656.1**	**691.5**	**659.0**	**674.8**	**664.8**	**679.3**	**665.9**	**626.0**
28 Gross private saving	751.3	779.3	788.8	786.4	795.0	806.7	772.2	781.3
29 Personal saving	145.6	171.8	180.1	174.1	191.3	195.1	166.5	167.5
30 Undistributed corporate profits[1]	91.4	53.0	33.1	39.8	36.7	40.5	26.5	28.7
31 *Corporate inventory valuation adjustment*	−27.0	−21.7	−11.4	−14.5	−11.4	−.5	−19.8	−13.8
Capital consumption allowances								
32 Corporate	322.1	346.4	363.0	356.5	356.7	359.7	365.5	370.3
33 Noncorporate	192.2	208.0	212.6	216.0	210.3	211.4	213.8	214.8
34 Government surplus, or deficit (−), national income and product accounts	−95.3	−87.8	−129.8	−111.6	−130.2	−127.3	−106.4	−155.3
35 Federal	−141.7	−134.3	−165.4	−150.1	−168.3	−166.0	−145.7	−181.7
36 State and local	46.5	46.4	35.6	38.5	38.1	38.6	39.3	26.4
37 **Gross investment**	**627.8**	**674.4**	**655.6**	**671.8**	**665.6**	**676.1**	**661.0**	**619.6**
38 Gross private domestic	747.1	771.2	741.0	762.7	747.2	759.0	759.7	698.3
39 Net foreign	−119.2	−96.8	−85.5	−90.9	−81.6	−82.9	−98.7	−78.7
40 **Statistical discrepancy**	**−28.2**	**−17.0**	**−3.4**	**−3.0**	**.7**	**−3.2**	**−4.9**	**−6.4**

1. With inventory valuation and capital consumption adjustments.
2. With capital consumption adjustment.

SOURCE. *Survey of Current Business* (Department of Commerce).

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3.10 U.S. INTERNATIONAL TRANSACTIONS Summary

Millions of dollars; quarterly data are seasonally adjusted except as noted.[1]

Item credits or debits	1988	1989	1990	1989	1990			
				Q4	Q1	Q2	Q3	Q4[p]
1 Balance on current account	−128,862	−110,035	−99,297	−26,692	−22,320	−22,733	−26,481	−27,762
2 Not seasonally adjusted	.....	.....	.....	−27,926	−18,327	−20,987	−30,672	−29,311
3 Merchandise trade balance[2]	−126,986	−114,864	−108,680	−28,746	−26,809	−23,225	−29,785	−28,861
4 Merchandise exports	320,337	360,465	389,286	91,738	96,093	96,585	96,152	100,456
5 Merchandise imports	−447,323	−475,329	−497,966	−120,484	−122,902	−119,810	−125,937	−129,317
6 Military transactions, net	−5,452	−6,319	−6,414	−1,776	−1,287	−1,382	−1,705	−2,042
7 Investment income, net	1,610	−913	7,534	561	2,004	−990	2,256	4,265
8 Other service transactions, net	16,971	26,783	29,337	7,900	7,212	7,286	6,852	7,988
9 Remittances, pensions, and other transfers	−4,261	−3,758	−4,101	−889	−1,038	−921	−1,106	−1,037
10 U.S. government grants	−10,744	−10,963	−16,972	−3,742	−2,402	−3,501	−2,993	−8,075
11 Change in U.S. government assets, other than official reserve assets, net (increase, −)	2,969	1,185	2,971	−47	−659	−808	−360	4,797
12 Change in U.S. official reserve assets (increase, −)	−3,912	−25,293	−2,158	−3,202	−3,177	371	1,739	−1,092
13 Gold	0	0	0	0	0	0	0	0
14 Special drawing rights (SDRs)	127	−535	−192	−204	−247	−216	363	−93
15 Reserve position in International Monetary Fund	1,025	471	731	−23	234	493	8	−4
16 Foreign currencies	−5,064	−25,229	−2,697	−2,975	−3,164	94	1,368	−995
17 Change in U.S. private assets abroad (increase, −)	−83,232	−102,953	−62,062	−45,496	36,741	−31,257	−33,273	−34,273
18 Bank-reported claims[3]	−56,322	−50,684	816	−32,658	52,353	−13,639	−13,489	−24,409
19 Nonbank-reported claims	−2,847	1,391	.....	47	1,202	−1,550	625	.....
20 U.S. purchase of foreign securities, net	−7,846	−21,938	−26,785	−4,109	−7,496	−11,247	−1,223	−6,819
21 U.S. direct investments abroad, net	−16,217	−31,722	−36,370	−8,776	−9,318	−4,821	−19,186	−3,045
22 Change in foreign official assets in United States (increase, +)	39,515	8,823	30,778	−7,016	−8,203	5,541	13,588	19,851
23 U.S. Treasury securities	41,741	333	28,704	−7,342	−5,897	2,442	12,058	20,101
24 Other U.S. government obligations	1,309	1,383	667	569	−521	346	134	708
25 Other U.S. government liabilities[4]	−710	332	1,486	412	−381	1,089	−202	979
26 Other U.S. liabilities reported by U.S. banks[3]	−319	4,940	1,495	−820	−1,278	1,918	1,871	−1,016
27 Other foreign official assets[5]	−2,506	1,835	−1,574	165	−126	−254	−273	−921
28 Change in foreign private assets in United States (increase, +)	181,926	205,829	56,766	76,336	−24,786	19,954	42,543	19,055
29 U.S. bank-reported liabilities[3]	70,235	61,199	19,786	36,674	−32,264	4,897	27,591	19,562
30 U.S. nonbank-reported liabilities	6,664	2,867	.....	1,732	290	1,317	4,425	.....
31 Foreign private purchases of U.S. Treasury securities, net	20,239	29,951	1,144	5,671	−835	3,614	312	−1,947
32 Foreign purchases of other U.S. securities, net	26,353	39,568	4,096	10,793	2,486	2,890	−1,670	390
33 Foreign direct investments in United States, net	58,435	72,244	25,708	21,466	5,537	7,236	11,885	1,050
34 Allocation of SDRs	0	0	0	0	0	0	0	0
35 Discrepancy	−8,404	22,443	73,002	6,117	22,404	28,932	2,244	19,424
36 Owing to seasonal adjustments	.....	.....	.....	3,560	3,023	−767	−4,980	2,726
37 Statistical discrepancy in recorded data before seasonal adjustment	−8,404	22,443	73,002	2,558	19,381	29,699	7,224	16,698
MEMO								
Changes in official assets								
38 U.S. official reserve assets (increase, −)	−3,912	−25,293	−2,158	−3,202	−3,177	371	1,739	−1,092
39 Foreign official assets in United States (increase, +) excluding line 25	40,225	8,491	29,292	−7,428	−7,822	4,452	13,790	18,872
40 Change in Organization of Petroleum Exporting Countries official assets in United States (part of line 22 above)	−2,996	10,713	1,902	−1,379	2,953	208	−1,600	341

1. Seasonal factors are not calculated for lines 6, 10, 12–16, 18–20, 22–34, and 38–40.

2. Data are on an international accounts (IA) basis. Differs from the Census basis data, shown in table 3.11, for reasons of coverage and timing. Military exports are excluded from merchandise data and are included in line 6.

3. Reporting banks include all kinds of depository institutions besides commercial banks, as well as some brokers and dealers.

4. Primarily associated with military sales contracts and other transactions arranged with or through foreign official agencies.

5. Consists of investments in U.S. corporate stocks and in debt securities of private corporations and state and local governments.

NOTE. Data are from Bureau of Economic Analysis, *Survey of Current Business* (Department of Commerce).

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3.11 U.S. FOREIGN TRADE[1]

Millions of dollars; monthly data are seasonally adjusted.

Item	1988	1989	1990[r]	1990[r]					1991	
				Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
1 EXPORTS of domestic and foreign merchandise excluding grant-aid shipments, f.a.s. value	322,426	363,812	393,592	32,515	32,231	34,631	33,586	33,570	34,311	33,502
GENERAL IMPORTS including merchandise for immediate consumption plus entries into bonded warehouses										
2 Customs value	440,952	473,211	495,311	41,868	41,315	44,527	43,123	39,895	41,474	38,836
Trade balance										
3 **Customs value**	**−118,526**	**−109,399**	**−101,718**	**−9,353**	**−9,084**	**−9,897**	**−9,536**	**−6,325**	**−7,164**	**−5,334**

1. The Census basis data differ from merchandise trade data shown in table 3.10, U.S. International Transactions Summary, for reasons of coverage and timing. On the *export side*, the largest adjustment is the exclusion of military sales (which are combined with other military transactions and reported separately in the "service account" in table 3.10, line 6). On the *import side*, additions are made for gold, ship purchases, imports of electricity from Canada, and other transactions; military payments are excluded and shown separately as indicated above. As of Jan. 1, 1987 census data are released 45 days after the end of the month; the previous month is revised to reflect late documents. Total exports and the trade balance reflect adjustments for undocumented exports to Canada.

SOURCE. FT900 "Summary of U.S. Export and Import Merchandise Trade" (Department of Commerce, Bureau of the Census).

3.12 U.S. RESERVE ASSETS

Millions of dollars, end of period

Type	1987	1988	1989	1990				1991		
				Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.[p]
1 **Total**	**45,798**	**47,802**	**74,609**	**80,024**	**82,822[r]**	**83,041[r]**	**83,316[r]**	**85,006**	**82,797**	**78,002**
2 Gold stock, including Exchange Stabilization Fund[1]	11,078	11,057	11,059	11,063	11,060	11,059	11,058	11,058	11,058	11,058
3 Special drawing rights[2,3]	10,283	9,637	9,951	10,666	10,876	11,059	10,989	10,922	10,958	10,368
4 Reserve position in International Monetary Fund[2]	11,349	9,745	9,048	8,881	9,066	8,871	9,076	9,468	9,556	8,910
5 Foreign currencies[4]	13,088	17,363	44,551	49,414	51,820[r]	52,052[r]	52,193[r]	53,558	51,225	47,666

1. Gold held under earmark at Federal Reserve Banks for foreign and international accounts is not included in the gold stock of the United States; see table 3.13. Gold stock is valued at $42.22 per fine troy ounce.

2. Beginning July 1974, the IMF adopted a technique for valuing the SDR based on a weighted average of exchange rates for the currencies of member countries. From July 1974 through December 1980, 16 currencies were used; from January 1981, 5 currencies have been used. The U.S. SDR holdings and reserve position in the IMF also are valued on this basis beginning July 1974.

3. Includes allocations by the International Monetary Fund of SDRs as follows: $867 million on Jan. 1, 1970; $717 million on Jan. 1, 1971; $710 million on Jan. 1, 1972; $1,139 million on Jan. 1, 1979; $1,152 million on Jan. 1, 1980; and $1,093 million on Jan. 1, 1981; plus transactions in SDRs.

4. Valued at current market exchange rates.

3.13 FOREIGN OFFICIAL ASSETS HELD AT FEDERAL RESERVE BANKS[1]

Millions of dollars, end of period

Assets	1987	1988	1989	1990				1991		
				Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.[p]
1 Deposits	244	347	589	360	297	264	369	271	329	228
Assets held in custody										
2 U.S. Treasury securities[2]	195,126	232,547	224,911	261,321	266,749	272,399	278,499	286,722	286,471	272,505
3 Earmarked gold[3]	13,919	13,636	13,456	13,419	13,415	13,389	13,387	13,377	13,382	13,374

1. Excludes deposits and U.S. Treasury securities held for international and regional organizations.

2. Marketable U.S. Treasury bills, notes, and bonds; and nonmarketable U.S. Treasury securities payable in dollars and in foreign currencies at face value.

3. Earmarked gold and the gold stock are valued at $42.22 per fine troy ounce. Earmarked gold is gold held for foreign and international accounts and is not included in the gold stock of the United States.

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3.14 FOREIGN BRANCHES OF U.S. BANKS Balance Sheet Data[1]

Millions of dollars, end of period

Asset account	1987	1988	1989	1990					1991	
				Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
	All foreign countries									
1 **Total, all currencies**	**518,618**	**505,595**	**545,366**	**551,377**r	**546,172**r	**552,542**r	**558,626**r	**556,925**r	**563,587**r	**559,946**
2 Claims on United States	138,034	169,111	198,835	178,267r	182,593r	177,571r	180,938r	188,496r	183,587r	187,688
3 Parent bank	105,845	129,856	157,092	137,589r	140,897r	135,568r	140,302r	148,837r	141,094r	145,481
4 Other banks in United States	16,416	14,918	17,042	14,500	14,272	13,261	12,937r	13,296	14,541	12,887
5 Nonbanks	15,773	24,337	24,701	26,178	27,424	28,742	27,699	26,363	27,952	29,320
6 Claims on foreigners	342,520	299,728	300,575	313,831	311,248	319,318	323,020r	312,349r	321,150r	313,128
7 Other branches of parent bank	122,155	107,179	113,810	121,705	123,359	128,747	135,177	134,567	131,727r	124,167
8 Banks	108,859	96,932	90,703	88,768	83,305	82,706	81,440r	72,986r	81,607r	80,030
9 Public borrowers	21,832	17,163	16,456	16,157	16,379	16,335	16,591r	17,502r	18,205r	17,843
10 Nonbank foreigners	89,674	78,454	79,606	87,201	88,205	91,530	89,812	87,294	89,611r	91,088
11 Other assets	38,064	36,756	45,956	59,279	52,331	55,653	54,668	56,080	58,850r	59,130
12 **Total payable in U.S. dollars**	**350,107**	**357,573**	**382,498**	**358,038**r	**360,210**r	**362,537**r	**371,753**r	**379,162**r	**379,386**r	**379,729**
13 Claims on United States	132,023	163,456	191,184	169,745r	174,016r	168,988r	172,336r	180,174r	175,505r	180,115
14 Parent bank	103,251	126,929	152,294	132,025r	135,100r	129,882r	134,436r	142,962r	135,389r	140,303
15 Other banks in United States	14,657	14,167	16,386	13,513	13,422	12,441	12,088r	12,513	13,739	12,266
16 Nonbanks	14,115	22,360	22,504	24,207	25,494	26,665	25,812	24,699	26,377	27,546
17 Claims on foreigners	202,428	177,685	169,690	163,490	163,994	168,722	174,832r	174,092r	179,403r	173,166
18 Other branches of parent bank	88,284	80,736	82,949	82,564	84,378	90,198	95,599	94,939	93,488	87,033
19 Banks	63,707	54,884	48,396	40,733	39,413	37,531	37,795r	36,440r	41,134r	40,785
20 Public borrowers	14,730	12,131	10,961	10,939	11,166	11,201	11,202r	12,298r	13,136r	12,944
21 Nonbank foreigners	35,707	29,934	27,384	29,254	29,037	29,792	30,236	30,415	31,645r	32,404
22 Other assets	15,656	16,432	21,624	24,803	22,200	24,827	24,585	24,896	24,478	26,448
	United Kingdom									
23 **Total, all currencies**	**158,695**	**156,835**	**161,947**	**184,933**	**178,484**	**184,660**	**188,182**	**184,818**	**184,817**	**180,211**
24 Claims on United States	32,518	40,089	39,212	40,092	42,574	39,862	42,301	45,560	40,197	41,278
25 Parent bank	27,350	34,243	35,847	36,140	39,042	35,904	38,453	42,413	36,533	37,662
26 Other banks in United States	1,259	1,123	1,058	1,037	723	694	1,088	792	1,095	924
27 Nonbanks	3,909	4,723	2,307	2,915	2,809	3,264	2,760	2,355	2,569	2,692
28 Claims on foreigners	115,700	106,388	107,657	118,423	114,863	122,203	124,077	115,536	121,077	115,361
29 Other branches of parent bank	39,903	35,625	37,728	43,581	44,408	47,390	49,499	46,367	47,857	41,653
30 Banks	36,735	36,765	36,159	37,623	34,088	35,480	36,135	31,604	34,050r	34,518
31 Public borrowers	4,752	4,019	3,293	3,757	3,639	3,521	3,675	3,860	3,953	4,029
32 Nonbank foreigners	34,310	29,979	30,477	33,462	32,728	35,812	34,768	33,705	35,217r	35,161
33 Other assets	10,477	10,358	15,078	26,418	21,047	22,595	21,804	23,722	23,543	23,572
34 **Total payable in U.S. dollars**	**100,574**	**103,503**	**103,208**	**106,891**	**106,899**	**109,950**	**115,182**	**116,762**	**114,413**	**113,673**
35 Claims on United States	30,439	38,012	36,404	35,979	37,997	35,429	37,668	41,259	36,120	37,644
36 Parent bank	26,304	33,252	34,329	33,585	36,024	33,145	35,614	39,609	33,754	35,345
37 Other banks in United States	1,044	964	843	721	466	419	611	334	771	615
38 Nonbanks	3,091	3,796	1,232	1,673	1,507	1,865	1,443	1,316	1,595	1,684
39 Claims on foreigners	64,560	60,472	59,062	60,390	59,811	63,720	66,876	63,701	67,996	64,682
40 Other branches of parent bank	28,635	28,474	29,872	32,976	33,990	37,069	39,630	37,142	38,120	33,136
41 Banks	19,188	18,494	16,579	14,570	13,206	13,571	13,915	13,135	14,905r	15,840
42 Public borrowers	3,313	2,840	2,371	2,896	2,866	2,790	2,862	3,143	3,242	3,290
43 Nonbank foreigners	13,424	10,664	10,240	9,948	9,749	10,290	10,469	10,281	11,729r	12,416
44 Other assets	5,575	5,019	7,742	10,522	9,091	10,801	10,638	11,802	10,297	11,347
	Bahamas and Caymans									
45 **Total, all currencies**	**160,321**	**170,639**	**176,006**	**150,726**r	**153,266**r	**153,529**r	**153,850**r	**162,316**r	**166,896**r	**167,717**
46 Claims on United States	85,318	105,320	124,205	103,552r	106,606r	107,009r	106,694r	112,989r	115,402r	118,297
47 Parent bank	60,048	73,409	87,882	68,538r	70,177r	70,877r	71,416r	77,873r	77,946r	81,402
48 Other banks in United States	14,277	13,145	15,071	12,625	12,539	11,605	11,017r	11,869	12,877	11,380
49 Nonbanks	10,993	18,766	21,252	22,389	23,890	24,527	24,261	23,247	24,579	25,515
50 Claims on foreigners	70,162	58,393	44,168	39,595	39,573	38,062	38,669r	41,356r	42,801r	40,363
51 Other branches of parent bank	21,277	17,954	11,309	12,031	11,638	12,152	12,697	13,416	12,292	11,477
52 Banks	33,751	28,268	22,611	17,543	18,076	15,994	16,299r	16,310r	18,343	16,863
53 Public borrowers	7,428	5,830	5,217	4,554	4,818	4,876	4,775r	5,807r	6,528r	6,484
54 Nonbank foreigners	7,706	6,341	5,031	5,467	5,041	5,040	4,898	5,823	5,638	5,539
55 Other assets	4,841	6,926	7,633	7,579	7,087	8,458	8,487	7,971	8,693	9,057
56 **Total payable in U.S. dollars**	**151,434**	**163,518**	**170,780**	**146,472**r	**149,615**r	**149,271**r	**149,754**r	**158,390**r	**162,048**r	**163,041**

1. Beginning with June 1984 data, reported claims held by foreign branches have been reduced by an increase in the reporting threshold for "shell" branches from $50 million to $150 million equivalent in total assets, the threshold now applicable to all reporting branches.

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3.14—Continued

Liability account	1987	1988	1989	1990					1991	
				Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
	All foreign countries									
57 **Total, all currencies**	**518,618**	**505,595**	**545,366**	**551,377**r	**546,172**r	**552,542**r	**558,626**r	**556,925**r	**563,587**r	**559,946**
58 Negotiable CDs	30,929	28,511	23,500	22,917	21,977	22,089	21,521	18,060	19,106	18,595
59 To United States	161,390	185,577	197,239	167,441r	172,916r	167,575r	171,592r	189,412r	185,869r	187,070
60 Parent bank	87,606	114,720	138,412	109,849r	117,384r	113,098r	115,519r	138,748r	133,708	131,735
61 Other banks in United States	20,355	14,737	11,704	10,264	8,976	7,984	9,140	7,463	9,341	10,580
62 Nonbanks	53,429	56,120	47,123	47,328	46,556	46,493	46,933r	43,201r	42,820r	44,755
63 To foreigners	304,803	270,923	296,850	321,365	317,202	327,139	328,534	311,663	319,811	316,179
64 Other branches of parent bank	124,601	111,267	119,591	124,393	125,382	131,045	137,849	138,799	131,899	124,143
65 Banks	87,274	72,842	76,452	79,485	75,351	75,815	72,352	58,966r	70,202r	73,852
66 Official institutions	19,564	15,183	16,750	17,801	17,475	18,436	17,996	14,791r	17,343	16,648
67 Nonbank foreigners	73,364	71,631	84,057	99,686	98,994	101,843	100,337	99,107	100,367r	101,536
68 Other liabilities	21,496	20,584	27,777	39,654	34,077	35,739	36,979r	37,790r	38,801r	38,102
69 **Total payable in U.S. dollars**	**361,438**	**367,483**	**396,613**	**365,959**r	**364,972**r	**363,963**r	**372,359**r	**383,291**r	**383,707**r	**379,680**
70 Negotiable CDs	26,768	24,045	19,619	17,588	17,219	17,022	16,845	14,094	15,141	14,446
71 To United States	148,442	173,190	187,286	155,202r	159,059r	153,350r	157,013r	175,713r	171,779r	174,169
72 Parent bank	81,783	107,150	132,563	103,386r	109,490r	104,651r	106,951r	130,569r	125,657	124,530
73 Other banks in United States	18,951	13,468	10,519	8,791	7,501	6,486	7,686	6,052	7,627	8,715
74 Nonbanks	47,708	52,572	44,204	43,025	42,068	42,213	42,376r	39,092r	38,495r	40,924
75 To foreigners	177,711	160,766	176,460	177,484	175,725	178,969	183,461	178,707	181,824	175,480
76 Other branches of parent bank	90,469	84,021	87,636	84,157	85,303	89,658	95,556	97,833	94,464	87,007
77 Banks	35,065	28,493	30,537	28,945	26,576	23,669	25,022	20,251r	23,661r	25,553
78 Official institutions	12,409	8,224	9,873	9,710	9,346	9,689	9,091	7,921r	10,585	10,004
79 Nonbank foreigners	39,768	40,028	48,414	54,672	54,500	55,953	53,792	52,702	53,114r	52,916
80 Other liabilities	8,517	9,482	13,248	15,685	12,969	14,622	15,040r	14,777r	14,963r	15,585
	United Kingdom									
81 **Total, all currencies**	**158,695**	**156,835**	**161,947**	**184,933**	**178,484**	**184,660**	**188,182**	**184,818**	**184,817**	**180,211**
82 Negotiable CDs	26,988	24,528	20,056	18,703	17,542	17,557	17,144	14,256	14,872	14,363
83 To United States	23,470	36,784	36,036	33,365	35,485	32,143	36,500	39,928	34,389	34,070
84 Parent bank	13,223	27,849	29,726	23,399	25,461	22,013	26,165	31,806	25,548	25,670
85 Other banks in United States	1,536	2,037	1,256	1,535	1,765	1,430	1,671	1,505	1,861	1,401
86 Nonbanks	8,711	6,898	5,054	8,431	8,259	8,700	8,664	6,617	6,980	6,999
87 To foreigners	98,689	86,026	92,307	109,372	106,494	114,959	113,958	108,531	113,754	110,454
88 Other branches of parent bank	33,078	26,812	27,397	28,967	30,487	32,357	34,406	36,709	34,547	30,978
89 Banks	34,290	30,609	29,780	34,647	30,111	33,870	32,844	25,126r	31,765	32,801
90 Official institutions	11,015	7,873	8,551	9,902	9,578	10,788	9,534	8,361r	10,368	9,728
91 Nonbank foreigners	20,306	20,732	26,579	35,856	36,318	37,944	37,174	38,335	37,074	36,947
92 Other liabilities	9,548	9,497	13,548	23,493	18,963	20,001	20,580	22,103	21,802	21,324
93 **Total payable in U.S. dollars**	**102,550**	**105,907**	**108,178**	**108,532**	**107,216**	**108,064**	**114,090**	**116,153**	**114,367**	**112,343**
94 Negotiable CDs	24,926	22,063	18,143	15,758	15,502	15,237	15,100	12,710	13,387	12,790
95 To United States	17,752	32,588	33,056	28,779	30,368	26,867	31,117	34,756	29,114	29,705
96 Parent bank	12,026	26,404	28,812	22,423	23,963	20,334	24,381	30,014	23,945	24,389
97 Other banks in United States	1,308	1,752	1,065	1,228	1,471	1,035	1,318	1,156	1,324	926
98 Nonbanks	4,418	4,432	3,179	5,128	4,934	5,498	5,418	3,586	3,845	4,390
99 To foreigners	55,919	47,083	50,517	55,252	54,679	57,639	59,787	60,014	63,702	60,977
100 Other branches of parent bank	22,334	18,561	18,384	17,347	18,560	20,797	23,288	25,957	24,954	21,339
101 Banks	15,580	13,407	12,244	13,042	11,116	10,465	11,911	9,488r	11,539	12,993
102 Official institutions	7,530	4,348	5,454	5,463	5,324	5,751	5,000	4,692r	7,158	6,570
103 Nonbank foreigners	10,475	10,767	14,435	19,400	19,679	20,626	19,588	19,877	20,051	20,075
104 Other liabilities	3,953	4,173	6,462	8,743	6,667	8,321	8,086	8,673	8,164	8,871
	Bahamas and Caymans									
105 **Total, all currencies**	**160,321**	**170,639**	**176,006**	**150,726**r	**153,266**r	**153,529**r	**153,850**r	**162,316**r	**166,896**r	**167,717**
106 Negotiable CDs	885	953	678	553	553	560	561	646	654	629
107 To United States	113,950	122,332	124,859	100,653r	104,243r	103,577r	104,086r	114,738r	120,248r	121,656
108 Parent bank	53,239	62,894	75,188	56,123r	62,308r	62,506r	61,350r	74,941r	80,157	77,681
109 Other banks in United States	17,224	11,494	8,883	7,039	5,398	4,959	5,798	4,526	5,655	7,618
110 Nonbanks	43,487	47,944	40,788	37,491	36,537	36,112	36,938r	35,271r	34,436r	36,357
111 To foreigners	43,815	45,161	47,382	46,922	46,237	46,867	46,299	44,444	42,883	42,555
112 Other branches of parent bank	19,185	23,686	23,414	24,965	24,781	25,864	25,579	24,715	23,099	22,923
113 Banks	10,769	8,336	8,823	7,469	7,519	6,794	6,569	5,588	6,063r	6,188
114 Official institutions	1,504	1,074	1,097	943	731	703	763	622	811	728
115 Nonbank foreigners	12,357	12,065	14,048	13,545	13,206	13,506	13,388	13,519	12,910r	12,716
116 Other liabilities	1,671	2,193	3,087	2,598	2,233	2,525	2,904r	2,488r	3,111r	2,877
117 **Total payable in U.S. dollars**	**152,927**	**162,950**	**171,250**	**145,701**r	**148,621**r	**147,781**r	**148,197**r	**157,132**r	**161,708**r	**162,358**

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3.15 SELECTED U.S. LIABILITIES TO FOREIGN OFFICIAL INSTITUTIONS

Millions of dollars, end of period

Item	1988	1989	1990[r]					1991	
			Aug.	Sept.	Oct.	Nov.	Dec.	Jan.[r]	Feb.[p]
1 **Total**[1]	**304,132**	**312,477**[r]	**321,602**	**324,007**	**329,964**	**340,542**	**343,908**	**352,105**	**361,540**
By type									
2 Liabilities reported by banks in the United States[2]	31,519	36,496	40,861	40,202	44,681	43,170	39,494	41,445	43,026
3 U.S. Treasury bills and certificates[3]	103,722	76,985	72,803	72,472	72,457	80,220	78,493	82,520	82,611
U.S. Treasury bonds and notes									
4 Marketable	152,429	179,269[r]	185,351	189,159	190,534	195,305	203,185	205,752	213,069
5 Nonmarketable[4]	523	568	3,692	3,717	3,741	3,765	4,491	4,521	4,550
6 U.S. securities other than U.S. Treasury securities[5]	15,939	19,159	18,895	18,457	18,551	18,082	18,245	17,867	18,284
By area									
7 Western Europe[1]	123,752	133,417	152,611	156,275	163,363	169,277	171,170	173,216	178,215
8 Canada	9,513	9,482	11,083	10,171	8,903	8,639	8,598	8,106	7,777
9 Latin America and Caribbean	10,030	8,745[r]	11,561	11,776	11,615	14,298	15,777	16,209	18,107
10 Asia	151,887	153,338	136,977	136,333	137,032	139,235	138,159	143,597	146,276
11 Africa	1,403	1,030	1,697	1,383	1,305	1,404	1,433	1,659	1,439
12 Other countries[6]	7,548	6,469	7,675	8,068	7,748	7,692	8,071	8,612	9,016

1. Includes the Bank for International Settlements.
2. Principally demand deposits, time deposits, bankers acceptances, commercial paper, negotiable time certificates of deposit, and borrowings under repurchase agreements.
3. Includes nonmarketable certificates of indebtedness (including those payable in foreign currencies through 1974) and Treasury bills issued to official institutions of foreign countries.
4. Excludes notes issued to foreign official nonreserve agencies. Includes bonds and notes payable in foreign currencies; zero coupon bonds are included at current value.
5. Debt securities of U.S. government corporations and federally sponsored agencies, and U.S. corporate stocks and bonds.
6. Includes countries in Oceania and Eastern Europe.

NOTE. Based on data and on data reported to the Treasury Department by banks (including Federal Reserve Banks) and securities dealers in the United States and on the 1984 benchmark survey of foreign portfolio investment in the United States.

3.16 LIABILITIES TO AND CLAIMS ON FOREIGNERS Reported by Banks in the United States Payable in Foreign Currencies[1]

Millions of dollars, end of period

Item	1987	1988	1989[r]	1990[r]			
				Mar.	June	Sept.	Dec.
1 Banks' own liabilities	55,438	74,980	67,835	63,273	68,650	69,827	69,260
2 Banks' own claims	51,271	68,983	65,127	61,082	66,680	68,064	66,108
3 Deposits	18,861	25,100	20,491	21,585	20,281	23,718	25,526
4 Other claims	32,410	43,884	44,636	39,497	46,399	44,346	40,582
5 Claims of banks' domestic customers[2]	551	364	3,507	1,649	2,612	2,843	6,563

1. Data on claims exclude foreign currencies held by U.S. monetary authorities.
2. Assets owned by customers of the reporting bank located in the United States that represent claims on foreigners held by reporting banks for the accounts of the domestic customers.

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3.17 LIABILITIES TO FOREIGNERS Reported by Banks in the United States[1] Payable in U.S. dollars

Millions of dollars, end of period

Holder and type of liability	1988	1989	1990r	1990r					1991	
				Aug.	Sept.	Oct.	Nov.	Dec.	Jan.r	Feb.p
1 **All foreigners**	**685,339**	**736,878r**	**755,455**	**729,261**	**731,516**	**737,343**	**744,298**	**755,455**	**753,640**	**759,701**
2 Banks' own liabilities	514,532	577,498r	577,424	561,770	561,795	564,094	561,298	577,424	568,508	575,349
3 Demand deposits	21,863	22,032r	21,734	20,507	22,085	20,212	19,680	21,734	19,689	20,112
4 Time deposits[2]	152,164	168,780r	168,096	156,506	159,040	158,674	162,289	168,096	159,370	162,150
5 Other[3]	51,366	67,823r	67,560	75,893	67,406	75,398	72,280	67,560	76,943	75,946
6 Own foreign offices[4]	289,138	318,864r	320,034	308,864	313,264	309,810	307,049	320,034	312,506	317,141
7 Banks' custody liabilities[5]	170,807	159,380	178,031	167,491	169,721	173,250	183,000	178,031	185,132	184,352
8 U.S. Treasury bills and certificates[6]	115,056	91,100	98,179	92,915	91,361	94,821	101,243	98,179	105,801	105,301
9 Other negotiable and readily transferable instruments[7]	16,426	19,526	17,408	16,983	17,198	17,680	18,294	17,408	17,886	18,176
10 Other	39,325	48,754	62,444	57,593	61,162	60,748	63,464	62,444	61,445	60,875
11 **Nonmonetary international and regional organizations[8]**	**3,224**	**4,894r**	**5,918**	**5,219**	**6,422**	**5,404**	**5,324**	**5,918**	**7,907**	**6,555**
12 Banks' own liabilities	2,527	3,279r	4,540	3,260	5,111	4,369	3,179	4,540	6,430	4,092
13 Demand deposits	71	96	36	39	101	57	33	36	67	23
14 Time deposits[2]	1,183	927	1,038	1,303	1,245	885	773	1,038	1,587	1,672
15 Other[3]	1,272	2,255r	3,467	1,917	3,765	3,427	2,373	3,467	4,775	2,397
16 Banks' custody liabilities[5]	698	1,616	1,378	1,959	1,311	1,034	2,145	1,378	1,478	2,462
17 U.S. Treasury bills and certificates[6]	57	197	364	1,095	479	248	1,077	364	423	1,620
18 Other negotiable and readily transferable instruments[7]	641	1,417	1,014	819	817	782	1,022	1,014	1,005	842
19 Other	0	2	0	45	15	5	46	0	50	0
20 **Official institutions[9]**	**135,241**	**113,481**	**117,988**	**113,664**	**112,673**	**117,137**	**123,390**	**117,988**	**123,965**	**125,638**
21 Banks' own liabilities	27,109	31,108	34,698	36,825	36,237	39,893	38,065	34,698	37,553	38,730
22 Demand deposits	1,917	2,196	1,940	1,914	2,498	2,121	1,784	1,940	1,686	1,580
23 Time deposits[2]	9,767	10,495	13,965	11,399	11,547	11,535	12,824	13,965	11,690	13,127
24 Other[3]	15,425	18,417	18,793	23,512	22,192	26,237	23,457	18,793	24,177	24,023
25 Banks' custody liabilities[5]	108,132	82,373	83,290	76,839	76,436	77,244	85,325	83,290	86,413	86,908
26 U.S. Treasury bills and certificates[6]	103,722	76,985	78,493	72,803	72,472	72,457	80,220	78,493	82,520	82,611
27 Other negotiable and readily transferable instruments[7]	4,130	5,028	4,594	3,685	3,676	4,361	4,725	4,594	3,712	3,923
28 Other	280	361	203	351	289	427	380	203	180	374
29 **Banks[10]**	**459,523**	**515,275r**	**537,076**	**514,652**	**517,854**	**514,636**	**519,067**	**537,076**	**523,305**	**531,089**
30 Banks' own liabilities	409,501	454,273r	458,053	439,243	439,390	436,852	438,014	458,053	444,824	451,431
31 Unaffiliated foreign banks	120,362	135,409	138,018	130,378	126,127	127,041	130,965	138,018	132,318	134,290
32 Demand deposits	9,948	10,279	10,048	9,797	10,405	8,989	8,996	10,048	8,985	9,509
33 Time deposits[2]	80,189	90,557	89,040	77,421	80,273	80,187	83,620	89,040	81,717	82,576
34 Other[3]	30,226	34,573	38,930	43,161	35,449	37,866	38,349	38,930	41,617	42,204
35 Own foreign offices[4]	289,138	318,864r	320,034	308,864	313,264	309,810	307,049	320,034	312,506	317,141
36 Banks' custody liabilities[5]	50,022	61,002	79,024	75,409	78,464	77,785	81,053	79,024	78,481	79,658
37 U.S. Treasury bills and certificates[6]	7,602	9,367	12,958	13,848	13,002	13,642	13,510	12,958	12,803	13,937
38 Other negotiable and readily transferable instruments[7]	5,725	5,124	5,356	5,366	6,184	5,840	5,841	5,356	6,129	6,498
39 Other	36,694	46,510	60,710	56,195	59,278	58,303	61,701	60,710	59,549	59,222
40 **Other foreigners**	**87,351**	**103,228r**	**94,473**	**95,726**	**94,566**	**100,166**	**96,518**	**94,473**	**98,462**	**96,419**
41 Banks' own liabilities	75,396	88,839r	80,134	82,443	81,056	82,980	82,040	80,134	79,701	81,095
42 Demand deposits	9,928	9,460r	9,710	8,757	9,081	9,045	8,868	9,710	8,950	8,999
43 Time deposits[2]	61,025	66,801r	64,054	66,383	65,975	66,067	65,072	64,054	64,376	64,775
44 Other[3]	4,443	12,577	6,370	7,304	6,000	7,868	8,100	6,370	6,374	7,321
45 Banks' custody liabilities[5]	11,956	14,389	14,339	13,284	13,509	17,186	14,477	14,339	18,762	15,324
46 U.S. Treasury bills and certificates[6]	3,675	4,551	6,363	5,169	5,408	8,476	6,436	6,363	10,055	7,133
47 Other negotiable and readily transferable instruments[7]	5,929	7,958	6,445	7,113	6,521	6,697	6,705	6,445	7,040	6,913
48 Other	2,351	1,880	1,531	1,001	1,580	2,013	1,336	1,531	1,667	1,278
49 MEMO: Negotiable time certificates of deposit in custody for foreigners	6,425	7,203	7,022	5,713	6,346	6,199	6,466	7,022	6,963	6,724

1. Reporting banks include all kinds of depository institutions besides commercial banks, as well as some brokers and dealers.
2. Excludes negotiable time certificates of deposit, which are included in "Other negotiable and readily transferable instruments."
3. Includes borrowing under repurchase agreements.
4. U.S. banks: includes amounts due to own foreign branches and foreign subsidiaries consolidated in "Consolidated Report of Condition" filed with bank regulatory agencies. Agencies, branches, and majority-owned subsidiaries of foreign banks: principally amounts due to head office or parent foreign bank, and foreign branches, agencies, or wholly owned subsidiaries of head office or parent foreign bank.
5. Financial claims on residents of the United States, other than long-term securities, held by or through reporting banks.
6. Includes nonmarketable certificates of indebtedness and Treasury bills issued to official institutions of foreign countries.
7. Principally bankers acceptances, commercial paper, and negotiable time certificates of deposit.
8. Principally the International Bank for Reconstruction and Development, and the Inter-American and Asian Development Banks. Data exclude "holdings of dollars" of the International Monetary Fund.
9. Foreign central banks, foreign central governments, and the Bank for International Settlements.
10. Excludes central banks, which are included in "Official institutions."

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3.17—Continued

Area and country	1988	1989	1990	1990					1991	
				Aug.	Sept.	Oct.	Nov.	Dec.	Jan.[r]	Feb.[p]
1 **Total**	**685,339**	**736,878**[r]	**755,455**[r]	**729,261**[r]	**731,516**[r]	**737,343**[r]	**744,298**[r]	**755,455**[r]	**753,640**	**759,701**
2 **Foreign countries**	**682,115**	**731,984**[r]	**749,537**[r]	**724,042**[r]	**725,094**[r]	**731,940**[r]	**738,974**[r]	**749,537**[r]	**745,733**	**753,146**
3 Europe	231,912	237,501[r]	254,960[r]	245,107[r]	244,063[r]	245,718[r]	247,225[r]	254,960[r]	248,063	250,837
4 Austria	1,155	1,233	1,229	1,544	1,433[r]	1,401	1,385	1,229	1,615	1,568
5 Belgium–Luxembourg	10,022	10,648	12,407	11,537	12,130[r]	12,207	11,510[r]	12,407	12,382	12,559
6 Denmark	2,200	1,415	1,405[r]	2,236[r]	2,055	1,985[r]	1,779[r]	1,405[r]	1,121	1,019
7 Finland	285	570	602	430[r]	392	660	422	602	504	489
8 France	24,777	26,903	30,946[r]	24,233[r]	29,111[r]	29,131[r]	29,196	30,946[r]	29,249	28,081
9 Germany	6,772	7,578	7,386	7,605	7,815[r]	8,438[r]	8,196	7,386	8,262	9,604
10 Greece	672	1,028	934	923	1,435	993	949	934	895	797
11 Italy	14,599	16,169	17,736[r]	17,005[r]	16,259[r]	16,732[r]	16,051[r]	17,736[r]	16,173	17,353
12 Netherlands	5,316	6,613	5,375	6,209	5,385	6,082	6,056	5,375	5,674	6,562
13 Norway	1,559	2,401	2,358	2,192	1,951	1,875	2,330	2,358	2,181	2,078
14 Portugal	903	2,418[r]	2,958	2,949[r]	2,992	2,985[r]	2,959	2,958	2,877	2,684
15 Spain	5,494	4,364	7,694	4,447	4,335[r]	5,312	7,347	7,694	8,964	8,224
16 Sweden	1,284	1,491	1,837	1,495	833	1,706	2,304	1,837	1,256	709
17 Switzerland	34,199	34,496	36,915[r]	34,545	34,537[r]	34,239[r]	34,031[r]	36,915[r]	35,570	37,446
18 Turkey	1,012	1,818	1,169[r]	1,897	1,634	1,451	1,358	1,169[r]	1,127	1,195
19 United Kingdom	111,811	102,362	109,527[r]	108,200[r]	104,728[r]	100,983[r]	103,034[r]	109,527[r]	102,370	103,867
20 Yugoslavia	529	1,474	928	2,272	2,043	1,753	1,571	928	1,030	958
21 Other Western Europe[1]	8,598	13,563	11,889[r]	14,057	13,240[r]	16,258[r]	15,141	11,889[r]	14,548	12,980
22 U.S.S.R.	138	350	119	56	240	234	220	119	196	88
23 Other Eastern Europe[2]	591	608	1,546	1,275	1,515	1,294	1,388	1,546	2,071	2,574
24 Canada	21,062	18,865	20,332	21,122	20,796	19,654	20,679	20,332	19,200	23,798
25 Latin America and Caribbean	271,146	311,028[r]	326,995[r]	310,574[r]	314,347[r]	319,932[r]	318,387[r]	326,995[r]	331,657	335,527
26 Argentina	7,804	7,304	7,366	7,848[r]	7,981	7,722[r]	7,664	7,366	7,659	7,688
27 Bahamas	86,863	99,341	107,311[r]	93,683[r]	97,998[r]	98,330[r]	97,689[r]	107,311[r]	104,347	101,264
28 Bermuda	2,621	2,884	2,809	2,656	2,641[r]	2,482	2,518	2,809	3,101	3,031
29 Brazil	5,314	6,351[r]	5,853	6,360[r]	6,150[r]	5,915[r]	6,470	5,853	5,915	6,323
30 British West Indies	113,840	138,309[r]	140,569[r]	140,254[r]	139,440[r]	144,374[r]	141,385[r]	140,569[r]	147,625	154,292
31 Chile	2,936	3,212	3,145	3,491	3,134[r]	3,170	3,422	3,145	3,193	3,064
32 Colombia	4,374	4,653	4,492	4,346[r]	3,926	4,285[r]	4,251	4,492	4,467	4,308
33 Cuba	10	10	11	11	10	49	9	11	18	8
34 Ecuador	1,379	1,391	1,379	1,348	1,348	1,314	1,310	1,379	1,359	1,332
35 Guatemala	1,195	1,312	1,541	1,496	1,517	1,485	1,478	1,541	1,564	1,580
36 Jamaica	269	209	257	213	217	219	228	257	224	257
37 Mexico	15,185	15,423	16,769[r]	16,540[r]	16,701[r]	16,680[r]	16,501	16,769[r]	17,046	17,267
38 Netherlands Antilles	6,420	6,310	7,381	6,429	6,554[r]	7,101[r]	7,350	7,381	7,100	6,942
39 Panama	4,353	4,362[r]	4,575[r]	4,648	4,636[r]	4,617[r]	4,644	4,575[r]	4,336	4,340
40 Peru	1,671	1,984	1,295	1,369	1,362	1,360	1,327	1,295	1,347	1,323
41 Uruguay	1,898	2,284	2,520	2,531	2,512	2,512	2,446	2,520	2,595	2,640
42 Venezuela	9,147	9,482[r]	12,945[r]	10,449[r]	11,107	11,365[r]	13,001	12,945[r]	12,708	12,814
43 Other	5,868	6,206	6,779	6,901	7,113	6,951	6,693	6,779	7,053	7,054
44 Asia	147,838	156,201	138,060[r]	137,795[r]	136,878[r]	137,241[r]	143,684[r]	138,060[r]	136,747	133,488
China										
45 Mainland	1,895	1,773	2,421	2,324	2,115	2,173	2,493	2,421	2,866	2,719
46 Taiwan	26,058	19,588	11,277[r]	12,639	12,468	12,237	11,418	11,277[r]	11,037	11,077
47 Hong Kong	12,248	12,416	12,689[r]	13,833	13,836	13,767	13,843	12,689[r]	14,863	14,744
48 India	699	780	1,225	806	1,005[r]	953	1,116	1,225	1,459	1,628
49 Indonesia	1,180	1,281	1,238	1,130	1,397[r]	1,261	1,261	1,238	1,166	1,719
50 Israel	1,461	1,243	2,767	1,125	942[r]	921	3,075	2,767	2,823	2,510
51 Japan	74,015	81,184	68,290[r]	68,678[r]	68,934[r]	67,925[r]	69,137[r]	68,290[r]	64,143	62,256
52 Korea	2,541	3,215	2,280[r]	2,316	2,560[r]	2,442	2,732	2,280[r]	2,399	2,180
53 Philippines	1,163	1,766	1,585[r]	1,351[r]	1,340	1,274	1,549	1,585[r]	1,455	1,655
54 Thailand	1,236	2,093	1,443[r]	2,233	1,626	1,448	1,681	1,443[r]	2,228	2,149
55 Middle-East oil-exporting countries[3]	12,083	13,370	15,844	14,928	14,044[r]	16,412	17,431[r]	15,844	14,734	13,720
56 Other	13,260	17,491	17,002[r]	16,433	16,611[r]	16,428[r]	17,949	17,002[r]	17,574	17,131
57 Africa	3,991	3,824[r]	4,630	4,640[r]	4,152	4,225[r]	4,390	4,630	5,177	5,157
58 Egypt	911	686	1,425	1,505	970	1,099	996	1,425	1,476	1,416
59 Morocco	68	78	104	77	93	87	90	104	107	90
60 South Africa	437	206[r]	228	333[r]	393	235[r]	283	228	212	317
61 Zaire	85	86	53	43	44	45	55	53	56	51
62 Oil-exporting countries[4]	1,017	1,121	1,110	1,072	966	1,050	1,288	1,110	1,508	1,528
63 Other	1,474	1,648	1,710	1,609	1,687	1,708	1,678	1,710	1,818	1,755
64 Other countries	6,165	4,564	4,560[r]	4,803	4,858	5,169	4,610	4,560[r]	4,888	4,339
65 Australia	5,293	3,867	3,807[r]	4,122	4,127	4,371	3,804	3,807[r]	3,882	3,433
66 All other	872	697	753[r]	681	732	797	807	753[r]	1,007	906
67 Nonmonetary international and regional organizations	3,224	4,894[r]	5,918[r]	5,219[r]	6,422[r]	5,404[r]	5,324[r]	5,918[r]	7,907	6,555
68 International[5]	2,503	3,947[r]	4,390[r]	4,080[r]	5,198[r]	4,289[r]	4,203[r]	4,390[r]	6,427	4,880
69 Latin American regional	589	684	1,048	569	668	627	809	1,048	975	1,235
70 Other regional[6]	133	263	479	571	556	487	312	479	506	440

1. Includes the Bank for International Settlements and Eastern European countries that are not listed in line 23.
2. Comprises Bulgaria, Czechoslovakia, Hungary, Poland, and Romania.
3. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).
4. Comprises Algeria, Gabon, Libya, and Nigeria.
5. Excludes "holdings of dollars" of the International Monetary Fund.
6. Asian, African, Middle Eastern, and European regional organizations, except the Bank for International Settlements, which is included in "Other Western Europe."

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3.18 BANKS' OWN CLAIMS ON FOREIGNERS Reported by Banks in the United States[1] Payable in U.S. Dollars

Millions of dollars, end of period

Area and country	1988	1989	1990	1990[r]					1991	
				Aug.	Sept.	Oct.	Nov.	Dec.	Jan.[r]	Feb.[p]
1 **Total**	**491,165**	**534,492[r]**	**512,323[r]**	**495,185**	**493,463**	**495,593**	**505,352**	**512,323**	**498,967**	**508,373**
2 **Foreign countries**	**489,094**	**530,630[r]**	**507,529[r]**	**491,342**	**488,115**	**491,309**	**500,202**	**507,529**	**496,346**	**504,692**
3 Europe	116,928	119,025[r]	113,737[r]	106,428	105,406	103,631	107,189	113,737	108,994	107,842
4 Austria	483	415	362[r]	287	369	247	268	362	323	400
5 Belgium–Luxembourg	8,515	6,478	5,458[r]	6,682	5,629	5,147	6,441	5,458	6,169	5,905
6 Denmark	483	582	497	676	659	489	842	497	627	472
7 Finland	1,065	1,027	1,047	1,177	972	814	861	1,047	1,103	1,381
8 France	13,243	16,146	14,531	14,273	14,403	13,750	13,386	14,531	15,362	14,360
9 Germany	2,329	2,865	3,449[r]	2,939	3,403	3,242	3,634	3,449	3,562	3,620
10 Greece	433	788	729	610	686	729	720	729	653	654
11 Italy	7,936	6,662	6,066	4,493	4,629	5,070	5,171	6,066	6,171	5,780
12 Netherlands	2,541	1,904	1,736[r]	1,636	2,219	1,711	1,849	1,736	1,938	2,093
13 Norway	455	609	777	716	744	732	661	777	701	670
14 Portugal	261	376	304	427	407	444	368	304	345	314
15 Spain	1,823	1,930	2,758	2,100	2,312	2,373	2,584	2,758	2,959	2,526
16 Sweden	1,977	1,773	2,073	3,407	2,332	2,577	2,251	2,073	2,135	2,303
17 Switzerland	3,895	6,141	4,473[r]	3,712	4,043	3,475	3,995	4,473	2,232	2,550
18 Turkey	1,233	1,071	1,405[r]	1,434	1,377	1,371	1,346	1,405	1,381	1,507
19 United Kingdom	65,706	65,527	65,312[r]	58,620	57,833	58,267	59,919	65,312	60,527	60,375
20 Yugoslavia	1,390	1,329	1,142	1,029	1,120	1,226	1,160	1,142	1,084	980
21 Other Western Europe[2]	1,152	1,302	587	689	690	667	619	587	705	907
22 U.S.S.R.	1,255	1,179	530	624	940	825	653	530	505	501
23 Other Eastern Europe[3]	754	921	499	897	640	474	459	499	512	545
24 Canada	18,889	15,451[r]	16,091	15,356	15,445	16,185	14,295	16,091	17,537	19,364
25 Latin America and Caribbean	214,264	230,438[r]	230,043[r]	204,170	211,853	217,247	228,593	230,043	229,801	234,920
26 Argentina	11,826	9,270	6,874[r]	7,111	7,549	7,028	7,024	6,874	6,727	6,581
27 Bahamas	66,954	77,921	76,504[r]	67,870	71,534	71,934	71,026	76,504	78,334	79,541
28 Bermuda	483	1,315	4,006[r]	2,443	3,736	3,662	4,291	4,006	1,771	2,826
29 Brazil	25,735	23,749	17,994	18,906	18,651	18,626	18,393	17,994	17,953	17,943
30 British West Indies	55,888	68,749[r]	87,061[r]	71,124	73,601	78,046	86,333	87,061	93,924	97,117
31 Chile	5,217	4,353	3,271	3,430	3,264	3,372	3,373	3,271	3,227	3,239
32 Colombia	2,944	2,784	2,585	2,700	2,563	2,544	2,531	2,585	2,555	2,520
33 Cuba	1	1	0	2	0	0	1	0	0	0
34 Ecuador	2,075	1,688	1,387	1,507	1,498	1,487	1,499	1,387	1,361	1,361
35 Guatemala[4]	198	197	191	207	215	211	152	191	193	191
36 Jamaica[4]	212	297	238	243	254	262	265	238	243	171
37 Mexico	24,637	23,376	15,068[r]	14,953	15,366	15,359	15,380	15,068	14,863	15,052
38 Netherlands Antilles	1,306	1,921	7,998[r]	1,632	1,818	3,310	7,386	7,998	2,199	1,604
39 Panama	2,521	1,740	1,471	1,491	1,556	1,463	1,449	1,471	1,534	1,502
40 Peru	1,013	771	663	644	649	667	730	663	659	694
41 Uruguay	910	929[r]	786	834	804	794	787	786	767	625
42 Venezuela	10,733	9,652[r]	2,611[r]	7,657	7,274	7,102	6,585	2,611	2,140	2,270
43 Other Latin America and Caribbean	1,612	1,726	1,334[r]	1,415	1,521	1,382	1,390	1,334	1,351	1,683
44 Asia	130,881	157,474	140,216[r]	157,883	147,580	146,800	142,577	140,216	132,336	135,076
China Mainland	762	634	620	586	542	639	689	620	565	497
46 Taiwan	4,184	2,776	1,934[r]	1,997	1,681	1,061	1,586	1,934	1,776	1,475
47 Hong Kong	10,143	11,128	10,644	9,473	9,026	8,478	8,506	10,644	8,250	8,755
48 India	560	621	655	628	864	524	540	655	624	627
49 Indonesia	674	651	933	836	826	896	923	933	926	1,081
50 Israel	1,136	813	774	785	698	688	758	774	934	1,609
51 Japan	90,149	111,300	92,023[r]	114,952	106,549	106,369	100,083	92,023	91,481	90,379
52 Korea	5,213	5,323	5,737[r]	5,614	5,688	5,533	5,533	5,737	5,937	5,674
53 Philippines	1,876	1,344	1,247	1,369	1,333	1,206	1,175	1,247	1,230	1,261
54 Thailand	848	1,140	1,573	1,245	1,279	1,444	1,523	1,573	1,587	1,791
55 Middle East oil-exporting countries[5]	6,213	10,149	10,984	10,657	10,430	11,098	10,947	10,984	9,009	12,255
56 Other Asia	9,122	11,594	13,092	9,741	8,663	8,865	10,314	13,092	10,016	9,673
57 Africa	5,718	5,890	5,445	5,567	5,544	5,601	5,705	5,445	5,438	5,426
58 Egypt	507	502	380	449	430	411	383	380	384	314
59 Morocco	511	559	513	539	542	534	519	513	514	511
60 South Africa	1,681	1,628	1,525	1,571	1,594	1,576	1,726	1,525	1,523	1,518
61 Zaire	17	16	16	19	20	19	19	16	17	21
62 Oil-exporting countries[6]	1,523	1,648	1,486	1,586	1,534	1,510	1,492	1,486	1,462	1,475
63 Other	1,479	1,537	1,525	1,403	1,424	1,551	1,566	1,525	1,538	1,587
64 Other countries	2,413	2,354	1,998	1,938	2,287	1,845	1,843	1,998	2,240	2,063
65 Australia	1,520	1,781	1,518	1,304	1,863	1,416	1,483	1,518	1,674	1,547
66 All other	894	573	479	634	424	429	360	479	566	517
67 Nonmonetary international and regional organizations[7]	2,071	3,862[r]	4,793[r]	3,843	5,347	4,284	5,151	4,793	2,621	3,681

1. Reporting banks include all kinds of depository institutions besides commercial banks, as well as some brokers and dealers.
2. Includes the Bank for International Settlements. Beginning April 1978, also includes Eastern European countries not listed in line 23.
3. Beginning April 1978 comprises Bulgaria, Czechoslovakia, Hungary, Poland, and Romania.
4. Included in "Other Latin America and Caribbean" through March 1978.
5. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).
6. Comprises Algeria, Gabon, Libya, and Nigeria.
7. Excludes the Bank for International Settlements, which is included in "Other Western Europe."

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3.19 BANKS' OWN AND DOMESTIC CUSTOMERS' CLAIMS ON FOREIGNERS Reported by Banks in the United States[1]
Payable in U.S. Dollars

Millions of dollars, end of period

Type of claim	1988	1989[r]	1990[r]	1990[r]					1991	
				Aug.	Sept.	Oct.	Nov.	Dec.	Jan.[r]	Feb.[p]
1 **Total**	**538,689**	**593,087**	**581,614**	.....	**559,263**	.....	.....	**581,614**	.....	.....
2 Banks' own claims on foreigners	491,165	534,492	512,323	495,185	493,463	495,593	505,352	512,323	498,967	508,373
3 Foreign public borrowers	62,658	60,511	41,927	47,019	48,423	46,714	46,903	41,927	38,971	43,913
4 Own foreign offices[2]	257,436	296,011	303,127	274,102	278,948	281,529	291,011	303,127	299,015	304,244
5 Unaffiliated foreign banks	129,425	134,885	119,690	137,590	125,045	124,833	121,447	119,690	119,091	117,621
6 Deposits	65,898	78,185	67,673	80,153	72,393	72,132	68,441	67,673	70,615	69,140
7 Other	63,527	56,700	52,017	57,436	52,652	52,701	53,006	52,017	48,476	48,481
8 All other foreigners	41,646	43,085	47,579	36,474	41,046	42,517	45,992	47,579	41,890	42,595
9 Claims of banks' domestic customers[3]	47,524	58,594	69,291	.....	65,801	.....	.....	69,291	.....	.....
10 Deposits	8,289	13,019	17,272	.....	14,707	.....	.....	17,272	.....	.....
11 Negotiable and readily transferable instruments[4]	25,700	30,983	33,430	.....	34,094	.....	.....	33,430	.....	.....
12 Outstanding collections and other claims	13,535	14,592	18,588	.....	16,999	.....	.....	18,588	.....	.....
13 MEMO: Customer liability on acceptances	19,596	12,899	13,484	.....	12,860	.....	.....	13,484	.....	.....
Dollar deposits in banks abroad, reported by nonbanking business enterprises in the United States[5]	45,360[r]	45,509	42,169	44,502	43,016	42,827	48,405	42,169	44,602	n.a.

1. Data for banks' own claims are given on a monthly basis, but the data for claims of banks' own domestic customers are available on a quarterly basis only.
Reporting banks include all kinds of depository institutions besides commercial banks, as well as some brokers and dealers.
2. *U.S. banks:* includes amounts due from own foreign branches and foreign subsidiaries consolidated in "Consolidated Report of Condition" filed with bank regulatory agencies. *Agencies, branches, and majority-owned subsidiaries of foreign banks:* principally amounts due from head office or parent foreign bank, and foreign branches, agencies, or wholly owned subsidiaries of head office or parent foreign bank.
3. Assets owned by customers of the reporting bank located in the United States that represent claims on foreigners held by reporting banks for the account of their domestic customers.
4. Principally negotiable time certificates of deposit and bankers acceptances.
5. Includes demand and time deposits and negotiable and nonnegotiable certificates of deposit denominated in U.S. dollars issued by banks abroad. For description of changes in data reported by nonbanks, see July 1979 *Bulletin*, p. 550.

3.20 BANKS' OWN CLAIMS ON UNAFFILIATED FOREIGNERS Reported by Banks in the United States[1]
Payable in U.S. Dollars

Millions of dollars, end of period

Maturity; by borrower and area	1987	1988	1989[r]	1990[r]			
				Mar.	June	Sept.	Dec.
1 **Total**	**235,130**	**233,184**	**238,123**	**211,640**	**208,443**	**213,898**	**208,549**
By borrower							
2 Maturity of 1 year or less[2]	163,997	172,634	178,346	160,129	159,164	166,687	168,595
3 Foreign public borrowers	25,889	26,562	23,916	23,345	20,778	21,770	20,655
4 All other foreigners	138,108	146,071	154,430	136,784	138,387	144,917	147,940
5 Maturity over 1 year[2]	71,133	60,550	59,776	51,510	49,279	47,211	39,953
6 Foreign public borrowers	38,625	35,291	36,014	27,894	27,961	26,213	20,946
7 All other foreigners	32,507	25,259	23,762	23,616	21,318	20,998	19,007
By area							
Maturity of 1 year or less[2]							
8 Europe	59,027	55,909	53,913	48,484	49,312	51,579	49,632
9 Canada	5,680	6,282	5,910	5,680	5,720	5,520	5,436
10 Latin America and Caribbean	56,535	57,991	53,003	46,415	44,332	43,941	49,181
11 Asia	35,919	46,224	57,755	51,768	51,126	56,366	56,035
12 Africa	2,833	3,337	3,225	3,166	2,991	2,951	3,040
13 All other[3]	4,003	2,891	4,541	4,616	5,683	6,330	5,273
Maturity of over 1 year[2]							
14 Europe	6,696	4,666	4,121	4,389	4,201	4,426	3,882
15 Canada	2,661	1,922	2,353	2,712	2,819	3,033	3,291
16 Latin America and Caribbean	53,817	47,547	45,816	35,529	33,189	31,295	25,980
17 Asia	3,830	3,613	4,172	5,552	5,866	5,646	3,865
18 Africa	1,747	2,301	2,630	2,764	2,739	2,544	2,374
19 All other[3]	2,381	501	684	565	465	266	561

1. Reporting banks include all kinds of depository institutions besides commercial banks, as well as some brokers and dealers.
2. Remaining time to maturity.
3. Includes nonmonetary international and regional organizations.

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3.21 CLAIMS ON FOREIGN COUNTRIES Held by U.S. Offices and Foreign Branches of U.S.-Chartered Banks[1,2]

Billions of dollars, end of period

Area or country	1986	1987	1988	1989				1990			
			Dec.	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.
1 **Total**	**386.5**	**382.4**	**346.3**	**346.3**r	**340.0**	**346.5**r	**338.8**r	**334.1**r	**322.2**r	**332.8**r	**319.0**r
2 G-10 countries and Switzerland	156.6	159.7	152.7	145.5r	145.1	146.4	152.9	146.9r	140.0r	145.2r	133.6r
3 Belgium-Luxembourg	8.4	10.0	9.0	8.6	7.8	6.9	6.3	6.6	6.2	6.5	5.9r
4 France	13.6	13.7	10.5	11.2	10.8	11.1	11.7	10.5	10.3	11.1	10.4
5 Germany	11.6	12.6	10.3	10.2	10.6	10.4	10.5	11.2	11.2	11.2	10.7r
6 Italy	9.0	7.5	6.8	5.2	6.1	6.8	7.4	6.0	5.4r	4.5	5.0
7 Netherlands	4.6	4.1	2.7	2.8	2.8	2.4	3.1	3.1	2.7	3.8	2.9
8 Sweden	2.4	2.1	1.8	2.3	1.8	2.0	2.0	2.1	2.3	2.3r	2.1
9 Switzerland	5.8	5.6	5.4	5.1	5.4	6.1	7.1	6.3	6.4	5.7r	4.7
10 United Kingdom	70.9	68.8	66.2	65.6	64.5	63.7	67.2	64.0	59.9r	62.5r	60.8r
11 Canada	5.2	5.5	5.0	4.0	5.1	5.9	5.4	4.8	5.2	5.1	6.0r
12 Japan	25.1	29.8	34.9	30.5	30.2	31.0	32.2	32.4r	30.4	32.5	25.1r
13 Other developed countries	26.1	26.4	21.0	21.1	21.2	21.0	20.7	23.1	22.6	23.2r	22.8r
14 Austria	1.7	1.9	1.5	1.4	1.7	1.5	1.5	1.5	1.5	1.6	1.4
15 Denmark	1.7	1.7	1.1	1.1	1.4	1.1	1.1	1.1	1.1	1.1r	1.1
16 Finland	1.4	1.2	1.1	1.0	1.0	1.1	1.0	1.1	.9	.8	.7
17 Greece	2.3	2.0	1.8	2.1	2.3	2.4	2.5	2.6	2.7	2.8	2.7
18 Norway	2.4	2.2	1.8	1.6	1.8	1.4	1.4	1.7	1.4	1.5	1.6r
19 Portugal	.9	.6	.4	.4	.6	.4	.4	.4	.8	.6	.6
20 Spain	5.8	8.0	6.2	6.6	6.2	6.9	7.1	8.3	7.9	8.5	8.4
21 Turkey	2.0	2.0	1.5	1.3	1.1	1.2	1.2	1.3	1.4	1.6	1.7r
22 Other Western Europe	1.5	1.6	1.3	1.1	1.1	1.0	.7	1.0	1.1	.7	.9
23 South Africa	3.0	2.9	2.4	2.2	2.1	2.1	2.0	2.0	1.9	1.9	1.8
24 Australia	3.4	2.4	1.8	2.4	1.9	2.1	1.6	2.1	1.9	2.0	1.9
25 OPEC countries[3]	19.4	17.4	16.6	16.2	16.1	16.2	17.1	15.5	15.3	14.4	13.1r
26 Ecuador	2.2	1.9	1.7	1.6	1.5	1.5	1.3	1.2	1.1	1.1	1.0
27 Venezuela	8.7	8.1	7.9	7.9	7.5	7.4	7.0	6.1	6.0	6.0	5.0
28 Indonesia	2.5	1.9	1.7	1.7	1.9	2.0	2.0	2.1	2.0	2.3	2.7
29 Middle East countries	4.3	3.6	3.4	3.3	3.4	3.5	5.0	4.3	4.4	3.3	2.8r
30 African countries	1.8	1.9	1.9	1.7	1.6	1.9	1.7	1.8	1.8	1.7	1.7
31 Non-OPEC developing countries	99.6	97.8	85.3	85.9	83.4	81.2	77.5	68.8	66.6r	67.1	65.5r
Latin America											
32 Argentina	9.5	9.5	9.0	8.5	7.9	7.6	6.3	5.5	5.1	4.9	4.9
33 Brazil	25.3	24.7	22.4	22.8	22.1	20.9	19.0	17.5	16.7	15.4	14.4
34 Chile	7.1	6.9	5.6	5.7	5.2	4.9	4.6	4.3	3.7	3.6	3.5
35 Colombia	2.1	2.0	2.1	1.9	1.7	1.6	1.8	1.8	1.7	1.8	1.8
36 Mexico	24.0	23.5	18.8	18.3	17.7	17.2	17.7	12.7	12.6	13.1	13.2
37 Peru	1.4	1.1	.8	.7	.6	.6	.6	.5	.5	.5	.5
38 Other Latin America	3.1	2.8	2.6	2.7	2.6	2.9	2.8	2.7	2.3	2.4	2.3
Asia											
China											
39 Mainland	.4	.3	.3	.5	.3	.3	.3	.3	.2	.2	.2
40 Taiwan	4.9	8.2	3.7	4.9	5.2	5.0	4.5	3.8	3.6	3.9	3.5
41 India	1.2	1.9	2.1	2.6	2.4	2.7	3.1	3.5	3.6	3.6	3.3
42 Israel	1.5	1.0	1.2	.9	.8	.7	.7	.6	.7	.6	.5r
43 Korea (South)	6.7	5.0	6.1	6.1	6.6	6.5	5.9	5.3	5.6	6.2	6.2r
44 Malaysia	2.1	1.5	1.6	1.7	1.6	1.7	1.7	1.8	1.8	1.8	1.9
45 Philippines	5.4	5.2	4.5	4.4	4.4	4.0	4.1	3.7	3.9	3.9	3.8
46 Thailand	.9	.7	1.1	1.0	1.0	1.3	1.3	1.1	1.3	1.5	1.5
47 Other Asia	.7	.7	.9	.8	.8	1.0	1.0	1.2	1.1	1.6	1.7
Africa											
48 Egypt	.7	.6	.4	.5	.6	.5	.4	.4	.5	.4	.4
49 Morocco	.9	.9	.9	.9	.9	.8	.9	.9	.9	.9	.8
50 Zaire	.1	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
51 Other Africa[4]	1.6	1.3	1.1	1.1	1.1	1.0	1.0	.9	.8r	.8	1.0r
52 Eastern Europe	3.5	3.2	3.6	3.5	3.4	3.5	3.5	3.4	2.9r	2.7r	2.3r
53 U.S.S.R.	.1	.3	.7	.7	.6	.8	.7	.8	.4	.4	.2
54 Yugoslavia	2.0	1.8	1.8	1.7	1.7	1.7	1.6	1.4	1.4	1.3	1.2r
55 Other	1.4	1.1	1.1	1.1	1.1	1.1	1.3	1.2r	1.1r	1.1r	.9r
56 Offshore banking centers	61.5	54.5	44.2	48.7r	43.2r	49.2	36.6	42.9	40.1r	42.0r	40.3
57 Bahamas	22.4	17.3	11.0	15.8	11.0	11.4	5.5	9.2	8.5	8.9	2.8r
58 Bermuda	.6	.6	.9	1.1	.7	1.3	1.7	.9	2.2	4.0	4.3r
59 Cayman Islands and other British West Indies	12.3	13.5	12.9	12.2r	10.8	15.3	9.0r	10.9	8.5	9.0	10.0r
60 Netherlands Antilles	1.8	1.2	1.0	.9	1.0	1.1	2.3	2.6	2.3	2.2	7.9
61 Panama[5]	4.0	3.7	2.5	2.2	1.9	1.5	1.4	1.3	1.4	1.5	1.4
62 Lebanon	.1	.1	.1	.1	.1	.1	.1	.1	.1	.1	.1
63 Hong Kong	11.1	11.2	9.6	9.6	10.4	10.7	9.7	9.8	10.0	9.0	7.1r
64 Singapore	9.2	7.0	6.1	6.8	7.3	7.8	7.0	8.0	7.0	7.3	6.7r
65 Others[6]	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
66 Miscellaneous and unallocated[7]	19.8	23.2	22.6	25.0	27.4	28.7r	30.3r	33.3r	34.5r	38.0r	41.1r

1. The banking offices covered by these data are the U.S. offices and foreign branches of U.S.-owned banks and of U.S. subsidiaries of foreign-owned banks. Offices *not* covered include (1) U.S. agencies and branches of foreign banks, and (2) foreign subsidiaries of U.S. banks. To minimize duplication, the data are adjusted to exclude the claims on foreign branches held by a U.S. office or another *foreign branch of the same* banking institution. The data in this table combine foreign branch claims in table 3.14 (the sum of lines 7 through 10) with the claims of U.S. offices in table 3.18 (excluding those held by agencies and branches of foreign banks and those constituting claims on own foreign branches).

2. Beginning with June 1984 data, reported claims held by foreign branches have been reduced by an increase in the reporting threshold for "shell" branches from $50 million to $150 million equivalent in total assets, the threshold now applicable to all reporting branches.

3. This group comprises the Organization of Petroleum Exporting Countries shown individually, other members of OPEC (Algeria, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, and United Arab Emirates), and Bahrain and Oman (not formally members of OPEC).

4. Excludes Liberia.

5. Includes Canal Zone beginning December 1979.

6. Foreign branch claims only.

7. Includes New Zealand, Liberia, and international and regional organizations.

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3.22 LIABILITIES TO UNAFFILIATED FOREIGNERS Reported by Nonbanking Business Enterprises in the United States[1]

Millions of dollars, end of period

Type, and area or country	1987	1988[r]	1989	1989		1990			
				Sept.	Dec.	Mar.	June[r]	Sept.[r]	Dec.[p]
1 **Total**	**28,302**	**32,952**	**38,653**	**36,544[r]**	**38,653[r]**	**38,832[r]**	**39,642**	**44,557**	**42,746**
2 Payable in dollars	22,785	27,335	33,808	31,683[r]	33,808[r]	34,463[r]	35,090	39,431	38,413
3 Payable in foreign currencies	5,517	5,617	4,846	4,861	4,846[r]	4,369[r]	4,552	5,126	4,333
By type									
4 Financial liabilities	12,424	14,507	18,365	17,141	18,365[r]	17,928[r]	19,495	20,484	18,476
5 Payable in dollars	8,643	10,608	14,462	13,289	14,462	14,635[r]	16,055	16,644	15,288
6 Payable in foreign currencies	3,781	3,900	3,903	3,852	3,903[r]	3,293[r]	3,441	3,840	3,188
7 Commercial liabilities	15,878	18,445	20,288	19,403[r]	20,288[r]	20,904[r]	20,147	24,073	24,270
8 Trade payables	7,305	6,505	7,588	6,906	7,588[r]	7,434[r]	6,881	9,956	10,004
9 Advance receipts and other liabilities	8,573	11,940	12,700	12,497[r]	12,700[r]	13,470[r]	13,266	14,118	14,266
10 Payable in dollars	14,142	16,727	19,345	18,394[r]	19,345[r]	19,828[r]	19,036	22,787	23,125
11 Payable in foreign currencies	1,737	1,717	943	1,009	943	1,076	1,111	1,286	1,145
By area or country									
Financial liabilities									
12 Europe	8,320	9,962	11,609	11,213	11,609[r]	11,050[r]	11,883	11,345	9,921
13 Belgium-Luxembourg	213	289	340	308	340	318[r]	332	350	344
14 France	382	359	258	242	258	277[r]	196	503	734
15 Germany	551	699	521	592	521	482	601	660	694
16 Netherlands	866	880	947	855	947[r]	901[r]	934	948	1,025
17 Switzerland	558	1,033	541	799	541	529	552	633	611
18 United Kingdom	5,557	6,533	8,741	8,207	8,741	8,256[r]	8,741	7,539	5,796
19 Canada	360	388	573	575	573	476	345	357	305
20 Latin America and Caribbean	1,189	839	1,268	1,367	1,268	1,814	2,573	3,394	3,239
21 Bahamas	318	184	157	186	157	272	249	368	344
22 Bermuda	0	0	17	7	17	0	0	0	0
23 Brazil	25	0	0	0	0	0	0	0	0
24 British West Indies	778	645	635	743	635	1,061	1,782	2,409	2,274
25 Mexico	13	1	6	4	6	5	4	4	5
26 Venezuela	0	0	0	0	0	0	0	0	4
27 Asia	2,451	3,312	4,814	3,886	4,814	4,483	4,636	4,906	4,584
28 Japan	2,042	2,563	3,963	3,130	3,963	3,445	3,434	3,771	3,406
29 Middle East oil-exporting countries[2]	8	3	2	2	2	3	5	4	5
30 Africa	4	2	2	4	2	3	3	2	2
31 Oil-exporting countries[3]	1	0	0	2	0	0	1	0	0
32 All other[4]	100	4	100	97	100	102	55	479	424
Commercial liabilities									
33 Europe	5,516	7,319	8,918	8,335[r]	8,918[r]	9,165[r]	8,343	9,733	10,258
34 Belgium-Luxembourg	132	158	179	137	179[r]	233	297	248	251
35 France	426	455	871	806	871	882[r]	929	1,191	1,286
36 Germany	909	1,699	1,365	1,185	1,365[r]	1,145[r]	962	1,023	1,234
37 Netherlands	423	587	699	548	699	688	607	701	855
38 Switzerland	559	417	621	531	621	583	607	708	735
39 United Kingdom	1,599	2,079	2,648	2,717[r]	2,648[r]	2,954[r]	2,466	2,804	2,824
40 Canada	1,301	1,217	1,124	1,189	1,124[r]	1,150[r]	1,179	1,266	1,289
41 Latin America and Caribbean	864	1,090	1,187	1,086	1,187	1,304	1,278	1,554	1,576
42 Bahamas	18	49	41	27	41	37	22	18	12
43 Bermuda	168	286	308	305	308	516	412	371	520
44 Brazil	46	95	100	113	100	116	106	126	121
45 British West Indies	19	34	27	30	27	18	29	42	29
46 Mexico	189	217	304	220	304	241	285	506	420
47 Venezuela	162	114	154	107	154	85	119	120	121
48 Asia	6,565	6,915	7,188	7,088	7,188[r]	7,015[r]	7,073	8,797	8,961
49 Japan	2,578	3,094	2,915	2,676	2,915[r]	2,745[r]	3,182	3,189	3,605
50 Middle East oil-exporting countries[2,5]	1,964	1,385	1,401	1,442	1,401	1,393	1,125	2,321	1,701
51 Africa	574	576	844	648	844	753	885	1,315	789
52 Oil-exporting countries[3]	135	202	307	255	307	263	277	593	422
53 All other[4]	1,057	1,328	1,027	1,057	1,027	1,517	1,390	1,408	1,397

1. For a description of the changes in the International Statistics tables, see July 1979 *Bulletin*, p. 550.
2. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).
3. Comprises Algeria, Gabon, Libya, and Nigeria.
4. Includes nonmonetary international and regional organizations.
5. Revisions include a reclassification of transactions, which also affects the totals for Asia and the grand totals.

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3.23 CLAIMS ON UNAFFILIATED FOREIGNERS Reported by Nonbanking Business Enterprises in the United States[1]

Millions of dollars, end of period

Type, and area or country	1987	1988	1989	1989		1990			
				Sept.	Dec.	Mar.	June[r]	Sept.	Dec.[p]
1 **Total**	**30,964**	**34,035**	**31,437**	**32,088**	**31,437**	**29,815[r]**	**31,577**	**30,903[r]**	**33,441**
2 Payable in dollars	28,502	31,654	29,106	29,806	29,106	27,687[r]	29,265	28,504[r]	31,137
3 Payable in foreign currencies	2,462	2,381	2,330	2,282	2,330	2,128[r]	2,312	2,399[r]	2,304
By type									
4 Financial claims	20,363	21,869	17,689	19,135	17,689	16,558[r]	18,035	16,572[r]	18,008
5 Deposits	14,894	15,643	10,400	12,154	10,400	10,451[r]	9,869	10,303[r]	11,222
6 Payable in dollars	13,765	14,544	9,473	11,278	9,473	9,583	8,799	9,110[r]	10,401
7 Payable in foreign currencies	1,128	1,099	927	877	927	868[r]	1,070	1,193[r]	821
8 Other financial claims	5,470	6,226	7,289	6,981	7,289	6,108[r]	8,166	6,269	6,786
9 Payable in dollars	4,656	5,450	6,535	6,073	6,535	5,420[r]	7,433	5,616	5,913
10 Payable in foreign currencies	814	777	754	908	754	688	733	652	873
11 Commercial claims	10,600	12,166	13,748	12,953	13,748	13,257[r]	13,542	14,331[r]	15,433
12 Trade receivables	9,535	11,091	12,140	11,472	12,140	11,635	11,821	12,518[r]	13,474
13 Advance payments and other claims	1,065	1,075	1,608	1,481	1,608	1,622[r]	1,721	1,813	1,959
14 Payable in dollars	10,081	11,660	13,099	12,455	13,099	12,684[r]	13,034	13,778[r]	14,823
15 Payable in foreign currencies	519	505	650	498	650	573	508	554	610
By area or country									
Financial claims									
16 Europe	9,531	10,279	7,040	7,528	7,040	6,964[r]	9,604	7,950[r]	7,937
17 Belgium-Luxembourg	7	18	28	166	28	22	126	27	76
18 France	332	203	153	173	153	198	141	143	366
19 Germany	102	120	192	120	192	505	93	97	371
20 Netherlands	350	348	303	292	303	315	332	315	332
21 Switzerland	65	218	95	111	95	122	137	176	320
22 United Kingdom	8,467	9,039	6,035	6,419	6,035	5,587[r]	8,556	6,971[r]	6,215
23 Canada	2,844	2,325	1,892	2,359	1,892	1,758	2,035	1,994	2,893
24 Latin America and Caribbean	7,012	8,160	7,590	8,315	7,590	6,984[r]	5,479	5,666	5,752
25 Bahamas	1,994	1,846	1,516	1,699	1,516	1,662[r]	992	977[r]	1,261
26 Bermuda	7	19	7	33	7	4	3	4[r]	2
27 Brazil	63	47	224	70	224	79	84	70	70
28 British West Indies	4,433	5,763	5,431	6,125	5,431	4,824	4,003	4,215	4,031
29 Mexico	172	151	94	105	94	152	153	158	160
30 Venezuela	19	21	20	36	20	21	20	23	25
31 Asia	879	844	831	826	831	763	815	733[r]	1,173
32 Japan	605	574	439	460	439	416	473	450	850
33 Middle East oil-exporting countries[2]	8	5	8	7	8	7	6	9	8
34 Africa	65	106	140	75	140	67	62	49	37
35 Oil-exporting countries[3]	7	10	12	8	12	11	8	7	0
36 All other[4]	33	155	195	31	195	23	41	179[r]	215
Commercial claims									
37 Europe	4,180	5,181	6,168	5,429	6,168	6,026	6,042	6,428[r]	7,099
38 Belgium-Luxembourg	178	189	241	220	241	219	208	189	210
39 France	650	672	956	829	956	958	908	1,140	1,306
40 Germany	562	669	687	686	687	699	662	638	799
41 Netherlands	133	212	478	396	478	450	475	491[r]	558
42 Switzerland	185	344	305	222	305	270	235	300	302
43 United Kingdom	1,073	1,324	1,572	1,398	1,572	1,690	1,586	1,679[r]	1,791
44 Canada	936	983	1,058	1,278	1,058	1,121[r]	1,125	1,135	1,042
45 Latin America and Caribbean	1,930	2,241	2,177	2,147	2,177	2,061	2,204	2,392[r]	2,307
46 Bahamas	19	36	57	10	57	22	17	25	14
47 Bermuda	170	230	323	271	323	243	284	340	232
48 Brazil	226	299	292	239	292	231	234	252	318
49 British West Indies	26	22	36	33	36	38	46	35	33
50 Mexico	368	461	509	509	509	525	581	649	644
51 Venezuela	283	227	147	189	147	188	223	223	191
52 Asia	2,915	2,993	3,538	3,316	3,538	3,257	3,419	3,575[r]	4,104
53 Japan	1,158	946	1,184	1,176	1,184	1,061	1,080	1,211[r]	1,423
54 Middle East oil-exporting countries[2]	450	453	515	410	515	432	414	403	451
55 Africa	401	435	418	399	418	425	390	372	487
56 Oil-exporting countries[3]	144	122	107	87	107	89	98	71	67
57 All other[4]	238	333	389	383	389	367	361	429	393

1. For a description of the changes in the International Statistics tables, see July 1979 *Bulletin*, p. 550.
2. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).
3. Comprises Algeria, Gabon, Libya, and Nigeria.
4. Includes nonmonetary international and regional organizations.

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3.24 FOREIGN TRANSACTIONS IN SECURITIES

Millions of dollars

Transactions, and area or country	1989	1990r	1991 Jan.–Feb.	1990r Aug.	Sept.	Oct.	Nov.	Dec.	1991 Jan.r	Feb.p
	U.S. corporate securities									
STOCKS										
1 Foreign purchases	214,061	173,227	31,916	20,912	8,804	11,633	12,551	13,316	10,241	21,675
2 Foreign sales	204,114	188,373	31,644	22,226	11,318	15,434	13,368	14,573	11,048	20,596
3 Net purchases, or sales (−)	**9,946**	**−15,146**	**273**	**−1,314**	**−2,515**	**−3,801**	**−817**	**−1,257**	**−807**	**1,079**
4 Foreign countries	**10,180**	**−15,218**	**215**	**−1,351**	**−2,460**	**−3,759**	**−812**	**−1,267**	**−808**	**1,023**
5 Europe	481	−8,498	−1,850	−1,406	−1,166	−1,415	−582	−487	−610	−1,240
6 France	−708	−1,234	3	−208	−151	−159	−80	−49	−24	27
7 Germany	−830	−368	−317	−116	2	−87	−14	−144	−114	−203
8 Netherlands	79	−398	−246	−107	−47	−61	21	−46	−142	−104
9 Switzerland	−3,277	−2,867	−1,162	−252	−124	−213	−169	−263	−222	−941
10 United Kingdom	3,691	−2,992	−62	−636	−721	−687	−282	149	−93	31
11 Canada	−881	892	491	337	197	155	216	279	24	467
12 Latin America and Caribbean	3,042	−1,337	1,170	−242	−216	−357	292	−280	233	936
13 Middle East[1]	3,531	−2,435	396	197	−437	−558	−430	−251	−279	675
14 Other Asia	3,577	−3,477	235	−69	−711	−1,517	−420	−406	−196	432
15 Japan	3,330	−2,891	−637	16	−737	−1,135	−194	−382	−271	−366
16 Africa	131	−63	64	16	−1	−31	−5	−14	33	31
17 Other countries	299	−298	−292	−185	−125	−35	117	−108	−13	−279
18 Nonmonetary international and regional organizations	**−234**	**71**	**58**	**37**	**−55**	**−42**	**−5**	**9**	**2**	**56**
BONDS[2]										
19 Foreign purchases	120,550r	118,464	17,345	11,852	7,398	8,842	11,205	9,943	8,877	8,468
20 Foreign sales	87,376r	101,571	17,897	13,005	9,388	7,673	7,754	7,890	8,631	9,266
21 Net purchases, or sales (−)	**33,174r**	**16,892**	**−553**	**−1,153**	**−1,990**	**1,169**	**3,452**	**2,052**	**246**	**−798**
22 Foreign countries	**32,821r**	**17,348**	**−636**	**−1,122**	**−2,020**	**1,405**	**3,456**	**2,055**	**85**	**−720**
23 Europe	19,064r	10,231	−1,214	468	−925	428	2,046	1,088	−149	−1,065
24 France	372	373	100	−40	−103	−74	24	39	31	68
25 Germany	−238	−377	24	172	4	−29	−59	−41	−54	78
26 Netherlands	850	172	49	−20	−72	35	52	110	47	1
27 Switzerland	−511r	392	143	−346	0	−193	148	45	360	−217
28 United Kingdom	18,123r	10,429	−1,006	526	−382	371	1,727	1,406	−120	−885
29 Canada	1,116	1,906	179	92	−89	127	93	−85	71	108
30 Latin America and Caribbean	3,686	4,279	423	−52	−223	282	343	495	−17	439
31 Middle East[1]	−182	76	67	−317	−46	−10	−35	74	69	−2
32 Other Asia	9,025r	1,104	−78	−1,168	−711	628	1,033	486	131	−209
33 Japan	6,292r	747	94	−855	−871	386	812	399	308	−214
34 Africa	56	96	−5	0	8	2	6	−9	−15	10
35 Other countries	57	−344	−8	−146	−34	−53	−30	7	−5	−2
36 Nonmonetary international and regional organizations	**353**	**−455**	**83**	**−31**	**30**	**−237**	**−4**	**−2**	**161**	**−78**
	Foreign securities									
37 Stocks, net purchases, or sales (−)[3]	−13,120r	−8,729	−3,582	−184	452	−319	1,068	−1,831	−408	−3,174
38 Foreign purchases	109,792r	122,532	16,722	12,363	7,521	9,282	10,060	7,244	6,209	10,513
39 Foreign sales[3]	122,912r	131,261	20,304	12,547	7,069	9,601	8,993	9,075	6,618	13,686
40 Bonds, net purchases, or sales (−)	−5,943r	−22,294	−2,059	288	−573	−2,791	165	−4,771	−187	−1,872
41 Foreign purchases	234,320r	314,228	64,123	29,961	25,719	35,235	32,837	33,372	27,000	37,124
42 Foreign sales	240,263r	336,522	66,182	29,672	26,292	38,026	32,671	38,143	27,187	38,995
43 Net purchases, or sales (−), of stocks and bonds	**−19,063r**	**−31,023**	**−5,640**	**105**	**−122**	**−3,110**	**1,233**	**−6,602**	**−595**	**−5,045**
44 Foreign countries	**−19,101r**	**−28,349**	**−5,645**	**−339**	**−397**	**−2,312**	**1,207**	**−5,860**	**−556**	**−5,089**
45 Europe	−17,721r	−7,752	−2,723	−1,128	−71	−911	2,017	−919	325	−3,049
46 Canada	−4,180	−7,374	−1,353	196	6	−893	−1,740	−659	−574	−779
47 Latin America and Caribbean	426	−8,960	650	−72	−402	262	283	−2,811	350	300
48 Asia	2,532r	−3,885	−2,601	583	−305	−687	706	−1,571	−792	−1,809
49 Africa	93	−137	52	−8	12	4	−69	28	22	30
50 Other countries	−251r	−240	329	90	363	−87	11	73	112	217
51 Nonmonetary international and regional organizations	**38r**	**−2,673**	**5**	**444**	**275**	**−798**	**25**	**−742**	**−39**	**44**

1. Comprises oil-exporting countries as follows: Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).

2. Includes state and local government securities, and securities of U.S. government agencies and corporations. Also includes issues of new debt securities sold abroad by U.S. corporations organized to finance direct investments abroad.

3. As a result of the merger of a U.S. and U.K. company in July 1989, the former stockholders of the U.S. company received $5,453 million in shares of the new combined U.K. company. This transaction is not reflected in the data above.

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3.25 MARKETABLE U.S. TREASURY BONDS AND NOTES Foreign Transactions

Millions of dollars

Country or area	1989	1990r	1991	1990r					1991	
			Jan.–Feb.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.r	Feb.p
	Transactions, net purchases or sales (−) during period[1]									
1 **Estimated total**[2]	**54,203r**	**19,930**	**16,126**	**4,120**	**1,014**	**−1,066**	**5,848**	**6,531**	**2,775**	**13,351**
2 Foreign countries[2]	52,301r	20,245	16,429	3,479	1,346	−1,051	5,538	6,541	4,539	11,890
3 Europe[2]	36,286	19,096	6,320	−2,635	5,065	245	2,070	4,461	3,284	3,036
4 Belgium–Luxembourg	1,048	−2	409	−395	−99	72	−68	−105	260	149
5 Germany[2]	7,904	5,732	−2,233	1,412	633	580	1,677	571	−542	−1,691
6 Netherlands	−1,141	1,012	215	1,278	956	−454	−249	625	300	−85
7 Sweden	693	1,142	−619	−266	−33	163	276	721	−661	43
8 Switzerland[2]	1,098	112	308	−128	548	619	−6	200	170	139
9 United Kingdom	20,198	−1,309	2,711	−3,789	1,611	−1,740	−1,625	244	2,757	−46
10 Other Western Europe	6,508	12,388	5,522	−758	1,444	1,004	2,069	2,204	995	4,527
11 Eastern Europe	−21	13	6	11	0	0	−5	0	6	0
12 Canada	698	−4,558	−968	1,178	−866	−637	−468	155	−795	−173
13 Latin America and Caribbean	464r	15,587	−2,039	1,332	−1,946	4,731	4,316	1,610	−5,150	3,111
14 Venezuela	311	−50	−153	0	−50	−2	49	1	−153	−1
15 Other Latin America and Caribbean	−322r	4,880	1,310	308	−1,150	646	978	1,208	−592	1,901
16 Netherlands Antilles	475	10,757	−3,195	1,024	−747	4,086	3,290	401	−4,405	1,210
17 Asia	13,297	−11,047	12,556	3,308	−1,751	−5,192	−930	−72	7,019	5,537
18 Japan	1,681	−14,880	4,159	2,376	−2,092	−4,059	−1,153	−2,407	2,244	1,915
19 Africa	116	313	188	57	151	83	8	−3	78	110
20 All other	1,439	855	372	239	692	−281	543	389	102	269
21 Nonmonetary international and regional organizations	1,902	−316	−303	641	−332	−15	310	−10	−1,763	1,461
22 International	1,473	−191	−598	444	−154	−100	159	−125	−1,701	1,104
23 Latin America regional	231	−2	−46	25	−75	−59	0	92	−202	156
Memo										
24 Foreign countries[2]	52,301r	20,245	16,429	3,479	1,346	−1,051	5,538	6,541	4,539	11,890
25 Official institutions	26,840r	23,916	9,885	6,542	3,807	1,375	4,771	7,880	2,567	7,317
26 Other foreign[2]	25,461	−3,671	6,544	−3,063	−2,462	−2,426	767	−1,339	1,971	4,573
Oil-exporting countries										
27 Middle East[3]	8,148	−387	1,167	−366	241	−1,247	−878	1,014	523	644
28 Africa[4]	−1	0	21	0	0	0	0	0	0	21

1. Estimated official and private transactions in marketable U.S. Treasury securities with an original maturity of more than 1 year. Data are based on monthly transactions reports. Excludes nonmarketable U.S. Treasury bonds and notes held by official institutions of foreign countries.

2. Includes U.S. Treasury notes publicly issued to private foreign residents denominated in foreign currencies.

3. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).

4. Comprises Algeria, Gabon, Libya, and Nigeria.

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3.26 DISCOUNT RATES OF FOREIGN CENTRAL BANKS

Percent per year

Country	Rate on Apr. 30, 1991		Country	Rate on Apr. 30, 1991		Country	Rate on Apr. 30, 1991	
	Percent	Month effective		Percent	Month effective		Percent	Month effective
Austria	6.5	Oct. 1989	France[1]	9.0	Mar. 1990	Norway	10.50	July 1990
Belgium	10.5	Nov. 1989	Germany, Fed. Rep. of	6.50	Feb. 1991	Switzerland	6.0	Oct. 1989
Canada	9.49	Apr. 1991	Italy	12.5	May 1990	United Kingdom[2]	.....	.....
Denmark	9.50	Jan. 1991	Japan	6.0	Aug. 1990			
			Netherlands	7.75	Feb. 1991			

1. As of the end of February 1981, the rate is that at which the Bank of France discounts Treasury bills for 7 to 10 days.
2. Minimum lending rate suspended as of Aug. 20, 1981.
NOTE. Rates shown are mainly those at which the central bank either discounts or makes advances against eligible commercial paper and/or government commercial banks or brokers. For countries with more than one rate applicable to such discounts or advances, the rate shown is the one at which it is understood the central bank transacts the largest proportion of its credit operations.

3.27 FOREIGN SHORT-TERM INTEREST RATES

Percent per year, averages of daily figures

Country, or type	1988	1989	1990	1990			1991			
				Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.
1 Eurodollars	7.85	9.16	8.16	8.06	8.04	7.87	7.23	6.60	6.44	6.11
2 United Kingdom	10.28	13.87	14.73	14.02	13.57	13.75	13.91	13.20	12.33	11.90
3 Canada	9.63	12.20	13.00	12.58	12.36	11.95	11.13	10.37	9.97	9.67
4 Germany	4.28	7.04	8.41	8.51	8.79	9.17	9.25	8.96	8.99	9.08
5 Switzerland	2.94	6.83	8.71	7.88	8.39	8.65	8.44	7.81	8.17	8.26
6 Netherlands	4.72	7.28	8.57	8.39	8.73	9.27	9.31	9.01	9.04	9.11
7 France	7.80	9.27	10.20	9.92	9.88	10.14	10.14	9.64	9.34	9.21
8 Italy	11.04	12.44	12.11	11.40	12.42	13.45	13.13	13.31	12.52	11.90
9 Belgium	6.69	8.65	9.70	8.89	9.03	9.81	9.91	9.51	9.28	9.20
10 Japan	4.43	5.39	7.75	8.26	8.35	8.27	8.18	8.01	8.09	7.96

NOTE. Rates are for 3-month interbank loans except for Canada, finance company paper; Belgium, 3-month Treasury bills; and Japan, CD rate.

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3.28 FOREIGN EXCHANGE RATES[1]

Currency units per dollar

Country/currency	1988	1989	1990	1990		1991			
				Nov.	Dec.	Jan.	Feb.	Mar.	Apr.
1 Australia/dollar[2]	78.409	79.186	78.069	77.290	77.019	77.930	78.351	77.107	77.947
2 Austria/schilling	12.357	13.236	11.331	10.451	10.539	10.616	10.416	11.341	11.977
3 Belgium/franc	36.785	39.409	33.424	30.647	31.014	31.088	30.475	33.206	35.017
4 Canada/dollar	1.2306	1.1842	1.1668	1.1635	1.1603	1.1560	1.1549	1.1572	1.1535
5 China, P.R./yuan	3.7314	3.7673	4.7921	4.9714	5.2352	5.2352	5.2352	5.2352	5.2767
6 Denmark/krone	6.7412	7.3210	6.1899	5.6946	5.7735	5.8115	5.6953	6.1886	6.5163
7 Finland/markka	4.1933	4.2963	3.8300	3.5644	3.6341	3.6431	3.5941	3.8512	3.9925
8 France/franc	5.9595	6.3802	5.4467	5.0020	5.0895	5.1253	5.0398	5.4862	5.7540
9 Germany/deutsche mark	1.7570	1.8808	1.6166	1.4857	1.4982	1.5091	1.4805	1.6122	1.7027
10 Greece/drachma	142.00	162.60	158.59	152.27	156.08	159.70	158.82	174.16	184.76
11 Hong Kong/dollar	7.8072	7.8008	7.7899	7.7951	7.8034	7.7950	7.7943	7.7911	7.7939
12 India/rupee	13.900	16.213	17.492	18.098	18.127	18.339	18.860	19.243	19.906
13 Ireland/punt[2]	152.49	141.80	165.76	180.18	177.77	168.68	179.81	157.43	157.12
14 Italy/lira	1,302.39	1,372.28	1,198.27	1,117.04	1,129.26	1,134.38	1,111.19	1,201.96	1,261.57
15 Japan/yen	128.17	138.07	145.00	129.22	133.89	133.70	130.54	137.39	137.11
16 Malaysia/ringgit	2.6190	2.7079	2.7057	2.6949	2.7030	2.7140	2.6969	2.7418	2.7498
17 Netherlands/guilder	1.9778	2.1219	1.8215	1.6761	1.6904	1.7015	1.6689	1.8174	1.9186
18 New Zealand/dollar[2]	65.560	59.354	59.619	61.120	59.574	59.476	60.120	59.389	58.909
19 Norway/krone	6.5243	6.9131	6.2541	5.7996	5.8717	5.8993	5.7919	6.2899	6.6198
20 Portugal/escudo	144.27	157.53	142.70	130.87	132.82	134.43	130.45	140.97	148.00
21 Singapore/dollar	2.0133	1.9511	1.8134	1.7100	1.7275	1.7455	1.7180	1.7589	1.7688
22 South Africa/rand	2.2770	2.6214	2.5885	2.5247	2.5395	2.5643	2.5412	2.6636	2.7325
23 South Korea/won	734.52	674.29	710.64	717.03	718.58	720.83	723.97	727.73	728.36
24 Spain/peseta	116.53	118.44	101.96	94.07	95.75	95.08	92.61	100.21	105.08
25 Sri Lanka/rupee	31.820	35.947	40.078	40.355	40.244	40.300	40.598	40.750	40.836
26 Sweden/krona	6.1370	6.4559	5.9231	5.5633	5.6338	5.6345	5.5516	5.9081	6.1145
27 Switzerland/franc	1.4643	1.6369	1.3901	1.2569	1.2814	1.2714	1.2685	1.3918	1.4399
28 Taiwan/dollar	28.636	26.407	26.918	27.245	27.162	27.197	27.109	27.311	27.333
29 Thailand/baht	25.312	25.725	25.609	25.078	25.208	25.244	25.141	25.447	25.578
30 United Kingdom/pound[2]	178.13	163.82	178.41	196.42	192.19	193.46	196.41	182.14	174.97
MEMO									
31 United States/dollar[3]	92.72	98.60	89.09	82.12	83.35	83.51	82.12	88.12	91.41

1. Averages of certified noon buying rates in New York for cable transfers. Data in this table also appear in the Board's G.5 (405) release. For address, see inside front cover.
2. Value in U.S. cents.
3. Index of weighted-average exchange value of U.S. dollar against the currencies of 10 industrial countries. The weight for each of the 10 countries is the 1972–76 average world trade of that country divided by the average world trade of all 10 countries combined. Series revised as of August 1978 (see *Federal Reserve Bulletin*, vol. 64, August 1978, p. 700).

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Guide to Tabular Presentation, Statistical Releases, and Special Tables

GUIDE TO TABULAR PRESENTATION

Symbols and Abbreviations

c	Corrected	0	Calculated to be zero
e	Estimated	n.a.	Not available
p	Preliminary	n.e.c.	Not elsewhere classified
r	Revised (Notation appears on column heading when about half of the figures in that column are changed.)	IPCs	Individuals, partnerships, and corporations
		REITs	Real estate investment trusts
*	Amounts insignificant in terms of the last decimal place shown in the table (for example, less than 500,000 when the smallest unit given is millions)	RPs	Repurchase agreements
		SMSAs	Standard metropolitan statistical areas
		. . .	Cell not applicable

General Information

Minus signs are used to indicate (1) a decrease, (2) a negative figure, or (3) an outflow.

"U.S. government securities" may include guaranteed issues of U.S. government agencies (the flow of funds figures also include not fully guaranteed issues) as well as direct obligations of the Treasury. "State and local government" also includes municipalities, special districts, and other political subdivisions.

In some of the tables, details do not add to totals because of rounding.

STATISTICAL RELEASES—List Published Semiannually, with Latest BULLETIN *Reference*

	Issue	*Page*
Anticipated schedule of release dates for periodic releases	June 1991	A82

SPECIAL TABLES—Published Irregularly, with Latest BULLETIN *Reference*

Title and Date	*Issue*	*Page*
Assets and liabilities of commercial banks		
March 31, 1990	January 1991	A72
June 30, 1990	February 1991	A72
September 30, 1990	March 1991	A72
December 31, 1990	May 1991	A72
Terms of lending at commercial banks		
February 1990	September 1990	A73
May 1990	December 1990	A72
August 1990	December 1990	A77
November 1990	April 1991	A73
Assets and liabilities of U.S. branches and agencies of foreign banks		
March 31, 1990	September 1990	A78
June 30, 1990	December 1990	A82
September 30, 1990	February 1991	A78
December 31, 1990	June 1991	A72
Pro forma balance sheet and income statements for priced service operations		
June 30, 1989	February 1990	A78
September 30, 1989	March 1990	A88
March 31, 1990	September 1990	A82
June 30, 1990	October 1990	A72

Special table follows.

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4.30 ASSETS AND LIABILITIES of U.S. Branches and Agencies of Foreign Banks, December 31, 1990[1]

Millions of dollars

Item	All states[2]		New York		California		Illinois	
	Total including IBF's	IBF's only[3]	Total including IBF's	IBF's only[3]	Total including IBF's	IBF's only[3]	Total including IBF's	IBF's only[3]
1 **Total assets**[4]	**626,379**	**287,460**	**453,401**	**222,543**	**90,917**	**32,572**	**52,826**	**21,917**
2 Claims on nonrelated parties	557,364	209,425	399,472	164,741	83,439	19,868	52,404	19,374
3 Cash and balances due from depository institutions	154,664	125,297	123,799	97,146	11,139	10,349	17,301	16,275
4 Cash items in process of collection and unposted debits	2,251	1	2,207	0	25	1	4	0
5 Currency and coin (U.S. and foreign)	28	n.a.	20	n.a.	2	n.a.	2	n.a.
6 Balances with depository institutions in United States	80,637	55,711	65,473	42,878	5,416	4,710	8,711	7,715
7 U.S. branches and agencies of other foreign banks (including their IBFs)	71,488	52,641	57,829	40,224	4,896	4,660	7,989	7,394
8 Other depository institutions in United States (including their IBFs)	9,149	3,071	7,644	2,654	519	50	722	321
9 Balances with banks in foreign countries and with foreign central banks	70,753	69,584	55,225	54,268	5,643	5,638	8,566	8,560
10 Foreign branches of U.S. banks	1,606	1,387	1,485	1,272	42	42	63	63
11 Other banks in foreign countries and foreign central banks	69,148	68,197	53,740	52,996	5,601	5,596	8,503	8,497
12 Balances with Federal Reserve Banks	995	n.a.	874	n.a.	52	n.a.	18	n.a.
13 **Total securities and loans**	**336,649**	**74,078**	**225,758**	**59,732**	**62,523**	**8,013**	**29,923**	**2,564**
14 Total securities, book value	50,506	15,756	44,824	14,169	3,644	1,037	1,473	510
15 U.S. Treasury	11,065	n.a.	10,782	n.a.	57	n.a.	164	n.a.
16 Obligations of U.S. government agencies and corporations	6,897	n.a.	6,576	n.a.	217	n.a.	23	n.a.
17 Other bonds, notes, debentures and corporate stock (including state and local securities)	32,543	15,756	27,465	14,169	3,370	1,037	1,286	510
18 Federal funds sold and securities purchased under agreements to resell	14,266	2,533	11,848	1,934	910	472	1,067	55
19 U.S. branches and agencies of other foreign banks	8,837	1,319	7,204	1,167	438	80	941	35
20 Commercial banks in United States	2,330	99	1,995	64	77	0	75	0
21 Other	3,099	1,115	2,649	703	395	392	52	20
22 Total loans, gross	286,334	58,363	181,074	45,602	58,914	6,979	28,459	2,054
23 Less: Unearned income on loans	191	42	140	39	35	3	9	0
24 Equals: Loans, net	286,143	58,322	180,934	45,564	58,879	6,976	28,450	2,054
Total loans, gross, by category								
25 Real estate loans	44,446	450	22,859	255	14,069	153	4,566	36
26 Loans to depository institutions	62,599	28,974	47,549	21,383	9,092	4,575	4,124	1,565
27 Commercial banks in United States (including IBFs)	42,756	10,751	31,773	6,927	7,296	2,824	3,504	974
28 U.S. branches and agencies of other foreign banks	37,675	10,310	27,239	6,581	7,031	2,748	3,240	954
29 Other commercial banks in United States	5,081	442	4,534	346	265	76	264	20
30 Other depository institutions in United States (including IBFs)	53	0	34	0	15	0	3	0
31 Banks in foreign countries	19,790	18,223	15,742	14,456	1,781	1,752	617	591
32 Foreign branches of U.S. banks	390	363	362	335	7	7	21	21
33 Other banks in foreign countries	19,400	17,859	15,380	14,121	1,774	1,745	597	570
34 Other financial institutions	9,076	1,277	6,819	1,082	1,068	153	778	36
35 Commercial and industrial loans	148,897	15,641	87,399	13,348	32,784	1,625	18,256	301
36 U.S. addressees (domicile)	127,718	535	70,669	432	30,029	96	17,755	7
37 Non-U.S. addressees (domicile)	21,179	15,106	16,730	12,915	2,755	1,529	501	295
38 Acceptances of other banks	2,029	9	1,083	9	602	0	298	0
39 U.S. banks	601	0	406	0	151	0	12	0
40 Foreign banks	1,427	9	677	9	451	0	286	0
41 Loans to foreign governments and official institutions (including foreign central banks)	12,823	11,704	10,153	9,251	561	473	119	112
42 Loans for purchasing or carrying securities (secured and unsecured)	2,471	53	1,769	48	650	0	48	5
43 All other loans	3,994	256	3,444	225	88	0	270	0
44 All other assets	51,785	7,518	38,067	5,928	8,867	1,034	4,113	480
45 Customers' liability on acceptances outstanding	27,984	n.a.	20,335	n.a.	6,123	n.a.	1,170	n.a.
46 U.S. addressees (domicile)	19,203	n.a.	12,771	n.a.	5,229	n.a.	1,166	n.a.
47 Non-U.S. addressees (domicile)	8,780	n.a.	7,564	n.a.	894	n.a.	4	n.a.
48 Other assets including other claims on nonrelated parties	23,801	7,518	17,733	5,928	2,744	1,034	2,943	480
49 Net due from related depository institutions[5]	69,016	78,036	53,929	57,802	7,478	12,704	422	2,543
50 Net due from head office and other related depository institutions[5]	69,016	n.a.	53,929	n.a.	7,478	n.a.	422	n.a.
51 Net due from establishing entity, head offices, and other related depository institutions[5]	n.a.	78,036	n.a.	57,802	n.a.	12,704	n.a.	2,543
52 **Total liabilities**[4]	**626,379**	**287,460**	**453,401**	**222,543**	**90,917**	**32,572**	**52,826**	**21,917**
53 Liabilities to nonrelated parties	547,925	260,236	413,708	206,535	80,682	31,560	37,061	14,303

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4.30—Continued

Millions of dollars

Item	All states[2]		New York		California		Illinois	
	Total excluding IBF's	IBF's only[3]	Total excluding IBF's	IBF's only[3]	Total excluding IBF's	IBF's only[3]	Total excluding IBF's	IBF's only[3]
54 Total deposits and credit balances	76,316	195,827	62,354	173,124	4,128	12,882	3,658	2,716
55 Individuals, partnerships, and corporations	57,043	15,893	45,403	9,266	3,064	579	3,259	144
56 U.S. addressees (domicile)	42,917	476	37,207	476	1,162	0	2,210	0
57 Non-U.S. addressees (domicile)	14,126	15,418	8,196	8,791	1,902	579	1,049	144
58 Commercial banks in United States (including IBFs)	12,118	56,938	10,347	51,224	775	4,216	381	981
59 U.S. branches and agencies of other foreign banks	6,466	50,673	6,374	45,706	16	3,723	29	833
60 Other commercial banks in United States	5,652	6,264	3,973	5,518	759	493	352	148
61 Banks in foreign countries	2,049	108,507	1,942	98,737	12	7,654	3	1,534
62 Foreign branches of U.S. banks	149	5,743	149	5,132	0	484	0	93
63 Other banks in foreign countries	1,900	102,764	1,793	93,606	12	7,170	3	1,441
64 Foreign governments and official institutions (including foreign central banks)	1,804	14,031	1,497	13,439	238	433	3	56
65 All other deposits and credit balances	2,810	457	2,734	457	17	0	1	0
66 Certified and official checks	492	n.a.	431	n.a.	22	n.a.	10	n.a.
67 Transaction accounts and credit balances (excluding IBFs)	8,597	↑	7,408	↑	296	↑	257	↑
68 Individuals, partnerships, and corporations	5,518	↑	4,562	↑	225	↑	242	↑
69 U.S. addressees (domicile)	4,129	↑	3,582	↑	191	↑	235	↑
70 Non-U.S. addressees (domicile)	1,389	↑	980	↑	35	↑	7	↑
71 Commercial banks in United States (including IBFs)	278	↑	274	↑	1	↑	0	↑
72 U.S. branches and agencies of other foreign banks	106	↑	105	↑	0	↑	0	↑
73 Other commercial banks in United States	172	n.a.	169	n.a.	1	n.a.	0	n.a.
74 Banks in foreign countries	1,122	↓	1,039	↓	11	↓	3	↓
75 Foreign branches of U.S. banks	10	↓	10	↓	0	↓	0	↓
76 Other banks in foreign countries	1,112	↓	1,029	↓	11	↓	3	↓
77 Foreign governments and official institutions (including foreign central banks)	372	↓	312	↓	19	↓	1	↓
78 All other deposits and credit balances	815	↓	789	↓	17	↓	1	↓
79 Certified and official checks	492	↓	431	↓	22	↓	10	↓
80 Demand deposits (included in transaction accounts and credit balances)	7,837	↑	6,885	↑	226	↑	241	↑
81 Individuals, partnerships, and corporations	5,116	↑	4,384	↑	163	↑	226	↑
82 U.S. addressees (domicile)	3,928	↑	3,489	↑	140	↑	220	↑
83 Non-U.S. addressees (domicile)	1,188	↑	894	↑	23	↑	7	↑
84 Commercial banks in United States (including IBFs)	196	↑	193	↑	1	↑	0	↑
85 U.S. branches and agencies of other foreign banks	49	↑	47	↑	0	↑	0	↑
86 Other commercial banks in United States	148	n.a.	145	n.a.	1	n.a.	0	n.a.
87 Banks in foreign countries	982	↓	903	↓	11	↓	3	↓
88 Foreign branches of U.S. banks	8	↓	8	↓	0	↓	0	↓
89 Other banks in foreign countries	974	↓	895	↓	11	↓	3	↓
90 Foreign governments and official institutions (including foreign central banks)	298	↓	238	↓	19	↓	1	↓
91 All other deposits and credit balances	753	↓	736	↓	11	↓	1	↓
92 Certified and official checks	492	↓	431	↓	22	↓	10	↓
93 Non-transaction accounts (including MMDAs, excluding IBFs)	67,719	↑	54,946	↑	3,832	↑	3,401	↑
94 Individuals, partnerships, and corporations	51,526	↑	40,841	↑	2,839	↑	3,017	↑
95 U.S. addressees (domicile)	38,788	↑	33,625	↑	972	↑	1,975	↑
96 Non-U.S. addressees (domicile)	12,737	↑	7,216	↑	1,867	↑	1,042	↑
97 Commercial banks in United States (including IBFs)	11,839	↑	10,073	↑	774	↑	381	↑
98 U.S. branches and agencies of other foreign banks	6,359	↑	6,269	↑	16	↑	29	↑
99 Other commercial banks in United States	5,480	n.a.	3,804	n.a.	758	n.a.	352	n.a.
100 Banks in foreign countries	926	↓	902	↓	0	↓	0	↓
101 Foreign branches of U.S. banks	139	↓	139	↓	0	↓	0	↓
102 Other banks in foreign countries	788	↓	764	↓	0	↓	0	↓
103 Foreign governments and official institutions (including foreign central banks)	1,432	↓	1,185	↓	220	↓	2	↓
104 All other deposits and credit balances	1,995	↓	1,945	↓	0	↓	1	↓
105 IBF deposit liabilities	↑	195,827	↑	173,124	↑	12,882	↑	2,716
106 Individuals, partnerships, and corporations	↑	15,893	↑	9,266	↑	579	↑	144
107 U.S. addressees (domicile)	↑	476	↑	476	↑	0	↑	0
108 Non-U.S. addressees (domicile)	↑	15,418	↑	8,791	↑	579	↑	144
109 Commercial banks in United States (including IBFs)	↑	56,938	↑	51,224	↑	4,216	↑	981
110 U.S. branches and agencies of other foreign banks	↑	50,673	↑	45,706	↑	3,723	↑	833
111 Other commercial banks in United States	n.a.	6,264	n.a.	5,518	n.a.	493	n.a.	148
112 Banks in foreign countries	↓	108,507	↓	98,737	↓	7,654	↓	1,534
113 Foreign branches of U.S. banks	↓	5,743	↓	5,132	↓	484	↓	93
114 Other banks in foreign countries	↓	102,764	↓	93,606	↓	7,170	↓	1,441
115 Foreign governments and official institutions (including foreign central banks)	↓	4,031	↓	13,439	↓	433	↓	56
116 All other deposits and credit balances	↓	457	↓	457	↓	0	↓	0

For notes see end of table.

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4.30 ASSETS AND LIABILITIES of U.S. Branches and Agencies of Foreign Banks, December 31, 1990[1]—Continued

Millions of dollars

Item	All states[2]		New York		California		Illinois	
	Total including IBF's	IBF's only[3]	Total including IBF's	IBF's only[3]	Total including IBF's	IBF's only[3]	Total including IBF's	IBF's only[3]
117 Federal funds purchased and securities sold under agreements to repurchase	68,468	8,429	50,241	5,056	9,544	2,150	8,143	1,201
118 U.S. branches and agencies of other foreign banks	12,046	3,231	7,092	1,234	3,219	1,222	1,667	752
119 Other commercial banks in United States	22,303	655	13,724	368	4,425	207	3,801	80
120 Other	34,119	4,543	29,425	3,454	1,899	720	2,675	369
121 Other borrowed money	151,318	49,225	86,085	22,893	44,578	15,662	18,851	10,045
122 Owed to nonrelated commercial banks in United States (including IBFs)	80,029	17,195	39,965	5,165	28,818	8,164	9,899	3,479
123 Owed to U.S. offices of nonrelated U.S. banks	27,075	4,061	13,498	1,172	9,158	2,491	3,938	258
124 Owed to U.S. branches and agencies of nonrelated foreign banks	52,954	13,133	26,467	3,993	19,660	5,673	5,961	3,221
125 Owed to nonrelated banks in foreign countries	30,400	29,477	16,145	15,303	7,422	7,375	6,568	6,561
126 Owed to foreign branches of nonrelated U.S. banks	2,271	2,160	875	764	984	984	365	365
127 Owed to foreign offices of nonrelated foreign banks	28,129	27,318	15,270	14,539	6,438	6,392	6,204	6,197
128 Owed to others	40,890	2,553	29,975	2,425	8,338	123	2,383	5
129 All other liabilities	55,997	6,754	41,904	5,463	9,550	866	3,694	341
130 Branch or agency liability on acceptances executed and outstanding	33,857	n.a.	25,263	n.a.	6,853	n.a.	1,157	n.a.
131 Other liabilities to nonrelated parties	22,140	6,754	16,641	5,463	2,697	866	2,537	341
132 Net due to related depository institutions[5]	78,454	27,225	39,693	16,007	10,235	1,012	15,765	7,614
133 Net due to head office and other related depository institutions[5]	78,454	n.a.	39,693	n.a.	10,235	n.a.	15,765	n.a.
134 Net due to establishing entity, head office, and other related depository institutions[5]	n.a.	27,225	n.a.	16,007	n.a.	1,012	n.a.	7,614
MEMO								
135 Non-interest bearing balances with commercial banks in United States	2,615	92	2,197	91	166	0	113	0
136 Holding of commercial paper included in total loans	1,892	↑	1,653	↑	164	↑	73	↑
137 Holding of own acceptances included in commercial and industrial loans	2,510	↑	1,775	↑	478	↑	138	↑
138 Commercial and industrial loans with remaining maturity of one year or less	79,279	↑	43,884	↑	19,751	↑	10,261	↑
139 Predetermined interest rates	44,415	n.a.	22,759	n.a.	12,309	n.a.	5,953	n.a.
140 Floating interest rates	34,864	↓	21,125	↓	7,442	↓	4,308	↓
141 Commercial and industrial loans with remaining maturity of more than one year	69,618	↓	43,515	↓	13,033	↓	7,995	↓
142 Predetermined interest rates	21,643	↓	13,504	↓	3,167	↓	3,695	↓
143 Floating interest rates	47,975	↓	30,011	↓	9,866	↓	4,299	↓

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4.30—Continued

Millions of dollars

Item	All states[2]		New York		California		Illinois	
	Total excluding IBFs	IBFs[3] only	Total excluding IBFs	IBFs[3] only	Total excluding IBFs	IBFs[3] only	Total excluding IBFs	IBFs[3] only
144 Components of total nontransaction accounts, included in total deposits and credit balances of nontransactional accounts, including IBFs	77,692	↑	65,654	↑	4,242	↑	3,323	↑
145 Time CDs in denominations of $100,000 or more	44,055		36,133		2,492		1,564	
146 Other time deposits in denominations of $100,000 or more	16,523	n.a.	13,838	n.a.	1,028	n.a.	1,542	n.a.
147 Time CDs in denominations of $100,000 or more with remaining maturity of more than 12 months	17,114	↓	15,683	↓	722	↓	217	↓
	All states[2]		New York		California		Illinois	
	Total *including* IBFs	IBFs[3] only	Total *including* IBFs	IBFs[3] only	Total *including* IBFs	IBFs[3] only	Total *including* IBFs	IBFs[3] only
148 Market value of securities held	47,192	14,379	41,620	12,849	3,313	986	1,457	505
149 Immediately available funds with a maturity greater than one day included in other borrowed money	93,845	n.a.	52,534	n.a.	28,849	n.a.	11,246	n.a.
150 Number of reports filed[6]	565	0	263	0	130	0	55	0

1. Data are aggregates of categories reported on the quarterly form FFIEC 002, "Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks." Details may not add to totals because of rounding. This form was first used for reporting data as of June 30, 1980, and was revised as of December 31, 1985. From November 1972 through May 1980, U.S. branches and agencies of foreign banks had filed a monthly FR 886a report. Aggregate data from that report were available through the Federal Reserve statistical release G.11, last issued on July 10, 1980. Data in this table and in the G.11 tables are not strictly comparable because of differences in reporting panels and in definitions of balance sheet items.

2. Includes the District of Columbia.

3. Effective December 1981, the Federal Reserve Board amended Regulations D and Q to permit banking offices located in the United States to operate International Banking Facilities (IBFs). As of December 31, 1985 data for IBFs are reported in a separate column. These data are either included in or excluded from the total columns as indicated in the headings. The notation "n.a." indicates that no IBF data re reported for that item, either because the item is not an eligible IBF asset or liability or because that level of detail is not reported for IBFs. From December 1981 through September 1985, IBF data were included in all applicable items reported.

4. Total assets and total liabilities include *net* balances, if any, due from or due to related banking institutions in the United States and in foreign countries (see footnote 5). On the former monthly branch and agencyu report, available through the G.11 statistical release, *gross* balances were included in total assets and total liabilities. Therefopre, total asset and total liability figures in this table are not comparable to those in the G.11 tables.

5. "Related banking institutions" includes the foreign head office and other U.S. and foreign branches and agencies of the bank, the bank's parent holding company, and majority-owned banking subsidiaries of the bank and of its parent holding company (including subsidiaries owned both directly and indirectly).

6. In some cases two or more offices of a foreign bank within the same metropolitan area file a consolidated report.

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☐ Weekly Consolidated Condtion Report of Large Commercial Banks, and Domestic Subsidiaries. H.4.2 (504) [1.26, 1.28, 1.29, 1.30]	$15.00	Friday	Wednesday, 1 week earlier
Monthly Releases			
☐ Consumer Installment Credit. G.19 (421) [1.55, 1.56]	$ 5.00	5th working day of month	2nd month previous
☐ Debits and Deposit Turnover at Commercial Banks. G.6 (406) [1.22]	$ 5.00	12 of month	Previous month
☐ Finance Companies. G.20 (422) [1.51, 1.52]	$ 5.00	5th working day of month	2nd month previous
☐ Foreign Exchange Rates. G.5 (405) [3.28]	$ 5.00	1st of month	Previous month
☐ Industrial Production and Capacity Utilization G.17 (419) [2.12, 2.13]	$15.00	Midmonth	Previous month
☐ Loans and Securities at all Commercial Banks. G.7 (407) [1.23]	$ 5.00	3rd week of month	Previous month
☐ Major Nondeposit Funds of Commercial Banks. G.10 (411) [1.24]	$ 5.00	3rd week of month	Previous month
☐ Research Library—Recent Acquisitions. G.15 (417)	Free of charge	1st of month	Previous month
☐ Selected Interest Rates. G.13 (415) [1.35]	$ 5.00	1st Tuesday of month	Previous month

1. Release dates are those anticipated or usually met. However, please note that for some releases there is normally a certain variability because of reporting or processing procedures. Moreover, for all series unusual circumstances may, from time to time, result in a release date being later than anticipated.

The respective *Bulletin* tables that report the data are designated in brackets.

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Quarterly Releases	*Annual rate*	*Approximate release days*	*Date of period to which data refer*
☐ Agricultural Finance Databook. E.15 (125)	$ 5.00	End of March June, September, and December	January, April, July, and Ocotber
☐ Country Exposure Lending Survey. E.16 (126)	$ 5.00	January, April, July, and October	Previous quarter
☐ Flow of Funds Accounts: Seasonally Adjusted and Unadjusted. Z.1 (780) [1.58, 1.59]	$15.00	23rd of February, May, August, and November	Previous quarter
☐ Flow of Funds Summary Statistics Z.7 (788) [1.57, 1.58]	$ 5.00	15th of February, May, August, and November	Previous quarter
☐ Geographical Distribution of Assets and Liabilities of Major Foreign Branches of U.S. Banks. E.11 (121)	$ 5.00	15th of March, June, September, and December	Previous quarter
☐ Survey of Terms of Bank Lending to Business. E.2 (111) [1.34]	$ 5.00	Midmonth of March, June, September, and December	February, May, August, and November
☐ List of OTC Margin Stocks. E.7 (117)	$ 5.00	January, April, July, and October	February, May, August, and November
Semiannual Releases			
☐ Balance Sheets for the U.S. Economy. C.9 (108)	$ 5.00	October and April	Previous year
☐ Report on the Terms of Credit Card Plans. E.5 (115)	$ 5.00	March and August	January and June
Annual Releases			
☐ Aggregate Summaries of Annual Surveys of Securities Credit Extension. C.2 (101)	$ 5.00	February	End of previous June

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Federal Reserve Banks, Branches, and Offices

FEDERAL RESERVE BANK branch, or *facility*	Zip	Chairman Deputy Chairman	President First Vice President	Vice President in charge of branch
BOSTON*	02106	Richard N. Cooper Jerome H. Grossman	Richard F. Syron Robert W. Eisenmenger	
NEW YORK*	10045	Cyrus R. Vance Ellen V. Futter	E. Gerald Corrigan James H. Oltman	
Buffalo	14240	Mary Ann Lambertsen		James O. Aston
PHILADELPHIA	19105	Peter A. Benoliel Jane G. Pepper	Edward G. Boehne William H. Stone, Jr.	
CLEVELAND*	44101	John R. Miller A. William Reynolds	W. Lee Hoskins William H. Hendricks	
Cincinnati	45201	Kate Ireland		Charles A. Cerino[1]
Pittsburgh	15230	Robert P. Bozzone		Harold J. Swart[1]
RICHMOND*	23219	Anne Marie Whittemore Henry J. Faison	Robert P. Black Jimmie R. Monhollon	
Baltimore	21203	John R. Hardesty, Jr.		Ronald B. Duncan[1]
Charlotte	28230	Anne M. Allen		Albert D. Tinkelenberg[1]
Culpeper Communications and Records Center 22701				John G. Stoides[1]
ATLANTA	30303	Larry L. Prince Edwin A. Huston	Robert P. Forrestal Jack Guynn	Donald E. Nelson[1]
Birmingham	35283	Roy D. Terry		Fred R. Herr[1]
Jacksonville	32231	Hugh M. Brown		James D. Hawkins[1]
Miami	33152	Dorothy C. Weaver		James T. Curry III
Nashville	37203	Shirley A. Zeitlin		Melvyn K. Purcell
New Orleans	70161	Vacancy		Robert J. Musso
CHICAGO*	60690	Charles S. McNeer Richard G. Cline	Silas Keehn Daniel M. Doyle	
Detroit	48231	Phyllis E. Peters		Roby L. Sloan[1]
ST. LOUIS	63166	H. Edwin Trusheim Robert H. Quenon	Thomas C. Melzer James R. Bowen	
Little Rock	72203	Wm. Earle Love		Karl W. Ashman
Louisville	40232	Lois H. Gray		Howard Wells
Memphis	38101	Katherine H. Smythe		Ray Laurence
MINNEAPOLIS	55480	Delbert W. Johnson Gerald A. Rauenhorst	Gary H. Stern Thomas E. Gainor	
Helena	59601	James E. Jenks		John D. Johnson
KANSAS CITY	64198	Fred W. Lyons, Jr. Burton A. Dole, Jr.	Roger Guffey Henry R. Czerwinski	
Denver	80217	Barbara B. Grogan		Kent M. Scott
Oklahoma City	73125	Ernest L. Holloway		David J. France
Omaha	68102	Herman Cain		Harold L. Shewmaker
DALLAS	75222	Hugh G. Robinson Leo E. Linbeck, Jr.	Robert D. McTeer, Jr. Tony J. Salvaggio	
El Paso	79999	W. Thomas Beard, III		Sammie C. Clay
Houston	77252	Gilbert D. Gaedcke, Jr.		Robert Smith, III[1]
San Antonio	78295	Roger R. Hemminghaus		Thomas H. Robertson
SAN FRANCISCO	94120	Robert F. Erburu Carolyn S. Chambers	Robert T. Parry Carl E. Powell	
Los Angeles	90051	Yvonne B. Burke		Thomas C. Warren[2]
Portland	97208	William A. Hilliard		Leslie R. Watters
Salt Lake City	84125	D.N. Rose		Andrea P. Wolcott
Seattle	98124	Bruce R. Kennedy		Gerald R. Kelly[1]

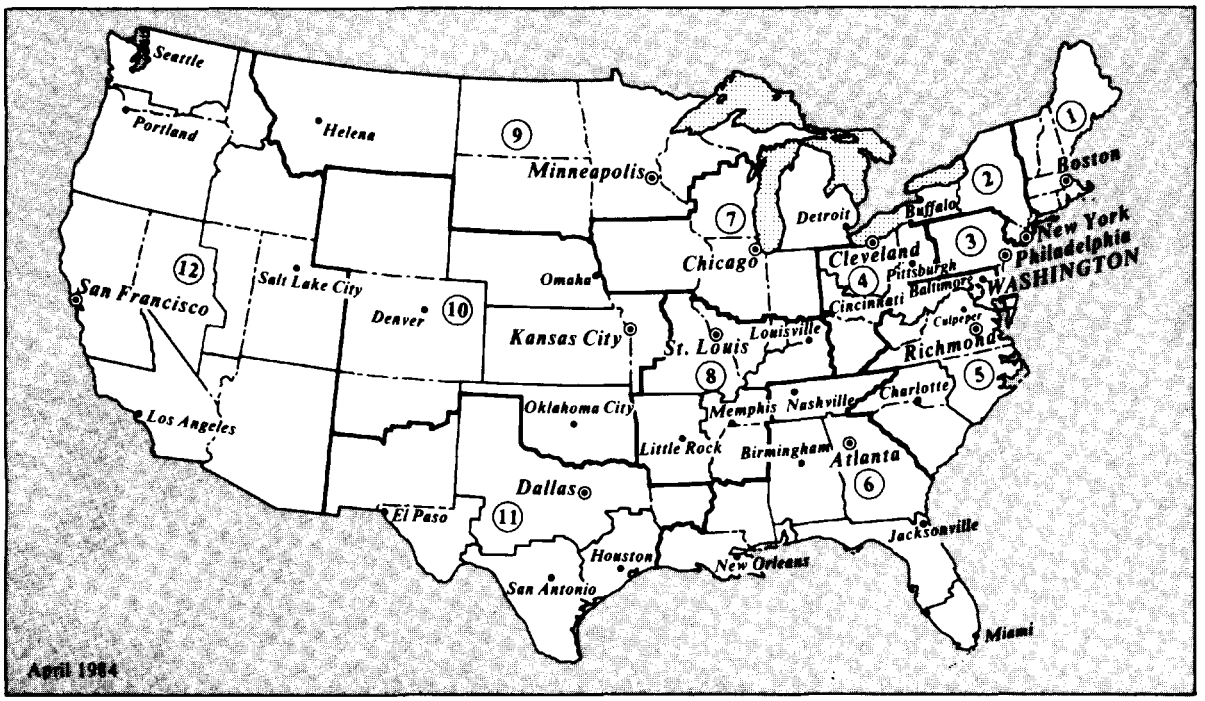
*Additional offices of these Banks are located at Lewiston, Maine 04240; Windsor Locks, Connecticut 06096; Cranford, New Jersey 07016; Jericho, New York 11753; Utica at Oriskany, New York 13424; Columbus, Ohio 43216; Columbia, South Carolina 29210; Charleston, West Virginia 25311; Des Moines, Iowa 50306; Indianapolis, Indiana 46204; and Milwaukee, Wisconsin 53202.

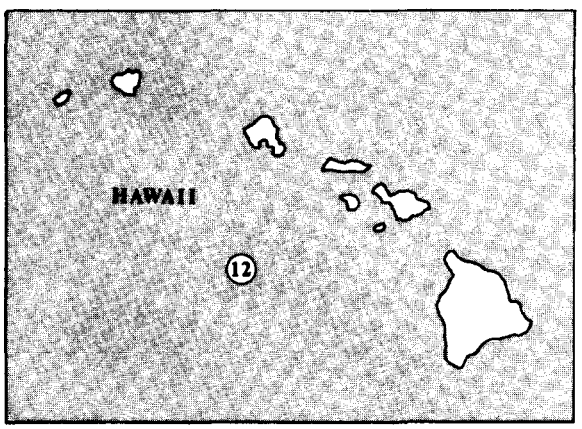
1. Senior Vice President.
2. Executive Vice President.

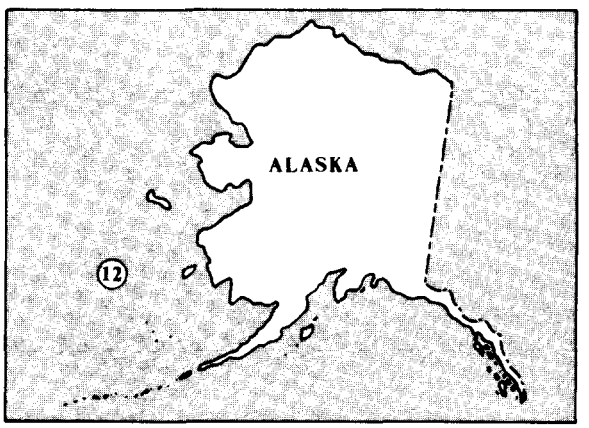
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The Federal Reserve System

Boundaries of Federal Reserve Districts and Their Branch Territories







LEGEND

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- Board of Governors of the Federal Reserve System
- Federal Reserve Bank Cities
- Federal Reserve Branch Cities
- Federal Reserve Bank Facility

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The Board of Governors of the Federal Reserve System makes some of its statistical releases available to the public through the U.S. Department of Commerce's electronic bulletin board. Computer access to the releases can be obtained by subscription. For further information regarding a subscription to the electronic bulletin board, please call (703) 487-4630. The releases transmitted to the electronic bulletin board, on a regular basis, are the following:

Reference Number	*Statistical release*	*Frequency of release*
H.3	Aggregate Reserves	Weekly/Thursday
H.4.1	Factors Affecting Reserve Balances	Weekly/Thursday
H.6	Money Stock	Weekly/Thursday
H.8	Assets and Liabilities of Insured Domestically Chartered and Foreign Related Banking Institutions	Weekly/Monday
H.10	Foreign Exchange Rates	Weekly/Monday
H.15	Selected Interest Rates	Weekly/Monday
G.5	Foreign Exchange Rates	Monthly/end of month
G.17	Industrial Production and Capacity Utilization	Monthly/midmonth
G.19	Consumer Installment Credit	Monthly/fifth business day
Z.7	Flow of Funds	Quarterly

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Publications of Interest

Federal Reserve Regulatory Service

To promote public understanding of its regulatory functions, the Board publishes the Federal Reserve Regulatory Service, a three-volume looseleaf service containing all Board regulations and related statutes, interpretations, policy statements, rulings, and staff opinions. For those with a more specialized interest in the Board's regulations, parts of this service are published separately as handbooks pertaining to monetary policy, securities credit, consumer affairs, and the payment system.

These publications are designed to help those who must frequently refer to the Board's regulatory materials. They are updated at least monthly, and each contains citation indexes and a subject index.

The Monetary Policy and Reserve Requirements Handbook contains Regulations A, D, and Q, plus related materials. For convenient reference, it also contains the rules of the Depository Institutions Deregulation Committee.

The Securities Credit Transactions Handbook contains Regulations G, T, U, and X, dealing with extensions of credit for the purchase of securities, together with all related statutes, Board interpretations, rulings, and staff opinions. Also included is the Board's list of OTC margin stocks.

The Consumer and Community Affairs Handbook contains Regulations B, C, E, M, Z, AA, and BB, and associated materials.

The Payment System Handbook deals with expedited funds availability, check collection, wire transfers, and risk-reduction policy. It includes Regulation CC, Regulation J, the Expedited Funds Availability Act and related statutes, official Board commentary on Regulation CC, and policy statements on risk reduction in the payment system.

For domestic subscribers, the annual rate is $200 for the Federal Reserve Regulatory Service and $75 for each Handbook. For subscribers outside the United States, the price including additional air mail costs is $250 for the Service and $90 for each Handbook. All subscription requests must be accompanied by a check or money order payable to the Board of Governors of the Federal Reserve System. Orders should be addressed to Publications Services, mail stop 138, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

U.S. Monetary Policy and Financial Markets

U.S. Monetary Policy and Financial Markets by Ann-Marie Meulendyke offers an in-depth description of the way monetary policy is developed by the Federal Open Market Committee and the techniques employed to implement policy at the Open Market Trading Desk. Written from her perspective as a senior economist in the Open Market Function at the Federal Reserve Bank of New York, Ann-Marie Meulendyke describes the tools and the setting of policy, including many of the complexities that differentiate the process from simpler textbook models. Included is an account of a day at the Trading Desk, from morning information-gathering through daily decisionmaking and the execution of an open market operation.

The book also places monetary policy in a broader context, examining first the evolution of Federal Reserve monetary policy procedures from their beginnings in 1914 to the end of the 1980s. It indicates how policy operates most directly through the banking system and the financial markets and describes key features of both. Finally, the book turns its attention to the transmittal of monetary policy actions to the U.S. economy and throughout the world.

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