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Large banks use internally developed credit rating systems to differentiate the riskiness of their commercial loans. Internal ratings are an essential ingredient of effective credit risk management for such banks, whose commercial borrowers may number in the tens of thousands. This article describes these rating systems, how their design varies across institutions, and how they are used in risk management. The article also outlines conceptual and practical difficulties currently faced by banks in achieving accurate and consistent ratings and describes ways in which some institutions have attempted to deal with these difficulties. This article is based on a detailed review of policy documents and internal management reports from the fifty largest U.S. bank holding companies and interviews by the authors at a selection of these institutions.

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926 Alan Greenspan, Chairman, Board of Governors, discusses the recent problems in the international financial system and testifies that participation in the international financial system, with all its benefits, carries with it an obligation to maintain a level of stability and a set of strong and transparent institutions and rules if an economy is to participate safely and effectively in markets that have become highly sensitive to misallocation of capital and other policy errors. Chairman Greenspan states further that the conditions that should be met before engaging in international borrowing need to be promulgated and better monitored by domestic regulatory authorities. (Testimony before the House Committee on Banking and Financial Services, September 16, 1998.)

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Credit Risk Rating at Large U.S. Banks

William F. Treacy, of the Board's Division of Banking Supervision and Regulation, and Mark S. Carey, of the Board's Division of Research and Statistics, prepared this article.

Internal credit ratings are becoming increasingly important in credit risk management at large U.S. banks. Banks' internal ratings are somewhat like ratings produced by Moody's, Standard & Poor's, and other public rating agencies in that they summarize the risk of loss due to failure by a given borrower to pay as promised.¹ However, banks' rating systems differ significantly from those of the agencies (and from each other) in architecture and operating design as well as in the uses to which ratings are put. One reason for these differences is that banks' ratings are assigned by bank personnel and are usually not revealed to outsiders.²

For large banks, whose commercial borrowers may number in the tens of thousands, internal ratings are an essential ingredient in effective credit risk management.³ Without the distillation of information that ratings represent, any comparison of the risk posed by such a large number of borrowers would be extremely difficult because of the need to simulta-

neously consider many risk factors for each of the many borrowers. Most large banks use ratings in one or more key areas of risk management that involve credit, such as guiding the loan origination process, portfolio monitoring and management reporting, analysis of the adequacy of loan loss reserves or capital, profitability and loan pricing analysis, and as inputs to formal portfolio risk management models. Banks typically produce ratings only for business and institutional loans and counterparties, not for consumer loans or other assets.

In short, risk ratings are the primary summary indicator of risk for banks' individual credit exposures. They both shape and reflect the nature of credit decisions that banks make daily. Understanding how rating systems are conceptualized, designed, operated, and used in risk management is thus essential to understanding how banks perform their business lending function and how they choose to control risk exposures.⁴

The specifics of internal rating system architecture and operation differ substantially across banks. The number of grades and the risk associated with each grade vary across institutions, as do decisions about who assigns ratings and about the manner in which rating assignments are reviewed. In general, in designing rating systems, bank management must weigh numerous considerations, including cost, efficiency of information gathering, consistency of ratings produced, staff incentives, the nature of the bank's business, and the uses to be made of internal ratings.

A central theme of this article is that, to a considerable extent, variations across banks are an example of form following function. There does not appear to be one "correct" rating system. Instead, "correctness" depends on how the system is used. For example, a bank that uses ratings mainly to identify deteriorating or problem loans to ensure proper monitoring may find that a rating scale with relatively few grades is adequate. In contrast, if ratings are used in computing

1. For example, bonds rated Aaa on Moody's scale or AAA on Standard & Poor's scale pose negligible risk of loss in the short to medium term, whereas those rated Caa or CCC are quite risky.

2. For additional information about the internal rating systems of large and smaller banks, see Thomas F. Brady, William B. English, and William R. Nelson, "Recent Changes to the Federal Reserve's Survey of Terms of Business Lending," *Federal Reserve Bulletin*, vol. 84 (August 1998), pp. 604-15; see also William B. English and William R. Nelson, "Bank Risk Rating of Business Loans" (Board of Governors of the Federal Reserve System, April 1998).

For information about the rating systems of large banks and about credit risk management practices in general, see Robert Morris Associates and First Manhattan Consulting Group, *Winning the Credit Cycle Game: A Roadmap for Adding Shareholding Value Through Credit Portfolio Management* (1997).

For a survey of the academic literature on ratings and credit risk, see Edward I. Altman and Anthony Saunders, "Credit Risk Measurement: Developments over the Last 20 Years," *Journal of Banking and Finance*, vol. 21 (December 1997), pp. 1721-42.

3. See the Federal Reserve's Supervision and Regulation Letter SR 98-25, "Sound Credit Risk Management and the Use of Internal Credit Risk Ratings at Large Banking Organizations" (September 21, 1998), which stresses the importance of risk rating systems for large banks and describes elements of such systems that are "necessary to support sophisticated credit risk management" (p. 1). SR Letters are available on the Federal Reserve Board's web site, <http://www.federalreserve.gov>.

4. Credit risk can arise from a loan already extended, loan commitments that have not yet been drawn, letters of credit, or obligations under other contracts such as financial derivatives. This article follows industry usage by referring to individual loans or commitments as "facilities" and overall credit risk arising from such transactions as "exposure."

internal profitability measures, a scale with a relatively large number of grades may be required to achieve fine distinctions of credit risk.

As with the decision to extend credit, the rating process almost always involves the exercise of human judgment because the factors considered in assigning a rating and the weight given each factor can differ significantly across borrowers. Given the substantial role of judgment, banks must pay careful attention to the internal incentives they create and to internal rating review and control systems to avoid introducing bias. The direction of such bias tends to be related to the functions that ratings are asked to perform in the bank's risk management process. For example, at banks that use ratings in computing profitability measures, establishing pricing guidelines, or setting loan size limits, the staff may be tempted to assign ratings that are more favorable than warranted.

Many banks use statistical models as an element of the rating process, but banks generally believe that the limitations of statistical models are such that properly managed judgmental rating systems deliver more accurate estimates of risk. Especially for large exposures, the benefits of such accuracy may outweigh the higher costs of judgmental systems. In contrast, statistical credit scores are often the primary basis for credit decisions for small lending exposures, such as consumer credit.

Although form generally follows function in the systems used to rate business loans, our impression is that in some cases the two are not closely aligned. For example, because of the rapid pace of change in the risk management practices of large banks, their rating systems are increasingly being used for purposes for which they were not originally designed. When a bank applies ratings in a new way, such as in risk-sensitive analysis of business line profitability, the existing ratings and rating system are often used as-is. It may become clear only over time that the new function has imposed new stresses on the rating system and that changes in the system are needed.

Several conditions appear to magnify such stresses on bank rating systems. The conceptual meaning of ratings may be somewhat unclear, rating criteria may be largely or wholly maintained as a matter of culture rather than formal written policy, and corporate databases may not support analysis of the relationship between grade assignments and historical loss experience. Such circumstances make ratings more difficult to review and audit and also require loan review units in effect to define, maintain, and fine-tune rating standards in a dynamic fashion.

This article describes internal rating systems at large U.S. banks, focusing on the relationship

between form and function, the stresses that are evident, and the current conceptual and practical barriers to achieving accurate, consistent ratings. We hope to promote understanding of this critical element of risk management—among the industry, supervisors, academics, and other interested parties—and thereby promote further enhancements to risk management.

This article is based on information from internal reports and credit policy documents for the fifty largest U.S. bank holding companies, from interviews with senior bankers and others at more than fifteen major holding companies and other relevant institutions, and from conversations with Federal Reserve bank examiners. The institutions we interviewed cover the spectrum of size and practice among the fifty largest banks, but a disproportionate share of the banks we interviewed have relatively advanced internal rating systems.⁵

THE ARCHITECTURE OF BANK INTERNAL RATING SYSTEMS

In choosing the architecture of its rating system, a bank must decide which loss concepts to employ, the number and meaning of grades on the rating scale corresponding to each loss concept, and whether to include "watch" and "regulatory" grades on such scales. The choices made and the reasons for them vary widely, but on the whole, the primary determinants of bank rating system architecture appear to be the bank's mix of large and smaller borrowers and the extent to which the bank uses quantitative systems for credit risk management and profitability analysis. In principle, banks must also decide whether to grade borrowers according to their current condition or their expected condition under stress. Although the rating agencies employ the latter, "through the cycle," philosophy, almost all banks have chosen to grade to current condition (see the box "Point-in-Time vs. Through-the-Cycle Grading").

Loss Concepts and Their Implementation

The credit risk of a loan or other exposure over a given period involves both the *probability of default* (PD) and the fraction of the loan's value that is likely to be *lost in the event of default* (LIED). LIED is always specific to a given facility because it depends

5. Internal rating systems are typically used throughout U.S. banking organizations. For brevity, we use the term "bank" to refer to consolidated banking organizations, not just the chartered bank.

Point-in-Time vs. Through-the-Cycle Grading

A common way of implementing a long-horizon, through-the-cycle rating philosophy involves estimating the borrower's condition at the worst point in an economic or industry cycle and grading according to the risk posed at that point. Although "downside" or "borrower stress" scenarios are an element of many banks' underwriting decisions, every bank we interviewed bases risk ratings on the borrower's current condition. Rating the current condition is consistent with the fact that rating criteria at banks do not seem to be updated to take account of the current phase of the business cycle. Banks we interviewed do vary somewhat in the time period they have in mind when producing ratings, with about 25 percent rating the borrower's risk over a one-year period, 25 percent rating over a longer period such as the life of the loan, and the remaining 50 percent having no specific period in mind. How closely raters adhere to time horizon guidelines at banks that have them is not clear.

In contrast to bank practice, both Moody's and S&P rate through the cycle. They analyze the borrower's current condition at least partly to obtain an anchor point for determining the severity of the downside scenario. The borrower's projected condition in the event the downside scenario occurs is the primary determinant of the rating. Only borrowers that are very weak at the time of the analysis are rated primarily according to current condition. Under this philosophy, the migration of borrowers' ratings up and down the scale as the overall economic cycle progresses will be muted: Ratings will change mainly for those firms that experience good or bad shocks that affect long-term condition or financial strategy and for those

whose original downside scenario was too optimistic. The agencies' through-the-cycle philosophy probably accounts for their considerable emphasis on a borrower's industry and its position within the industry. For many firms, industry supply and demand cycles are as important or more important than the overall business cycle in determining cash flow.

In interviews, we did not discuss the reasons that banks rate to current condition, but two possibilities are the greater difficulty of the agency method and differences in the investment horizon of banks relative to that of users of agency ratings. Consistency of ratings across a wide variety of credits may be easier to achieve when the basis is the relatively easy-to-observe current condition. Also, greater difficulty means through-the-cycle grading entails greater expense, and for many middle-market credits the extra expense might render such lending unprofitable for banks.

Regarding investment horizon, the rating agencies' philosophy may reflect the historical preponderance of long-term, buy-and-hold investors among users of ratings. Such users are naturally most interested in estimates of long-term credit risk. That banks should naturally have a short-term orientation is not clear, especially as the maturity of bank loan commitments has increased steadily over the past decade or two. If it were not for the considerations of feasibility and cost, as well as the fact that many banks use ratings to guide the intensity of monitoring of borrowers, the banks' choice of point-in-time grading would be more debatable.

on the structure of the facility. PD, however, is generally associated with the borrower, the presumption being that a borrower will default on all obligations if it defaults on any.⁶ The product of PD and LIED is the *expected loss* (EL) on the exposure in a statistical sense. It represents an estimate of the average percentage loss rate over time on a group of loans all having the given expected loss. A positive expected loss is *not*, however, a forecast that losses will in fact occur on any individual loan.

The banks at which we conducted interviews fall into two categories with regard to loss concept. About 60 percent have one-dimensional rating systems, in which ratings are assigned to facilities. In such systems, ratings approximate EL. The remaining

40 percent have two-dimensional systems, in which the borrower's general creditworthiness (approximately PD) is appraised on one scale while the risk posed by individual exposures (approximately EL) is appraised on another; invariably the two scales have the same number of rating categories.⁷

A number of banks would no doubt dispute our characterization of their single-scale systems as measuring EL; in interviews, several maintained that their ratings primarily reflect the borrower's PD. However, collateral and loan structure play a role in grading at such banks both in practical terms and in the definitions of grades. Moreover, certain specialty loans—such as cash-collateralized loans, those eligible for government guarantees, and asset-based loans—can receive relatively low risk grades, a distinction reflecting the fact that the EL for such loans

6. Admittedly, PD might differ across transactions with the same borrower. For example, a borrower may attempt to force a favorable restructuring of its term loan by halting payment on the loan while continuing to honor the terms of a foreign exchange swap with the same bank. However, for practical purposes, estimating a single probability of any default by a borrower is usually sufficient.

7. The policy documents of banks we did not interview indicate that they also have one- or two-dimensional rating systems, and our impression is that the discussion of loss concepts above applies equally well to these banks.

1. Example of a two-dimensional risk rating system using average LIED values

Grade	Borrower scale: borrower's probability of default (PD) (percent) (1)	Assumed average loss on loans in the event of default (LIED) (percent) (2)	Facility scale: expected loss (EL) on loans (percent) (1 x 2)
1—Virtually no risk ..	0	30	0
2—Low risk .....	.1		.03
3—Moderate risk .....	.3		.09
4—Average risk	1.0		.30
5—Acceptable risk	3.0		.90
6—Borderline risk	6.0		1.80
7—OAE ¹	20.0		6.00
8—Substandard	60.0		18.00
9—Doubtful	100		30.00

1. Other Assets Especially Mentioned.

is far less than for an “ordinary” loan to the same borrower. Such single-grade systems might be most accurately characterized as having an ambiguous or mixed conceptual basis rather than as clearly measuring either PD or EL. Although an ambiguous basis may pose no problems when ratings are used mainly for administrative and reporting purposes and when the nature of the bank’s business is fairly stable over time, a clear conceptual foundation becomes more important as quantitative models of portfolio risk and profitability are used more heavily and during periods of rapid change.

In two-dimensional systems, one grade typically reflects PD and the other EL. Banks with such systems usually first determine the borrower’s grade (its PD) and then set the facility grade equal to the borrower grade unless the structure of the facility is such that LIED is substantially better or worse than “normal.” Implicitly, grades on the facility scale measure EL as the PD associated with the borrower

grade multiplied by a standard or average LIED (table 1). In this way, a two-dimensional system can promote precision and consistency in grading by separately recording a rater’s judgments about PD and EL rather than mixing them together.

A few banks said they had plans to shift to a system in which the borrower grade reflects PD but the facility grade explicitly measures LIED. The rater would assign a facility to one of several LIED categories on the basis of the likely recovery rates associated with various types of collateral, guarantees, or other considerations associated with the facility’s structure. EL for a facility would be calculated by multiplying the borrower’s PD by the facility’s LIED.⁸

Rating Scales at Moody’s and S&P

At the agencies, as at many banks, the loss concepts (PD, LIED, and EL) embedded in the ratings are somewhat ambiguous. Moody’s states that “ratings are intended to serve as indicators or forecasts of the potential for *credit loss* because of failure to pay, a delay in payment, or partial payment.” Standard & Poor’s states that its ratings are an “opinion of the general creditworthiness of an obligor, or . . . of an obligor with respect to a particular . . . obligation . . .

8. Systems recording LIED rather than EL as the second grade can promote precision and consistency in grading. PD-EL systems typically impose limits on the degree to which differences in loan structure permit an EL grade to be moved up or down relative to the PD grade. Such limits can be helpful in restraining raters’ optimism but, in the case of loans with a genuinely very low expected LIED, such limits can materially limit the accuracy of risk measurement. Another benefit of LIED ratings is the fact that raters’ LIED judgments can be evaluated over time by comparing them to loss experience.

2. Moody’s and Standard & Poor’s bond rating scales and average one-year default rates

Category	Moody’s		Standard & Poor’s	
	Grade	Average default rate (PD) per year, 1970-95 (percent)	Grade	Average default rate (PD) per year, 1961-94 (percent)
Investment grade	Aaa	.00	AAA	.00
	Aa, Aa1, Aa2, Aa3	.03	AA+, AA, AA-	.00
	A, A1, A2, A3	.01	A+, A, A-	.07
	Baa, Baa1, Baa2, Baa3	.13	BBB+, BBB, BBB-	.25
Below investment grade (“junk”)	Ba, Ba1, Ba2, Ba3	1.42	BB+, BB, BB-	1.17
	B, B1, B2, B3	7.62	B+, B, B-	5.39
	Caa, Ca, C	n.a.	CCC, CC, C	19.96
Default	D	...	D	...

NOTE. Grades are listed from less risky to more risky, from top to bottom and from left to right.

n.a. Not available.

Not applicable.

SOURCE. Moody’s Investors Service Special Report, *Corporate Bond Defaults and Default Rates 1938-1995* (January 1996). Standard & Poor’s Creditweek Special Report, *Corporate Defaults Level Off in 1994* (May 1, 1995).

based on relevant risk factors.” On balance, a close reading of Moody’s and Standard & Poor’s detailed descriptions of rating criteria and procedures suggests that the two agencies’ ratings incorporate elements of PD and LIED but are not precisely EL measures.⁹

Risk tends to increase nonlinearly on both bank and agency scales. For example, on the agency scales, default rates are low for the least risky grades but rise rapidly as the grade worsens (table 2).

Administrative Grades

All the banks we interviewed maintain some sort of internal “watch” list as well as a means of identifying assets that fall into the “regulatory problem asset” categories (table 3). Although watch and regulatory problem-asset designations typically identify high-risk credits, they have administrative meanings that are conceptually separate from risk per se. Special monitoring activity is usually undertaken for watch and problem assets, such as formal quarterly reviews of status and special reports that help senior bank management monitor and react to important developments in the portfolio. However, banks may wish to trigger special monitoring for credits that are not high-risk and thus may wish to separate administrative indicators from risk measures (an example would be a low-risk loan for which an event that might influence risk is expected, such as a change in ownership of the borrower).

Among the fifty largest banks, all but two have grades corresponding to the regulatory problem-asset categories Other Assets Especially Mentioned (OAEM), Substandard, Doubtful, and Loss (some omit the Loss category).¹⁰ All other assets are collectively labeled “Pass” by regulators. The bank supervisory agencies do not specifically require that banks maintain regulatory categories on an internal scale but do require that recordkeeping be sufficient to ensure that loans in the regulatory categories can be quickly and clearly identified. The two banks that use procedures not involving internal grades appear to do so because the regulatory asset categories are not consistent with the conceptual basis of their own

3. Regulatory problem asset categories

Category	Regulatory definition	Recommended specific reserve (percent)
Special Mention (OAEM) ¹ ..	Has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects for the credit.	No recommendation
Substandard	Inadequately protected by current worth-paying capacity of obligor or collateral. Well-defined weaknesses jeopardize liquidation of the debt. Distinct possibility that bank will sustain some loss if deficiencies are not corrected.	15
Doubtful	All weaknesses inherent in substandard, AND collection/liquidation in full, on basis of currently existing conditions, is highly questionable or improbable. Specific pending factors may strengthen credit; treatment as loss deferred until exact status can be determined.	50
Loss	Uncollectible and of such little value that continuance as bankable asset is not warranted. Credit may have recovery or salvage value, but not practical/desirable to defer writing it off even though partial recovery may be effected in future.	100

NOTE: Assets that do not fall into one of these categories are termed Pass by the federal banking regulators.

1. Other Assets Especially Mentioned.

grades.¹¹ Moreover, banks and regulators may sometimes disagree about the riskiness of individual assets that fall into the various regulatory grades.¹²

Watch credits are those that need special monitoring but do not fall in the regulatory problem-asset grades. Only about half the banks we interviewed include a watch grade on their internal rating scales. Others add a watch flag to individual grades, such as 3W versus 3, or simply maintain a watch list separately, perhaps by adding an identifying field to their computer systems.

11. Although the definitions are standardized across banks, our discussions and inspection of internal documents imply that banks vary in their internal definition and use of OAEM. Among the regulatory categories, OAEM in particular can have an administrative dimension as well as a risk dimension. Most loans identified as OAEM pose a higher-than-usual degree of risk, but some loans may be placed in this category for lack of adequate documentation in the loan file, which may occur even for loans not posing higher-than-usual risk. In such cases, once the administrative problem is resolved, the loan can be upgraded.

12. Examiners review problem loans and evaluate whether they have been assigned to the proper regulatory problem-asset grades and also review a sample of Pass credits. Examiners heretofore have generally not attempted to validate or evaluate internal ratings of Pass credits.

9. Moody's Investors Service, *Global Credit Analysis* (IFR Publishing, 1991), p. 73 (emphasis in the original); Standard & Poor's, *Corporate Ratings Criteria* (1998), p. 3. Other rating agencies play important roles in the marketplace. We omit details of their scales and practices only for brevity.

10. A few break Substandard into two categories, one for performing loans and the other for nonperforming loans.

Number of Grades on the Scale

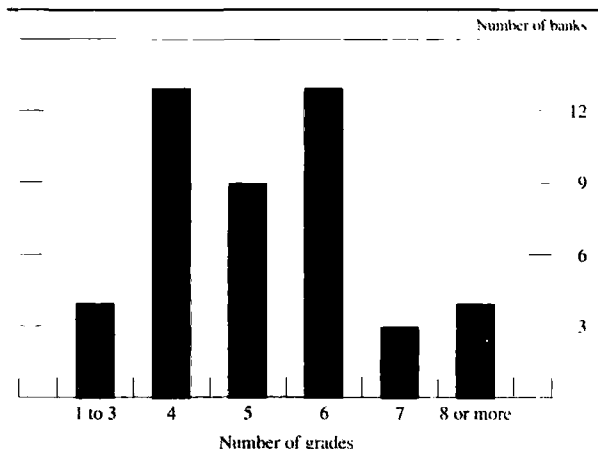
The number of grades on internal scales varies considerably across banks. In addition, even where the number of grades is identical on two different banks' scales, the risk associated with the same grades (for example, two loans graded 4) is almost always different. Among the fifty largest banks, the number of Pass grades varies from two to the low twenties. The median is five Pass grades, including a watch grade if any (chart 1). Among the ten largest banks, the median number of Pass grades is six and the minimum is four. As noted, the vast majority of large banks also include three or four regulatory problem-asset grades on their internal scales.

Internal rating systems with larger numbers of grades are more costly to operate because of the extra work required to distinguish finer degrees of risk. Banks making heavy use of ratings in analytical activities are most likely to choose to bear these costs because fine distinctions are especially valuable in such activities (however, at least a moderate number of Pass grades is useful even for internal reporting purposes). Banks that increase their analytical use of ratings may persist for a while with a relatively small number of Pass grades because the costs of changing rating systems can be large. Nonetheless, those banks that have recently redesigned their rating systems have all increased the number of grades.¹³

The proportion of grades used to distinguish among relatively low risk credits versus the proportion used

13. The average number of grades on internal scales appears to have increased somewhat during the past decade. See Gregory F. Udell, *Designing the Optimal Loan Review Policy: An Analysis of Loan Review in Midwestern Banks* (Prochnow Reports, Madison, Wis., 1987), p. 18.

1. Fifty largest U.S. banks, distributed by number of Pass grades



NOTE: Shown are the forty-six banks for which this measure was available.

to distinguish among the riskier Pass credits tends to differ with the business mix of the bank. Among banks we interviewed, those that do a significant share of their commercial business in the large corporate loan market tend to have more grades reflecting investment-grade risks. The allocation of grades between the investment-grade and below-investment-grade categories tends to be more even at banks doing mostly middle-market business.¹⁴ The differences are not large: The median middle-market bank has three internal grades corresponding to agency grades of BBB-/Baa3 or better and three riskier grades, whereas the median bank with a substantial large-corporate business has four investment grades and two junk grades. Such a difference in rating system focus is sensible in that an ability to make fine distinctions among low-risk borrowers is quite important in the highly competitive large-corporate lending market. In the middle market, fewer borrowers are perceived as posing AAA, AA, or even A levels of risk, so such distinctions are less crucial.

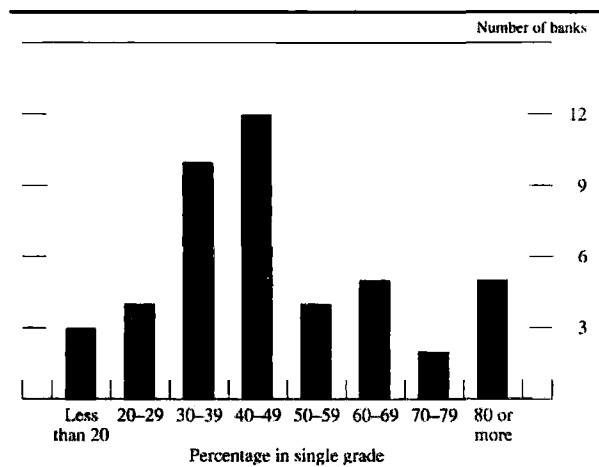
However, a glance at table 2 reveals that a good distinction among risk levels in the below-investment-grade range is important for all banks. For example, the range of default rates spanned by the agency grades BB+/Ba1 through B-/B3 is orders of magnitude larger than the risk range for, say, A+/A1 through BBB-/Baa3, and yet the median large bank we interviewed uses only two or three grades to span the below-investment-grade range, one of them perhaps being a watch grade. More granularity—finer distinctions of risk, especially among riskier assets—can enhance a bank's ability to analyze its portfolio risk posture and to construct accurate models of the profitability of its broader business relationships with borrowers.

Systems with many Pass categories are less useful when loans or other exposures tend to be concentrated in one or two grades. Among large banks, sixteen institutions, or 36 percent, assign half or more of their rated loans to a single risk grade (chart 2). Such systems appear to contribute little to the understanding and monitoring of risk posture.¹⁵

14. The term "large corporate" includes nonfinancial firms with large annual sales volumes as well as large financial institutions, national governments, and large nonprofit institutions. Certainly the Fortune 500 firms fall into this category. Middle-market borrowers are smaller, but the precise boundary between large and middle-market and between middle-market and small business borrowers varies by bank.

15. Such failure to distinguish degrees of risk was recently cited in Federal Reserve examination guidance as a potentially significant shortcoming in a large institution's credit risk management process. See Supervision and Regulation Letter SR 98-18, "Lending Standards for Commercial Loans" (June 23, 1998). For additional information

2. Fifty largest U.S. banks, distributed by percentage of outstandings placed in the grade with the most outstandings



NOTE: Shown are the forty-five banks for which this measure was relevant.

The majority of the banks that we interviewed (and, based on discussions with supervisory staff, other banks as well) expressed at least some desire to increase the number of grades on their scales and to reduce the extent to which credits are concentrated in one or two grades. Two kinds of plans were voiced: Addition of a +/- modifier to all existing grades, and a split of existing riskier grades into a larger number of newly defined grades, leaving the low-risk grades unchanged.¹⁶ The +/- modifier approach is favored by many because grade definitions are modified rather than completely reorganized. For example, the basic meaning of a 5 stays the same, but it becomes possible to distinguish between a strong and a weak 5 with grades of 5+ and 5-. This approach limits the disruption of staff understanding of each grade's meaning (as noted below, such understanding is largely cultural rather than being formally written).

THE OPERATING DESIGN OF RATING SYSTEMS

In essentially all cases, the human judgment exercised by experienced bank staff is central to the

assignment of a rating. Banks thus design the operational flow of the rating process in ways that are aimed at promoting the accuracy and consistency of ratings while not unduly restricting the exercise of judgment. Balance between these opposing imperatives appears to be struck at each institution on the basis of cost considerations, the nature of the bank's commercial business lines, the bank's uses of ratings, and the role of the rating system in maintaining the bank's credit culture.

Key operating design issues in striking the balance include the organizational division of responsibility for grading (line staff or credit staff), the nature of reviews of ratings to detect errors, the organizational location of ultimate authority over grade assignments, the role of external ratings and statistical models in the rating process, and the formality of the process and specificity of formal rating definitions.

What Exposures Are Rated?

At most banks, ratings are produced for all commercial or institutional loans (that is, not consumer loans), and in some cases for large loans to households or individuals for which underwriting procedures are similar to those for commercial loans. Rated assets thus include commercial and industrial loans and other facilities, commercial lease financings, commercial real estate loans, loans to foreign commercial and sovereign entities, loans and other facilities to financial institutions, and sometimes loans made by "private banking" units. In general, ratings are applied to those types of loans for which underwriting requires large elements of subjective analysis.

Overview of the Rating Process in Relation to Credit Approval and Review

Ratings are typically assigned (or reaffirmed) at the time of each underwriting or credit approval action. The analysis supporting the ratings is inseparable from the analysis supporting the underwriting or credit approval decision. In addition, the rating and underwriting processes, while logically separate, are intertwined. The rating assignment influences the approval process in that underwriting limits and approval requirements depend on the grade, while approvers of a credit are expected to review and confirm the grade. For example, an individual staff member typically proposes a risk grade as part of the pre-approval process for a new credit. The proposed grade is then approved or modified at the same time

about current bank lending practices, see William F. Treacy, "The Significance of Recent Changes In Underwriting Standards: Evidence from the Loan Quality Assessment Project," *Federal Reserve System Supervisory Staff Report* (June 1998); and U.S. Comptroller of the Currency, *1998 Survey of Credit Underwriting Practices* (National Credit Committee, 1998).

16. At the time of the interviews, however, the majority of the banks voicing plans to increase the number of their grades had no active effort in progress. Many of those institutions actively moving to increase the number of their Pass grades do not now have concentrations in a single category.

that the transaction itself receives approval and must meet the requirements embedded in the bank's credit policies. In nearly all cases, approval requires assent by individuals with requisite "signature authority" rather than by a committee. The number and level of signatures needed for approval typically depend on the size and (proposed) risk rating of the transaction: In general, less risky loans require fewer and perhaps lower-level signatures. In addition, signature requirements may vary according to the line of business involved and the type of credit being approved.¹⁷

After approval, the individual that assigned the initial grade is generally responsible for monitoring the loan and for changing the grade promptly as the condition of the borrower changes. Exposures falling into the regulatory grades are an exception at some institutions, where monitoring and grading of such loans becomes the responsibility of a separate unit, such as a workout or loan review unit.

Relationships and Monitoring Ratings, and Why?

Ratings are initially assigned either by relationship managers or the credit staff. Relationship managers (RMs) are lending officers (line staff) responsible for the marketing of banking services. They report to lines of business that reflect the strategic orientation of the bank.¹⁸ All institutions evaluate the performance of RMs—and thus set their compensation—on the basis of the profitability of the relationships in question, although the methods of assessing profitability and determining compensation vary. Even when profitability measures are not risk-sensitive, ratings assigned by an RM can affect his or her compensation.¹⁹ Thus, in the absence of sufficient controls, RMs may have incentives to assign ratings in a manner inconsistent with the bank's interests.

The credit staff is responsible for approving loans and the ratings assigned, especially in the case of larger loans; for monitoring portfolio credit quality and sometimes for regular review of individual exposures; and sometimes for directly assigning the ratings of individual exposures. The credit staff is

genuinely independent of sales and marketing functions when the two have separate reporting structures (that is, "chains of command") and when the performance assessment of the credit staff is linked to the quality of the bank's credit exposure rather than to loan volume or business line or customer profitability. Some banks apportion the credit staff across specific line-of-business groups. Such arrangements allow for closer working relationships but in some cases lead to linkage of the credit staff's compensation or performance assessment with profitability of the business line; in such cases, incentive conflicts like those experienced by RMs can arise. At other banks, RMs and independent credit staff produce ratings as partners and are held jointly accountable. Whether such partnerships are effective in restraining incentive conflicts is not clear.

The primary responsibility for rating assignments varies widely among the banks we interviewed. RMs have the primary responsibility at about 40 percent of the banks, although in such cases the credit staff may review proposed ratings as part of the loan approval process, especially for larger exposures.²⁰ At 15 percent of interviewed banks the credit staff assigns all initial ratings, whereas the credit staff and RMs rate in partnership at another 20 percent or so. About 30 percent of interviewed banks divide the responsibility: The credit staff has sole responsibility for rating large exposures, and RMs alone or in partnership with the credit staff rate middle-market loans. In principle, both the credit staff and RMs use the same rating definitions and basic criteria, but the different natures of the two types of credit may lead to some divergence of practice.

A bank's business mix appears to be a primary determinant of whether RMs or the credit staff are primarily responsible for ratings. Those banks we interviewed that lend mainly in the middle market usually give RMs primary responsibility for ratings. Such banks emphasized informational efficiency, cost, and accountability as key reasons for their choice of organizational structure. Especially in the case of loans to medium-size and smaller firms, the RM was said to be in the best position to appraise the condition of the borrower on an ongoing basis and thus to ensure that ratings are updated in a timely manner. Requiring that the credit staff be equally well informed adds costs and may introduce lags into the process by which ratings of such smaller credits are updated.

17. If those asked to provide signatures believe that a loan should be assigned a riskier internal rating than initially, additional signatures may be required in accordance with policy requirements. Thus, disagreement over the rating can alter the approval requirements for the loan in question.

18. Lines of business may be defined by the size of the business customer (such as large corporate), by the customer's primary industry (such as health care), or by the type of product being provided (such as commercial real estate loans).

19. For example, because loan policies often include size limits that depend on ratings, approval of a large loan proposed by an RM may be much more likely if it is assigned a relatively low risk rating.

20. At most banks, RMs have signature authority for relatively small loans, and the credit staff might review the ratings of only a fraction of small loans at origination.

The institutions at which an independent credit staff assigns ratings tend to have a substantial presence in the large corporate market. Placing the rating process primarily in the hands of the credit staff offers greater assurance that grading will be purely on the basis of risk, without coloration by possible ramifications for customer or business line profitability. In addition, because the credit staff is small relative to the number of RMs and is focused entirely on risk assessment, it is in a better position to achieve consistency in its ratings (that is, to assign similar grades to similarly risky loans, regardless of their other characteristics). Moreover, the costs of having the credit staff perform all analysis are small relative to the revenues generated by large corporate loan transactions. In contrast, such costs can be large relative to the transaction revenues for middle-market loans.

Our impression is that middle-market lending represents a much larger share of the business of banks we did not interview. If the pattern described above holds, the proportion of all large banks using RM-centered rating processes is probably higher than among our interviewees. Unfortunately, policy documents for those we did not interview generally do not reveal details of this aspect of the process.

Almost all the banks we interviewed are at least experimenting with consumer-loan-style credit scoring models for small commercial loans. For exposures smaller than some cutoff value, such models are either a tool in the rating process or are the sole basis for the rating. If, however, models are the sole basis, performing loans are usually assigned to a single grade on the internal rating scale rather than making grade assignments sensitive to the score value.

How Do They Arrive at Ratings?

Both assigners and reviewers of ratings follow the same basic thought process in arriving at a rating for a given exposure. The rater considers both the risk posed by the borrower and aspects of the facility's structure. In appraising the borrower, the rater gathers information about its quantitative and qualitative characteristics, compares them with the standards for each grade, and then weights them in choosing a borrower grade. The comparative process often is as much one of looking across borrowers as one of looking across characteristics of different grades: That is, the rater may look for already-rated loans with characteristics close to those of the loan being rated and then set the rating to the grade already assigned to such borrowers.

Models and Judgment

Although in principle the analysis of risk factors may be done by a mechanical model, in practice the rating process at almost all banks relies heavily on judgment. We suspect most banks are hesitant to make models the centerpiece of their rating systems for three reasons: (1) Different models would be required for each asset class and perhaps for different geographic regions; (2) data to support estimation of such models is currently rarely available; and (3) the reliability of such models would become apparent only over time, exposing the bank to possibly substantial risks in the interim. Those few banks moving toward heavy reliance on models appear to feel that models produce more consistent ratings and that, in the long run, operating costs will be reduced in that less labor will be required to produce ratings.

As part of their judgmental evaluation, most of the banks we interviewed either use statistical models of borrower default probability as an input (about three-fourths do so) or take into consideration any available agency rating of the borrower (at least half, and probably more, do so). Such use of external points of comparison is common for large corporate borrowers because they are most likely to be externally rated and because statistical default probability models are more readily available for such borrowers. In addition, as described further below, many banks use external ratings or models in calibrating their rating systems and in identifying likely mistakes in grade assignments.

Factors Considered

Bank personnel base their decisions to assign a particular rating on the criteria that define each grade, which are articulated as standards for a number of specific risk factors. For example, a criterion for assignment of a grade "3" might be that the borrower's leverage ratio must be smaller than some value. Risk factors include the borrower's financial condition, size, industry, and position within the industry; the reliability of the borrower's financial statements and the quality of its management; elements of transaction structure (for example, collateral); and miscellaneous other factors. The risk factors are generally the same as those considered in deciding whether to extend a loan and are similar to the factors considered by rating agencies. Banks vary somewhat in the particular factors they consider and in the weight they give each factor. What follows is a

description of the factors considered by a typical bank among those we interviewed.²¹

Financial statement analysis is central to appraising the likely adequacy of future cash flow and thus the ability of the borrower to service its debt. The focus of analysis is on the borrower's debt service capacity, taking account of its free cash flow, the liquidity of its balance sheet, and the firm's access to sources of finance other than the bank. Historical (and to a lesser extent, projected) earnings, operating cash flow, interest coverage, and leverage are typically analyzed, with exact definitions of financial ratios used in the analysis varying across banks and, in some cases, across borrowers or loan types. The analysis yields an assessment of the difference between current or projected performance and liquidity on the one hand and projected debt service obligations on the other. The larger the cushion, in general, the more favorable the rating.

As a context for financial statement analysis, the characteristics of the borrower's industry are often considered (such as cyclical, general volatility, and trends in cash flow and profitability). Indeed, the financial analysis often includes a formal comparison of the borrower's financial ratios to prevailing industry norms.²² Firms in declining industries are considered more risky, as are those in highly competitive industries, whereas firms with diversified lines of business are viewed as less risky. A related factor, the borrower's position in its industry, is also an important factor in determining ratings. Those borrowers with substantial market power or that are perceived to be "market leaders" in other respects are considered less risky because they are thought to be less vulnerable to competitive pressure.

One of the most important reasons that rating is usually a judgmental process is that the details of financial statement analysis vary with the borrower's other characteristics. In contrast, statistical models of default probability tend to analyze fixed sets of financial ratios and to apply fixed weights to each ratio in arriving at a default probability, perhaps with some variation in weights by industry. Subjective factors play at most a minimal role. This relative inflexibility

of models leads most banks to regard their results only as generally suggestive of an appropriate rating. When internal ratings are produced primarily by models, several models may be needed for different borrowers or loan types and continual tuning of the models is likely to be required.

Raters also appraise the quality of financial information provided by the borrower. For example, raters have much more confidence in financial statements that are audited by a major accounting firm than in those that are compiled or unconsolidated or that are audited but accompanied by important qualifications. When statement quality is poor or uncertain, financial analysis may produce a distorted view of the borrower's condition, adding substantially to risk.

A primary difference between banks and public rating agencies is whether the financial analysis is keyed to a downside (or "stress") scenario or to a "base" (or "most likely") case. As noted previously, banks assign ratings on the basis of the borrower's current condition and most likely outlook, whereas the rating agencies assign grades on the basis of a downside scenario.

In another departure from practice at the rating agencies, most banks formally consider both firm size (sales revenue or total assets) and the book or market dollar value of a firm's equity in assigning ratings. Interviewees noted that small firms—including many that would be considered middle market—usually have limited access to external finance and often have few or no assets that can be sold in an emergency without disrupting operations. In contrast, larger firms were characterized as having more ready access to alternative financing, more saleable assets, and a more firmly established market presence. For these reasons, many banks require that small borrowers be assigned relatively risky grades even if their financial characteristics might suggest a more favorable rating.

Almost all internal rating systems cite the borrower's management as an important consideration in assigning the risk grade. Such assessments are necessarily subjective and may reveal weaknesses in a number of areas related to competence, experience, integrity, or succession plans. Vulnerability of management to the retirement or departure of key individuals is usually considered. Some institutions (similar to the rating agencies) appear to give considerable weight to the rater's appraisal of management's ability and willingness to manage the firm to achieve a high level of financial performance throughout the business cycle and to its attitude toward protecting the interests of lenders.

21. We reviewed the *written* criteria for those banks among the fifty largest that we did not interview. Our experience with interviewed banks indicates that conclusions should be drawn with care from written documents alone. However, the description of risk factors herein is probably representative of the factors used by almost all large banks.

22. Staff at the banks interviewed appeared to be well aware of the potential pitfalls of such comparisons. For example, a borrower with a five-year history of stable cash flow might still be considered rather risky if the particular five-year period contained no recession and the borrower's industry is highly cyclical.

The borrower's country of domicile or operations is an important determinant of the rating in some cases. Especially when transfer risk or political risk is substantial, general practice seems to be that a borrower's grade may be no less risky than the grade assigned to the borrower's country by a special unit in the bank. Such country grades can be significantly affected by the country risk grade assigned by regulators as part of an annual cycle.

Ratings may also be influenced by exposure to event risks, such as litigation, environmental liability, or changes in law or national policy.

A handful of considerations reflecting the structure of the transaction being rated also enter into consideration because they can affect LIFED. Adequate collateral can in many cases improve the rating, particularly if that collateral is in the form of cash or easily marketed assets such as U.S. Treasury securities.²³ Guarantees can generally enhance the rating as well, but not beyond the rating that would be assigned to the guarantor if it were the borrower. The term to maturity of the loan is a factor in grade assignments at only a few large banks. Similarly, few banks adjust the risk grade on the basis of other elements of the loan structure, such as financial covenants.

Written and Cultural Definitions

Large banks' written definitions of ratings specify risk factors to be used in assigning ratings, but usually the discussion is brief and broadly worded, and gives virtually no guidance regarding the weight to place on each factor.²⁴ According to interviewees, such brevity arises partly because some factors are qualitative but also because the specifics of quantitative factors and the weights on factors can differ a great deal across assets. Some noted that the number

of permutations is so great that attempting to write them down would be counterproductive. Instead, raters learn to exercise judgment in selecting and weighting factors through training, mentoring, and especially by experience. The actual meanings of *written* rating definitions and the specifics of assigning ratings take the form of common, *unwritten* knowledge embedded in the bank's credit culture.

Formalizing the Process

Most banks require some sort of written justification of the grade as part of the loan approval package, but a few employ forms or grids on which the rater identifies the relevant factors. Such forms or grids may also suggest a structure for the rating analysis and serve to remind the rater to consider a broad set of risk factors and to weight them appropriately. The stated motivation for such formalism is better consistency across asset types and geographic regions.

Reviews, Revisions, and the "Keeping of the Flame"

Reviews of ratings are threefold: Monitoring by those who assign the initial rating of a transaction, regularly scheduled reviews of ratings for groups of exposures, and occasional reviews of a business unit's rating assignments by a loan review unit. Monitoring may not be continuous, but it is intended to keep the rater well enough informed to recommend changes to the internal risk grade in a timely fashion as needed. All institutions interviewed emphasized that failure to recommend changes to risk grades in a timely fashion when warranted is viewed as a significant performance failure for the relationship manager, the credit staff, or both, and can be grounds for internally imposed penalties.²⁵

Most institutions also conduct annual or quarterly reviews of each exposure, which may be in addition to those that are part of the credit approval process at the time facilities are renewed. The form of regular reviews ranges from a periodic signoff by the relationship manager working alone to a committee review involving both line and credit staff. Banks with substantial large-corporate portfolios tend to review all exposures in a given industry at the same time, with reviews either by the credit specialist for that industry or by a committee. Such industry

23. Different rules are often used in grading certain classes of transactions, especially asset-based lending. At best, asset-based borrowers would be only marginally acceptable risks for banks in the absence of the detailed field audits of collateral that asset-based lenders demand. With such close monitoring, which typically includes some degree of bank dominion over accounts receivable and inventory, the expected loss associated with a default is dramatically reduced, and a more favorable rating can be assigned.

24. Written definitions are intended to address a broad range of credit classes and borrower types. At a few banks, a supplementary grid of nonbinding quantitative standards or financial ratios is provided (for example, for leverage or debt service coverage), but guidance is generally sketchy as to how such ratios should be weighted against each other or against more qualitative considerations. Interviewees indicated that even when reference grids are provided, the ratios and standards are generally not binding. Similarly, some banks provide supplemental descriptions of risk factors to be considered for particular business lines or loan types, but such supplements often closely resemble the core risk rating definitions.

25. Updates to the risk grade usually require approvals similar to those required to initiate or renew a transaction.

reviews were said to be especially helpful in revealing inconsistently rated credits.

Ratings are also checked by banks' independent loan review units, which usually have the final authority to set grades. Such departments examine each business unit's underwriting practices, and its adherence to administrative and credit policies, on a one- to three-year cycle. Not unlike bank examiners, the loan review staff typically inspects only a sample of loans in each line of business. Although the sampling procedures used by different institutions vary somewhat, most institutions weight samples toward loans perceived to be riskier (such as those in high-risk loan grades), with the primary focus on regulatory problem-asset categories. In general, however, an attempt is made to review some loans made by each lender in the unit being inspected.²⁶

At a few banks, the loan review unit inspects internal ratings assigned to Pass loans only to confirm that such loans need not be placed in the watch or regulatory grades. Thus, as a practical matter, the loan review unit at these banks has little role in maintaining the accuracy of assignments within the Pass grades. In this regard, the loan review staff at these banks follows the same pattern as bank examiners. These banks tend to make relatively little use of Pass grade information in managing the bank.

Because operational rating definitions and procedures are embedded in bank culture rather than written down in detail, the loan review function at most institutions is critical to maintaining the discipline and consistency of the overall rating process. The loan review unit, as the principal entity looking at ratings across business lines and asset types, often bears much of the burden of detecting discrepancies in the operational meaning of ratings across lines.

Because the loan review unit at most institutions has the final say about ratings, it can exert a major influence on the culturally understood definition of grades.²⁷ Typically, when the loan review staff finds grading errors, it not only makes corrections but works with the relevant staff to find the reasons for

the errors. Misunderstandings are thus corrected as they become evident.²⁸

Loan review units generally do not require that all ratings produced by the line or credit staff be identical to the ratings that loan review judges to be correct. At almost all banks we interviewed, loan review units treat only two-grade discrepancies for individual loans as warranting discussion. With a typical large bank having four to six Pass categories, such a policy permits large discrepancies for individual exposures, potentially spanning two or more whole letter grades on the Standard & Poor's scale. However, most institutions interviewed indicated that a pattern of one-grade disagreements within a given business unit—for example, a regional office of a given line of business—can lead to a quick and decisive response.

All interviewees emphasized that the number of cases in which the loan review staff changes ratings is usually relatively small, ranging from essentially none to roughly 10 percent of the loans reviewed, except in the wake of large cultural disruptions such as mergers or major changes in the rating system. A low percentage of discrepancies does not imply that the loan review function is unimportant but rather that, in well-functioning systems, the cultural meaning of ratings tends to remain stable and widely understood. One element of a well-functioning system is the rater's expectation that the loan review staff will be conducting inspections.

The interviews also indicated that differences of opinion tend to become more common when the number of ratings on the scale is greater, creating more situations in which "reasonable people can disagree." More direct linkage between the risk grade assigned and the incentive compensation of relationship managers also tends to produce more disagreements. In both cases, resolution of disagreements may consume more resources.

Loan review units usually have a role apart from inspections in maintaining rating system integrity. For example, when a relationship manager and the credit staff are unable to agree on a rating for a new loan, they will consult with the loan review unit on how to resolve the dispute. In its consultative role, the loan review staff guides the interpretations of rating definitions and standards and, in novel situations, establishes and refines the definitions.

26. For an analysis of the broader role of loan review units, see Udell, *Designing the Optimal Loan Review Policy*; and Gregory F. Udell, "Loan Quality, Commercial Loan Review, and Loan Officer Contracting," *Journal of Banking and Finance*, vol. 3 (July 1989), pp. 367–82.

27. Interviews and discussions with supervisory staff suggest, however, that the notion of "final say" is murkier than suggested by written policy and stated practice. Important informal elements of rating processes, such as negotiation among various organizational units, may lead to a consensus rating or understanding. Such negotiation would not compromise the integrity of the rating system so long as loan review retains its independence and objectivity. Such informal understandings might make it more difficult, however, for an outsider to understand (much less validate) the ratings being assigned.

28. The loan review staff generally uses the same definitions of risk grades, at the same level of detail, as relationship managers and the independent credit staff. At a few banks, however, loan review also relies on older policy documents that are far more detailed than current policies. Thus, the older, more specific policies remain essentially in effect.

Because of its central role in maintaining the integrity of the rating system, the loan review unit must have both substantial independence and staff members who are well versed in the bank's credit culture and the meaning of ratings. All loan review units at banks we interviewed report to the chief auditor or chief credit officer of the bank, and many periodically brief the board (or a committee thereof) on the results of their reviews.

Loan review units may be less critical to the integrity of rating systems at banks that are primarily in the business of making large corporate loans and at which all exposures are rated by a relatively small, highly independent credit staff. Although few banks currently fit this description, they provide an interesting contrast. Such banks' credit units tend to conduct the annual industry-focused reviews mentioned previously and thus are likely to detect rating discrepancies. Having such reviews conducted by broadly based committees rather than only by industry specialists tends to restrain any drift in the meaning of ratings as applied to different industries. In such circumstances, the small credit staff is in a good position to function as the "keeper of the flame" with regard to the credit culture because it essentially carries out the key rating oversight functions of traditional loan review units.

Rating Systems and Credit Culture

"Credit culture" refers to an implicit understanding among bank personnel that certain standards of underwriting and loan management must be maintained, even in the face of constant pressures to increase revenues and bring in new business. Maintenance of a credit culture can be difficult, especially at very large banks serving many customers over a wide area. Of necessity, substantial authority must be delegated to mid-level and junior personnel, and undue relaxation of standards may not appear in the form of loan losses for some time.

At some of the banks we interviewed, senior managers indicated that the internal rating system is at least partly designed to promote and maintain the overall credit culture. At such banks, relationship managers are held accountable for credit quality partly by having them rate all credits, including large exposures that might be more efficiently rated by the credit staff. Strong review processes aim to identify and discipline relationship managers who produce inaccurate ratings. Such a setup provides strong incentives for the individual most responsible for negotiating with the borrower to assess risk properly

and to think hard about credit issues at each stage of a credit relationship rather than relying entirely on the credit staff. An emphasis on culture as a critical consideration in designing the rating system was most common among institutions that had suffered serious problems with asset quality in the past ten or fifteen years.

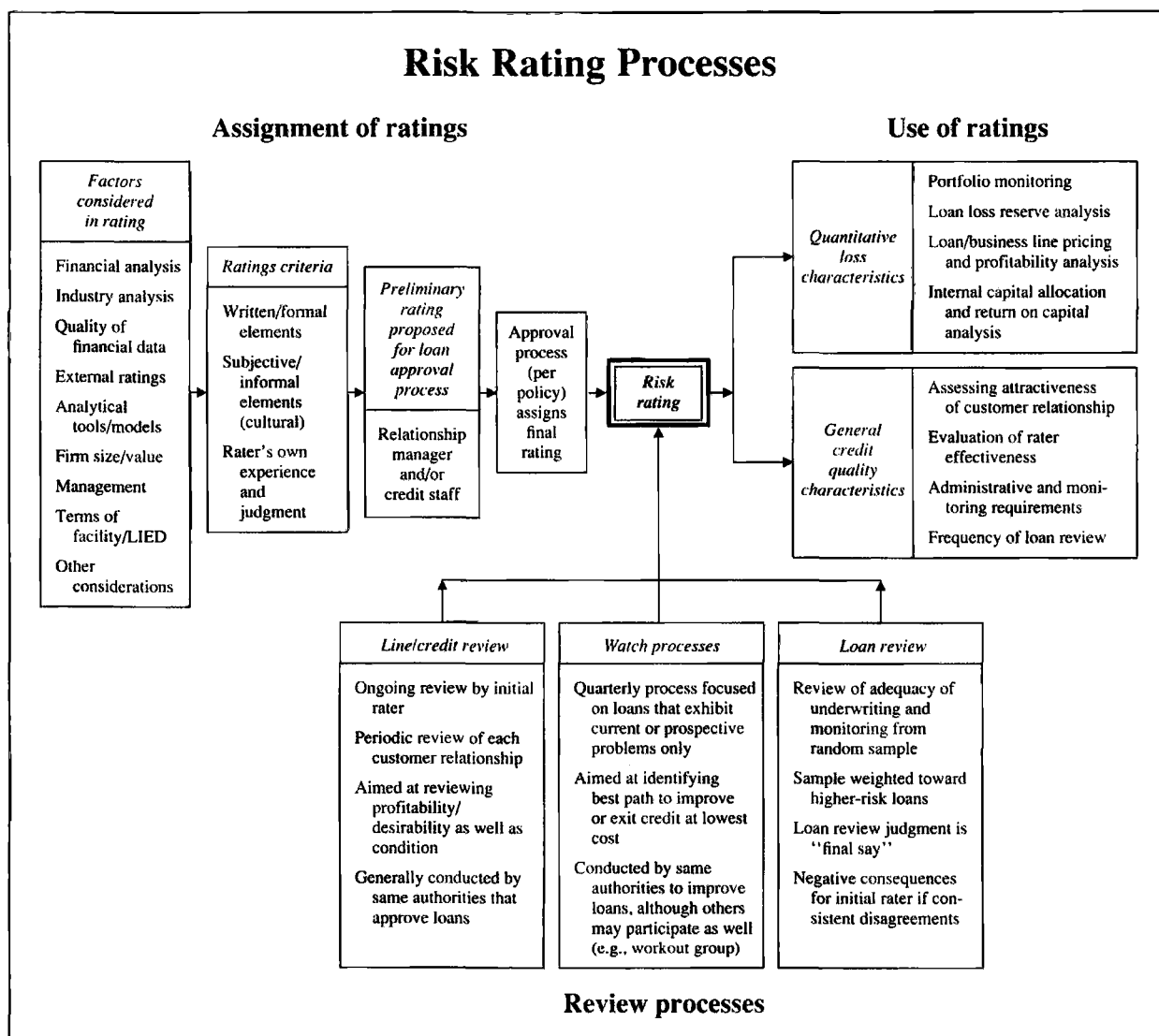
Tensions can arise when rating systems both maintain culture and support sophisticated modeling and analysis. As noted, the latter applications introduce pressures for architectures involving fine distinctions of risk, and the frequency of legitimate disagreements about ratings is likely to be higher when systems have a large number of Pass grades. If not properly handled by senior management and the loan review unit, a rating system redesign that increases the number of grades may make cultural norms fuzzier and the rating system less useful in maintaining the credit culture.

Mergers and Expense Pressure

Some of our interviews involved banks that had recently been involved in mergers, and the discussions clearly indicated that mergers can cause upheaval in credit processes and systems, credit culture, and traditional sources of rating discipline. After a rating system architecture is chosen for the combined institution, mechanical issues of converting the predecessor banks' ratings to the new scale can be challenging, especially when the predecessors' ratings of the same borrower suggest differing assessments of that borrower's risk. Cultural disruptions arising from the merger are usually even more problematic than the mechanical issues because, as noted, the operational definitions of ratings are a matter of culture. Even if the architecture of one of the predecessors is used as-is, the staff of the other bank must absorb and adjust to the new culture.

Merging institutions face a difficult choice between moving very quickly to convert the ratings of all assets to the new system, in which case stresses are high, and converting the ratings over time, which reduces the intensity of stress but also can reduce the reliability of internal rating information during the longer transition. In one version of the slower transition, which is especially common when a large bank acquires a much smaller bank, all of the acquired bank's performing loans are assigned to the riskiest nonwatch Pass grade. Each loan is then reassigned as appropriate at the time of its next review. Although such a practice may be viewed as conservative, it masks the true risk posture of the bank during the

Diagram 1



transition period. Regardless of the speed of transition, loan review units are under substantial pressure during and immediately after the transition.

Expense control has also been a focus of the banking industry in recent years. The emphasis on economy naturally puts pressure on the resources devoted to operating and maintaining the rating system, and especially to reviews. Although reviews can be curtailed or eliminated in the short run without apparent damage to rating system integrity, inadequate review activity may lead to biased and inconsistent ratings over the longer term. Another possible expense-reduction strategy is to rely more heavily on statistical models in assigning ratings, reducing the degree of judgment and, thus, the amount of labor required to produce each rating. The long-run success of such

a strategy depends on the adequacy of the models, including their ability to incorporate subjective factors and their robustness over the business cycle. Our impression is that, at present, such adequacy is uncertain.

Summary Observations on Operating Design

The rating process has many interlinked elements, as illustrated in diagram 1. At almost all large banks, internal rating systems rely importantly on the judgment of staff operating with relatively little written guidance. The operational definition of each grade is largely an element of credit culture that is determined and communicated by informal means.

Review activities, especially those conducted by loan review units, are crucial for maintaining the culture in that the feedback they give is critical to common understanding and discipline. The credit culture can be disturbed or unbalanced by changes in the incentives faced by the staff; such changes typically arise whenever the rating system is required to support additional functions or uses. The systems of banks at which all ratings are assigned by credit staff are relatively immune to such shocks, but the important role of middle-market loans in most banks' portfolios often makes rating assignment by relationship managers cost-effective. In the latter case, the rating system's resilience to shocks depends to a considerable extent on the loan review unit's ability to detect and correct problems in a timely manner. Strong support of loan review by senior management and boards of directors appears to be quite important.

Points of external comparison, such as agency ratings or results of statistical models of borrower default probability, can be helpful in maintaining the integrity of internal ratings. A few banks are moving toward models as the primary basis for internal ratings. Such an operating design largely removes the problems of culture maintenance and conflicting incentives that make management of judgmental rating systems challenging. However, the ability of models to produce sufficiently accurate ratings for the broad range of assets on the typical large bank's balance sheet remains in question.

BANK SYSTEMS RELATIVE TO RATING AGENCY SYSTEMS

Credit risk ratings have played an important role in capital markets for most of the twentieth century. Ratings of publicly issued bonds were first produced during the early 1900s by predecessors of the current rating agencies Moody's and Standard & Poor's. In the decades after 1920, other agencies, both domestic and foreign, were formed and commenced publication of ratings. Today a variety of instruments are rated, such as commercial paper, bank certificates of deposit, commercial loans, and hybrid instruments.

Agency and bank rating systems differ substantially, mainly because rating agencies themselves make no investments and thus are not a party to transactions between borrowers and lenders. Their revenue comes from the sale of publications and from fees paid by issuers of debt. Such fees can be substantial: S&P's fee for rating a public corporate debt issue ranges from \$25,000 to more than \$125,000, with the usual fee being 0.0325 percent of the face amount of the issue. Fees are a reflection of the substantial

resources the agencies typically devote to producing each rating, especially the initial rating.

At banks, the costs of producing ratings must be covered by revenues on credit products. Thus, although a bank might expend resources at a rate similar to that of the rating agencies when underwriting and rating very large loans, the expenditure of so much labor for middle-market loans would make the business unprofitable.

Agency ratings are used by a large number and variety of parties for many different purposes. To ensure wide usage (and thus their ability to collect fees), the agencies strive to be deliberate, accurate, and evenhanded. They also produce relatively fine distinctions of risk on rating scales having architectures and meanings that are stable over time. Accuracy and evenhandedness are crucial to the rating agency business—for example, an agency suspected of producing the most favorable ratings for those that pay the highest fees would soon be out of business: Investors would cease paying attention to its ratings, and issuers would thus have no incentive to pay.

Similarly, changing the rating scale can confuse the public and at least temporarily degrade the value of an agency's product. The agencies also have incentives to be relatively open about their process and to produce written explanations of each rating assignment or change. Clarity helps investors use the ratings and helps assure issuers that the process is as objective as possible.

At banks, ratings are kept private, and the costs and benefits of rating systems are internal; hence, pressures for accuracy, consistency, and fine distinctions of risk are mainly a function of the ways in which ratings are used in managing the portfolio. Moreover, the rating system can be tailored to fit the requirements of the bank's primary lines of business and can be restructured whenever the internal benefits of doing so exceed the costs.

Agencies and banks both consider similar risk factors, and both rely heavily on judgment and cultural elements rather than on detailed and mechanical guidance and procedures. However, the agencies publish supplementary descriptions of rating criteria that are much more detailed than banks' internal guidance, partly because agency ratings must be understood by outsiders. In addition, the agencies track the financial characteristics of borrowers receiving their ratings and publish both default histories for each grade and financial profiles of the "typical" borrower in each grade, thus providing additional referents to outsiders seeking to understand the meaning of their ratings.

Agencies have nothing comparable to a bank's loan review unit. The rating culture at agencies is

maintained instead by a combination of market discipline and a committee system. Market discipline arises because the agencies stand between investors and issuers, with the former typically preferring conservative ratings and the latter preferring optimism. Thus, the agencies quickly hear from investors or issuers about any perceived tendency toward excessive optimism or pessimism. Although a single agency analyst is primarily responsible for proposing a rating, committees make the final determinations. The membership of a committee changes from one rating action to the next so that agency staff members participate in many rating decisions and a cultural understanding of the meaning of each grade is maintained.

BANKS' ATTEMPTS TO MEASURE LOSS CHARACTERISTICS BY GRADE

Consistent and accurate rating assignments and reliable quantitative estimates of the risk associated with each internal grade are useful in a bank's efforts to analyze risk posture, establish its appetite for risk, and evaluate the effectiveness of its risk rating criteria. At most banks, however, the primary demands for quantitative information about PD, LIED, and EL have come from those involved in the loan loss reserve process and from credit modeling groups (those building and implementing quantitative models of portfolio risk, capital allocation, profitability, and pricing). Internal ratings are key inputs into such processes. Empirical analysis of loss characteristics by grade appears to be an area where industry practice is developing rapidly.

Problems in Evaluating the Accuracy and Consistency of Ratings

If internal ratings are to be accurate and consistent in terms of the system's loss concepts (that is, PD, LIED, or EL), different assets posing a similar level of risk should receive the same grade. Such quantities are not observable *ex ante*, however, and thus rating systems rely on criteria that are thought to predict loss. Accuracy and consistency require that rating criteria be adjusted as necessary to ensure that exposures posing similar risk are grouped together (diagram 2 illustrates what is involved in the adjustment process).

As a practical matter, alignment of the *ex ante* rating criteria to achieve accuracy and consistency in the economic meaning of each rating—that is, quan-

titative loss characteristics—is a difficult task. Two problems arise: How to ensure that criteria are calibrated so that different assets of the same general type in the same grade have the same loss characteristics, and how to address diversity among asset types. Within a narrowly defined asset class, such as loans to large commercial firms in the same industry, comparisons across firms are relatively manageable, so the main problem is defining the boundaries of rating categories and inferring the default or loss rates for each category. That by itself is not easy, but the problem becomes much more difficult when very different types of assets must be compared. For example, how would a loan to a well-established commercial real estate developer, featuring a 70 percent loan-to-value ratio, compare with a term loan to a firm in a relatively stable manufacturing industry with a current debt to equity ratio of 1:1 and an interest coverage ratio of 3?

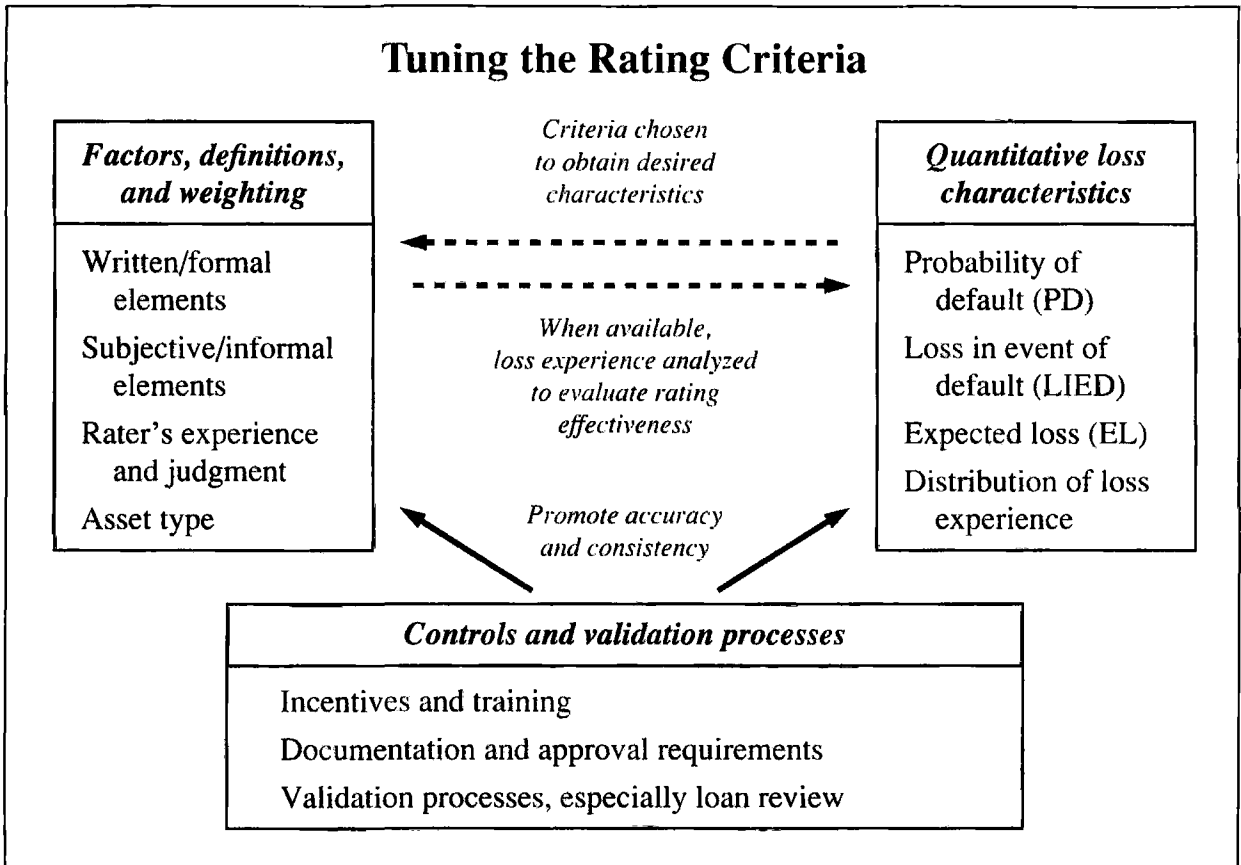
Because the rating criteria differ so greatly for different asset classes, some information about the relationship of borrower and asset characteristics to historical loss experience would appear to be necessary. Especially with loss experience data covering a fairly long period of time, say a couple of credit cycles, it would be possible to make at least rough inferences about relative risks across asset classes.

Unfortunately, to the best of our knowledge, few if any banks have available the necessary data, especially for a variety of asset classes. At a minimum, information on the performance of individual loans and their rating histories is required. Because rating criteria have changed over time at most large institutions, information about borrower and loan characteristics is also required, so that the risk implications of different rating criteria can be assessed.

Historically, banks have retained performance data by loan type (for example, data provided on Call Reports) or by line of business in the aggregate, but not by risk grade. Because of mergers, even at banks that have tracked performance by grade, data may not cover the whole of the current institution but rather only one predecessor institution. Mergers often cause upheaval not only in rating processes but also in data systems and, in particular, contribute to the loss or obsolescence of historical data.

Although data collection is costly, many large banks have recognized its importance and have begun projects to build databases of loan characteristics and loss experience. However, the costs of extracting from archival files historical data on the performance of individual loans appear to be prohibitively high. Thus, those banks that are collecting data indicated that they are several years away from having data

Diagram 2



sufficient to support empirical analyses of their own portfolios that are comparable to the studies being done for publicly issued bonds.²⁹

In the absence of data, our impression is that the traditional means of tuning both rating criteria and underwriting standards relies heavily on the judgment and experience of the senior credit staff with long tenure at their institution. Over a period encompassing multiple credit cycles, these staff members accumulate an individual and collective memory of

the credit problems experienced by the institution and of the implications for risk of various borrower and loan characteristics. Such experience is likely sufficient to support meaningful tuning of rating systems that have small numbers of Pass grades (each covering a broad band of risk) and that are used to rate traditional banking assets. The precision with which systems involving a large number of Pass grades can be tuned by experience alone is not clear.

Mapping to Agency Grades as a Partial Solution

Because little information is available internally, many banks have estimated the quantitative loss characteristics of their ratings by using the extensive data available on the loss performance of publicly issued bonds. As noted, rating agencies and others frequently publish studies covering many years of bond default and loss experience by grade, and publicly available databases of bond issuer characteristics make it possible to relate loss experience to potential

29. The situation is somewhat better with respect to loss in the event of default (LIED) in that historical studies require information only on the bad assets. Often their number is small enough that gathering data from paper files is feasible, and thus many banks are beginning to accumulate LIED information from their own portfolio experience. A few publicly available studies have also appeared. Estimating PD and EL requires much more data in that information on both performing and nonperforming assets are required. Studies with LIED statistics include Lea V. Carty and Dana Lieberman, *Special Report: Defaulted Bank Loan Recoveries* (Moody's Investors Service, 1996); Elliot Asarnow and David Edwards, "Measuring Loss on Defaulted Bank Loans: A 24-Year Study," *Journal of Commercial Lending*, vol. 77 (March 1995), pp. 11-23; and Society of Actuaries, *1986-92 Credit Risk Loss Experience Study: Private Placement Bonds* (Society of Actuaries, Schaumburg, Ill., 1996).

Mappings and the Problem of Different Architectures

Both banks and rating agencies assign ratings based on criteria that are predictive of a borrower's probability of default (PD) or a loan's expected loss (EL). However, because no mechanical formula exists that converts criteria into values of PD or EL for each grade, such values must be obtained from historical loss experience. As noted, banks rarely have databases of such experience, but the major rating agencies do. A mapping of internal grades to agency grades permits a bank to use statistics from the agencies' bond default studies to assign values of PD to each of its internal grades.

For simplicity, we focus here only on PD. Four problems can cause a mapping to lead to a materially inaccurate estimate of PD for internal grades:

(1) A bank's rating system may place loans with widely varying levels of PD into the same grade and similar levels of PD into different grades. In this case, grades bear little relation to PD values and thus mapping will not provide good estimates of PD.

(2) Default rates on publicly issued bonds may differ systematically from loan default rates.

(3) The mapping exercise may simply associate the wrong agency grades with internal grades.

(4) The implications of differences between banks' point-in-time and agencies' through-the-cycle rating philosophies may not be taken into account.

Even when the first three problems do not apply, the fourth, which is a characteristic of the most common mapping approach, can produce materially biased estimates of PD for internal grades. Such bias can confuse attempts to tune rating criteria and can seriously distort internal analysis of business line profitability, loan loss reserves, and capital allocation.

Bias arises in the most common approach to mapping because bank internal ratings change as the borrower's condition changes, whereas the PD associated with each internal grade is stable. In contrast, agency ratings tend to stay the same, while default probabilities for each rating vary with the economic cycle. Thus, mapping exercises should take into account the current point of the economic cycle and should draw default rates from the agencies' historical studies for similar points in prior cycles.

The fourth problem is illustrated here with an example: Suppose that a hypothetical large bank, BigBank, has an

I. BigBank's Pass rating scale

Grade	True PD for rating system, but precise values not known to bank (percent)
1—Virtually no risk	0
2—Low risk .....	.10
3—Moderate risk .....	.25
4—Average risk	1.00
5—Acceptable risk	2.00
6—Borderline risk	5.00

internal rating system with six Pass grades, and suppose it has two hypothetical borrowers, OK Corp. and Less-OK Corp. To focus on the point-in-time vs. through-the-cycle issue, suppose we know that BigBank's rating criteria and rating system will always group borrowers with similar values of PD into the same grade, that the "true" PD for each grade is as shown in table I, and that BigBank does not know the values of PD associated with its grades. Similarly, as shown in the top section of table II, the true PD for OK Corp. is 1 percent in upturns and 2 percent in downturns, whereas Less-OK Corp.'s true PD is 3 percent during upturns and 6 percent in downturns. However, because neither BigBank nor the rating agencies know these true PD values, they rate on the basis of observable borrower characteristics.

Having no data on its historical loss experience, BigBank maps its internal grades to agency grades simply by identifying the agency ratings assigned to those borrowers with such ratings in each internal grade. BigBank then uses the corresponding *long-term historical average one-year default rate* identified in agency default studies as an estimate of the *expected one-year default rate* for all loans in each internal grade.

II. Borrowers used for mapping, and their characteristics

Characteristic	Borrower	
	OK Corp.	Less-OK Corp.
PD in upturns	1 percent	3 percent
PD in downturns	2 percent	6 percent
BigBank rating in upturns	4—Average risk	5—Acceptable risk
BigBank rating in downturns	5—Acceptable risk	6—Borderline risk
Agency ratings (stable through cycle)	BB or Ba	B+ or B1

rating criteria. Indeed, S&P occasionally publishes tables of indicative or average financial ratio values by grade (while noting that many other factors enter into its rating decisions).

To use data on bond loss experience, a bank must develop or assume some correspondence between agency ratings and its own internal grades. Inter-

views suggest that the basis of such mappings is threefold: (1) The internal grades assigned to borrowers who have also issued publicly rated bonds; (2) analysis of the "typical" financial characteristics of bank borrowers in each internal grade vis-à-vis the characteristics of the firms with bonds in each agency grade; and (3) subjective analysis.

Mappings and the Problem of Different Architectures—Continued

Because it rates on a point-in-time basis, BigBank does not allow the PD values for each grade to vary through the economic cycle; loans whose one-year PDs increase in cyclical downturns are downgraded to a riskier internal grade. As shown in the middle section of table II, BigBank assigns ratings that are appropriate for varying risk: It rates OK Corp. a 4 in upturns and a 5 in downturns, and it rates Less-OK Corp. one grade worse—a 5 in upturns and a 6 in downturns. The rating agencies' are similarly accurate in their assessment of risk (bottom section of table II), but because they rate through the cycle (that is, according to the borrower's condition when under stress), they rate OK Corp. as BB/Ba and Less-OK Corp. as B/B in both upturns and downturns.

Suppose that BigBank conducts its mapping exercise during an upturn. As shown in the top section of table III, it will assume that its grade 5 is equivalent to the agencies' B grades because Less-OK Corp. is in relatively good shape during upturns and achieves a point-in-time internal rating of 5 even though its through-the-cycle agency grade is B. BigBank should infer the PD for grade 5 from the average default frequency of B-rated public bonds *only in upturns*, which is the good-year average of 4 percent (table III); but if it follows common practice it will use the *overall* average default frequency of B-rated bonds, which is 5.5 percent.

Next, suppose BigBank conducts its mapping exercise during a downturn. As shown in the bottom section of table III, it will assume that its grade 5 is equivalent to BB/Ba because OK Corp. will be rated 5 (Less-OK Corp. is downgraded to 6 during downturns). BigBank should infer the PD for grade 5 from the *bad-year* average PD of BB/Ba rated bonds (2 percent), but instead it uses the *overall* average of 1 percent.

III. BigBank mapping and PD estimation exercise based on borrower ratings

Period of mapping	Internal grade	Equivalent agency grade	Average one-year PD for bonds		
			Overall	Good year	Bad year
Upturn	4	BB/Ba	1.00	.75	2.00
	5	B/B	5.50	4.00	6.50
	6	...	...	...	...
Downturn ...	4	BB/Ba	1.00	.75	2.00
	5	B/B	5.50	4.00	6.50
	6	...	...	...	...

... Not applicable.

In this example, BigBank's and the agencies' rating systems both do an excellent job of assigning ratings that are consistent with the borrower's true PD, but mapping without regard to the difference between point-in-time vs. through-the-cycle rating causes BigBank to badly misestimate the PD. *Using the most common mapping practices, BigBank might estimate the PD of its grade 5 at 1 percent to 5.5 percent, whereas the true PD of grade 5 is 2 percent.* If the mapping is done simplistically, as in this example, and during an upturn, BigBank likely overestimates the PD, whereas during a downturn it likely underestimates the true value. If BigBank had used average default frequencies from the agencies' studies that were appropriate to the point in the cycle at which the mapping was done, it might still have obtained inaccurate estimates, but they would have been closer to the truth. BigBank might still have been somewhat uncertain about whether to consider category 5 as equivalent to BB/Ba or B, but any such equivalence can never be exact because BigBank's scale and the agency scales have different conceptual foundations.

We consider the numbers in the example to be fairly realistic and thus the mis-mapping problem at most banks to be potentially serious. The problem of mis-estimated PDs is much more important at the higher-risk end of rating scales. Precision is especially important at that end because differences in reserve and capital allocations can be large, whereas dollar differences in allocations across different classes of low-risk assets are typically small. In addition, default studies and other analyses tend to show that variations in one-year default rates on investment-grade assets tend to be driven by idiosyncratic factors rather than the credit cycle.

Mapping processes are further complicated if, over time, a borrower's agency rating is allowed to be the dominant criterion in assigning an internal grade. In general, such a practice would tend to reduce the likelihood that a loan would be appropriately downgraded during a recession—the borrower's agency rating would not change unless its performance or prospects deteriorated more than anticipated in the agency's through-the-cycle risk analysis. This procedure could effectively turn BigBank's ratings into through-the-cycle rather than point-in-time, putting loss estimates potentially out of line with management analyses that assume point-in-time grading.

When mapping is done by comparing the internally assigned grades of publicly rated borrowers with ratings assigned by agencies, the danger of circularity arises. In most cases, agency grades are a rating criterion, and even when agency grades are not written into rating definitions, assigners of inter-

nal ratings always know the agency grade for a given borrower and have an idea of the borrower's likely position on the internal scale. Obviously, if the agency rating is the sole criterion used in assigning internal grades to agency-rated borrowers, rated and unrated borrowers within a given internal grade might

differ substantially in risk. In such circumstances the mapping is circular because borrowers are assigned to internal grades based on the agency rating, and the agency rating corresponding to each internal grade is inferred only from such rating assignments. The banks we interviewed maintain that agency ratings are used only as a starting point in their rating processes, not as the sole criterion.³⁰

Mapping and the Problems Caused by Inconsistent Architectures

Because major agencies rate borrowers with the expectation that the rating will be stable through normal economic and industry cycles, only those borrowers that perform much worse than expected during a cyclical downturn will be downgraded (will “migrate” to riskier grades). In contrast, rating systems that focus on the borrower’s current condition (virtually all bank systems) are likely to feature much more migration as cycles progress but, in principle, should exhibit somewhat less cyclical variation in default rates for each individual grade.

Though apparently subtle, this difference in architectures has important implications for mapping exercises and the inference of PD values for internal grades. Both the point in the economic cycle at which the mapping exercise is done and the exact nature of the PD statistics drawn from the agencies’ studies of long-term default history can have a dramatic effect on the mapping (see box “Mappings and the Problem of Different Architectures”). Values of PD attributed to internal grades can differ by several percentage points depending on how the mapping is done. PDs are most likely to be badly estimated for the higher-risk Pass grades, but precision is also especially important for such grades in that allocated reserves and capital are most sensitive to assumptions about riskier assets.

Obtaining reasonably accurate mappings is mainly a matter of paying attention to the stage of the cycle at which the mapping is being done and of using historical average PD values from either good-experience or bad-experience years as appropriate. However, interviews left us with the impression that few banks carefully consider cyclical issues when mapping their internal grades to agency grades.

30. Even when circularity is avoided, heavy use of bond experience data in defining criteria for each grade might lead to exclusion of criteria needed to capture the risk of unrated borrowers, such as middle-market firms.

AN AGGREGATE BANK RISK PROFILE

Mapping between internal and agency grades facilitates a bank’s quantitative loss analysis and the integration of publicly available information into rating decisions. Such mappings also make possible an estimate of the risk profile of the internally rated portion of bank loan portfolios on a standardized scale. Information about the risk profile of bank credit helps put many rating system issues in perspective.

As part of the analysis leading to this article, we reviewed internal reports showing distributions of rated assets across internal grades for the fifty largest consolidated domestic bank holding companies. In addition, we obtained mappings of internal grades to agency equivalents from twenty-six of them. The mappings allow us to allocate internally rated balances to grades on a rating agency scale. To our knowledge, this is the first time that such a characterization of the overall risk profile of a large portion of the banking industry’s commercial loan portfolio has been possible.

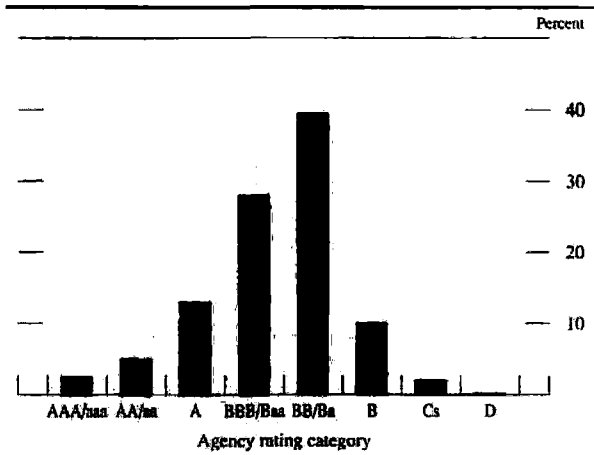
The twenty-six banks accounted for more than 75 percent of aggregate banking industry assets at year-end 1997. Rated loans outstanding at individual large banks usually represent 50 percent to 60 percent of their total loans.³¹

In general, we cannot judge whether the mappings provided by banks are correct. Inaccuracy can arise from errors or inconsistency in assigning the internal ratings themselves, problems of cyclicity or circularity in the mapping process, inconsistencies between large corporate and middle market lines of business, or other difficulties. In addition, mappings at some institutions are more precise in form than at other institutions in that they distinguish among modified agency grades, such as BB and BB+. Still, such mappings are an element of banks’ day-to-day operating procedures and analysis, which suggests that the twenty-six banks have endeavored to make them as accurate as possible within the constraints of their rating systems. It thus appears that aggregation and comparison of these mapped balances represents a reasonable—albeit crude and broad—first approximation of the actual risks in banks’ portfolios.

Chart 3 displays the aggregate weighted-average distribution of internally rated outstanding loans at year-end 1997 for the twenty-six consolidated bank holding companies. About half of aggregate rated loans pose below-investment-grade risks (were rated the equivalent of BB+/Ba1 or riskier), and about 65 percent of outstandings were concentrated around

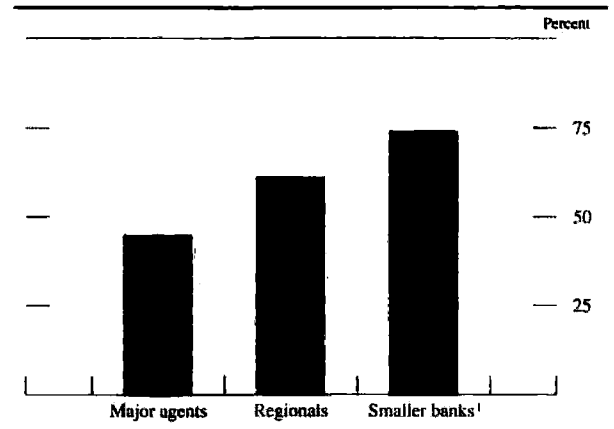
31. Total loans includes consumer loans, which are rarely rated.

3. Percentage of aggregate internally rated outstandings placed in each agency rating category at banks mapping to agency scale, year-end 1997



NOTE: The banks are twenty-six of the fifty largest.

4. Percentage of aggregate internally rated outstandings below investment grade at banks mapping to agency scale, by bank group, year-end 1997



NOTE: The banks are twenty-six of the fifty largest.

1. Less than \$25 billion in total assets. Regionals are those that are not major syndication agents or smaller banks.

the boundary between investment and below-investment grades (rated BBB or BB).

Banks' loan loss experience during 1997 is consistent with the credit quality distribution shown in chart 3. Using the 1997 default frequencies for each grade drawn from S&P's latest annual study and an assumption that the average LIED for loans is about 30 percent, an aggregate portfolio with the quality distribution for the twenty-six banks would be expected to have an annual credit loss rate of roughly 0.20 percent. Although this rate is roughly equal to the actual loan loss experience of the banking industry's aggregate commercial loan portfolio during 1997 (0.21 percent), this simple exercise should not be taken as proof that the distribution in chart 3 is representative; nonetheless, the results are supportive.³²

Chart 4 displays the percentages of internally rated assets that are below investment grade as of year-end 1997 for twenty-six banks in three peer groupings: major loan syndication agents; smaller banks (less than \$25 billion in total assets at year-end 1997); and the remainder of the twenty-six, labeled "regionals" (many other peer groupings are possible, of course). The three peer groups display systematic differences in risk posture. On average, the major agents have 45 percent of rated assets in categories corresponding to BB and riskier, compared with

about 60 percent for regionals and 75 percent for smaller banks.³³

USES OF INTERNAL RISK GRADES

Banks use internal ratings in two broad categories of activity: analysis and reporting, and administration. Analytic uses include reporting of risk postures to senior management and the board of directors; loan loss reserving; and economic capital allocation, profitability measurement, product pricing, and (indirectly) employee compensation. Administrative uses include loan monitoring, regulatory compliance, and credit culture maintenance. In addition, external entities such as investors or regulators may become more significant users of internal ratings information. Different uses place different stresses on the rating system and may have different implications for the internal controls needed to maintain the system's integrity (diagram 1 shows such uses).

Portfolio Reporting

Virtually all large banks report total asset balances in each of the regulatory problem-asset grades to

32. Actual loss experience is measured as the average annualized net charge-off rate for bank loans in the commercial and industrial, commercial mortgage, and agricultural loan categories as reported on the quarterly Report of Condition—or Call Report—filed by all banks.

33. That the fraction of loans posing below-investment-grade risks is much larger at some institutions than at others does not imply a priori that such institutions are operating in an unsafe or unsound fashion. In general, provided a bank is aware of its risk posture, has adequate processes to manage risk, is pricing loans to reflect the risk, and has reserves and capital that are adequate to the risks, a portfolio with a large fraction of below-investment-grade exposures can be safe, sound, and profitable.

senior management and the board of directors. About 80 percent also internally report balances in each of their Pass grades. In the latter case, such reports appear to be used either by management or the credit staff as a means of detecting changes in portfolio mix and are only infrequently shown to boards of directors.³⁴ Balances in the regulatory grades give a sense of the share of bank assets that are troubled, whereas a profile of balances in Pass grades can provide a forward-looking sense of trends in the bank's risk posture so long as Pass grade assignments meaningfully distinguish risks; internal reports are much less informative when a large share of rated assets falls into only one or two Pass grades.

Reserving

Although many accounting and regulatory policies influence the setting of loan loss reserves and provisions, balances in the regulatory grades are integral to reserve analysis at all banks. Supervisors require a specific reserve of at least 50 percent of Doubtful loans plus 20 percent of Substandard loans; banks set the amount of additional reserves for OAEM and Pass loans according to their judgment, subject to evaluation by examiners.³⁵ Many banks develop reserve factors specific to each Pass category. According to accounting and regulatory standards, loan loss reserves are to cover losses already "embedded in the portfolio," and the generally accepted interpretation is that reserves for Pass loans should cover expected losses over a period of one year. Thus, if an institution can identify a reasonable estimate of expected loss for each Pass grade, a reserve analysis sensitive to balances in the different Pass grades provides a good estimate of embedded losses.

A significant number of the banks we interviewed do not differentiate among the Pass grades in performing reserve analysis. In such cases, a single expected-loss (EL) weight is applied to balances in all Pass grades. Such a simplification is least costly in terms of accuracy of the reserve analysis when loan

balances are concentrated in a single category or when the composition of the Pass portfolio by risk grade is very stable.

Profitability Analysis, Pricing Guidelines, and Compensation

All banks we interviewed conduct internal profitability analyses (of different business lines, for example). Some banks do not use internal ratings at all in such analyses, whereas others include a rating-sensitive expected-loss cost but no rating-sensitive capital cost. The most sophisticated analyses involve both expected-loss costs and costs of allocated capital that vary by internal rating. The higher such costs, the lower the measured profitability of a business unit or individual transaction. The use of rating-sensitive profitability analysis thus has significant implications for the design and operation of internal rating systems.

To implement rating-sensitive profitability analysis, the bank must estimate expected losses for assets in each grade as well as the amount of economic capital to allocate (if it allocates capital). Economic capital for the bank as a whole is that needed to maintain the bank's solvency in the face of unexpectedly large losses. The process of estimating the additional economic capital needed as a result of booking any given loan is complex, but as a practical matter, the loan's internal rating is a primary (if not the sole) day-to-day determinant of the capital allocations imposed by risk-sensitive profitability models.³⁶

The measured profitability of business units is an important factor in management decisions about which units should grow or shrink. When risk-sensitive profitability is appraised at the level of the individual loan or relationship, unprofitable loans are not made and unprofitable relationships are eventually dropped. At a growing number of banks, employee compensation is formally tied to profitability measured by such systems.

34. At some banks, portfolio composition is reported as a weighted-average risk grade. Such averages weight the balances by the grade's numeric designator. For example, assets in grade 4 are treated as being twice as risky as assets in grade 2. This can produce misleading averages because risk—whether PD or EL—tends to increase more than linearly with grade (table 2). At those banks we interviewed that used this measure, the staff seemed to understand that it does not reflect portfolio risk—it can indicate only whether the mix has changed.

35. Federal Financial Institutions Examination Council, *Interagency Policy Statement on the Allowance for Loan and Lease Losses* (December 1993).

36. Mechanically, one can think of economic capital for the credit risk of a whole portfolio as that amount necessary to cover (for example) 99.9 percent of the possible portfolio loss rates. Capital required to support a given loan can be viewed as that increment to total bank capital that will keep the bank insolvency probability constant if the given loan is added to the portfolio. Conceptually, total capital can be split into expected and unexpected loss portions. In an accounting sense, the loan loss reserve might be viewed as covering the expected loss and equity as covering the unexpected loss. For more details, see "Credit Risk Models and Major U.S. Banking Institutions: Current State of the Art and Implications for Assessments of Capital Adequacy," *Federal Reserve System Task Force on Internal Credit Risk Models* (Board of Governors of the Federal Reserve System, May 1998).

Interviews indicated clearly that the introduction of risk-sensitive profitability analysis puts significant new pressures on the risk grading system. Pressure to rate loans favorably arises because expected losses and capital allocations are lower for lower-risk loans. Some institutions found that many loans were upgraded shortly after the introduction of profitability analysis, although the overall degree of the shift was small. One institution specifically mentioned an upward bias of about one-half grade relative to previous rating practice. Many noted that the number of disagreements in which relationship managers pressed for more favorable ratings increased once such systems were put into place.

In addition to pressure for more favorable ratings, rating-sensitive profitability analysis also creates pressure to increase the number of rating categories. This pressure, which comes both from the business line staff and the profitability analysis unit itself, arises because some of the loans in any given grade are less risky than other loans in that grade and thus should bear smaller credit costs. Creation of more grades allows for better recognition of such risk differences. Institutions reported that the pressure to increase the number of grades has become more pronounced in recent years as competitive forces have compressed loan spreads; in this setting, reducing expected loss factors by a few basis points, or slightly reducing the amount of capital allocated to the loan, may be the difference between a transaction that meets internal profitability "hurdles" and one that does not.

These stresses place increased pressure on the loan review unit to maintain discipline and enforce consistency, stability, and accuracy. Controlling rating biases is always a challenge. As the number of grades on the scale increases and the distinctions of risk become finer, disagreements about ratings naturally arise more frequently, and the control of biases becomes even more difficult. The difficulty seems likely to be greatest just after the number of grades is increased because the loan review staff must enforce (and if necessary, develop) new cultural definitions for the grades. The latter task is somewhat easier at banks that use external referents in assigning or reviewing ratings, such as default probability models and agency ratings of borrowers; such referents give loan reviewers objective benchmarks to use in identifying problems and communicating with staff. Redesigns of the rating scale that split existing grades into smaller compartments are also easier to implement because the existing cultural definitions can be refined rather than replaced.

Risk-sensitive profitability analysis also increases the demand for internal data on loss experience and for mappings to external referents because the analysis demands relatively precise quantification of the risk characteristics of each grade. However, such analysis can also make existing data and mappings less useful, at least in the short run, because rating pressures or changes in architecture may, to some extent, change the effective meaning of grades.

Using Ratings to Trigger Administrative Actions

As noted, many banks include an internal watch grade on their scales in addition to the regulatory problem-asset grades (formally, the watch grade would be counted among the Pass grades). Reassignment of a loan to watch or regulatory grades typically triggers a process of quarterly (or even monthly) reporting and formal reviews of the loan. At institutions where the main use of ratings is for monitoring and regulatory reporting, RMs' incentives are often the opposite of those introduced by rating-sensitive profitability analysis: Their main interest is to avoid getting caught assigning ratings that are *not risky enough*. Getting caught can have negative career implications, and thus RMs have an incentive to assign credits to the riskiest Pass grade that is not watch. For example, some banks are especially likely to penalize RMs when a loan review reassigns a Pass credit from one of the less risky grades into a regulatory grade. Penalties can be forthcoming even when a loan is reassigned from a less risky Pass grade into watch, but are likely to be less severe. Thus, in the absence of carefully designed controls, the presence of administrative grades in a rating system can reduce the accuracy of non-administrative Pass grade assignments. This sort of bias is less likely at the largest banks because the countervailing incentives of rating-sensitive profitability analysis are most likely to operate there.

However, incentives associated with rating-sensitive profitability analysis can reduce the effectiveness of administrative management of problem loans. The staff may delay assigning credits to watch or regulatory grades because of the negative implications for measured profitability. Thus, there is a certain tension in the simultaneous use of rating systems for administrative purposes and for profitability analysis. Such tension can be overcome with proper oversight, the implementation of which represents another burden on loan review functions.

Potential Uses of Internal Ratings by External Entities

Internal ratings are a potential source of information for bank investors and regulators. For example, disclosure of the profile of a bank's loans across its internal rating categories might enhance the ability of shareholders and analysts to assess bank risk.

Moreover, investors in securitizations of traditional commercial loans might benefit from information about the credit quality of the underlying assets. Some banks are reportedly considering using internal rating information in structuring such securitizations. For example, when loans in the securitized pool are paid off, the new loans replacing them may be required to be drawn from a particular internal grade. Obviously, to evaluate the attractiveness of the pool, investors (or rating agencies) must be able to understand the loss characteristics of each internal grade and must have confidence that such characteristics will remain stable over time. Thus, external validation of rating systems becomes necessary if internal ratings are to be used in securitizations. Such validation would appear to be quite difficult because each bank's rating scale is different, and the meaning of ratings is largely embedded in culture rather than in writing. Moreover, most banks do not have sufficient historical data on loss experience by internal grade to support objective measurements.

Internal ratings might also be used in bank supervision and regulation. As a banking supervisor, the Federal Reserve has long emphasized the importance of strong risk management practices at banks and has stated its desire to orient its activities more toward testing of risk management and control processes and somewhat away from testing of individual transactions. This preference allows for less intrusion into the operation of the bank and minimizes the restrictive effect of supervision on banking innovation.

Information on a bank's risk profile by internal grade and shifts in that profile over time could become a useful supervisory tool. Supervisors could use internal profile information as one consideration in evaluating the asset quality and credit risk management of large banks, probably on balance reducing the overall burden of supervision. For those institutions that map their internal ratings to external reference points, such as the S&P scale, supervisors could use the mapping to put large institutions roughly on a common scale (in a fashion similar to that shown in chart 3). While bearing in mind that this technique is very crude, analysis of risk profiles and of trends in profiles could provide valuable insights into credit

conditions and standards in the industry as well as at individual institutions. Continuing work by individual institutions to better understand the loss characteristics of loans in their own risk grades will be important to refining and interpreting such comparisons over time.

Internal risk grades could also become an explicit element in the evaluation of capital adequacy. The current risk-based capital regime (based on the 1988 Basle Accord) provides for lower capital weights on certain low-risk assets (for example, those that are government-issued or guaranteed) but applies the same capital requirement (that is, 8 percent) to essentially all loans to private borrowers regardless of the underlying risk. Internal risk grades might become one consideration in scaling capital requirements on business loans more closely to the loss characteristics of a bank's loan portfolio.

Greater supervisory reliance on internal credit risk ratings would require that supervisors be confident of the rigor and integrity of internal rating systems. Heretofore, examiners have sought to validate assignments to internal grades only as they relate to the regulatory problem-asset grades. If supervisors are to rely more heavily on Pass grade information, some degree of validation and testing would have to be extended to those grades as well.

External use of internal ratings would introduce new stresses on internal rating systems. In some respects, the stresses would parallel those associated with rating-sensitive profitability analysis. That is, incentives would arise to grade optimistically and to alter the rating system to produce more fine-grained distinctions of risk. However, new incentive conflicts would arise between outsiders on the one side and the bank as a whole on the other. Such new conflicts could overwhelm the checks and balances currently provided by internal review functions. Even in the absence of such incentive conflicts, external users might demand a greater degree of accuracy or consistency in rating assignments than that required internally. For both reasons, external reviews and validation of the rating system might be necessary. In addition, banks and external parties should both be aware that the additional stress imposed by external uses, if not properly controlled, could impair the effectiveness of internal rating systems as a tool for managing the bank's credit risk.³⁷

37. In the early 1990s, the National Association of Insurance Commissioners (NAIC) introduced a system of risk-based capital requirements for insurance companies in which requirements vary with the ratings of assets. Although such ratings are assigned by the NAIC's Securities Valuation Office (SVO), the SVO does take into account any ratings of assets published by major rating agencies. In

CONCLUDING COMMENTS

A bank's decisions about its internal rating system can have a material effect on its ability to manage credit risk. But development of internal rating system architectures and operating designs that are appropriate to the uses made of the ratings is an especially complex task. The central role of human judgment in the rating process and the variety of possible uses for ratings mean that internal incentives can influence rating decisions. Thus, careful design of controls and internal review procedures is a crucial consideration in aligning form with function.

No single internal rating system is best for all banks. Banks' systems vary widely largely because of differences in *business mix* and in the *uses* to which ratings are put. Among variations in business mix, the share of large-corporate loans in a bank's portfolio has the largest implications for its internal rating system. Banks with a substantial large corporate market presence are likely to benefit from a rating system that achieves fine distinctions among relatively low-risk credits, while other banks may find significantly less value in such distinctions. In addition, an independent credit staff is often solely responsible for rating large loans. Such an arrangement can greatly reduce potential incentive conflicts, but may involve per-loan costs that are too large to be economic for smaller loans, which are often rated by relationship managers. Smaller loans also pose less risk to bank earnings and capital, and thus grading errors and biases may be more tolerable.

Among the various uses of internal ratings, profitability analysis and product pricing models have the most significant implications for the rating system. At banks where such analysis is in place, ratings can have a material effect on the measured profitability of transactions and relationships and can directly or indirectly influence the compensation of bank staff. Thus, careful attention to review and control procedures that limit biases in ratings is important to the accuracy and consistency of internal ratings.

Profitability analysis also introduces pressures for rating systems with more risk grades. Relationship managers may press for such systems because of a desire to subdivide grades that cover broad ranges of risk, thereby allowing different expected loss and capital charges for exposures at different ends of the ranges. The groups that develop and maintain the

profitability analysis systems may also press for fine-grained distinctions in order to support better balancing of risk and return. However, internal rating systems with many grades may make review and control of grading both more difficult and more expensive because reasonable people are more likely to differ in their subjective judgments when differences between grades are small rather than large.

Our interviews indicate that certain practices can improve the quality of any internal rating system and are especially helpful to rating systems that support analytical functions such as profitability analysis and portfolio management. First, a bank with appropriate data describing its historical loss experience by internal grade and by different risk factors is better able to assess the predictive power of its ratings criteria and to estimate values of parameters needed for its analyses (such as grade-specific values of PD or EL). Second, assigning or reviewing ratings with the aid of agency ratings, statistical models of default probability, or other objective criteria helps limit the magnitude of rating biases. However, care must be used in mapping internal grades to external grades or other indicators to ensure that the desired results are achieved. Finally, internal ratings grounded in clear loss concepts are helpful in grade assignment and review because rating criteria can be clearly linked to different aspects of risk. For example, a system that has separate grades for default probability and loss in event of default can incorporate different effects for a wide variety of types of collateral. All three of these practices are likely to be helpful in refining the subjective judgments that are central to almost all rating systems.

By their nature, banks' credit cultures typically adapt slowly to changes in conditions. The rapid pace of change in risk management practice and the trend toward risk-sensitive profitability analysis has recently increased the stresses on credit cultures in general and internal rating systems in particular. Careful attention to the many considerations noted in this article can help accelerate the process of adjustment and thus the easing of stresses.

The use of internal ratings by external entities such as regulators and investors has the potential to introduce new stresses in which incentives conflicts that pit banks' interests against those of the external entities compound existing internal tensions. Use of internal ratings by entities outside the bank would probably require some external validation of the ratings and the systems that generate them. In our view, such validation is probably feasible, but careful development of a new body of practice will be required.

the wake of this and other developments in the insurance industry, the rating agencies experienced substantial pressure from both issuers and investors (insurance companies) to assign favorable ratings to some assets, a new and difficult development for the agencies in that issuers and investors had traditionally applied opposing pressures.

Industrial Production and Capacity Utilization for September 1998

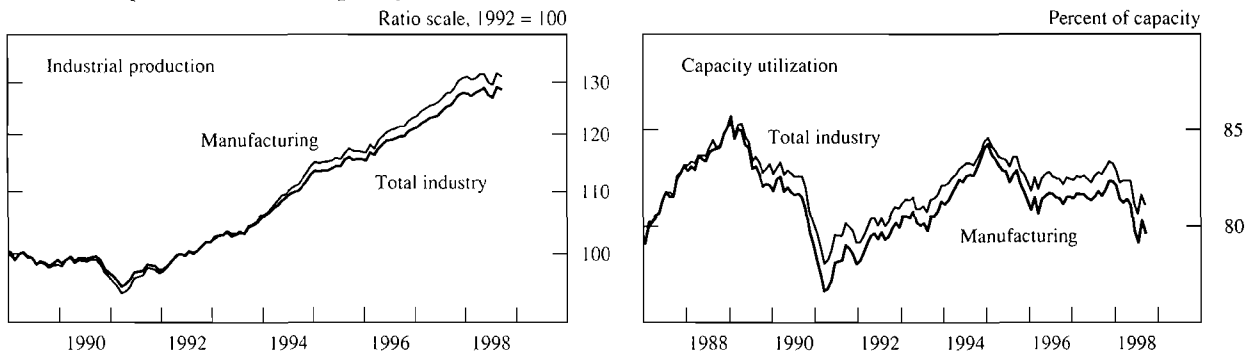
Released for publication October 16

Industrial production, which had rebounded 1.6 percent in August after settlement of the strikes at key General Motors parts plants, declined 0.3 percent in September. The declines were widespread in durable manufacturing, with larger drops in steel and motor vehicles and parts. Excluding the output of motor vehicles and parts, the index of industrial production

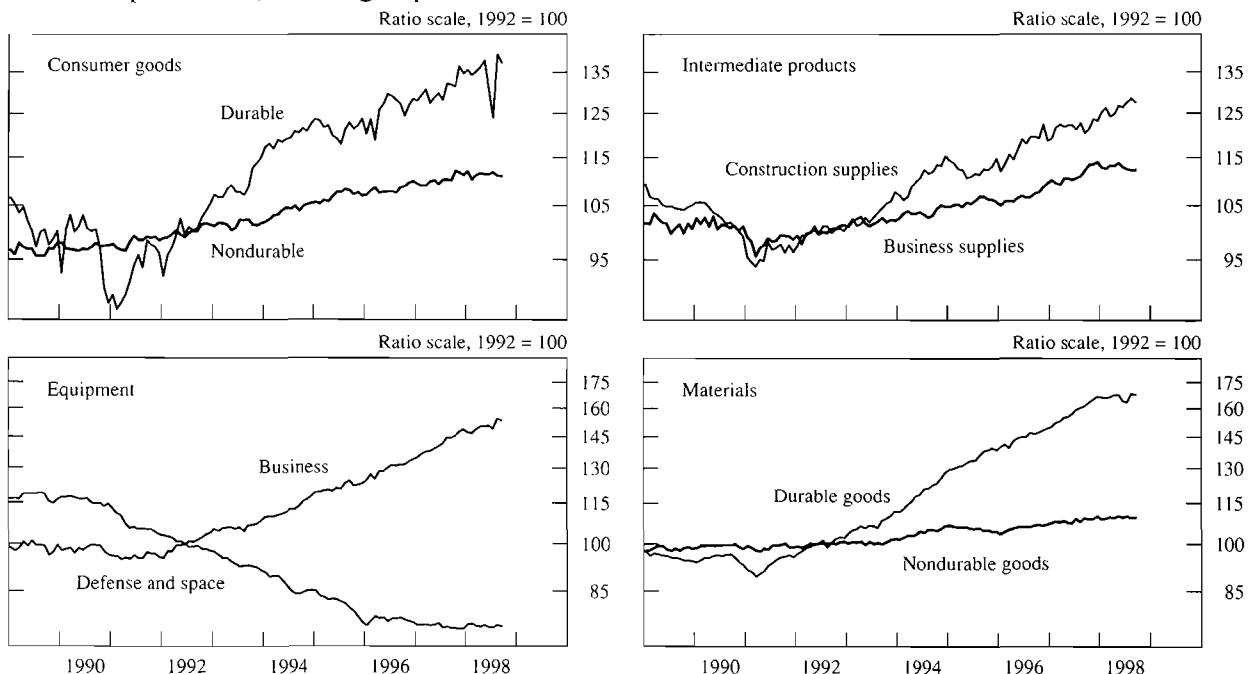
edged down 0.1 percent for a second month. At 128.7 percent of its 1992 average, industrial production in September was 2.4 percent higher than it was in September 1997. Capacity utilization fell 0.5 percentage point in September, to 81.1 percent, 1.0 percentage point below its 1967–97 average.

For the third quarter, industrial output was unchanged after having risen at an annual rate of 1.7 percent in the second quarter. The deceleration

Industrial production and capacity utilization



Industrial production, market groups



All series are seasonally adjusted. Latest series, September. Capacity is an index of potential industrial production.

Industrial production and capacity utilization, September 1998

Category	Industrial production, index, 1992 = 100								
	1998				Percentage change				Sept. 1997 to Sept. 1998
					1998 ¹				
	June ^r	July ^r	Aug. ^r	Sept. ^p	June ^r	July ^r	Aug. ^r	Sept. ^p	
Total	127.5	127.0	129.0	128.7	-1.1	-4	1.6	-.3	2.4
Previous estimate	127.5	127.0	129.1	...	-1.1	-4	1.7	...	...
Major market groups									
Products, total ²	121.2	120.5	122.6	122.0	-.8	-.6	1.7	-.4	2.5
Consumer goods	115.3	114.4	116.6	116.1	-1.2	-.8	1.9	-.4	1.5
Business equipment	150.7	149.1	154.3	153.4	.2	-1.0	3.5	-.6	6.2
Construction supplies	126.5	127.6	128.5	127.6	-.2	.9	.7	-.7	6.0
Materials	137.5	137.5	139.4	139.3	-1.5	.0	1.4	.0	2.4
Major industry groups									
Manufacturing	130.0	129.5	131.9	131.3	-1.3	-.4	1.8	-.4	2.6
Durable	147.6	146.3	152.1	151.1	-1.7	-.9	4.0	-.7	4.7
Nondurable	112.0	112.2	111.6	111.3	-.8	.2	-.6	-.2	.1
Mining	106.1	106.4	105.5	105.0	-2.1	.2	-.8	-.5	-1.3
Utilities	118.6	117.6	118.3	120.2	2.7	-.8	.6	1.6	4.4
Capacity utilization, percent									MEMO Capacity, per- centage change, Sept. 1997 to Sept. 1998
Average, 1967-97	Low, 1982	High, 1988-89	1997	1998					
			Sept.	June ^r	July ^r	Aug. ^r	Sept. ^p		
Total	82.1	71.1	85.4	82.7	81.2	80.6	81.6	81.1	4.4
Previous estimate .....	...	...	...	...	81.2	80.6	81.7	...	...
Manufacturing	81.1	69.0	85.7	81.6	79.7	79.1	80.3	79.6	5.0
Advanced processing	80.5	70.4	84.2	79.7	77.8	76.9	78.7	78.0	5.9
Primary processing	82.4	66.2	88.9	85.7	84.0	84.3	84.1	83.3	3.2
Mining	87.5	80.3	88.0	90.1	89.4	89.5	88.7	88.2	.8
Utilities	87.3	75.9	92.6	90.8	92.8	92.0	92.4	93.8	1.0

NOTE: Data seasonally adjusted or calculated from seasonally adjusted monthly data.

1. Change from preceding month.

2. Contains components in addition to those shown.

r Revised.

p Preliminary.

was evident in manufacturing: The increase in the production of durable goods dropped back 0.6 percentage point, to an annual rate of 1.9 percent, while the output of nondurable manufacturing fell more rapidly, declining at an annual rate of 3.5 percent in the third quarter. In both quarters, double-digit gains in output at utilities boosted overall growth; utility output was low in the first quarter, when unusually mild temperatures prevailed, but was high in the third quarter, when temperatures nationwide were quite hot. In contrast, mining, particularly metal mining and oil and gas extraction, declined in both the second and third quarters.

MARKET GROUPS

The output of consumer goods declined 0.4 percent in September. The production of automotive products, which had jumped nearly 33 percent in August, eased 2.6 percent. The output of other durable goods,

particularly household appliances, fell for a second month. The production of nondurable consumer goods edged down further in September after having declined 0.6 percent in August. Sales of residential electricity, which had boosted the index for consumer nondurables earlier in the year, have continued to advance in recent months; output levels for food and tobacco, clothing, and chemical products have declined this quarter.

The production of business equipment fell 0.6 percent in September largely because of drops in the output of industrial and transit equipment. The production of trucks and construction equipment, which had been very strong in August, eased in September. Gains in the output of computers failed to offset decreases in the production of other information processing and related equipment, such as photographic equipment and telephone apparatus. The index for other types of business equipment recouped more than half of the August drop of 8 percent, which came from a slash in the output of farm machinery.

The output of construction supplies fell 0.7 percent, after having risen 1.6 percent in the preceding two months. Reflecting the active housing market, this index has moved to 6.0 percent above its level of last September. The production of materials, which had risen 1.4 percent in August, was unchanged in September. The indexes for durable and nondurable goods materials declined 0.3 percent, while the output of energy materials rebounded 0.9 percent.

INDUSTRY GROUPS

Manufacturing output fell 0.4 percent in September after the August jump of 1.8 percent, which came from a rebound in the production of motor vehicles and parts to above the pre-strike level. Excluding motor vehicles and parts, factory output dropped 0.1 percent in August and 0.3 percent in September. Other notable declines in durable manufacturing in September were in the iron and steel and lumber industries. The production of steel fell 4.4 percent and stood more than 9 percent below the high in the first quarter; the weakness in steel reflects an influx of imports in recent months. Among other major durable manufacturing industries, the output of computers and semiconductors rose more than 1 percentage point. The production of nondurables declined 0.2 percentage point after having fallen 0.6 percent in August. The output of chemicals and petroleum products fell, while the output of textile mill products rose.

The factory operating rate fell 0.7 percentage point, to 79.6 percent, and was 2.7 percentage points below the level of late last year and 1.5 percent below its 1967–97 average. The declines in utilization were quite widespread both among durable and nondurable manufacturing industries and among primary- and advanced-processing industries. The utilization rate of electric utilities reached a high level that reflects both higher levels of generation and slower growth

of capacity at electric utilities that face an uncertain market.

REVISION OF INDUSTRIAL PRODUCTION AND CAPACITY UTILIZATION

In late November, the Federal Reserve will publish revisions to its measures of industrial production (IP), capacity, capacity utilization, and industrial use of electric power. The revisions will begin with 1992 and will incorporate updated source data for more recent years.

This regular updating of source data for IP will include annual data from the Bureau of the Census's *1996 Annual Survey of Manufactures* and from selected editions of its *1997 Current Industrial Reports*. Annual data from the Department of the Interior on metallic and nonmetallic minerals (except fuels) for 1996 and 1997 will also be introduced. The updating will also include revisions to the monthly indicators for each industry (physical product data, production-worker hours, or electric power usage) and revised seasonal factors.

Capacity and capacity utilization will be revised to incorporate preliminary data from the *1997 Survey of Plant Capacity* of the Bureau of the Census. The statistics on the industrial use of electric power will incorporate more complete reports received from utilities for the past few years as well as data from the *1996 Annual Survey of Manufactures*.

Once the revision is published, the revised data will be available on the Board's web site, <http://www.federalreserve.gov/releases/g17>, and on diskettes from Publications Services (telephone 202-452-3245). The revised data will also be available through the Economic Bulletin Board of the Department of Commerce; for information about the Bulletin Board, call 202-482-1986. Further information on these revisions is available from the Board's Industrial Output Section (telephone 202-452-3197). □

Statements to the Congress

Statement by Edward M. Gramlich, Member, Board of Governors of the Federal Reserve System, before the Committee on Finance, U.S. Senate, September 9, 1998

I am pleased to appear before the committee to testify on social security reform. I speak for myself, as past chair of the 1994–96 Quadrennial Advisory Council on Social Security, and not in my current status as a member of the Federal Reserve Board.

Let me first engage in some retrospection. At the time our Advisory Council released its report in early 1997, there was much publicity about the fact that we couldn't agree on a single plan but had three separate approaches. Since that time it strikes me that there has been a coalescence around the middle-ground approach I advocated. After our report, both the Committee for Economic Development (CED) and Senator Moynihan came out with plans that were similar to my plan and adopted some of its features. Earlier this year the National Commission on Retirement Policy (NCRP) came out with a similar plan, again adopting some features of my plan. In political terms the center seems to be holding—since our report there has been increased interest in sensible middle-ground approaches, and I would encourage this committee to work in that direction.

In trying to reform social security, I have stressed the importance of two goals. The first is to make affordable the important social protections of this program that have greatly reduced aged poverty and the human costs of work disabilities. The second is to add new national saving for retirement—both to help individuals maintain their own standard of living in retirement and to build up the nation's capital stock in advance of the baby boom retirement crunch.

THE INDIVIDUAL ACCOUNTS PLAN

My compromise plan, called the Individual Accounts (IA) Plan, achieves both goals. It preserves the important social protections of social security and still achieves long-term financial balance in the system by what might be called kind and gentle benefit cuts. Most of the cuts would be felt by high-wage workers, with disabled and low-wage workers being largely

protected from cuts. Unlike the other two plans proposed in the Advisory Council report, there would be no reliance at all on the stock market to finance social security benefits and no worsening of the finances of the Health Insurance Trust Fund.

The IA plan includes some technical changes such as including all state and local new hires in social security and applying consistent income tax treatment to social security benefits. These changes go some way to eliminating social security's actuarial deficit.

Then, beginning in the twenty-first century, two other measures would take effect. There would be a slight increase in the normal retirement age for all workers, in line with the expected growth in overall life expectancy (also proposed by the CED, Senator Moynihan, and the NCRP). There would also be a slight change in the benefit formula to reduce the growth of social security benefits for high-wage workers (also proposed by the CED and NCRP). Both of these changes would be phased in very gradually to avoid actual benefit cuts for present retirees and “notches” in the benefit schedule (instances when younger workers with the same earnings records get lower real benefits than older workers). The result of all these changes would be a modest reduction in the overall real growth of social security benefits over time. When combined with the rising number of retirees, the share of the nation's output devoted to social security spending would be approximately the same as at present, limiting this part of the impending explosion in future entitlement spending.

These benefit cuts alone would mean that high-wage workers would not experience rising real benefits as their real wages grow, so I would supplement these changes with another measure to raise overall retirement (and national) saving. Workers would be required to contribute an extra 1.6 percent of their pay to newly created individual accounts. These accounts would be owned by workers but centrally managed. Workers would be able to allocate their funds among five to ten broad mutual or index funds covering stocks and bonds. Central management of the funds would cut down the risk that funds would be invested unwisely, would cut administrative costs, and would mean that Wall Street firms would not find

these individual accounts a financial bonanza. The funds would be converted to real annuities on retirement, to protect against inflation and the chance that retirees would overspend in their early retirement years.

Some have objected to these add-on individual accounts because they seem like a new tax. First off, I should point out that because the accounts will be returned to the individual in the future (with investment earnings), they are very different from a tax. Indeed, if people who already have significant pension saving beyond social security want to reduce their private contributions and preserve their disposable income, there is nothing to stop them. Finally, as a further sweetener it may be possible to let those who can certify the existence of their own private pensions opt out of these add-on accounts, and thus save social security the administrative costs. Whatever is done, the basic idea is to raise national saving for the people who do not have much pension saving beyond social security, and this scheme seems well-suited for that.

FEDERAL BUDGET SURPLUSES

A welcome new development since our council issued its report is the arrival of surpluses in the overall federal budget. Some observers have suggested using these surpluses in some way to build up the individual accounts. One example is your own bill, Mr. Chairman.

While the advent of these overall surpluses lessens future interest payments and the overall growth of entitlement spending, I see some problems with "using" the surpluses for social security. A first problem from a budget standpoint is that the surpluses already are being used in that way. The overall

surplus is more than accounted for by the Old Age, Survivors, and Disability Insurance surplus, which is already used to finance future social security benefits, so there is double-counting in using these federal surpluses again for retirement programs, whether to finance individual accounts or to finance future social security spending. The second problem is that use of the surplus in such a way does not generate new national saving, and I continue to think that should be an important part of social security reform. Hence I would not favor taking any additional steps to use the surpluses to raise future retirement benefits.

CONCLUSION

The social security and pension changes that I have recommended would mean that approximately the presently scheduled level of benefits would be paid to all wage classes of workers, of all ages. The difference between the outcome and present law is that under this plan these benefits would be financed, as they are not under present law. The changes would eliminate social security's long-run financial deficit while still holding together the important retirement safety net provided by social security. They would reduce the growth of entitlement spending. They would significantly raise the return on invested contributions for younger workers. And, the changes would move beyond the present pay-as-you-go financing scheme, by providing new saving to build up the nation's capital stock in advance of the baby boom retirement crunch.

As the Congress debates social security reform, I hope it will keep these goals in mind and consider these types of changes in this very important program. Thank you very much.

Statement by Alan Greenspan, Chairman, Board of Governors of the Federal Reserve System, before the Committee on Banking and Financial Services, U.S. House of Representatives, September 16, 1998

As I testified before this committee in the midst of the Mexican financial crisis in early 1995, major advances in technology have engendered a highly efficient and increasingly sophisticated international financial system. The system has fostered impressive growth in world trade and in standards of living for the vast majority of nations who have chosen to participate in it.

But that same efficient financial system, as I also pointed out in that earlier testimony, has the capability to rapidly transmit the consequences of errors of judgment in private investments and public policies to all corners of the world at historically unprecedented speed. Thus, problems that appeared first in Thailand more than a year ago quickly spread to other East Asian economies that are relatively new participants in the international financial system, and subsequently to Russia and to some degree to eastern Europe and Latin America. Even long-time participants in the international financial community, such as Australia, New Zealand, and Canada, have

experienced the peripheral gusts of the financial turmoil.

Japan, still trying to come to grips with the bursting of its equity and real estate bubbles of the late 1980s, has experienced further setbacks as its major Asian customers have been forced to retrench. Reciprocally, its banking system problems and weakened economy have exacerbated the difficulties of its Asian neighbors.

The relative stability of China and India, countries whose restrictions on international financial flows have insulated them to some extent from the current maelstrom, has led some to conclude that the relatively free flow of capital is detrimental to economic growth and standards of living. Such conclusions, in my judgment, are decidedly mistaken.

The most affected emerging East Asian economies, despite the sharp contraction in their economic output during the past year, have retraced, on average, only one-sixth of their per capita growth over the past ten years. Even currently, their average per capita incomes are more than two and one-half times the levels of India and China despite the unquestioned gains both have made in recent years as they too have moved partially to join the international financial community.

Moreover, outside of Asia, several East European countries have made significant progress toward the adoption and implementation of market systems and have increasingly integrated their financial systems into the broader world context to the evident benefit of their populations. Latin American nations, though currently under pressure, have largely succeeded in opening up their economies to international financial flows, and more rapidly rising living standards have been the result.

It is clear, nonetheless, that participation in the international financial system with all its benefits carries with it an obligation to maintain a level of stability and a set of strong and transparent institutions and rules if an economy is to participate safely and effectively in markets that have become highly sensitive to misallocation of capital and other policy errors.

When domestic financial systems fail for lack of adequate institutional infrastructures, the solution is not to turn back to a less turbulent, but also less prosperous, past regime of capital controls but to strengthen the domestic institutions that are the prerequisite for engaging in today's international financial system.

Blocking the exodus or repatriation of capital, as some of the newer participants in the international financial system appear inclined to do *after* they get

into trouble, is, of course, the equivalent of the economy receiving a subsidized injection of funds. If liquidity is tight, the immediate effect of controls can be relief from the strain of meeting obligations and a temporary sense of well-being. This is an illusion, however. The obvious consequence of confiscating part, or all, of foreign investors' capital or income is to ensure a sharp reduction in the availability of new foreign investment in the future.

The presumption that controls can be imposed temporarily, while an economy stabilizes, and then removed, gives insufficient recognition to the imbalances in an economy that emerge when controls are introduced. Removing controls subsequently creates its own set of problems, which most governments, inclined to impose controls in the first place, are therefore loath to do. Indeed, controls are often employed to avoid required—but frequently politically difficult—economic adjustments. There are many examples in history of controls imposed and removed but rarely without great difficulty and cost.

To be sure, any economy can operate with its borders closed to foreign investment. But the evidence is persuasive that an economy deprived of the benefits of new technologies, and inhospitable to risk capital, will be mired at a suboptimal standard of living and slow growth rate associated with out-of-date technologies.

It is often stipulated that while controls on direct foreign investment and its associated technology transfer are growth inhibiting, controls on short-term inflows do not adversely affect economic welfare. Arguably, however, the free flow of short-term capital facilitates the servicing of direct investments as well as the financing of trade. Indeed, it is often difficult to determine whether certain capital flows are direct investments or short term in nature. Chile is often cited as an example of the successful use of controls on short-term capital inflows. But in response to the most recent international financial turmoil, Chile has chosen to *lower* its barriers in order to encourage more inflows.

Those economies at the cutting edge of technology clearly do not need foreign direct investment to sustain living standards and economic growth. The economy of the United States in the 1950s, for example, needed little foreign investment and yet was far more dominant in the world then than it is today.

That was a major change from our experiences of the latter half of the nineteenth century, when the vast amount of investment and technology from abroad played a significant role in propelling the U.S. economy to world-class status.

Even today, though we lead the world in many of the critical technologies, we still need to borrow a substantial share of the mobile pool of world savings to finance our level of domestic investment. Were we unable to do so, our standard of living would surely suffer. But the inflow of foreign capital would be much reduced if there were uncertainties about whether the capital could be freely repatriated.

While historically there could be considerable risk in American investments—for example, some nineteenth century investments in American railroads entailed large losses—the freedom of repatriation and the sanctity of private contracts were, with rare exceptions, secure.

Our experiences, and those of others, raise the question of the sustainability of free international capital flows when the conditions fostering and protecting them are impaired or absent.

Specifically, an economy whose private or public sectors have become heavy net debtors in foreign currency is at risk of default, especially when its exchange rate unexpectedly moves adversely. Clearly, should default become widespread among a number of economies, the flow of international capital to other economies perceived as potentially in similar circumstances will slow and in certain instances reverse. The withdrawal of the ongoing benefits of free flowing capital, as recent history has so amply demonstrated, can often be abrupt and disruptive.

The key question is obviously how do private-sector entities and governments and, by extension, economies as a whole allow themselves through currency mismatches to reach the edge of insolvency? Indeed, where was the appropriate due diligence on the part of foreign investors?

Investors will, on occasion, make misjudgments, and borrowers will, at times, misread their capabilities to service debt. When market prices and interest rates adjust promptly to evidence of such mistakes, the consequences of the mistakes are generally contained and, thus, rarely cumulate to pose significant systemic risk.

There was some evidence of that process working in the latter part of the nineteenth century and early twentieth century when international capital flows were largely uninhibited. Losses, however, in an environment in which gold standard rules were tight and liquidity constrained were quickly reflected in rapid increases in interest rates and the cost of capital generally. This tended to delimit the misuse of capital and its consequences. Imbalances were generally aborted before they got out of hand. But after World War I such tight restraints on economies were seen as

too inflexible to meet the economic policy goals of the twentieth century.

From the 1930s through the 1960s and beyond, capital controls in many countries, including most industrial countries, inhibited international capital flows and to some extent the associated financial instability—presumably, however, at the cost of significant shortfalls in economic growth. There were innumerable episodes, of course, in which individual economies experienced severe exchange rate crises. Contagion, however, was generally limited by the existence of restrictions on capital movements that were at least marginally effective.

In the 1970s and 1980s, recognition of the inefficiencies associated with controls, along with newer technologies and the deregulation they fostered, gradually restored the free flow of international capital prevalent a century earlier. In the late twentieth century, however, fiat currency regimes have replaced the rigid automaticity of the gold standard in its heyday. More elastic currencies and markets, arguably, are now less sensitive to and, hence, slower to contain the misallocation of capital. Market contagion across national borders has consequently been more prevalent and faster in today's international financial markets than appears to have been the case a century ago under comparable circumstances.

As I pointed out before this committee almost a year ago, a good part of the capital that flowed into East Asia in recent years (largely in the 1990s) probably reflected the large surge in equity prices in most industrial economies, especially in the United States. The sharp rise induced a major portfolio adjustment out of then-perceived fully priced investments in western industry into the perceived bargain priced, but rapidly growing, enterprises and economies of Asia. The tendency to downplay the risks of lending in emerging markets, reinforced by the propensity of governments explicitly or implicitly to guarantee such investments in a number of cases, doubtless led to an excess of lending that would not have been supported in an earlier age.

As I also pointed out in previous testimony, standards of due diligence on the part of both lenders and borrowers turned somewhat lax in the face of all the largess generated by abundant capital gains and all the optimism about the prospects for growth in the Asian region. The consequent emergence of heavy losses and near insolvency of a number of borrowing banks and nonfinancial businesses engendered a rush by foreign capital to the exits and induced severe contractions in economies with which borrowers and policymakers were unprepared and unable to cope.

At that point the damage to confidence and the host economies had already been done. Endeavors now to block repatriation of foreign funds, while offering temporary cash flow relief, have significant long-term costs and clearly should be avoided if at all possible. I recognize that if problems are allowed to fester beyond the point of retrieval, no market-oriented solution appears possible. Short-term patchwork solutions to achieve stability are presumed the only feasible alternatives. When that point is reached, an economy is seen as no longer having the capability of interacting normally with the international financial system and is inclined to withdraw behind a wall of insulation.

It must be remembered, however, that the financial disequilibria that caused the initial problems would not have been addressed. Unless they are, those problems will re-emerge.

As I implied earlier with respect to the nineteenth century American experience, there are certain conditions precedent to establishing a viable environment for international capital investment, one not subject to periodic systemic crises.

Some mechanism must be in place to enhance due diligence on the part of lenders but especially of borrowers individually and collectively. Losses of lenders do on occasion evoke systemic risks, but it is the failure of borrowers to maintain viable balance sheets and an ability to service their debts that creates the major risks to international stability. The banking systems in many emerging East Asian economies effectively collapsed in the aftermath of inappropriate borrowing, and large unhedged exposures, in foreign currencies.

Much will be required to bolster the fragile market mechanisms of many, but certainly not all, economies that have recently begun to participate in the international financial system. Doubtless at the head of the list is reinforcing the capabilities of banking supervision in emerging market economies. Conditions that should be met before engaging in international borrowing need to be promulgated and better monitored by domestic regulatory authorities.

Market pricing and counterparty surveillance can be expected to do most of the job of sustaining safety and soundness. The experience of recent years in East Asia, however, has clearly been less than reassuring. To be sure, lack of transparency and timely data inhibited the more sophisticated risk evaluation systems from signaling danger. But that lack itself

ought to have set off alarms. As one might readily expect, today's risk-evaluation systems are being improved as a consequence of recent failures.

Just as important, if not more so, unless weak banking systems are deterred from engaging in the type of near reckless major international borrowing that some systems in East Asia engaged in during the first part of the 1990s, the overall system will continue at risk. A better regime of bank supervision among those economies with access to the international financial system needs to be fashioned.¹ In addition, the resolution of defaults and workout procedures require significant improvements in the legal infrastructures in many nations seeking to participate in the international financial system.²

None of these critical improvements can be implemented quickly. Transition support by the international financial community to those in difficulty will, doubtless, be required. Such assistance has become especially important because it is evident from the recent unprecedented swings in currency exchange rates for some of the emerging market economies that the international financial system has become increasingly more sensitive than in the past to shortcomings in domestic banks and other financial institutions. The major advances in technologically sophisticated financial products in recent years have imparted a discipline on market participants not seen in nearly a century.

Whatever international financial assistance is provided must be carefully shaped not to undermine that discipline. As a consequence, any temporary financial assistance must be carefully tailored to be conditional and not encourage undue moral hazard.

It can be hoped that despite the severe trauma that most of the newer participants in the international financial system are currently experiencing, or perhaps because of it, improvements will emerge to the benefit not only of the emerging market economies but of the long-term participants in the system as well.

1. Parenthetically, a century ago, banks were rarely subsidized and, hence, were required by the market to hold far more capital than they do now. In today's environment, bank supervision and deposit insurance have displaced the need for high capital-asset ratios in industrial countries. Many of the new participants in the international financial system have had neither elevated capital nor adequate supervision. This shortfall is now generally recognized and is being addressed.

2. There are, of course, other reforms that I believe need to be addressed. These were outlined in my earlier testimonies before this committee.

Thank you for again inviting me to appear before this committee to discuss the Year 2000 issue. This problem poses a major challenge to public policy: The stakes are enormous, nothing less than the preservation of a safe and sound financial system that can continue to operate in an orderly manner when the clock rolls over at midnight on New Year's Eve and the millennium arrives. The Year 2000 problem will touch much more than just our financial systems and could temporarily have adverse effects on the performance of the overall U.S. economy as well as the economies of many, or all, nations if not corrected. As I said last April in testimony before the Senate Committee on Commerce, Science and Transportation, some of the more adverse scenarios are not without a certain plausibility if this challenge were being ignored. But it is not being ignored. While it is impossible today to precisely forecast the impact of this event, and the range of possibilities runs from minimal to extremely serious, an enormous amount of work is being done in anticipation of the rollover of the millennium, and I am optimistic that this work will pay off.

In that spirit, let me update you on what the Federal Reserve has done to address the Year 2000 issue. Since I last testified here in November 1997, the Federal Reserve has met the goals that we set for ourselves. We have accomplished the following:

- Renovated our mission-critical applications and nearly completed our internal testing
- Opened our mission-critical systems to customers for testing
- Progressed significantly in our contingency planning efforts
- Implemented a policy concerning changes to our information systems
- Concluded our initial review of all banks subject to our supervisory authority.

While these accomplishments are indicative of our significant progress in addressing the Year 2000 issue, much work remains. In the testing area, we are finalizing plans for concurrent testing of multiple mission-critical applications by customers. We are coordinating with the Clearing House for Interbank Payment Systems (CHIPS) and the Society for Worldwide Interbank Financial Telecommunications (SWIFT) to provide a common test day for customers of Fedwire and these two systems. We have a Systemwide project under way to enhance our contingency plans to address failures external to the Federal Reserve. We are conducting a second round of supervisory reviews of banks subject to our supervisory

authority and also actively coordinating with various domestic and international Year 2000 organizations.

This morning I would like to discuss these achievements and the important aspects of the job that remain ahead of us.

FEDERAL RESERVE READINESS

The Federal Reserve has completed the renovation of its mission-critical systems, and we are nearing the conclusion of our internal Year 2000 testing efforts. Internal testing includes both individual applications and application interfaces, such as the exchange of data between Fedwire and our Integrated Accounting System. Testing is conducted through a combination of two elements: one is future-dating our computer systems to verify the readiness of our information technology, and the other is testing critical future-date processing within our business applications. Communications network components are also being tested and certified in special test lab environments at the Federal Reserve Automation Services and the Board of Governors. The Reserve Banks and the Board have implemented test century date change (CDC) local area networks to verify the readiness of vendor-provided products and internal applications that operate in network-based computing environments. With the exception of a few systems that will be replaced by March 1999, we will complete the testing activities and implement our mission-critical applications in production by year-end 1998.

On June 29, 1998, we made our future-dated test environment available to customers for Year 2000 testing; the crucial testing period will extend through 1999. Depository institutions that are Federal Reserve customers, and thus rely on our payment applications such as Fedwire, Fed ACH, and check-processing systems, can test century rollover and leap year transactions six days a week. On six weekends this fall, depository institutions will be able to test Year 2000 test dates with several applications simultaneously. We are providing assistance to our customers who test with us and have provided them, through a series of CDC bulletins, with technical information and guidelines concerning the testing activity.

By the end of August, almost 400 customers, including the U.S. Treasury, had conducted CDC testing with the Federal Reserve, and the number scheduling tests is increasing rapidly. These tests encompass ten of our mission-critical applications. To ensure that the nation's larger banks are taking advantage of this testing opportunity, we intend to contact any that have not availed themselves of this

service. Several foreign banking organizations have begun to test large dollar payment systems with the Federal Reserve and CHIPS. Most large foreign banks will participate in the September 26, 1998, coordinated test in which Fedwire, CHIPS, and SWIFT are participating.

Like most information technology environments, ours are composed primarily of vendor hardware and software products. To assess the Year 2000 readiness of these environments, as well as our building systems such as vault and climate control systems, we have created an automated inventory of the vendor products that we use and are tracking the Year 2000 compliance status of those products. Although the Federal Reserve has made progress in independently testing vendor products, we will continue these efforts.

In previous testimony, I have noted the critical dependence of banks on telecommunication services and the need to ensure the readiness of telecommunication service providers. To foster a better understanding of the importance of information sharing by the telecommunications industry, I wrote to Federal Communications Commissioner Powell about this issue. Commissioner Powell has been responsive and has provided us and others with information regarding the FCC's oversight and plans. The Federal Reserve is also participating in the Telecommunications Sector Group of the President's Council on Year 2000 Conversion. In addition, the Federal Reserve is monitoring telecommunication carriers to assess whether those used by the Federal Reserve will be Year 2000 compliant. We are pleased with the responsiveness of the telecommunications industry: Plans for industry testing are well under way, with participation from the major service providers as well as their suppliers.

CONTINGENCY PLANNING

As the nation's central bank, the Federal Reserve is actively engaged in contingency planning for both operational disruptions and systemic risks. An internal CDC Council consisting of senior managers is coordinating contingency planning across the Federal Reserve's various functions and is fostering a cohesive approach to internal readiness and interaction with the financial community. In general, the banking industry's focus has also progressed from the renovation of systems to business continuity and contingency planning. Contingency planning for the Federal Reserve includes payment systems, currency availability and distribution, information processing,

the discount window, and the supervision function. We will also play an important role in coordinating with the financial community concerning issues such as systemic risk and cross-border payments.

Operational Contingency

The Federal Reserve's plans for operational continuity build on existing contingency plans. As you know, we have long maintained comprehensive contingency plans that are routinely tested and have been implemented during natural disasters and other disruptions. These plans cover our internal systems, as well as the services we provide to depository institutions. In June 1998, each of the Federal Reserve's business offices completed assessments of the adequacy of existing contingency scenarios to address CDC risks.

Federal Reserve CDC contingency workgroups are identifying problems external to the Federal Reserve that may arise when the date changes to 2000, such as those affecting telecommunications providers, large financial institutions, utility companies, other key financial market participants, and difficulties abroad that affect U.S. markets or institutions. The workgroups are developing corresponding recommendations to mitigate those problems. The Federal Reserve plans to finalize contingency plans reflecting these recommendations by November 30, 1998. We will continue to refine our CDC contingency plans as necessary throughout 1999. In the fourth quarter of 1998, we will focus our efforts on how to test our contingency plans to ensure their operational effectiveness at the century rollover.

Change Management

As a part of our operational readiness planning, the Federal Reserve is developing procedures to manage the risks posed by changes to information systems in 1999 and the first quarter of 2000. After the scheduled completion of testing and implementation of our critical applications, changes to Federal Reserve policies, rules, regulations, and services that generate changes to critical information systems create the risk that those systems may no longer be CDC compliant. Consequently, we have established guidelines to significantly limit policy and operational changes, as well as internal hardware and software changes, during late 1999 and early 2000 in order to minimize the risks and complexities of problem resolution associated with the introduction of new processing components.

By limiting changes to our systems, we will not only provide a stable internal processing environment entering the Year 2000 but we will also minimize changes that our customers could be required to make to their applications that interface with our software. In addition, we intend to aggressively coordinate with other institutions that typically generate policy and operational changes in the financial industry. We intend to publish our guidelines to assist other organizations facing similar issues, and I would urge that the Congress, as well as other federal agencies, consider adoption of such change management policies as we move into 1999.

Currency

As I noted earlier, cash availability and processing is an issue we have considered in the contingency planning process. We have regularly met the public's heightened demand for U.S. currency in peak seasons or in extraordinary situations, such as natural disasters. We recently submitted our fiscal year 1999 currency printing order to the Department of the Treasury's Bureau of Engraving and Printing, and we increased the size of next year's print order because of Year 2000 considerations. With this order, we will substantially increase the amount of currency either in circulation or in Federal Reserve vaults over current levels by late 1999. We believe this increase in the level of currency should be ample to meet the public's demand for extra cash during the period surrounding the century rollover. This is a precautionary step on our part—we believe it is prudent to print more currency than we think will be required than to risk not printing enough. While we do not anticipate any extraordinary demand for cash, we believe it is important that the public have complete confidence that sufficient supplies of currency will be available. In effect, the Federal Reserve is accelerating the timing of currency printing; we are planning for a possible short-lived increased demand for cash and will be able to reduce future print orders to lower-than-normal levels.

As we monitor the public's demand for currency, we can introduce other measures to further increase cash levels. First, the recent currency order with the Bureau of Printing and Engraving is for the federal fiscal year 1999, so that there will be time to print additional notes in the last three months of 1999. Second, we can change the print order to increase production of higher-denomination notes. Third, we can increase staff in Reserve Bank cash operation functions to improve the turnaround time required to

process cash deposits and move currency back into circulation. Finally, as a last resort, we can hold off the destruction of old or worn currency.

Liquidity

Another contingency planning issue for the Federal Reserve is liquidity. Despite their best efforts, some depository institutions could encounter problems in the rollover in maintaining reliable computer systems, and these problems may or may not affect their funding positions. To the extent necessary, the Federal Reserve is prepared to lend, in appropriate circumstances and with adequate collateral, to depository institutions when market sources of funding are not reasonably available. The terms and conditions of such lending may depend upon the circumstances causing the liquidity shortfall.

FINANCIAL SECTOR INITIATIVES

The Federal Reserve and private industry have intensified cooperative efforts to address contingency planning. The Year 2000 Contingency Planning Working Group of the New York Clearing House, the Securities Industry Association, and the Federal Reserve are developing coordinated contingency plans for the Year 2000 and will act as liaison with other industry groups addressing contingency planning on behalf of banks, securities firms, exchanges, clearance and settlement organizations, regulators, and international markets. Among other things, the Working Group is considering plans for the establishment of Year 2000 communications centers throughout the country, and perhaps internationally. Primarily, such centers would facilitate the exchange of up-to-date information on developing problems and issues among participants and enhance the development of consensus, when necessary, to coordinate timely responses to problems.

The Federal Reserve is assisting in the government's coordination of the Year 2000 effort within the financial industry by participating in the Financial Institutions Sector Group of the President's Council on Year 2000 Conversion. A senior Board official who chairs this Sector Group has been working with representatives of government financial organizations, including the federal banking agencies, the Department of the Treasury, the Securities and Exchange Commission, and other agencies responsible for various financial intermediaries, to assess the Year 2000 readiness of the financial industry and

formulate strategies for addressing interagency Year 2000 issues.

BANK SUPERVISION

I would now like to turn to our industry oversight activities. The Federal Reserve met its goal, set in May 1997, of conducting a Year 2000 supervisory review of all banks subject to our supervisory authority by June 1998. This public commitment and visible effort did much to stimulate industry action on the Year 2000 issue. We have also established ties and are providing significant support to numerous public and private groups, both domestic and international, that are addressing the Year 2000 readiness of their respective constituencies.

As part of our outreach program, we continually emphasize the critical significance of ensuring that computer systems and applications are Year 2000 compliant and the complexity of the managerial and technological challenges that the required effort presents for all enterprises. For entities such as financial institutions that rely heavily on computers to provide financial services to customers, achieving Year 2000 compliance in mission-critical systems is essential for maintaining the quality and continuity of customer services.

While bank supervisors can provide guidance, encouragement, and strong formal and informal supervisory incentives to the banking industry to address this challenge, it is important to recognize that we cannot be ultimately responsible for ensuring or guaranteeing the Year 2000 readiness and viability of the banking organizations we supervise. Rather, the boards of directors and senior management of banks and other financial institutions must be responsible for ensuring that the institutions they manage are able to provide high quality and continuous services from the first day in January of the Year 2000. As we have emphasized continually during the past sixteen months, this critical obligation must be among the very highest of priorities for bank management and boards of directors.

Policy Guidance and Supervisory Reviews

The Federal Reserve continues to work closely with the other banking agencies that comprise the Federal Financial Institutions Examination Council (FFIEC) to address the banking industry's Year 2000 readiness. A series of seven advisory statements has been issued since I was last here in November 1997,

including statements on the nature of Year 2000 business risk, the importance of service provider readiness, the means to address customer risk, the need to respond to customer inquiries, the critical importance of testing, the urgency of effective contingency planning, and the need to address the readiness of fiduciary activities. As a result of these advisory statements, the extent of the industry's Year 2000 efforts has significantly intensified. These statements can be found in their entirety at <http://www.bog.frb.fed.us/Y2K>.

Compliance with these statements is assessed during the conduct of supervisory reviews. Through June 30, the Federal Reserve had conducted reviews of approximately 1,600 organizations. Information and data collected during these reviews have proved to be reliable, consistent with our overall supervisory experience, which is heavily dependent on an extensive on-site examination program. These reviews have resulted in a significant focus of attention on the subject matter within the industry and have identified several issues warranting additional attention by the supervisors, particularly the need for the supplemental guidance on testing and contingency planning. It is critical that banks avail themselves of every opportunity to test mission-critical systems internally and with their counterparties, and recurring testing may be warranted as additional systems are renovated to ensure that those systems already tested are not adversely affected.

Based on the reviews completed by the Federal Reserve, the vast majority of banking organizations are making satisfactory progress in their Year 2000 planning and readiness efforts. About 4 percent are rated "needs improvement" and fewer than 1 percent are rated "unsatisfactory." In these cases, the Federal Reserve has initiated intensive supervisory follow-up. Working closely with state banking departments, the Federal Reserve is making a concerted effort to focus additional attention on those particular banking organizations that are deemed deficient in their Year 2000 planning and progress.

Deficient organizations have been informed of their status through supervisory review comments, meetings with senior management or the board of directors, and deficiency notification letters calling for submission of detailed plans and formal responses to the deficiencies noted. Such organizations are then subject to increased monitoring and supervisory follow-up including more frequent reviews. Restrictions on expansionary activities by Year 2000 deficient organizations have also been put into place. As a result of these letters, organizations once deemed deficient have taken significant steps to enhance

their Year 2000 programs and over half have been upgraded to satisfactory.

The Federal Reserve has commenced Phase II of its supervision program, which covers the nine months from July 1998 through March 1999. During this second phase, we will conduct another round of supervisory reviews focused on Year 2000 testing and contingency planning. In addition, we have committed to conducting another review of the information systems service providers and will distribute the results to the serviced banks.

Assessment of Review Results

Based on these reviews and other interactions with the industry, it appears that financial institution progress in renovating mission-critical systems has advanced notably since the Federal Reserve and the other banking agencies escalated efforts to focus the industry's attention on ensuring Year 2000 readiness. Banking organizations are making substantial headway toward Year 2000 readiness and, with some exceptions, are on track to meet FFIEC guidelines.

Specifically, the FFIEC guidelines call for the completion of internal testing of mission-critical systems by year-end 1998. Most large organizations are nearing completion of the renovation of their mission-critical systems and are vigorously testing those that have been renovated. Smaller organizations are working closely with their service providers in an effort to confirm that the efforts under way will ensure the readiness and reliability of the services and products on which they depend.

Information Systems Service Providers

The banking agencies are examining the Year 2000 readiness of certain information systems service providers and software vendors that provide services and products to a large number of banking organizations. These examinations are often conducted on an inter-agency basis. The Federal Reserve has participated in reviews of sixteen national service providers and twelve national software vendors. In addition, the banking agencies are examining selected regional service providers and software vendors.

These examinations assess the overall Year 2000 program management of the firms and confirm their plans to support products for Year 2000 readiness. To help banking organizations assess the Year 2000 readiness and dependability of their service providers and to encourage examined service providers to cooperate fully with the industry's efforts, the banking

agencies are distributing the results of Year 2000 reviews of service providers and software vendors to the serviced banks. The information in the reports is not a certification of the readiness of the service provider, and it is still incumbent on each bank to work closely with its service providers to prepare for the century date change. Service providers and software vendors serving the banking industry are keenly aware of the industry's reliance on their products and services, and most consider their Year 2000 readiness to be their highest priority in order for them to remain competitive in an aggressive industry.

Credit Quality

FFIEC guidelines call for banks to have a plan to assess customers' Year 2000 readiness by June 30, 1998, and to complete an assessment of their customers' Year 2000 readiness by September 30, 1998, in order to better understand the risks faced by the bank if customers are unable to meet their obligations on a timely basis. Even though our Phase I Year 2000 examinations were conducted before the June 30, 1998, milestone, our examiners noted that most organizations either had begun planning or had initiated their customer assessment programs.

We have seen no signs that credit quality has deteriorated as a result of Year 2000 readiness considerations, although it is still early. Results from a Federal Reserve Senior Loan Officer Opinion Survey on Bank Lending Practices (May 1998) indicated that respondents generally include Year 2000 preparedness in their underwriting and loan review standards. Another survey of Senior Loan Officers is to be conducted in November in order to obtain a more timely picture of any deterioration in credit quality related to the Year 2000.

Efforts have also been made to prompt the nation's largest banks that syndicate large loans to address the Year 2000 readiness of their borrowers. Through the Shared National Credit Program, banks that syndicate credits of more than \$20 million are asked to provide the banking agencies with information pertaining to the banks' efforts to assess the readiness of the borrowers. This initiative has helped large lenders understand that they need to consider their customers' readiness in their risk-management programs.

Additional Outreach Initiatives

The Federal Reserve is participating in numerous outreach initiatives with the banking industry, trade associations, regulatory authorities, and other groups

that are hosting conferences, seminars, and training opportunities focusing on the Year 2000 and helping participants understand better the issues that need to be addressed. Partly in response to the requirements of the Examination Parity and Year 2000 Readiness for Financial Institutions Act, which calls for the banking agencies to conduct seminars for bankers on the Year 2000, the federal banking agencies have been working with state banking departments as well as national and local bankers' associations to develop coordinated and comprehensive efforts at improving the local and regional programs intended to focus attention on the Year 2000. In the first six months of 1998, the Federal Reserve has participated in more than 230 outreach initiatives reaching more than 14,000 bankers. Another 100 outreach initiatives are scheduled for the third quarter of 1998. In addition, our public web site provides extensive information on our Year 2000 supervision program and on other resources available to the industry to help prepare for the millennium.

INTERNATIONAL COORDINATION

International cooperation on Year 2000 has intensified over the past several months because of the efforts of the public sector Joint Year 2000 Council (Joint Council) and the private sector Global 2000 Coordinating Group (G-2000). As you recall from your hearings on international issues in June, Ernest Patrikas, then Chairman of the Joint Council and a senior official of the Federal Reserve Bank of New York, testified on the global efforts of the Joint Council to enhance international initiatives by financial regulators. His successor as Chairman of the Joint Council, Federal Reserve Governor Roger Ferguson, is continuing those efforts and is working closely with an external consultative committee composed of representatives from international financial services providers, international financial market associations, financial rating agencies, and a number of other international industry associations. The Joint Council is working to foster better awareness and understanding of Year 2000 issues on the part of regulators around the world; for example, the Joint Council is sponsoring a series of regional seminars for banking, insurance, and securities supervisors.

The G-2000 includes more than forty financial institutions from more than twenty countries that are addressing country assessments, testing, and contingency planning, as well as other issues. The group has developed a standard framework for assessing individual country preparations for the century date

change and also will address the Year 2000 readiness of financial institutions, service providers, and the countries' infrastructures. This framework is being used to collect information and assess the readiness of about twenty major countries by the end of this year, with others scheduled for in-depth reviews in 1999.

The Basle Committee on Banking Supervision continues to be active on Year 2000 issues, both within the Joint Council and separately, as part of its normal supervisory activities. Year 2000 will be a major issue to be discussed at the International Conference of Bank Supervisors in October. The Basle Committee is also planning a follow-up survey on Year 2000 progress.

CLOSING REMARKS

Financial institutions have made significant progress in renovating their systems to prepare for the Year 2000, and much has been accomplished to ensure the continuation of reliable services to the banking public at the century rollover. We are committed to a rigorous program of industry testing and contingency planning and, through our supervisory initiatives, to identifying those organizations that most need to apply additional attention to Year 2000 readiness. The Federal Reserve has renovated its mission-critical applications, and we are nearing the completion of our internal testing activities. To manage the risks posed by subsequent changes to these systems, the Federal Reserve has instituted guidelines to significantly limit policy, operational, hardware, and software changes during late 1999 and early 2000. Going forward, we will continue our industry and international coordination efforts, including participation in the President's Council on Year 2000 Conversion, the Joint Year 2000 Council, and trade associations, to assist the industry in preparing for the Year 2000.

In closing, I would like to thank the committee for its extensive efforts to focus the industry's attention on this significant matter. Awareness of the extent and importance of this challenge is a critical first step in meeting it, and the committee's participation has been most helpful.

For your convenience, I have attached a summary of the answers to the questions posed by the House and Senate Banking Committees.¹

1. The attachment to this statement is available from Publications Services, Mail Stop 127, Board of Governors of the Federal Reserve System, Washington, DC 20551, and on the Board's site on the World Wide Web (<http://www.federalreserve.gov>).

Statement by Alan Greenspan, Board of Governors of the Federal Reserve System, before the Committee on the Budget, U.S. Senate, September 23, 1998

The crisis in emerging market economies that began in Thailand a little more than a year ago spread to other economies in East Asia and Russia and has most recently been pressuring a number of economies in Latin America. There is little evidence to suggest that the contagion has subsided.

Moreover, the declines in Asian export markets only added to the difficulties in Japan, which was struggling with a pre-existing set of corrosive banking problems. Those difficulties have contributed to that economy's most protracted recession in the post-war era.

As I indicated several weeks ago to a university audience, it is just not credible that the United States, or for that matter Europe, can remain an oasis of prosperity unaffected by a world that is experiencing greatly increased stress.

With few signs that the financial crisis that started in Asia last year has subsided, or is about to do so, policymakers around the world have to be especially sensitive to the deepening signs of global distress, which can impact their own economies.

In emerging markets, after about six months of relative stability, heightened perceptions of credit risk erupted in mid-August, when Russia, which seemed to have been making progress toward greater stability, fell into renewed crisis.

Russia is not large in the world's trade accounts or critical to the stability of the international financial system. Nevertheless, the severity of its crisis and the authorities' inability to contain it reflected a significant jump of contagion out of East Asia, which, until then, had been assumed to have gone into remission.

The shock drove yields on dollar-denominated debt securities of emerging market economies sharply higher across the globe, engulfing economies that are as radically different as Korea, Brazil, Poland, South Africa, and China. To be sure, some yields have increased only 1 to 2 percentage points, while others have risen 10 points or more. But all these economies have experienced stress. The flight to safety has significantly augmented the demand for U.S. Treasury securities, whose yields have declined in tandem with the increases in yields on most dollar-denominated sovereign debt in international bond markets.

In recent weeks, that shift internationally has also been accompanied by a rising concern for risk in the United States, presumably reflecting the fear that the contagion would adversely affect our economy.

When I testified before the Congress in July, I noted that some of the effects of the international crisis had actually been positive for the U.S. financial markets and economy, for example, by lowering long-term interest rates paid by our households and businesses. However, the most recent more virulent phase of the crisis has infected our markets as well. Concerns about business profits and a general pulling back from risk-taking in the midst of great uncertainty around the globe have driven down stock prices and pushed up rates on the bonds of lower-rated borrowers. Flows of funds through financial markets have been disrupted, at least temporarily. Issuance of equity, and of bonds by lower-rated corporations, has come virtually to a halt; even investment-grade companies have cut back substantially on their borrowing in capital markets. Banks also are reportedly becoming more cautious and more expensive lenders to many companies.

There is little evidence to date, however, that foreign problems or the tightening in financial conditions in domestic markets have produced any significant underlying weakness in the American economy as a whole. Moreover, labor markets remain tight, and hourly compensation has continued to grow more rapidly. Nonetheless, the increases in overall costs and the consumer price index have been held to modest levels by reasonably good productivity advances, lower oil prices, and foreign competition.

However, looking forward, the restraining effects of recent developments on the U.S. economy are likely to intensify. As I noted in congressional testimony last week, we can already see signs of the erosion of production around the edges, especially in manufacturing. Disappointing profits in a number of industries and less rapid expansion of sales suggest some stretching out of capital investment plans in the months ahead. Lower equity prices and higher financing costs should damp household and business spending, and greater uncertainty and risk aversion may also lead to more cautious spending behavior.

When I testified on monetary policy in July, I explained that the Federal Open Market Committee was concerned that high—indeed rising—demand for labor could produce cost pressures on our economy that would disrupt the ongoing expansion. I also noted that a high real federal funds rate was a necessary offset to expansionary conditions elsewhere in financial markets. By mid-August the Committee believed that disruptions abroad and more cautious behavior by investors at home meant that the risks to the expansion had become evenly balanced. Since then, deteriorating foreign economies and their spillover to domestic markets have increased the possibil-

ity that the slowdown in the growth of the American economy will be more than sufficient to hold inflation in check.

As I have indicated in earlier presentations, the dramatic advances in computer and telecommunications technologies over the past decade have fostered a marked increase in the degree of sophistication of financial products. A vast new array of debt, equity, and hybrid instruments, as well as newly crafted derivative products, have fostered an unbundling of risks, which, in turn, has enabled investors to optimize (as they see it) their portfolios of financial assets. This has engendered a set of market prices and interest rates that have guided business organizations increasingly toward producing those capital investments that offer the highest long-term rates of return, that is, those investments that most closely align themselves with the prospective value preferences of consumers. This process has effectively directed scarce savings into our most potentially valuable productive capital assets. The result, especially in the United States, where financial innovations are most advanced, has been an evident acceleration in productivity and standards of living, and, because of the financial sector's increased contribution to the process, a greater share of national income earned by it over the past decade.

The new financial innovations, which have spread at a quickened pace, have facilitated a rapid expansion of cross-border investment and trade, and almost surely, as a consequence, a significant increase in standards of living for those nations that have chosen to participate in what can appropriately be called our new international financial system. The system is new in the sense that its dynamics appear somewhat more accelerated relative to the international financial structure of, say, fifteen or twenty years ago. Because of the newer technologies, market prices have become more sensitively tuned to subtle changes in preferences and, hence, react to those changes far faster than in previous generations. The system is productive of increased standards of living and more sensitive to capital misuse. It is a system more calibrated than before to not only reward innovation but also to discipline the mistakes of private investment or public policy.

Thus, the crises that have emerged out of this new financial structure, while sharing most of the characteristics of past episodes, nonetheless, appear different in important ways. It is not yet clear whether recent crises are deeper than in the past or just triggered more readily.

In early 1995, I characterized the Mexican crisis as the first crisis of this new international financial sys-

tem. The crisis that started in East Asia more than a year ago is its second.

Since the Mexican crisis, policymakers have been engaged in an accelerated learning process of how this new system works.

There are certain elements that are becoming evident.

The sensitivity of market responses under the new regime has been underscored by the startling declines of exchange rates of some emerging market economies against the dollar, and most other major currencies, of 50 percent or more in response to what at first appeared to be relatively modest financial difficulties. Market discipline appears far more draconian and less forgiving than twenty or thirty years ago.

Capital, which in an earlier period may have flowed to a "merely adequate" profit environment, because of a lack of information or opportunity, now shifts predominantly to those ventures or economies that appear to excel. This capital, in times of stress, also flees more readily to securities and markets of unquestioned quality and liquidity.

It has taken the long-standing participants in the international financial community many decades to build sophisticated financial and legal infrastructures that buffer shocks. Those infrastructures discourage speculative attacks against a well-entrenched currency because financial systems are robust and are able to withstand vigorous policy responses to such attacks. For the more recent participants in global finance, their institutions, until recently, had not been tested against the rigors of major league pitching, to use a baseball analogy.

The situation in many emerging market economies is illustrative. Under stress, fixed exchange rate arrangements have failed from time to time. Consequently, domestic currency interest rates, reflecting devaluation probability premiums, are almost always higher in emerging market economies with fixed exchange rates than in the economy of the major currency to which the emerging economy has chosen to peg. That currency is often the dollar.

This phenomenon, and its risky exploitation, is one important element in the current crisis and a symptom of what has gone wrong generally. What appeared to be a successful locking of currencies onto the dollar over a period of years in East Asia and elsewhere led, perhaps inevitably, to large borrowings of cheaper dollars to lend at elevated domestic interest rates, with the intermediary pocketing the devaluation risk premium. When the amount of unhedged dollar borrowings finally became excessive, as was almost inevitable, the exchange rate broke. Incidentally, it also broke in Sweden in 1992,

when large borrowings of deutsche marks to lend in krona at higher interest rates met the same fate. Such episodes are not uncommon, suggesting that investors, even sophisticated ones, are prone to this type of gambling.

This heightened sensitivity of exchange rates of emerging economies under stress would be of less concern if banks and other financial institutions in those economies were strong and well capitalized. Developed countries' banks are highly leveraged but subject to sufficiently effective supervision so that, in most countries, banking problems do not escalate into international financial crises. Most banks in emerging nations are also highly leveraged, but their supervision often has not proved adequate to forestall failures and a general financial crisis. The failure of some banks is highly contagious to other banks and businesses that deal with them.

This weakness in banking supervision in emerging market economies was not a major problem for the rest of the world before those economies' growing participation in the international financial system over the past decade or so. Exposure of an economy to short-term capital inflows, before its financial system is sufficiently sturdy to handle a large unanticipated withdrawal, is a highly risky venture.

It, thus, seems clear that some set of standards for participation in the new highly sensitive international financial system is essential to its effective functioning. There are many ways to promulgate such standards without developing an inappropriately exclusive and restrictive club of participants.

One is far greater transparency in the way domestic finance operates and is supervised. This is essential if investors are to make more knowledgeable commitments and supervisors are to judge the soundness of such commitments by their financial institutions.

A better understanding of financial regimes as yet unseasoned in the vicissitudes of our international financial system also will enable counterparties to more appropriately evaluate the credit standing of institutions investing in such financial systems. There is no mechanism, however, to insulate investors from making foolish decisions, but some of the ill-advised investing of recent years can be avoided in the future if investors, their supervisors, and counterparties, are more appropriately forewarned.

To the extent that policymakers are unable to anticipate or evaluate the types of complex risks that the newer financial technologies are producing, the answer, as it always has been, is less leverage, that is, less debt, more equity, and, hence, a larger buffer against adversity and contagion.

I must also stress the obvious necessity of sound monetary and fiscal policies whose absence was so often the cause of earlier international financial crises. With increased emphasis on private international capital flows, especially interbank flows, private misjudgments within flawed economic structures have been the major contributors to recent problems. But inappropriate macropolicies also have been a factor for some emerging market economies in the current crisis.

Improvements in transparency, commercial and legal structures, as well as supervision that I, and my colleagues, have supported in recent months cannot be implemented quickly. Such improvements and the transition to a more effective and stable international financial system will take time. The current crisis, accordingly, will have to be addressed with ad hoc remedies. It is essential, however, that those remedies not conflict with a broader vision of how our new international financial system will function as we enter the next century. □

Announcements

EASING OF THE STANCE OF MONETARY POLICY BY THE FEDERAL OPEN MARKET COMMITTEE

The Federal Open Market Committee decided on September 29, 1998, to ease the stance of monetary policy slightly, expecting the federal funds rate to decline $\frac{1}{4}$ percentage point to around $5\frac{1}{4}$ percent.

The action was taken to cushion the effects on prospective economic growth in the United States of increasing weakness in foreign economies and of less accommodative financial conditions domestically. The recent changes in the global economy and adjustments in U.S. financial markets mean that a slightly lower federal funds rate should now be consistent with keeping inflation low and sustaining economic growth going forward.

The discount rate remains unchanged at 5 percent.

TENTATIVE SCHEDULE FOR MEETINGS OF THE FEDERAL OPEN MARKET COMMITTEE

The Federal Open Market Committee (FOMC) has released the following schedule for its meetings in 1999: February 2–3; March 30; May 18; June 29–30; August 24; October 5; November 16; and December 21. The schedule is *tentative* in light of the Committee's practice of confirming the date for each meeting at the preceding meeting. FOMC meetings are held on Tuesdays unless otherwise noted.

The FOMC is composed of the seven members of the Board of Governors and five of the twelve Reserve Bank presidents. The president of the Federal Reserve Bank of New York is a permanent member; the other presidents serve one-year terms on a rotating basis.

The FOMC oversees open market operations, which is the main tool used by the Federal Reserve to influence money market conditions and the growth of money and credit. In addition, the FOMC directs operations undertaken by the Federal Reserve in foreign exchange markets.

The Federal Reserve Bank Presidents voting in 1999 will be the following: William J. McDonough, New York; Edward G. Boehne, Philadelphia; Michael H. Moskow, Chicago; Robert D. McTeer, Jr., Dallas; and Gary H. Stern, Minneapolis.

MEETING OF THE CONSUMER ADVISORY COUNCIL

The Federal Reserve Board announced on September 17, 1998, that the Consumer Advisory Council would meet on Thursday, October 22, in a meeting open to the public. The Council's function is to advise the Board on the exercise of its responsibilities under the Consumer Credit Protection Act and on other matters on which the Board seeks its advice.

AMENDMENT TO REGULATION C

The Federal Reserve Board on September 25, 1998, published a final rule amending Regulation C (Home Mortgage Disclosure). The rule requires a lender to report dates on the loan-application register using four digits for the year, rather than two, to bring reporting under the Home Mortgage Disclosure Act into compliance with Year 2000 data system standards.

Other amendments make several technical changes to the regulation, including clarifying the coverage of nondepository institutions and deleting the requirement to provide the name and address of the reporting institution's parent company on the transmittal sheet.

AMENDMENTS TO REGULATION E, REGULATION DD, AND REGULATION M

The Federal Reserve Board, on September 24, 1998, published a final rule amending Regulation E (Electronic Fund Transfers), to revise the time periods for investigating errors involving point-of-sale (POS) debit cards, foreign transactions, and new accounts.

- For POS and foreign transactions, the rule requires a financial institution to provisionally credit an account within ten business days (rather than twenty) and leaves in place the ninety-calendar-day period to complete the investigation.

- For new accounts, the rule allows a financial institution twenty business days to resolve an alleged

error before it must provisionally credit the consumer's account and up to ninety calendar days to complete the investigation.

The Board is also publishing final amendments to Regulation DD (Truth in Savings) and Regulation M (Consumer Leasing). The revisions to Regulation DD implement minor changes to the Truth in Savings Act concerning lobby signs and certain disclosures for automatically renewable time accounts, such as certificates of deposit. The Regulation M revisions clarify rules on lease payments, advertisements, and rounding calculations.

ISSUANCE OF A SUPERVISORY LETTER ON INTERNAL CREDIT RATING SYSTEMS

The Federal Reserve on September 21, 1998, issued a supervisory letter that emphasizes the importance of developing and implementing effective internal credit rating systems and stresses the important role such systems should play in credit risk management, especially at large banking organizations.

The letter instructs examiners to evaluate the adequacy of such systems as an element of the normal supervisory process and tells examiners to consider the results of that evaluation in assessing an institution's risk management, capital adequacy, and asset quality. To assist examiners in their evaluation, the letter describes sound practices in the design of risk-rating systems and in the internal processes by which banks assign and validate risk ratings. The letter also addresses current and emerging practices in the application of risk ratings to several key areas of large banks' overall risk-management processes.

Internal credit risk ratings are used by large banking institutions to identify gradations in credit risk among their business loans. The supervisory letter grows out of a Federal Reserve staff analysis of internal credit risk rating systems and exposures at large institutions. The long-term goal of this analysis is to encourage broader adoption of sound practices in the use of such ratings and to promote further innovation and enhancements by the industry in this area.

ISSUANCE BY THE BASLE COMMITTEE OF A PAPER ON INTERNAL CONTROL SYSTEMS

As part of its ongoing work to improve risk-management standards in banks, the Basle Committee on Banking Supervision (Basle Committee)

issued a paper on September 22, 1998, entitled *Framework for Internal Control Systems of Banking Organisations*. In this paper, the Basle Committee presents the first internationally accepted framework for supervisors to use in evaluating the effectiveness of the internal controls over all on- and off-balance-sheet activities of banking organizations. The paper describes elements that are essential to a sound internal control system, recommends principles that supervisors can apply in evaluating such systems, and discusses the role of bank supervisors and external auditors in this assessment process. It also comments on the lessons learned from recent internal control failures.

The internal control framework described in the paper is designed for international banking organizations. The guidance is broadly consistent with the document of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) entitled *Internal Control-Integrated Framework* that is extensively used by larger U.S. banks. The paper is being distributed to supervisory authorities around the world, to banks, and to other interested parties.

The paper was previously issued as a proposal for public comment in January 1998. Before this proposal, the Basle Committee's guidance had discussed internal controls in specific areas of bank activities, such as interest rate risk and trading and derivatives activities.

The Basle Committee's press release and the paper can be obtained from the Internet (<http://www.bis.org>) or from the Basle Committee Secretariat at the Bank for International Settlements.

ISSUANCE BY THE BASLE COMMITTEE OF PAPERS ON RISK-MANAGEMENT STANDARDS IN BANKS

The Basle Committee on Banking Supervision (Basle Committee) issued on September 22, 1998, two papers entitled *Enhancing Bank Transparency* and *Operational Risk Management* as part of its ongoing work to improve risk-management standards in banks.

The paper on bank transparency gives guidelines to banks and bank supervisors on public disclosures in bank financial reports. It recommends that banks make meaningful disclosure in six broad areas: financial performance; financial position (including capital, solvency, and liquidity); risk-management strategies and practices; risk exposures (including credit risk, market risk, liquidity risk, and operational, legal, and other risks); accounting policies; and basic busi-

ness, management, and corporate governance information. The Basle Committee strongly recommends that banks address these categories in their financial reports and in other disclosures to the public. Within each broad area, significant detail in disclosures may be required, depending in part on the institution's activities.

The paper on operational risk management makes public the results of recent interviews with major banks in the Group of Ten countries on their management of operational risk. The purpose of these interviews was to assess the current state of the art of operational risk management. The survey results indicate that, while senior management's awareness of operational risk has been increasing, most banks are only in the early stages of developing a framework for measuring and monitoring operational risk. The Basle Committee intends to continue monitoring developments in this area.

The text of these reports can be obtained from the Bank for International Settlements (BIS) web site on the Internet (<http://www.bis.org>). They are also available from the Basle Committee's Secretariat at the BIS and from the Basle Committee member bank supervisory authorities and central banks.

*STATEMENT BY CHAIRMAN GREENSPAN
ON THE NOMINATION OF EDWIN M. TRUMAN
AS ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS*

Chairman Greenspan, on behalf of the Federal Reserve Board, on October 7, 1998, issued the following statement on the announcement of President

Clinton's intention to nominate Edwin M. Truman, Staff Director, Division of International Finance, as Assistant Secretary of the Treasury for International Affairs:

Our valued associate and good friend Ted Truman has been an integral fixture of the Federal Reserve for twenty-six years. His influence has been both pervasive and beneficial and while we will miss him, we wish him well in his new association and expect the continuing benefit of his wisdom.

CHANGES IN BOARD STAFF

The Federal Reserve Board on October 7, 1998, announced the appointments of Karen H. Johnson as Director of the Division of International Finance and Lewis S. Alexander and Peter Hooper as Deputy Directors, all effective October 17, 1998.

Ms. Johnson joined the Board's staff in 1979, was promoted to Assistant Director in 1985, and has been Associate Director since 1997.

Mr. Alexander first joined the Board's staff in 1985, left to become the Chief Economist of the Department of Commerce in 1993, rejoined the staff in 1996, and was promoted to Associate Director in 1997.

Mr. Hooper joined the Board's staff in 1973, was promoted to Assistant Director in 1984, and has been Associate Director since 1997.

Effective October 17, 1998, Edwin M. Truman became Senior Adviser. President Clinton has announced his intention to nominate Mr. Truman as Assistant Secretary of the Treasury for International Affairs. □

Legal Developments

FINAL RULE—AMENDMENT TO REGULATION C

The Board of Governors is amending 12 C.F.R. Part 203, its Regulation C, which implements the Home Mortgage Disclosure Act. The amendments: modify the Loan Application Register to prepare for Year 2000 data systems conversion; delete the requirement to enter the reporting institution's parent company on the Transmittal Sheet; and make certain other technical changes to the regulation and reporting forms.

Effective September 24, 1998, 12 C.F.R. Part 203 is amended as follows, and the amendments apply to data collected for calendar year 1998, to be reported by March 1, 1999.

Part 203—Home Mortgage Disclosure (Regulation C)

1. The authority citation for Part 203 continues to read as follows:

Authority: 12 U.S.C. 2801-2810.

2. Section 203.1 is amended by revising the last sentence of paragraph (a) to read as follows:

Section 203.1—Authority, purpose, and scope.

- (a) *Authority.* * * * The information-collection requirements have been approved by the U.S. Office of Management and Budget under 44 U.S.C. 3501 *et seq.* and have been assigned OMB Numbers 1557-0159, 3064-0046, 1550-0021, and 7100-0247 for institutions reporting data to the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, and the Federal Reserve System, respectively; numbers for the National Credit Union Administration and the Department of Housing and Urban Development are pending.

* * * * *

3. Section 203.3 is amended as follows:
 - a. Paragraphs (a)(1) introductory text and (a)(2) introductory text are republished;
 - b. Paragraph (a)(1)(ii) is revised; and
 - c. Paragraph (a)(2)(ii) is revised.

The revisions read as follows:

Section 203.3—Exempt Institutions.

- (a) *Exemption based on location, asset size, or number of home purchase loans.*

- (1) A bank, savings association, or credit union is exempt from the requirements of this regulation for a given calendar year if on the preceding December 31:

(i) * * *

- (ii) The institution's total assets were at or below the asset threshold established by the Board. The asset threshold was adjusted from \$10 million to \$28 million as of December 31, 1996. For subsequent years, the Board will adjust the threshold based on the year-to-year change in the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers, not seasonally adjusted, for each twelve-month period ending in November, with rounding to the nearest million. The Board will publish any adjustment to the asset figure in December in the staff commentary.

- (2) A for-profit mortgage lending institution (other than a bank, savings association, or credit union) is exempt from the requirements of this regulation for a given calendar year if:

(i) * * *

- (ii) The institution's total assets combined with those of any parent corporation were \$10 million or less on the preceding December 31, and the institution originated fewer than 100 home purchase loans (including refinancings of home purchase loans) in the preceding calendar year.

* * * * *

4. In Appendix A to part 203 under the heading Paperwork Reduction Act Notice, the undesignated paragraph is revised to read as follows:

Appendix A to Part 203—Form and Instructions for Completion of HMDA Loan/Application Register

Paperwork Reduction Act Notice

This report is required by law (12 U.S.C. 2801-2810 and 12 C.F.R. Part 203). An agency may not conduct or sponsor, and an organization is not required to respond to, a collection of information unless it displays a currently valid OMB Control Number. The OMB Control Numbers for this information collection are 1557-0159, 3064-0046, 1550-0021, and 7100-0247 for institutions reporting data

TRANSMITTAL SHEET

Reporter's Identification Number	Agency Code	Reporter's Tax Identification Number	Total line entries contained in attached Loan/Application Register
1 2 3 4 5 6 7 8 9 0 -		1 2 3 4 5 6 7 8 9 0 -	

Enter the name and address of your institution. The disclosure statement that is produced by the Federal Financial Institutions Examination Council will be mailed to the address you supply below:

Name of Institution
Address
City, State, ZIP

Name

() _____
Telephone Number

() _____
Facsimile Number

An officer of your institution must complete the following section.

I certify to the accuracy of the data contained in this register.

Name of Officer	Signature	Date

Agency
Code

Reporter's Identification Number

All columns (except Reasons for Denial) must be completed for each entry. See the instructions for details.

[illegible]

to the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, and the Federal Reserve System, respectively; numbers for the National Credit Union Administration and the Department of Housing and Urban Development are pending. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing the burden, to the respective agencies and to the Office of Information and Regulatory Affairs, Office of Management and Budget, Washington, D.C. 20503.

* * * * *

5. Appendix A to Part 203 is amended as follows:

- a. Paragraph I.A.2. is revised;
- b. Paragraphs V.A.2. and V.A.3. are revised;
- c. In paragraph V.B.3.. the introductory text is revised; and
- d. Paragraph V.E.1. introductory text is republished and paragraph V.E.1.4 is revised.

The revisions read as follows:

I. WHO MUST FILE A REPORT

A. *Depository Institutions*

1. * * *

2. The asset threshold was adjusted from \$10 million to \$28 million as of December 31, 1996. Any adjustment to the asset threshold for depository institutions will be published by the Board in December in the staff commentary.

* * * * *

V. INSTRUCTIONS FOR COMPLETION OF LOAN/ APPLICATION REGISTER

A. *Application or Loan Information*

1. * * *

2. *Date application received.* For paper submissions only, enter the date the loan application was received by your institution by month, day, and year, using numerals in the form MM/DD/CCYY (for example, 01/15/1999). For institutions submitting data in electronic form, the proper format is CCYYMMDD. If your institution normally records the date shown on the application form, you may use that date instead. Enter "NA" for loans purchased by your institution.
3. *Type.* Indicate the type of loan or application by entering the applicable code from the following:
 - 1 — Conventional (any loan other than FHA, VA, FSA, or RHS loans)
 - 2 — FHA-insured (Federal Housing Administration)
 - 3 — VA-guaranteed (Veterans Administration)
 - 4 — FSA/RHS-guaranteed (Farm Service Agency or Rural Housing Service)

* * * * *

B. *Action Taken*

* * * * *

3. *Date of action.* For paper submissions only, enter the date by month, day, and year, using numerals in the form MM/DD/CCYY (for example, 02/22/1999). For institutions submitting data in electronic form, the proper format is CCYYMMDD.

* * * * *

E. *Type of Purchaser*

1. Enter the applicable code to indicate whether a loan that your institution originated or purchased was then sold to a secondary market entity within the same calendar year:

* * * * *

- 4 — FAMC (Federal Agricultural Mortgage Corporation)

* * * * *

6. In Appendix A, the Loan/Application Register Transmittal Sheet is revised to read as follows:

(The Transmittal Sheet appears on p. 944.)

7. In Appendix A, the Loan/Application Register is revised to read as follows:

(The Loan/Application Register appears on p. 945.)

8. In Appendix A, the Loan/Application Register Code Sheet is revised to read as follows:

Loan/Application Register Code Sheet

Use the following codes to complete the Loan/Application Register. The instructions to the HMDA-LAR explain the proper use of each code.

Application or Loan Information

Type:

- 1 — Conventional (any loan other than FHA, VA, FSA, or RHS loans)
- 2 — FHA-insured (Federal Housing Administration)
- 3 — VA-guaranteed (Veterans Administration)
- 4 — FSA/RHS-guaranteed (Farm Service Agency or Rural Housing Service)

Purpose:

- 1 — Home purchase (one-to-four family)
- 2 — Home improvement (one-to-four family)
- 3 — Refinancing (home purchase or home improvement, one-to-four family)
- 4 — Multifamily dwelling (home purchase, home improvement, and refinancings)

Owner-Occupancy:

- 1 — Owner-occupied as a principal dwelling

- 2 — Not owner-occupied
- 3 — Not applicable

Action Taken:

- 1 — Loan originated
- 2 — Application approved but not accepted
- 3 — Application denied by financial institution
- 4 — Application withdrawn by applicant
- 5 — File closed for incompleteness
- 6 — Loan purchased by your institution

*Applicant Information:**Race or National Origin:*

- 1 — American Indian or Alaskan Native
- 2 — Asian or Pacific Islander
- 3 — Black
- 4 — Hispanic
- 5 — White
- 6 — Other
- 7 — Information not provided by applicant in mail or telephone application
- 8 — Not applicable

Sex:

- 1 — Male
- 2 — Female
- 3 — Information not provided by applicant in mail or telephone application
- 4 — Not applicable

Type of Purchaser:

- 0 — Loan was not originated or was not sold in calendar year covered by register
- 1 — FNMA (Federal National Mortgage Association)
- 2 — GNMA (Government National Mortgage Association)
- 3 — FHLMC (Federal Home Loan Mortgage Corporation)
- 4 — FAMC (Federal Agricultural Mortgage Corporation)
- 5 — Commercial bank
- 6 — Savings bank or savings association
- 7 — Life insurance company
- 8 — Affiliate institution
- 9 — Other type of purchaser

Reasons for Denial (optional):

- 1 — Debt-to-income ratio
- 2 — Employment history
- 3 — Credit history
- 4 — Collateral
- 5 — Insufficient cash (down payment, closing costs)
- 6 — Unverifiable information
- 7 — Credit application incomplete
- 8 — Mortgage insurance denied
- 9 — Other

FINAL RULE — AMENDMENT TO REGULATION E

The Board of Governors is amending 12 C.F.R. Part 205, its Regulation E (Electronic Fund Transfers). The amendment to the final rule is revising the time periods for investigating alleged errors involving point-of-sale and foreign-initiated transactions. The former rule extended the statutory time periods for these transactions to allow financial institutions a longer period to investigate before they must provisionally credit an account and a longer period to complete an investigation. The final rule requires financial institutions to provisionally credit an account within 10 business days (rather than 20) and leaves in place the 90 calendar day period to complete the investigation of an alleged error.

At the same time, the Board is extending the time periods to provisionally credit funds and investigate claims involving new accounts. The rule applies to claims made within 30 calendar days after an account is opened. The rule allows 20 business days for resolving an alleged error and up to 90 calendar days for completing the investigation.

Effective September 24, 1998, 12 C.F.R. Part 205 is revised as follows, and compliance is optional until April 1, 1999.

Part 205—Electronic Fund Transfers (Regulation E)

1. The authority citation for Part 205 continues to read as follows:

Authority: 15 U.S.C. 1693-1693r.

2. Section 205.11 is amended by revising paragraph (c)(3) as follows:

Section 205.11—Procedures for resolving errors.

* * * * *

(c) * * *

- (3) *Extension of time periods.* The time periods in paragraphs (c)(1) and (c)(2) of this section are extended as follows:

- (i) The applicable time is 20 business days in place of ten business days under paragraphs (c)(1) and (c)(2) of this section if the notice of error involves an electronic fund transfer to or from the account within 30 days after the first deposit to the account was made.
- (ii) The applicable time is 90 days in place of 45 days under paragraph (c)(2) of this section, for completing an investigation, if a notice of error involves an electronic fund transfer that:
 - (A) Was not initiated within a state;
 - (B) Resulted from a point-of-sale debit card transaction; or

- (C) Occurred within 30 days after the first deposit to the account was made.

* * * * *

3. In Appendix A to Part 205, in A-3 Model Forms for Error Resolution Notice (Sections 205.7(b)(10) and 205.8(b)), the undesignated second and third paragraphs following paragraph (a)(3) are revised to read as follows:

Appendix A to Part 205—Model Disclosure Clauses and Forms

* * * * *

Model Forms for Error Resolution Notice (Sections 205.7(b)(10) and 205.8(b))

- (a) *Initial and annual error resolution notice (Sections 205.7(b)(10) and 205.8(b))*

* * * * *

We will determine whether an error occurred within ten business days after we hear from you and will correct any error promptly. If we need more time, however, we may take up to 45 days to investigate your complaint or question. If we decide to do this, we will credit your account within ten business days for the amount you think is in error, so that you will have the use of the money during the time it takes us to complete our investigation. If we ask you to put your complaint or question in writing and we do not receive it within 10 business days, we may not credit your account.

We will tell you the results within three business days after completing our investigation. If we decide that there was no error, we will send you a written explanation. You may ask for copies of the documents that we used in our investigation.

FINAL RULE—AMENDMENT TO REGULATION M

The Board of Governors is amending 12 C.F.R. Part 213, its Regulation M, which implements the Consumer Leasing Act. The Act requires lessors to provide consumers with uniform cost and other disclosures about consumer lease transactions. The final rule adopts several technical amendments to the regulation and commentary concerning lease payments, advertisements, and the treatment of taxes.

Effective September 24, 1998, 12 C.F.R. Part 213 is amended as follows, and compliance is optional until October 1, 1999.

Part 213—Consumer Leasing (Regulation M)

1. The authority citation for Part 213 is revised to read as follows:

Authority: 15 U.S.C. 1604; 1667f.

2. Section 213.4 is amended by revising paragraph (f)(8) to read as follows:

Section 213.4—Content of disclosures.

* * * * *

- (f) *Payment calculation.* * * *

- (8) *Lease payments.* The lease payments with a description such as “the number of payments in your lease.”

* * * * *

3. Section 213.7 is amended by revising paragraph (d)(1)(ii) to read as follows:

Section 213.7—Advertising.

* * * * *

- (d) *Advertising of terms that require additional disclosure.*

- (1) *Triggering terms.* * * *

- (ii) A statement of any capitalized cost reduction or other payment (or that no payment is required) prior to or at consummation or by delivery, if delivery occurs after consummation.

* * * * *

4. Appendix A to part 213 is amended by revising Appendix A-1, Appendix A-2, and Appendix A-3 to read as follows:

5. In Supplement I to Part 213—Official Staff Commentary to Regulation M, under Section 213.4—Content of Disclosures, the following amendments are made:

- A new paragraph 4(f)(7) *Total of Base Periodic Payments* is added in numerical order.
- The heading to paragraph 4(f)(8) and paragraph 1. are revised.
- Under paragraph 4(n) *Fees and taxes*, paragraph 1.ii. is revised.
- Under *Appendix A—Model Forms*, paragraph 2.v. is revised.

The addition and revisions read as follows:

Supplement I to Part 213—Official Staff Commentary to Regulation M

* * * * *

Section 213.4—Content of Disclosures

* * * * *

4(f)(7) Total of Base Periodic Payments

1. *Accuracy of disclosure.* If the periodic payment calculation under section 213.4(f) has been calculated correctly, the amount disclosed under section 213.4(f)(7)—the total of base periodic payments—is correct for disclosure purposes even if that amount differs from the base periodic payment disclosed under section 213.4(f)(9) multiplied by the number of lease payments disclosed under section 213.4(f)(8), when the difference is due to rounding.

* * * * *

4(f)(8) Lease Payment

1. *Lease Term.* The lease term may be disclosed among the segregated disclosures.

* * * * *

4(n) Fees and taxes.

1. *Treatment of certain taxes.* * * *
 - ii. Taxes that are part of the scheduled payments are reflected in the disclosure under sections 213.4(c), (f), and (n).

* * * * *

APPENDIX A—MODEL FORMS

* * * * *

2. *Examples of acceptable changes.* * * *
 - v. Deleting or blocking out inapplicable disclosures, filling in “N/A” (not applicable) or “0,” crossing out, leaving blanks, checking a box for applicable items, or circling applicable items (this should facilitate use of multipurpose standard forms).

(The Model Forms appear on pp. 950–955.)

FINAL RULE—AMENDMENT TO REGULATION DD

The Board of Governors is amending 12 C.F.R. Part 230, its Regulation DD, which implements the Truth in Savings Act. The final rule implements amendments to the Truth in Savings Act enacted as part of the Economic Growth and Regulatory Paperwork Reduction Act of 1996. The law

modifies the rules for indoor lobby signs, eliminates subsequent disclosure requirements for automatically renewable time accounts with terms of one month or less, and repeals the civil liability provisions as of September 30, 2001.

Effective September 24, 1998, 12 C.F.R. Part 230 is amended as follows:

Part 230—Truth in Savings (Regulation DD)

1. The authority citation for Part 230 continues to read as follows:

Authority: 12 U.S.C. 4301 *et seq.*

2. Section 230.5 is amended by removing paragraph (c) and redesignating paragraph (d) as new paragraph (c).
3. Section 230.8 is amended by revising paragraph (e)(2)(i) to read as follows:

Section 230.8—Advertising.

* * * * *

- (c) *Exemption for certain advertisements.* * * *

(2) *Indoor signs.*

- (i) Signs inside the premises of a depository institution (or the premises of a deposit broker) are not subject to paragraphs (b), (c), (d) or (e)(1) of this section.

* * * * *

4. Section 230.9 is amended by revising paragraph (b) to read as follows:

Section 230.9—Enforcement and record retention.

* * * * *

- (b) *Civil liability.* Section 271 of the Act contains the provisions relating to civil liability for failure to comply with the requirements of the act and this part; Section 271 is repealed effective September 30, 2001.

* * * * *

Supplement I to Part 230—Official Staff Interpretation

5. In Supplement I to Part 230, in Section 230.5 Subsequent disclosures, under paragraph (c), paragraph 1. is removed.
6. In Supplement I to Part 230, in Section 230.8 Advertising, under paragraph (e)(2)(i), paragraph 2. is removed.

Appendix A-1 Model Open-End or Finance Vehicle Lease Disclosures

Federal Consumer Leasing Act Disclosures

Date _____

Lessor(s) _____

Lessee(s) _____

Amount Due at Lease Signing or Delivery (Itemized below)* \$ _____	Monthly Payments Your first monthly payment of \$ _____ is due on _____, followed by _____ payments of \$ _____ due on the _____ of each month. The total of your monthly payments is \$ _____.	Other Charges (not part of your monthly payment) Disposition fee (if you do not purchase the vehicle) \$ _____ _____ Total \$ _____	Total of Payments (The amount you will have paid by the end of the lease) \$ _____ You will owe an additional amount if the actual value of the vehicle is less than the residual value.
---	---	---	--

*** Itemization of Amount Due at Lease Signing or Delivery****Amount Due At Lease Signing or Delivery:****How the Amount Due at Lease Signing or Delivery will be paid:**

Capitalized cost reduction \$ _____
 First monthly payment _____
 Refundable security deposit _____
 Title fees _____
 Registration fees _____

 Total \$ _____

Net trade-in allowance \$ _____
 Rebates and noncash credits _____
 Amount to be paid in cash _____

 Total \$ _____

Your monthly payment is determined as shown below:

Gross capitalized cost. The agreed upon value of the vehicle (\$ _____) and any items you pay over the lease term (such as service contracts, insurance, and any outstanding prior credit or lease balance) \$ _____

If you want an itemization of this amount, please check this box. ☐

Capitalized cost reduction. The amount of any net trade-in allowance, rebate, noncash credit, or cash you pay that reduces the gross capitalized cost - _____

Adjusted capitalized cost. The amount used in calculating your base monthly payment = _____

Residual value. The value of the vehicle at the end of the lease used in calculating your base monthly payment - _____

Depreciation and any amortized amounts. The amount charged for the vehicle's decline in value through normal use and for other items paid over the lease term + _____

Rent charge. The amount charged in addition to the depreciation and any amortized amounts = _____

Total of base monthly payments. The depreciation and any amortized amounts plus the rent charge + _____

Lease payments. The number of payments in your lease = _____

Base monthly payment + _____

Monthly sales/use tax + _____

..... = \$ _____

Total monthly payment = \$ _____

Rent and other charges. The total amount of rent and other charges imposed in connection with your lease \$ _____

Early Termination. You may have to pay a substantial charge if you end this lease early. The charge may be up to several thousand dollars. The actual charge will depend on when the lease is terminated. The earlier you end the lease, the greater this charge is likely to be.

Excessive Wear and Use. You may be charged for excessive wear based on our standards for normal use [and for mileage in excess of _____ miles per year at the rate of _____ per mile].

Purchase Option at End of Lease Term. [You have an option to purchase the vehicle at the end of the lease term for \$ _____ [and a purchase option fee of \$ _____].] [You do not have an option to purchase the vehicle at the end of the lease term.]

Other Important Terms. See your lease documents for additional information on early termination, purchase options and maintenance responsibilities, warranties, late and default charges, insurance, and any security interest, if applicable.

Appendix A-1 Model Open-End or Finance Vehicle Lease Disclosures

Page 2 of 2

[The following provisions are the nonsegregated disclosures required under Regulation M.]

Description of Leased Property				
Year	Make	Model	Body Style	Vehicle ID #

Official Fees and Taxes. The total amount you will pay for official and license fees, registration, title, and taxes over the term of your lease, whether included with your monthly payments or assessed otherwise: \$ _____.

Insurance. The following types and amounts of insurance will be acquired in connection with this lease:

_____ We (lessor) will provide the insurance coverage quoted above for a total premium cost of \$ _____.

_____ You (lessee) agree to provide insurance coverage in the amount and types indicated above.

End of Term Liability. (a) The residual value (\$ _____) of the vehicle is based on a reasonable, good faith estimate of the value of the vehicle at the end of the lease term. If the actual value of the vehicle at that time is greater than the residual value, you will have no further liability under this lease, except for other charges already incurred [and are entitled to a credit or refund of any surplus.] If the actual value of the vehicle is less than the residual value, you will be liable for any difference up to \$ _____ (3 times the monthly payment). For any difference in excess of that amount, you will be liable only if:

1. Excessive use or damage [as described in paragraph ____] [representing more than normal wear and use] resulted in an unusually low value at the end of the term.

2. The matter is not otherwise resolved and we win a lawsuit against you seeking a higher payment.

3. You voluntarily agree with us after the end of the lease term to make a higher payment.

Should we bring a lawsuit against you, we must prove that our original estimate of the value of the leased property at the end of the lease term was reasonable and was made in good faith. For example, we might prove that the actual was less than the original estimated value, although the original estimate was reasonable, because of an unanticipated decline in value for that type of vehicle. We must also pay your attorney's fees.

(b) If you disagree with the value we assign to the vehicle, you may obtain, at your own expense, from an independent third party agreeable to both of us, a professional appraisal of the _____ value of the leased vehicle which could be realized at sale. The appraised value shall then be used as the actual value.

Standards for Wear and Use. The following standards are applicable for determining unreasonable or excess wear and use of the leased vehicle:

Maintenance.

[You are responsible for the following maintenance and servicing of the leased vehicle:

[We are responsible for the following maintenance and servicing of the leased vehicle:

Warranties. The leased vehicle is subject to the following express warranties:

Early Termination and Default. (a) You may terminate this lease before the end of the lease term under the following conditions:

The charge for such early termination is:

(b) We may terminate this lease before the end of the lease term under the following conditions:

Upon such termination we shall be entitled to the following charge(s) for:

(c) To the extent these charges take into account the value of the vehicle at termination, if you disagree with the value we assign to the vehicle, you may obtain, at your own expense, from an independent third party agreeable to both of us, a professional appraisal of the _____ value of the leased vehicle which could be realized at sale. The appraised value shall then be used as the actual value.

Security Interest. We reserve a security interest of the following type in the property listed below to secure performance of your obligation under this lease:

Late Payments. The charge for late payments is:

Option to Purchase Leased Property Prior to the End of the Lease. [You have an option to purchase the leased vehicle prior to the end of the term. The price will be \$ _____ / [the method of determining the price].] [You do not have an option to purchase the leased vehicle.]

Appendix A-2 Model Closed-End or Net Vehicle Lease Disclosures

Federal Consumer Leasing Act Disclosures

Date _____

Lessor(s) _____

Lessee(s) _____

Amount Due at Lease Signing or Delivery (Itemized below)* \$ _____	Monthly Payments Your first monthly payment of \$ _____ is due on _____, followed by _____ payments of \$ _____ due on the _____ of each month. The total of your monthly payments is \$ _____.	Other Charges (not part of your monthly payment) Disposition fee (if you do not purchase the vehicle) \$ _____ _____ Total \$ _____	Total of Payments (The amount you will have paid by the end of the lease) \$ _____
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*** Itemization of Amount Due at Lease Signing or Delivery****Amount Due At Lease Signing or Delivery:****How the Amount Due at Lease Signing or Delivery will be paid:**

Capitalized cost reduction \$ _____
 First monthly payment _____
 Refundable security deposit _____
 Title fees _____
 Registration fees _____

 Total \$ _____

Net trade-in allowance \$ _____
 Rebates and noncash credits _____
 Amount to be paid in cash _____

 Total \$ _____

Your monthly payment is determined as shown below:

Gross capitalized cost. The agreed upon value of the vehicle (\$ _____) and any items you pay over the lease term (such as service contracts, insurance, and any outstanding prior credit or lease balance) \$ _____

If you want an itemization of this amount, please check this box. ☐

Capitalized cost reduction. The amount of any net trade-in allowance, rebate, noncash credit, or cash you pay that reduces the gross capitalized cost = _____

Adjusted capitalized cost. The amount used in calculating your base monthly payment = _____

Residual value. The value of the vehicle at the end of the lease used in calculating your base monthly payment - _____

Depreciation and any amortized amounts. The amount charged for the vehicle's decline in value through normal use and for other items paid over the lease term = _____

Rent charge. The amount charged in addition to the depreciation and any amortized amounts + _____

Total of base monthly payments. The depreciation and any amortized amounts plus the rent charge = _____

Lease payments. The number of payments in your lease + _____

Base monthly payment = _____

Monthly sales/use tax + _____

..... = \$ _____

Total monthly payment = \$ _____

Early Termination. You may have to pay a substantial charge if you end the lease early. The charge may be up to several months' payments. The amount of charge will depend on when the lease is terminated. The earlier you end the lease, the greater the charge.

Excessive Wear and Use. You may be charged for excessive wear based on our standards for normal use [and for mileage in excess of _____ miles per year at the rate of _____ per mile].

Purchase Option at End of Lease Term. [You have an option to purchase the vehicle at the end of the lease term for \$ _____ [and a purchase option fee of \$ _____].] [You do not have an option to purchase the vehicle at the end of the lease term.]

Other Important Terms. See your lease documents for additional information on early termination, purchase options and maintenance responsibilities, warranties, late and default charges, insurance, and any security interest, if applicable.

Appendix A-2 Model Closed-End or Net Vehicle Lease Disclosures

Page 2 of 2

[The following provisions are the nonsegregated disclosures required under Regulation M.]

Description of Leased Property				
Year	Make	Model	Body Style	Vehicle ID #

Official Fees and Taxes. The total amount you will pay for official and license fees, registration, title, and taxes over the term of your lease, whether included with your monthly payments or assessed otherwise: \$ _____.

Insurance. The following types and amounts of insurance will be acquired in connection with this lease:

_____ We (lessor) will provide the insurance coverage quoted above for a total premium cost of \$ _____.

_____ You (lessee) agree to provide insurance coverage in the amount and types indicated above.

Standards for Wear and Use. The following standards are applicable for determining unreasonable or excess wear and use of the leased vehicle:

Maintenance.

[You are responsible for the following maintenance and servicing of the leased vehicle:

[We are responsible for the following maintenance and servicing of the leased vehicle:

Warranties. The leased vehicle is subject to the following express warranties:

Early Termination and Default. (a) You may terminate this lease before the end of the lease term under the following conditions:

The charge for such early termination is:

(b) We may terminate this lease before the end of the lease term under the following conditions:

Upon such termination we shall be entitled to the following charge(s) for:

(c) To the extent these charges take into account the value of the vehicle at termination, if you disagree with the value we assign to the vehicle, you may obtain, at your own expense, from an independent third party agreeable to both of us, a professional appraisal of the _____ value of the leased vehicle which could be realized at sale. The appraisal value shall then be used as the actual value.

Security Interest. We reserve a security interest of the following type in the property listed below to secure performance of your obligation under this lease:

Late Payments. The charge for late payments is: _____

Option to Purchase Leased Property Prior to the End of the Lease. [You have an option to purchase the leased vehicle prior to the end of the term. The price will be [\$ _____ / [the method of determining the price].] [You do not have an option to purchase the leased vehicle.]

Appendix A-3 Model Furniture Lease Disclosures

Federal Consumer Leasing Act Disclosures

Date _____

Lessor(s) _____ Lessee(s) _____

Description of Leased Property				
Item	Color	Stock #	Mfg.	Quantity

Amount Due at Lease Signing or Delivery First monthly payment \$ _____ Refundable security deposit \$ _____ Delivery/Installation fee \$ _____ _____ \$ _____ Total \$ _____	Monthly Payments Your first monthly payment of \$ _____ is due on _____, followed by _____ payments of \$ _____ due on the _____ of each month. The total of your monthly payments is \$ _____.	Other Charges (not part of your monthly payment) Pick-up fee \$ _____ _____ \$ _____ Total \$ _____	Total of Payments (The amount you will have paid by the end of the lease) \$ _____
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Purchase Option at End of Lease Term. [You have an option to purchase the leased property at the end of the lease term for \$ _____ [and a purchase option fee of \$ _____].] [You do not have an option to purchase the leased property at the end of the lease term.]

Other Important Terms. See your lease documents for additional information on early termination, purchase options and maintenance responsibilities, warranties, late and default charges, insurance, and any security interest, if applicable.

(The following provisions are the nonsegregated disclosures required under Regulation M.)

Official Fees and Taxes. The total amount you will pay for official fees, and taxes over the term of your lease, whether included with your monthly payments or assessed otherwise: \$ _____.

Insurance. The following types and amounts of insurance will be acquired in connection with this lease: _____.

_____ We (lessor) will provide the insurance coverage quoted above for a total premium cost of \$ _____.

_____ You (lessee) agree to provide insurance coverage in the amount and types indicated above.

Standards for Wear and Use. The following standards are applicable for determining unreasonable or excess wear and use of the leased property: _____.

Maintenance.

[You are responsible for the following maintenance and servicing of the leased property: _____.]

[We are responsible for the following maintenance and servicing of the leased property: _____.]

Warranties. The leased property is subject to the following express warranties: _____.

Early Termination and Default. (a) You may terminate this lease before the end of the lease term under the following conditions: _____.

The charge for such early termination is: _____.

(b) We may terminate this lease before the end of the lease term under the following conditions: _____.

Upon such termination we shall be entitled to the following charge(s) for: _____.

Early Termination and Default. (continued)

(c) To the extent these charges take into account the value of the leased property at termination, if you disagree with the value we assign to the property, you may obtain, at your own expense, from an independent third party agreeable to both of us, a professional appraisal of the _____ value of the property which could be realized at sale. The appraised value shall then be used as the actual value.

Security Interest. We reserve a security interest of the following type in the property listed below to secure performance of your obligations under this lease:

Late Payments. The charge for late payments is: _____.

Purchase Option Prior to the End of the Lease Term.

[You have an option to purchase the leased property prior to the end of the term. The price will be (\$ _____)/the method of determining the price].]

[You do not have an option to purchase the leased property.]

ORDERS ISSUED UNDER BANK HOLDING COMPANY ACT

Orders Issued Under Section 3 of the Bank Holding Company Act

First Mariner Bancorp Baltimore, Maryland

Order Approving Acquisition of Control of a Bank Holding Company

First Mariner Bancorp ("First Mariner"), a bank holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has requested the Board's approval under section 3 of the BHC Act (12 U.S.C. § 1842) to acquire control and up to 100 percent of the voting shares of Glen Burnie Bancorp ("Glen Burnie"), and thereby acquire control of The Bank of Glen Burnie ("Bank"), both of Glen Burnie, Maryland.¹

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (63 *Federal Register* 11,446 (1998)). The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 of the BHC Act.

First Mariner controls approximately \$223 million in deposits, representing less than 1 percent of total deposits in commercial banking organizations in the state of Maryland ("state deposits").² Glen Burnie controls approximately \$192 million in deposits, also representing less than 1 percent of state deposits. On consummation of the proposal, First Mariner would control approximately \$415 million in deposits.

Financial and Managerial Considerations

The BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and banks involved in the proposal. The management of Glen Burnie ("Commenter") has objected to the proposal, contending that First Mariner does not have the financial resources to acquire all the voting shares of Glen Burnie, particularly in light of Glen Burnie's shareholders rights plan.³ Commenter also contends that state law would effectively limit First Mariner to acquiring approximately

20 percent of the company's voting shares,⁴ and that First Mariner's position as a minority shareholder would cause dissension and disruption within the management of Glen Burnie.⁵

The Board has carefully considered the comments in light of all the facts of record, including supervisory reports of examination assessing the financial and managerial strength of the institutions involved, accounting adjustments that Commenter alleges would be required in connection with the proposal, and confidential financial information provided by First Mariner regarding the source of funding for purchasing the voting shares of Glen Burnie. The Board notes that First Mariner and its subsidiary bank are currently well capitalized. In addition, First Mariner has committed that its purchase of any voting shares of Glen Burnie in addition to the 18.9 percent of the shares that it already has under contract to purchase will be funded only with equity that qualifies as tier 1 capital, and that First Mariner, Glen Burnie, and their subsidiary banks will remain well capitalized after all share purchases.

First Mariner proposes to become the largest shareholder in Glen Burnie, and its acquisition of a minority interest is a first step in seeking to acquire all the shares of Glen Burnie. First Mariner has committed, however, not to elect its nominees to Glen Burnie's board of directors unless its nominees would constitute a majority of the board.⁶ Ac-

4. Commenter represents that Glen Burnie has elected to be subject to a provision in Maryland law that generally prohibits a shareholder who owns 20 percent or more of a company's voting shares ("control shares") from voting the control shares unless the right to vote the control shares has been approved by two-thirds of the company's disinterested shareholders. See Md. Code Ann., Corps. & Ass'ns § 3-702(a) (1997). The control shares provision also contains an exception for the acquisition of shares as part of a merger or other form of business combination. Commenter notes, however, that under the exception, a shareholder who acquires 10 percent or more of the voting shares of a company or any affiliate of the shareholder may not merge or combine with the company for five years after the shareholder's ownership reaches the 10 percent level unless the company's board of directors approves the merger or combination. See Md. Code Ann., Corps. & Ass'ns §§ 3-602(a) and 3-603(c)-(e) (1997).

5. Commenter argues that the proposal is inconsistent with the Board's precedent in *NBC Co.*, 60 *Federal Reserve Bulletin* 782 (1974) ("*NBC Co.*"), in which the Board denied a bank holding company's application to acquire less than 25 percent of the voting shares of a bank because a single shareholder held more than 50 percent of the voting shares of the bank and vigorously opposed the acquisition. The Board concluded that the proposal "would only perpetuate or aggravate dissension in Bank's management" without the applicant having any opportunity to obtain control of the bank. The Board also noted that the proposed acquisition could detract from the overall financial condition of the applicant, which planned to rely on the bank's dividends to service the applicant's acquisition debt.

6. Commenter questions whether First Mariner's representatives or nominees may serve on the board of directors of Glen Burnie in light of the Depository Institution Management Interlocks Act (12 U.S.C. § 3201 *et seq.*) ("Interlocks Act"). The Interlocks Act prohibits director interlocks between two depository institutions in the same metropolitan statistical area unless the institutions are affiliates for purposes of the Interlocks Act. Under the proposal, First Mariner would own at least 19 percent of Glen Burnie's voting shares but would not have a director on Glen Burnie's board unless its nominees constituted a majority of the board of directors. Accordingly, there would not be a director interlock unless Glen Burnie was a subsid-

1. First Mariner owns less than 1 percent of the voting shares of Glen Burnie and has an agreement to acquire an additional 18.9 percent of the voting shares.

2. Deposit data are as of June 30, 1998.

3. Glen Burnie has adopted a shareholders rights plan that becomes effective when a shareholder who has acquired or obtained the right to acquire 10 percent or more of Glen Burnie's voting shares before the adoption of the plan acquires 20 percent or more of its voting shares. If this event occurs, each of the other shareholders receives the right to purchase additional voting shares for one-half market value or to receive additional voting shares in exchange for their rights under the plan.

cordingly, First Mariner will either control the board of directors of Glen Burnie or not participate in the board of directors of the company.⁷ These circumstances substantially reduce the possibility that dissension or disruption within the board of directors will interfere with the operations of Glen Burnie.⁸

The Board recognizes that First Mariner may not succeed in acquiring control of Glen Burnie. The Board has indicated that the acquisition of less than a controlling interest in a bank or bank holding company is not a normal acquisition for a bank holding company.⁹ Nonetheless, the requirement in section 3(a)(3) of the BHC Act that the Board's approval be obtained before a bank holding company acquires more than 5 percent of the voting shares of a bank suggests that Congress contemplated the acquisition by bank holding companies of between 5 and 25 percent of the voting shares of a bank or a bank holding company.¹⁰ Nothing in section 3(c) of the BHC Act, moreover, requires denial of an application solely because a bank holding

company may acquire less than a controlling interest in a bank or bank holding company. On this basis, the Board has on numerous occasions approved the acquisition by a bank holding company of less than a controlling interest in a bank.¹¹

Commenter argues that the Board may not approve the proposal because, in the view of Commenter, the proposal is not permissible under applicable state law. Commenter argues that Maryland law prohibits consummation of the proposal unless Bank (the banking institution to be acquired) files a separate application for and receives approval to become an affiliate of First Mariner and its subsidiary bank.¹² The Board may not approve the acquisition of a bank by a bank holding company if the acquisition is prohibited by state law.¹³ The Maryland Commissioner of Financial Regulation reviewed the transaction in light of the arguments raised by Commenter and approved the proposal by finding that the proposal was permissible under Maryland law. The Commissioner's order concluded that, when a bank holding company files the appropriate application under Maryland law for a proposed acquisition, a separate application from the Maryland banking institution to be acquired is not required.¹⁴ A state court in Maryland has upheld the Commissioner's decision. Accordingly, based on all the facts of record, the Board has determined that its approval of the proposal is not prohibited by state law.¹⁵

Based on these and other facts of record, the Board concludes that considerations relating to the financial and managerial resources and future prospects of First Mariner, Glen Burnie, and their respective subsidiaries are consistent with approval of the proposal, as are the other supervisory factors that the Board must consider under section 3 of the BHC Act.¹⁶

ary of First Mariner for purposes of the BHC Act. See 12 U.S.C. §§ 1841(a)(2)(B) and 1841(d). In that event, the two organizations would be affiliates under the Interlocks Act, and the interlock would be permissible. See 12 U.S.C. § 3201(3)(A). If First Mariner proposes to establish a director interlock under any other circumstances, that interlock must conform with the Interlocks Act. Commenter also contends that First Mariner would have violated the Interlocks Act if a recent proxy contest challenging Glen Burnie's management by a dissident shareholder that was supported by First Mariner had succeeded. Even assuming that the directors proposed to replace the management nominees were covered by the Interlocks Act, the challenge sought to replace the entire board of directors and would not have violated the Interlocks Act for the reasons discussed above. In any event, no violation of the Interlocks Act occurred because no representative or nominee of First Mariner was elected to Glen Burnie's board of directors.

7. Commenter argues that efforts by First Mariner to obtain confidential information concerning Glen Burnie's management and First Mariner's alleged use of this information to support litigants against Glen Burnie were improper and illustrate the antagonistic and damaging effect that First Mariner would have on Glen Burnie if the proposal were approved by the Board. This matter was reviewed by a court, which ordered the return of certain documents to Glen Burnie, noted that the applicable law was not settled, and determined not to impose any penalty or sanction on First Mariner.

8. Unlike *NBC Co.*, the proposed investment in this case would not impair the financial resources or capital position of First Mariner because First Mariner would neither incur debt to consummate the transaction nor depend on dividends from Glen Burnie to meet any debt servicing requirements. Commenters also do not control a majority of the voting shares of Glen Burnie. Consequently, this proposal more closely resembles the facts in a number of cases approved by the Board involving acquisitions by bank holding companies of minority positions in other institutions without the consent of the institutions' management. See, e.g., *Crescent Holding Company*, 73 *Federal Reserve Bulletin* 457 (1987) (acquisition of 37 percent of the voting shares of a bank approved notwithstanding possible management dissension); *Hudson Financial Associates*, 72 *Federal Reserve Bulletin* 150 (1986) (acquisition of up to 49.8 percent of the voting shares of a bank holding company); *City Holding Company*, 71 *Federal Reserve Bulletin* 575 (1985) (acquisition of up to 30 percent of the voting shares of a bank holding company).

9. See, e.g., *North Fork Bancorporation, Inc.*, 81 *Federal Reserve Bulletin* 734 (1995) ("North Fork"); *State Street Boston Corporation*, 67 *Federal Reserve Bulletin* 862, 863 (1981).

10. 12 U.S.C. § 1842(a)(3); 12 C.F.R. 225.11(c).

11. See e.g., *North Fork* (acquisition of up to 19.9 percent of the voting shares of a bank holding company); *Mansura Bancshares, Inc.*, 79 *Federal Reserve Bulletin* 37 (1993) (acquisition of 9.7 percent of the voting shares of a bank holding company); *SunTrust Banks, Inc.*, 76 *Federal Reserve Bulletin* 542 (1990) (acquisition of up to 24.9 percent of the voting shares of a bank); and *First State Corporation*, 76 *Federal Reserve Bulletin* 376 (1990) (acquisition of 24.9 percent of the voting shares of a bank).

12. See Md. Code Ann., Fin. Inst. § 5-403 (1997).

13. See *Whitney National Bank in Jefferson Parish v. Bank of New Orleans and Trust Company*, 379 U.S. 411 (1965).

14. See Order of the Commissioner dated May 4, 1998; Md. Code Ann., Fin. Inst. § 5-904 (1997).

15. Glen Burnie may appeal the decision of the court. The Board expects First Mariner to comply with all requirements of state law that are found to be applicable to the actions taken by First Mariner.

16. Commenter maintains that First Mariner was required to obtain the Board's approval under the BHC Act before First Mariner supported a proxy challenge by a dissident shareholder at a recent meeting of Glen Burnie's shareholders. The Board notes that the conduct identified by Commenter falls within the scope of a well-recognized exception for proxy contests to the prior notice requirements of applicable law. See Board letter dated March 6, 1995, to Murray A. Indick, Esq. The Board also notes that the director nominees supported by First Mariner were not elected at the meeting of Glen Burnie's shareholders and that First Mariner has requested the Board's prior approval under this proposal to control Glen Burnie in the future.

Competitive Considerations

The BHC Act prohibits the Board from approving an application under section 3 of the BHC Act if the proposal would result in a monopoly, or if the proposal would substantially lessen competition in any relevant banking market, and the Board has not found that the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.¹⁷

First Mariner and Glen Burnie compete directly in the Baltimore, Maryland, banking market.¹⁸ On consummation of the proposal, First Mariner would become the 11th largest depository institution in the market and control approximately \$348 million of deposits in the market, representing 1.5 percent of total deposits in depository institutions in the market.¹⁹ The banking market would remain moderately concentrated under the Department of Justice Merger Guidelines, and the Herfindahl–Hirschman Index (“HHI”) would increase by 1 point to 1145.²⁰ Numerous competitors would remain in the market. Based on all the facts of record, the Board concludes that the consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of banking resources in the Baltimore banking market or any other relevant banking market.

Convenience and Needs and Other Considerations

The BHC Act requires the Board to consider the convenience and needs of the communities to be served in connection with its review of the acquisition of a bank holding company. The Community Reinvestment Act (12 U.S.C. § 2901 *et seq.*) (“CRA”) also requires the Board

to take into account, as part of its review of a proposal to acquire a depository institution, the record of performance of each relevant depository institution in helping to meet the credit needs of the institution’s entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution.²¹ The Board has carefully reviewed the convenience and needs factor and the CRA performance records of the banks involved in light of Commenter’s contention that the proposal would not provide any significant benefit to the communities to be served.

As provided in the CRA, the Board has evaluated the convenience and needs factor in light of examinations of the CRA performance records of the relevant institutions conducted by the appropriate federal financial supervisory agency. An institution’s most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed on-site evaluation of the institution’s overall record of performance under the CRA by its appropriate federal supervisor.²² First Mariner’s subsidiary bank, First Mariner Bank, Baltimore, Maryland, received a “satisfactory” rating from its appropriate federal supervisor, the Federal Deposit Insurance Corporation (“FDIC”), at the bank’s most recent examination for CRA performance, as of June 1996. Bank also received a “satisfactory” rating from the FDIC at its most recent examination for CRA performance, as of September 1995.

Based on all the facts of record, the Board concludes that the convenience and needs factor, including the CRA performance records of the subsidiary banks of First Mariner and Glen Burnie, are consistent with approval.

Conclusion

Based on the foregoing and all other facts of record, the Board has determined that the application should be, and hereby is, approved.²³ The Board’s approval is specifically

17. 12 U.S.C. § 1842(c)(1)(B).

18. The Baltimore banking market consists of the Baltimore, Maryland, Randall Marketing Area and the remainder of Harford County, Maryland.

19. Market share data for all depository institutions, including First Mariner and Glen Burnie, are as of June 30, 1997, and are based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors of commercial banks. See *Midwest Financial Group*, 75 *Federal Reserve Bulletin* 386 (1989); *National City Corporation*, 70 *Federal Reserve Bulletin* 743 (1984). Thus, the Board has regularly included thrift deposits in the calculation of market share on a 50-percent weighted basis. See, e.g., *First Hawaiian, Inc.*, 77 *Federal Reserve Bulletin* 52 (1991).

20. 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 between 1000 and 1800 is considered to be moderately concentrated. 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 or acquisition increases the HHI by at least 200 points. The Justice Department has stated that the higher than normal threshold for an increase in the HHI when screening bank mergers and acquisitions for anticompetitive effects implicitly recognizes the competitive effect of limited-purpose lenders and other nondepository financial entities.

21. 12 U.S.C. § 2903.

22. The Statement of the Federal Financial Supervisory Agencies Regarding the Community Reinvestment Act provides that a CRA examination is an important and often controlling factor in the consideration of an institution’s CRA record and that reports of these examinations will be given great weight in the applications process. 54 *Federal Register* 13,742 and 13,745 (1989); see also *Interagency Questions and Answers Regarding Community Reinvestment*, 62 *Federal Register* 52,105 and 52,121 (1997).

23. Commenter requests that the Board hold a public hearing to give Commenter the opportunity to question First Mariner and to obtain additional information about Commenter’s alleged violations of law in connection with the proxy contest discussed above. Section 3(b) of the BHC Act does not require the Board to hold a public hearing on an application unless the primary supervisor of the bank to be acquired makes a timely written recommendation of denial. The Board has not received such a recommendation.

Under its rules, the Board also may, in its discretion, hold a public meeting or hearing on an application to acquire a bank if a meeting or hearing is necessary or appropriate to clarify factual issues related to the application and to provide an opportunity for testimony, if appropriate. 12 C.F.R. 225.16(e). The Board has carefully considered Commenter’s request in light of all the facts of record. In the Board’s view,

conditioned on compliance by First Mariner with all the commitments made in connection with this application and on its compliance with all the requirements of Maryland law that are found to be applicable to the actions taken by First Mariner to acquire an interest in Glen Burnie or Bank. The commitments relied on by the Board in reaching this determination are deemed to be conditions imposed in writing by the Board in connection with its findings and decision, and, as such, may be enforced in proceedings under applicable law.

The proposed acquisition of Glen Burnie shall not be consummated before the fifteenth calendar day following the effective date of this order, and not 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 Richmond, acting pursuant to delegated authority.

By order of the Board of Governors, effective September 28, 1998.

Voting for this action: Chairman Greenspan, Vice Chair Rivlin, and Governors Kelley, Meyer, Ferguson, and Gramlich.

ROBERT DEV. FRIERSON
Associate Secretary of the Board

First National Bank Group, Inc.
Edinburg, Texas

Order Approving Application to Acquire Control of a Bank

First National Bank Group, Inc. ("First National"), a bank holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has requested the Board's approval under section 3 of the BHC Act (12 U.S.C. § 1842) to acquire up to 51 percent of the voting shares of Nueces National Bank, Corpus Christi, Texas ("Nueces Bank").¹

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (63 *Federal Register* 37,883 (1998)). The time for filing comments has expired, and the Board has considered the

proposal and all comments received in light of the factors set forth in section 3 of the BHC Act.

First National, with total consolidated assets of approximately \$310 million, owns First National Bank, Edinburg, Texas. First National is the 66th largest banking organization in Texas, controlling deposits of approximately \$294 million, representing less than 1 percent of total deposits in depository institutions in the state ("state deposits").² Nueces Bank is the 521st largest banking organization in Texas, controlling deposits of approximately \$33 million, representing less than 1 percent of state deposits. On consummation of the proposal, First National would become the 58th largest banking organization in Texas, controlling deposits of approximately \$327 million, representing less than 1 percent of state deposits.

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly, or that may substantially lessen competition in any relevant banking market, if the anticompetitive effects of the proposal are not clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.³ First National and Nueces Bank compete directly in the Corpus Christi, Texas, banking market.⁴ After consummation of the proposal, First National would become the 16th largest depository institution in the market, controlling deposits of approximately \$34.1 million, representing 1.4 percent of total deposits in depository institutions in the market ("market deposits").⁵ Concentration in the Corpus Christi banking market, as measured by the Herfindahl-Hirschman Index ("HHI"), would not increase, and the market would remain moderately concentrated.⁶ In addition, 23 other com-

2. Asset data are as of December 31, 1997, and deposit data are as of June 30, 1997. In this context, depository institutions include commercial banks, savings banks, and savings associations.

3. 12 U.S.C. § 1842(c)(1).

4. The Corpus Christi banking market comprises Nueces and San Patricio Counties, the area encompassing Alice and Orange Grove in Jim Wells County, and the community of San Diego in Duval County, all in Texas.

5. Market share data for Nueces Bank are as of June 30, 1997. First National Bank entered the market by establishing a *de novo* branch in February 1998. The branch currently controls less than \$1 million of market deposits.

In this context, depository institutions include commercial banks, savings banks, and savings associations. Market concentration calculations include deposits of thrift institutions at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors of commercial banks. See *Midwest Financial Group*, 75 *Federal Reserve Bulletin* 386 (1989); *National City Corporation*, 70 *Federal Reserve Bulletin* 743 (1984). Thus, the Board has regularly included thrift deposits in the calculation of market share on a 50-percent weighted basis. See, e.g., *First Hawaiian, Inc.*, 77 *Federal Reserve Bulletin* 52 (1991).

6. The HHI in the Corpus Christi banking market would remain unchanged at 1585 as a result of the proposal. Under the revised Department of Justice Guidelines (49 *Federal Register* 26,823 (June 29, 1984)), a market in which the post-merger HHI is between 1000 and 1800 is considered moderately concentrated. The Depart-

Commenter has had ample opportunity to submit its views, and has submitted substantial written comments, including information regarding the proxy contest, that have been carefully considered by the Board in acting on the application. Commenter's request fails to demonstrate why its written comments do not adequately present its evidence, allegations and views, and, assuming the facts are as Commenter asserts, no material issue is raised by the comments concerning First Mariner's participation in the recent proxy contest for the reasons stated above. Accordingly, Commenter's request is hereby denied.

1. First National owns 4.85 percent of the voting shares of Nueces Bank and has contracted to purchase additional shares amounting to approximately 46 percent of the bank's outstanding voting shares. First National has indicated that it has no present intention of owning more than 51 percent of Nueces Bank's voting shares.

petitors would remain in the banking market after consummation. 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 or on the concentration of banking resources in the Corpus Christi banking market or any other relevant banking market.

Financial, Managerial, and Other Supervisory Factors

The Board also has carefully considered the financial and managerial resources and future prospects of First National, First National Bank, and Nueces Bank in light of all the facts of record, including the terms of the proposed acquisition, supervisory reports of examination assessing the financial and managerial resources of the organizations, and financial information provided by First National. Based on all the facts of record, the Board concludes that the financial and managerial resources and future prospects of First National, First National Bank, and Nueces Bank are consistent with approval, as are the other supervisory factors the Board must consider under section 3 of the BHC Act.

Convenience and Needs Considerations

The Board also has carefully considered the effect of the proposal on the convenience and needs of the communities to be served in light of all the facts of record, including comments received regarding the effect the proposal would have on the communities to be served by First National. Some commenters commended Nueces Bank for serving well the Corpus Christi community, especially Hispanic consumers, small businesses, and low-income persons. Commenters also expressed concern that an institution based outside of Corpus Christi would not be able to meet the needs of the local community and that the local identity and orientation of Nueces Bank would be lost if the transaction were to be consummated. Several of these commenters expressed further concern that the transaction would harm the local Hispanic community if Nueces Bank, Corpus Christi's only minority-owned bank, would not remain a minority-owned institution.⁷

ment of Justice 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 more than 200 points. The Department of Justice has stated that the higher than normal HHI thresholds for screening bank mergers for anticompetitive effects implicitly recognize the competitive effect of limited-purpose lenders and other non-depository financial entities.

7. Several commenters objected to the partial nature of First National's tender offer and either expressed concern regarding the proposal's consequences on the remaining shareholders in Nueces Bank or requested that the Board require First National to tender for all the shares of Nueces Bank. These matters are addressed by specific laws other than the BHC Act. The Federal and state securities laws establish rules that govern the manner in which a tender offer for securities must be made, and state law and the National Bank Act establish the rights of owners of a minority interest in a bank. Moreover, the Board

The Board has long held that consideration of the convenience and needs factor includes a review of the records of performance of the relevant depository institutions under the Community Reinvestment Act (12 U.S.C. § 2901 *et seq.*) ("CRA").⁸ As provided in the CRA, the Board evaluates the record of performance of an institution in light of examinations by the appropriate federal supervisor of the institution's CRA performance record. An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed on-site evaluation of the institution's overall record of performance under the CRA by its appropriate federal supervisor.⁹

First National Bank received an overall rating of "outstanding" from its appropriate federal supervisor, the Office of the Comptroller of the Currency ("OCC"), at its most recent evaluation for CRA performance, as of December 19, 1996 ("1996 Examination"). Nueces Bank received a "satisfactory" CRA performance rating from the OCC at its most recent evaluation for CRA performance, as of April 1, 1997.

The 1996 Examination concluded that First National Bank was responsive to its community's credit needs, including the credit needs of low- and moderate-income individuals and areas. Examiners found that the bank had "more than reasonable" loan-to-deposit ratios in light of the economic and financial condition of, and lending opportunities available in, the bank's assessment area. Examiners also determined that the bank extended a substantial majority of its loans within its assessment area and that the bank's credit was well distributed to borrowers of different income levels and businesses of different sizes.¹⁰

In weighing the concerns expressed by commenters, the Board also has considered First National's statement that it intends to maintain Nueces Bank as a separately chartered national bank serving the Corpus Christi community. First National also indicated that it does not propose to make any changes in the senior management of Nueces Bank as a result of the proposal. In addition, First National asserted that it does not plan to discontinue, or materially change the terms of, any banking services currently being offered or provided by Nueces Bank, including the bank's policies and procedures designed to meet the credit needs of the local community. First National stated, moreover, that it is

and the courts have generally found that these matters are not among the factors the Board is entitled to consider under the BHC Act. *See Western Bancshares, Inc. v. Board of Governors*, 480 F.2d 749 (10th Cir. 1973).

8. *See, e.g., Banc One Corporation*, 83 *Federal Reserve Bulletin* 602 (1997).

9. The Statement of the Federal Financial Supervisory Agencies Regarding the Community Reinvestment Act provides that a CRA examination is an important and often controlling factor in the consideration of an institution's CRA record and that reports of these examinations will be given great weight in the applications process. 54 *Federal Register* 13,742 and 13,745 (1989).

10. The 1996 Examination further noted that First National Bank made extensive use of innovative, flexible lending practices and participated in special assistance programs to serve the credit needs of its assessment area.

well-equipped to address the banking needs of Corpus Christi's Hispanic community and noted that its service area includes 12 predominately Hispanic communities in southern Texas, that a substantial majority of its employees are Hispanic, and that its employees own a substantial majority of First National Bank.

The Board has carefully considered all the facts of record, including comments received on the proposal and responses to the comments, in reviewing the convenience and needs factor under the BHC Act. Based on a review of the entire record, and for the reasons discussed above, the Board concludes that considerations relating to convenience and needs, including the CRA performance records of First National Bank and Nueces Bank, are consistent with approval of the proposal.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the application should be, and hereby is, approved. The Board's approval of the proposal is specifically conditioned on compliance by First National with all the commitments made in connection with the proposal. The commitments and conditions relied on by the Board in reaching this decision shall be deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

This transaction shall not be consummated before the fifteenth 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 for good cause by the Board or the Federal Reserve Bank of Dallas, acting pursuant to delegated authority.

By order of the Board of Governors, effective September 8, 1998.

Voting for this action: Chairman Greenspan, Vice Chair Rivlin, and Governors Meyer, Ferguson, and Gramlich. Absent and not voting: Governor Kelley.

ROBERT DEV. FRIERSON
Associate Secretary of the Board

Orders Issued Under Sections 3 and 4 of the Bank Holding Company Act

Banc One Corporation Columbus, Ohio

First Chicago NBD Corporation Chicago, Illinois

Order Approving Merger of Bank Holding Companies

Banc One Corporation ("Banc One"), a bank holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has requested the Board's approval under section 3 of the BHC Act (12 U.S.C. § 1842)

to merge with First Chicago NBD Corporation ("First Chicago"). The resulting bank holding company would be named Bank One Corporation ("New Bank One") and have its headquarters in Chicago, Illinois. New Bank One would acquire control of First Chicago's subsidiary banks, including its lead bank subsidiary, First National Bank of Chicago, Chicago, Illinois ("First Chicago Bank"),¹ and retain control of Banc One's subsidiary banks. Banc One also has requested the Board's approval under section 4(c)(8) of the BHC Act (12 U.S.C. § 1843(c)(8)) and section 225.24 of the Board's Regulation Y (12 C.F.R. 225.24) for New Bank One to acquire the domestic nonbanking subsidiaries of First Chicago.² In addition, Banc One has filed notices under section 4(c)(13) of the BHC Act (12 U.S.C. § 1843(c)(13)), sections 25 and 25A of the Federal Reserve Act (12 U.S.C. § 601 *et seq.*, § 611 *et seq.*), and the Board's Regulation K (12 C.F.R. 211) for New Bank One to acquire the Edge Act corporations and foreign operations of First Chicago.³

Banc One, with total consolidated assets of approximately \$116.9 billion, is the eighth largest commercial banking organization in the United States, controlling approximately 2.5 percent of total banking assets of insured commercial banks in the United States ("total banking assets").⁴ Banc One operates subsidiary banks in Arizona, Colorado, Illinois, Indiana, Kentucky, Louisiana, Ohio, Oklahoma, Texas, Utah, West Virginia, and Wisconsin. Banc One also engages in a broad range of permissible nonbanking activities nationwide.

First Chicago, with total consolidated assets of approximately \$114.8 billion, is the ninth largest commercial banking organization in the United States, controlling approximately 2.3 percent of total banking assets. First Chicago operates subsidiary banks in Indiana, Illinois, Michigan, and Florida.⁵ First Chicago also engages nationwide in numerous permissible nonbanking activities.

The proposal would create a combined organization that, after accounting for proposed divestitures, would be the fifth largest commercial banking organization in the United States. New Bank One would have total consolidated assets of approximately \$231.7 billion, representing approximately 4.8 percent of total banking assets, and would have a significant presence in the Midwest.

1. Banc One also seeks approval to acquire NBD Bank, Detroit, Michigan; American National Bank and Trust Company of Chicago, Chicago, Illinois; NBD Bank, N.A., Indianapolis, Indiana; NBD Bank, Elkhart, Indiana; and NBD Bank, Venice, Florida.

2. The nonbanking activities of First Chicago, for which Banc One has sought Board approval under section 4 of the BHC Act, and the subsidiaries engaged in such activities are listed in Appendix A.

3. Banc One and First Chicago also have requested the Board's approval to hold and to exercise options to acquire up to 19.9 percent of each other's voting shares, if certain events occur. The options would expire on consummation of the proposal.

4. All banking data, including rankings, are as of March 31, 1998.

5. First Chicago also operates FCC National Bank, Wilmington, Delaware, which is a credit card bank.

Factors Governing Board Review of the Transaction

Under the BHC Act, the Board must consider a number of specific factors when reviewing the merger of bank holding companies or the acquisition of banks. These factors are the competitive effects of the proposal in the relevant geographic markets; the financial and managerial resources and future prospects of the companies and banks involved in the transaction; the convenience and needs of the community to be served, including the records of performance under the Community Reinvestment Act (12 U.S.C. § 2901 *et seq.*) ("CRA") of the insured depository institutions involved in the transaction; and the availability of information needed to determine and enforce compliance with the BHC Act.⁶ In cases involving interstate bank acquisitions, the Board also must consider the concentration of deposits in the nation and certain individual states, as well as compliance with other provisions of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 ("Riegle-Neal Act").⁷

Public Comment on the Proposal

To give interested members of the public an opportunity to submit comments to the Board on the statutory factors that it is charged with reviewing, the Board published notice of the proposal and provided a period of time for public comment.⁸ The Board extended the initial period for public comment by 30 days to accommodate public interest. The extended public comment period provided interested persons more than 70 days to submit written comments on the proposal.

Because of public interest in the proposal—particularly in the Midwest, where the combined organization would be a significant competitor—the Board also held a public meeting in Chicago, Illinois, on August 13, 1998. The public meeting gave interested persons an opportunity to present oral testimony on the various factors the Board is charged with reviewing under the BHC Act. More than 85 people appeared and testified at the public meeting, and many of the commenters who testified also submitted written comments.

In total, approximately 330 organizations and individuals submitted comments on the proposal, through oral testimony, written comments, or both. Commenters included federal, state, and local government officials; community groups and nonprofit organizations; small business owners; union representatives; customers of Banc One and First Chicago; and other interested organizations and indi-

viduals from Colorado, Delaware, Illinois, Indiana, Louisiana, Michigan, Ohio, Texas, and other states.

Commenters filed information and expressed views supporting and opposing the proposed merger. Commenters supporting the proposal commended Banc One and First Chicago for their commitment to the communities in which they do business and their leadership role in various community activities and civic organizations. These commenters praised the records of the two banking organizations in providing affordable home mortgage loans, particularly in low- and moderate-income ("LMI") communities and in communities with predominantly minority populations ("minority communities"); making investments, grants, and loans supporting neighborhood housing and community development projects; and making charitable contributions. These commenters also noted favorably the small business lending activities of Banc One and First Chicago and complimented the banking organizations for providing financial, educational, and technical assistance to small businesses and to nonprofit groups that support small businesses. Many commenters also praised First Chicago's community reinvestment record and pledges in Detroit and Chicago, noting that First Chicago had increased the availability of loans and investments to support community development and affordable housing activities and had fostered a good partnership with the community groups in those two cities. In general, the commenters supporting the proposal expected that the merger of Banc One and First Chicago would create a company with greater financial, operational, and managerial resources that would benefit the communities that New Bank One would serve.

Commenters opposed to the merger proposal expressed concerns about the performance records of Banc One and First Chicago under the CRA, particularly with respect to their records of lending to small businesses and minorities, to LMI communities, and in rural areas. The commenters questioned the fair lending record of the two banking organizations and expressed concerns about disparities in the denial rates of credit applications at both institutions. Commenters also criticized Banc One's decision not to make community reinvestment pledges nationwide or in specific communities.

Several commenters opposed to the proposal believed that the merger would reduce competition for banking services substantially, particularly in Indianapolis and other communities in Indiana, or would result in the loss of local control of lending and investment decisions. Commenters also expressed concern about branch closings, the level of lending to small businesses and first-time home buyers, job losses, fees for banking services, and the potential for dislocations or other adverse effects from the integration of the two bank holding companies.

In evaluating the statutory factors under the BHC Act, the Board carefully considered the information and views presented by all commenters, including the testimony presented at the public meeting and the information submitted in writing. The Board also considered all the information presented in the application, notices, and supplemental filings by Banc One and First Chicago, as well as various

6. In cases involving a foreign bank, the Board also must consider whether the foreign bank is subject to comprehensive supervision or regulation on a consolidated basis by appropriate authorities in the foreign bank's home country.

7. Pub. L. No. 103-328, 108 Stat. 2338 (1994).

8. Notice of the proposal was published in the *Federal Register* (63 *Federal Register* 32,661 and 40,527 (1998)) and in local newspapers in accordance with the Board's Rules of Procedure. See 12 C.F.R. 262.3(b). Notice of the proposal also was listed on the Board's Internet Home Page.

reports filed by the relevant companies, publicly available information, and other reports. In addition, the Board reviewed confidential supervisory information, including examination reports regarding the bank holding companies and the depository institutions involved, and information provided by the other federal banking agencies and the Department of Justice ("DOJ"). After a careful review of all the facts of record, and for the reasons discussed in this order, the Board has concluded that the statutory factors it is required to consider under the BHC Act and other relevant banking statutes are consistent with approval of the proposal, subject to the conditions noted in this order.

Interstate Analysis

Section 3(d) of the BHC Act, as amended by section 101 of the Riegle-Neal Act, allows the Board to approve an application by a bank holding company to acquire control of a bank located in a state other than the home state of such bank holding company if certain conditions are met. For purposes of the BHC Act, the home state of Banc One is Ohio,⁹ and Banc One proposes to acquire banks in Florida, Indiana, Illinois, and Michigan.¹⁰

Section 3(d) of the BHC Act provides that the Board may not approve a proposal if, after consummation, the applicant would control more than 10 percent of the total deposits of insured depository institutions in the United States.¹¹ In addition, the Board may not approve a proposal if, on consummation, the applicant would control 30 percent or more of the total deposits of insured depository institutions in any state in which both the applicant and the organization to be acquired operate an insured depository institution, or such higher or lower percentage established by state law.¹²

On consummation of the proposal, New Bank One would control approximately 3.9 percent of total deposits of insured depository institutions in the United States. New Bank One would control less than 30 percent, or the appropriate percentage established by applicable state law, of total deposits held by insured depository institutions in the states in which Banc One and First Chicago both operate an insured depository institution, including in Indiana and Illinois.¹³ All other conditions for an interstate acquisition enumerated in section 3(d) of the BHC Act are

met in this case.¹⁴ In view of the facts of record, the Board is permitted to approve the proposal under section 3(d) of the BHC Act.

Competitive Factors

Section 3 of the BHC Act prohibits the Board from approving an application if the proposal would result in a monopoly, or would substantially lessen competition in any relevant banking market, unless the Board finds that the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.¹⁵

The proposed merger of Banc One and First Chicago would combine two banking organizations that are among the largest providers of banking services in a number of banking markets in Illinois, Indiana, Michigan, Ohio, and Wisconsin. Accordingly, the Board has analyzed carefully the effect of the transaction on competition in the relevant banking markets and, in so doing, has carefully considered the public comments submitted on the competitive effects of the proposed transaction.

A number of commenters maintained that the proposed merger of Banc One and First Chicago would have significantly adverse effects on competition, especially in Illinois and Indiana, where subsidiary banks of Banc One and First Chicago compete. These commenters expressed concern that New Bank One would dominate banking markets in Illinois and Indiana and, therefore, would be able to engage in tying and other anticompetitive practices.¹⁶

Banc One and First Chicago each control a subsidiary bank in the following 16 local banking markets: Aurora, Chicago, Elgin and Rockford, in Illinois; Louisville, Kentucky; Milwaukee and Madison, in Wisconsin; and Gary-Hammond, Marion, Elkhart-Niles-South Bend, Bloomington, Corydon, Indianapolis, Lafayette, Lawrence County, and Rensselaer, in Indiana.¹⁷ The Board has reviewed

tory institutions in Indiana and 14 percent of total deposits in insured depository institutions in Illinois.

14. Banc One is adequately capitalized and adequately managed, as defined by applicable law. 12 U.S.C. § 1842(d)(1)(A). In addition, First Chicago's subsidiary banks have been in existence and have continuously operated for at least the period of time required by applicable state laws. See 12 U.S.C. § 1842(d)(1)(B). The Board also contacted the relevant state banking commissioners about, and considered Banc One's compliance with, applicable state community reinvestment laws. See 12 U.S.C. § 1842(d)(3).

15. 12 U.S.C. § 1842(c)(1).

16. Many of these commenters expressed concerns about large bank mergers in general, which the commenters believed reduce competition for banking services and, thereby, result in higher fees for banking services; decreased consumer convenience and choice, particularly in urban and LMI communities; higher interest rates on loans and reduced rates on deposits; and reduced levels of small business and home mortgage lending.

17. The geographic scope of each of these local banking markets is set forth in Appendix B. One commenter questioned whether the Chicago, Illinois, banking market should be more broadly defined to include the Aurora and Elgin, Illinois, banking markets and the Gary-Hammond, Indiana, banking market or, alternatively, more nar-

9. A bank holding company's home state is that state in which the operations of the bank holding company's banking subsidiaries were principally conducted on July 1, 1966, or the date on which the company became a bank holding company, whichever is later. 12 U.S.C. § 1841(o)(4)(C).

10. For purposes of the Riegle-Neal Act, the Board considers a bank to be located in the states in which the bank is chartered, headquartered, or operates a branch.

11. 12 U.S.C. § 1842(d)(2)(A). For this purpose, insured depository institutions include all insured banks, savings banks, and savings associations.

12. 12 U.S.C. § 1842(d)(2)(B)-(D).

13. Indiana and Illinois both impose a 30-percent deposit cap. See 205 Ill. Comp. Stat. Ann. § 103/3.09(a); Ind. Code Ann. § 28-2-17-29(a). On consummation of the proposal, New Bank One would control approximately 21.3 percent of total deposits in insured depository

carefully the competitive effects of the proposal in each of these banking markets in light of all the facts of record, including the characteristics of the markets and the projected increase in the concentration of total deposits in depository institutions in these markets ("market deposits"),¹⁸ as measured by the Herfindahl-Hirschman Index ("HHI") under the Department of Justice Merger Guidelines ("DOJ Guidelines").¹⁹

A. Banking Markets Without Divestitures

Consummation of the proposal, without divestitures, would be consistent with the DOJ Guidelines and prior Board precedent in ten banking markets: Chicago, Aurora, Elgin, and Rockford, in Illinois; Elkhart-Niles-South Bend, Gary-Hammond, and Marion, in Indiana; Louisville, Kentucky; and Milwaukee and Madison, in Wisconsin. After consummation of the proposal, all of these banking markets would remain unconcentrated or moderately concentrated, as measured by the HHI. Moreover, in eight of these ten markets, consummation of the proposal would increase market con-

rowly defined to reflect distinctions in Chicago's local neighborhoods and suburban communities. The commenter, however, did not present any facts to support its alternative suggestions for the definition of the Chicago banking market. Another commenter expressed concern about the geographic scope of the Indianapolis banking market, again without presenting any facts to support an alternative definition. In determining the geographic scope of local banking markets, the Board considers a number of factors, including population density, worker commuting patterns (as indicated by census data), shopping patterns, the availability and geographic reach of various modes of advertising, the presence of shopping, employment, health care and other necessities, the availability of transportation systems and routes, branch banking patterns, deposit and loan activity, and other indicia of economic integration and the transmission of competitive forces among depository institutions that affect the pricing and availability of banking products and services. See *Crestar Bank*, 81 *Federal Reserve Bulletin* 200, 201 n.5 (1995); *Pennbancorp*, 69 *Federal Reserve Bulletin* 548 (1983); *St. Joseph Valley Bank*, 68 *Federal Reserve Bulletin* 673 (1982). The Board has considered the comments in light of all the facts of record and concludes that the Chicago and Indianapolis banking markets as defined in Appendix B are the appropriate banking markets in which to analyze the competitive effects of the proposal.

18. Market share data are based on calculations that, except as noted below, include the deposits of thrift institutions at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors of commercial banks. See, e.g., *Midwest Financial Group*, 75 *Federal Reserve Bulletin* 386 (1989); *National City Corporation*, 70 *Federal Reserve Bulletin* 743 (1984). Thus, the Board has regularly included thrift deposits in the calculation of market share on a 50-percent weighted basis. See, e.g., *First Hawaiian, Inc.*, 77 *Federal Reserve Bulletin* 52 (1991).

19. Under the DOJ Guidelines, 49 *Federal Register* 26,823 (1984), a market is considered unconcentrated if the post-merger HHI is less than 1000, moderately concentrated if the post-merger HHI is between 1000 and 1800, and highly concentrated if the post-merger HHI is more than 1800. The DOJ has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other facts indicating anti-competitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. The DOJ has stated that the higher than normal HHI thresholds for screening bank mergers for anti-competitive effects implicitly recognize the competitive effect of limited-purpose lenders and other non-depository financial institutions.

centration, as measured by the HHI, by less than half of the 200-point threshold in the DOJ Guidelines.²⁰ Numerous competitors would remain in each of the ten markets after consummation of the proposal.

B. Banking Markets With Proposed Divestitures

Consummation of the proposal would exceed DOJ Guidelines in the remaining six banking markets in which Banc One and First Chicago compete, all in Indiana. To mitigate the anticompetitive effects of the proposal in these six Indiana banking markets, Banc One has committed to divest 39 branches, which account for approximately \$1.47 billion in deposits and represent approximately 18.1 percent of the total deposits controlled in Indiana by First Chicago.²¹ After accounting for the proposed divestitures, consummation of the proposal would be consistent with the DOJ Guidelines and prior Board precedents in four of the Indiana banking markets: Bloomington, Corydon, Lawrence County, and Rensselaer. These markets are discussed in Appendix D. Numerous competitors would remain in each market after consummation of the proposal.²²

Indianapolis. Consummation of the proposal in the Indianapolis banking market would exceed the DOJ Guidelines after accounting for the proposed divestitures. Banc One is the largest depository institution in the Indianapolis banking market, controlling \$3.5 billion in deposits, representing approximately 21.4 percent of market deposits. First Chicago is the third largest depository institution in the market, controlling \$3 billion in deposits, representing 19.9 percent of market deposits.

Banc One proposes to divest 25 branches with deposits of approximately \$890 million in the Indianapolis banking market to a banking organization that does not currently have a presence in the market. On consummation of the proposal and after divestitures, New Bank One would

20. In the two banking markets in this category in which the increase in the HHI resulting from the proposal would exceed 200 points, which are the Gary-Hammond, and the Marion, Indiana banking markets, both markets would remain moderately concentrated following consummation of the proposal, with post-merger HHIs of less than 1800. See Appendix C.

21. With respect to each market in which Banc One has committed to divest offices to mitigate the anticompetitive effects of the proposal, Banc One has committed to execute sales agreements for the proposed divestitures with a purchaser determined by the Board to be competitively suitable prior to consummation of the proposal, and to complete the divestitures within 180 days of consummation. Banc One also has committed that, in the event it is unsuccessful in completing any divestiture within 180 days of consummation, it will transfer the unsold branch(es) to an independent trustee that is acceptable to the Board and will instruct the trustee to sell the branches promptly to one or more alternative purchasers acceptable to the Board. See *Bank-America Corporation*, 78 *Federal Reserve Bulletin* 338 (1992); *United New Mexico Financial Corporation*, 77 *Federal Reserve Bulletin* 484 (1991).

22. Commenters expressed concerns about the number of branches that would be divested by Banc One and expressed the view that the amount of divestitures initially proposed by Banc One was too small and did not include all affected markets.

remain the largest depository institution in the market, controlling \$5.8 billion in deposits, representing approximately 35.6 percent of market deposits.

In considering the competitive effects of the proposal, the Board has evaluated the competition provided by savings associations in the Indianapolis banking market and has concluded that the deposits controlled by three of the eleven savings associations that compete in the market should be weighted at 100 percent.²³ In this light, the post-merger HHI would increase by 441 points to 1881.²⁴

The Board believes that several factors mitigate the potential adverse effects that may result from the proposal in the Indianapolis banking market.²⁵ The market has characteristics that make it attractive for entry. Indianapolis is the largest banking market in Indiana and the 35th largest Metropolitan Statistical Area ("MSA") in the United States.²⁶ The population of the Indianapolis MSA increased by approximately 9 percent from 1990 to 1997, more than almost all other MSAs in Indiana and more than the national average. Other measures indicate economic growth in the banking market. Since 1990, the number of jobs in the MSA has increased by 106,000, or approximately 15 percent. Per capita income in Indianapolis, which is greater than any other MSA in Indiana, has increased on average 6.7 percent over the last ten years, which is more than the national average.

Recent entries by depository institutions appear to confirm that the Indianapolis banking market is attractive for entry by depository institutions. Since 1996, five depository institutions have entered the Indianapolis banking market *de novo*. In addition, since June 1997, depository institutions that currently compete in the Indianapolis banking market with Banc One and First Chicago have opened or announced plans to open 29 new branches in the banking market.

The proposed divestiture of approximately 5.8 percent of market deposits to an out-of-market commercial banking

organization would create another market entrant, and the number of depository institutions competing in the market would remain unchanged. The purchaser of the divested branches also would immediately become the fourth largest competitor in the market and would have sufficient assets and offices immediately to be an effective competitor to New Bank One.

In addition, after consummation of the proposal, 42 bank and savings association competitors would remain in the market, including at least four large multistate banking organizations, other than New Bank One. These large multistate bank holding companies would control at least 31.3 percent of market deposits and operate 163 branches in the Indianapolis banking market.²⁷

Lafayette. Consummation of the proposal in the Lafayette banking market also would exceed the DOJ Guidelines after accounting for the proposed divestitures. In the Lafayette banking market, Banc One is the largest depository institution in the market, controlling deposits of \$510.8 million, representing 32 percent of market deposits. First Chicago is the second largest depository institution in the market, controlling deposits of \$408.8 million, representing 25.6 percent of market deposits. Banc One will divest seven branches with deposits of approximately \$286 million in the Lafayette banking market to an out-of-market competitor. On consummation of the proposal, and after accounting for the proposed divestitures, Banc One would remain the largest depository institution in the market, controlling deposits of \$633.6 million, representing 39.7 percent of market deposits. The HHI would increase by 217 points to 2306.

Several factors mitigate the potential adverse effects that may result from the proposal. After the proposed sale of the branches to an out-of-market competitor, eleven competitors would remain in the market. The acquiror of the divested branches would become the second largest depository institution in the market, controlling 17.9 percent of market deposits and, therefore, an effective competitor to New Bank One. In addition, another competitor in the market would control more than 16 percent of market deposits. Since 1996, one banking organization has entered the market *de novo*, indicating that the Lafayette banking market is attractive for entry.

C. View of Other Agencies and Conclusion

The DOJ has conducted a detailed review of the proposal and advised the Board that, in light of the proposed divestitures, consummation of the proposal would not likely have

23. The Board previously has indicated that, when analyzing the competitive effects of a proposal, it may consider the competitiveness of savings associations at a level greater than 50 percent of the savings association's deposits if appropriate. See, e.g., *Banknorth Groups, Inc.*, 73 *Federal Reserve Bulletin* 703 (1989). In the Indianapolis banking market, each of the three savings associations maintain over 7 percent of their assets in commercial loans, compared to the national average for thrifts of 1.7 percent. The Board included two of these thrifts at a 100-percent weight in another recent case. See *National City Corporation*, 84 *Federal Reserve Bulletin* 281 (1998).

24. Banc One's nationwide mortgage escrow deposits were not included in the calculations of concentration; \$290 million of escrow deposits are being transferred to Homeside Lending, Jacksonville, Florida, as part of Banc One's agreement to sell its mortgage servicing operations to Homeside Lending. Deposit data also have been adjusted to account for three recent unrelated branch sales by Banc One in the Indianapolis banking market.

25. The number and strength of factors necessary to mitigate the competitive effects of a proposal depend on the level of market concentration and size of the increase in market concentration. *First Union Corporation*, 84 *Federal Reserve Bulletin* 489 (1998); *NationsBank Corporation*, 84 *Federal Reserve Bulletin* 129 (1998).

26. The Indianapolis MSA is a slightly larger geographic area than the Indianapolis banking market.

27. One commenter expressed concerns about the method by which the Board determines the appropriate levels of divestitures and the Board's use of mitigating factors. The commenter presented an alternative approach to assessing the competitive effects of the merger proposal, which the commenter has presented to the Board in other merger proposals. For the reasons previously stated by the Board, the Board concludes that its current approach provides a more complete economic analysis of the competitive effects in a local banking market than the approach suggested by the commenter. See *NationsBank Corporation*, 84 *Federal Reserve Bulletin* 129 (1998).

a significantly adverse effect on competition in any relevant banking market. The Office of the Comptroller of the Currency ("OCC") and the Federal Deposit Insurance Corporation ("FDIC") also have been afforded an opportunity to comment and have not objected to consummation of the proposal.

After carefully reviewing all the facts of record, including public comments on the competitive effects of the proposal, and for the reasons discussed in this order and appendices, the Board concludes that consummation of the proposal would not be likely to result in a significantly adverse effect on competition or on the concentration of banking resources in any of the 16 banking markets in which Banc One and First Chicago both compete, or in any other relevant banking market. Accordingly, based on all the facts of record and subject to completion of the proposed divestitures, the Board has determined that competitive factors are consistent with approval of the proposal.

Financial, Managerial, and Other Supervisory Factors

The Board has carefully considered the financial and managerial resources and future prospects of Banc One, First Chicago, and their respective subsidiary banks, and other supervisory factors in light of all the facts of record. In considering the financial and managerial factors, the Board has reviewed relevant reports of examination and other information prepared by the supervising Reserve Banks and other federal financial supervisory agencies. The Board also has reviewed information on the programs that Banc One and First Chicago have implemented to prepare their systems for the Year 2000, including confidential examination and supervisory information assessing the efforts of the two banking organizations to ensure Year 2000 readiness, both before and after the proposed transaction. As part of this review, the Board has considered concerns expressed by commenters about the financial and managerial resources of the bank holding companies and banks involved in the proposal.²⁸ Commenters also expressed concerns about the process by which the two organizations would integrate their operations.²⁹

In evaluating financial factors in expansion proposals by bank holding companies, the Board consistently has considered capital adequacy to be an especially important factor.³⁰ The Board notes that Banc One and First Chicago and their subsidiary banks are well capitalized and would

remain so on consummation of the proposal. Both institutions have reported strong earnings. The Board has considered that the proposed merger is structured as a stock-for-stock transaction and would not increase the debt service requirements of the combined company.

The Board also has considered the managerial resources of the entities involved and the proposed combined organization. Banc One, First Chicago, and their subsidiary depository institutions currently are well managed, with appropriate risk management processes in place. Senior management of New Bank One would draw from the senior executives of Banc One and First Chicago, based on the individual management strengths of each company.³¹ Senior executives of the two companies also would form a transition team to manage and plan the integration of the bank holding companies and their subsidiaries. Banc One and First Chicago have past experience with merger transactions and have indicated that they are devoting significant resources to address all aspects of the merger process.

In addition, the Board has considered other aspects of the financial condition and managerial resources of the two organizations, including the Board's extensive supervisory experience with Banc One and First Chicago, plans for integration of the two companies, plans for achieving Year 2000 readiness, and records of compliance with relevant banking laws. Based on all the facts of record, including a careful review of the comments received, the Board concludes that considerations relating to the financial and managerial resources and future prospects of Banc One, First Chicago, and their respective subsidiaries are consistent with approval of the proposal, as are the other supervisory factors that the Board must consider under section 3 of the BHC Act.³²

31. A number of commenters expressed concerns about hiring and employment practices at Banc One and alleged that there is a lack of ethnic diversity on the boards of directors and among the executives and lending officers of the two banking organizations. Several of these commenters also noted that Banc One settled a claim with the Department of Labor concerning alleged discriminatory employment practices, and the commenters expressed concern that New Bank One could face similar employment problems. Other commenters expressed concerns about certain employment discrimination claims pending against Banc One. The Board notes that the racial and gender composition of the management of a banking organization are not factors that the Board is permitted to consider under the BHC Act. The Board also notes that the Equal Employment Opportunity Commission has jurisdiction to determine whether banking organizations such as Banc One and First Chicago are in compliance with federal equal employment opportunity statutes. See 41 C.F.R. 60-1.7(a) and 60-1.40.

Two commenters alleged that senior executives of Banc One engaged in fraudulent activities that violated the federal securities laws. Banc One denied these claims, many of which are the subject of pending litigation. The Securities and Exchange Commission ("SEC") has statutory jurisdiction to investigate and remedy violations of federal securities laws, and the Board is not authorized under the BHC Act to adjudicate disputes that arise under federal securities laws. A copy of the comments has been provided to the SEC.

32. Several commenters alleged that the lack of minority representation in the management of Banc One and First Chicago has made the banking organizations unresponsive to the banking and credit needs of

28. Commenters questioned whether New Bank One, in light of its asset size and geographic scope of operations, would present special risks to the federal deposit insurance funds or the financial system in general. Commenters also expressed concerns about merger-related costs and its effects on the new bank holding company and about the Year 2000 readiness of New Bank One.

29. Several commenters alleged that Banc One has had difficulty implementing smaller acquisitions and questioned whether the organization had adequate managerial and financial resources to undertake a transaction of this size.

30. See, e.g., *NationsBank Corporation*, 84 *Federal Reserve Bulletin* 858 (Order dated August 17, 1998); *Chemical Banking Corporation*, 82 *Federal Reserve Bulletin* 230 (1996).

Convenience and Needs Considerations

The BHC Act requires the Board to consider the convenience and needs of the communities to be served in connection with its review of proposals to acquire a bank. The CRA requires the federal financial supervisory agencies to encourage financial institutions to help meet the credit needs of local communities in which they operate, consistent with their safe and sound operation, and requires the appropriate federal supervisory authority, in evaluating bank expansion proposals, to take into account an institution's record under the CRA of meeting the credit needs of its entire community, including LMI neighborhoods. The Board has carefully considered the convenience and needs factor and the CRA performance records of the subsidiary depository institutions of Banc One and First Chicago in light of all the facts of record, including public comments on the proposal.

A. Summary of Public Comments Regarding the Convenience and Needs Factor

As noted above, the Board provided an extended public comment period and convened a public meeting in Chicago to aid in the collection of information on the aspects of the proposed merger that the Board is required to consider under the BHC Act and other relevant statutes. As noted above, approximately 330 interested persons submitted written comments or testified at the public meeting on all aspects of the proposal and, in particular, the effect of the proposal on the convenience and needs of the affected communities and the CRA performance records of the depository institutions involved.

Approximately 180 commenters either expressed support for the proposal or commented favorably on the CRA-related activities of Banc One and First Chicago.³³ Many commenters commended Banc One and First Chicago for

providing affordable home mortgages and home improvement loans, offering financial and technical support to small businesses, sponsoring and supporting a variety of community development activities and affordable housing initiatives, and participating in a number of programs designed to assist and benefit LMI communities and individuals. The commenters praised officers and employees of Banc One and First Chicago for the service and expertise that the staff members of the two banking organizations provide to civic and community groups as board members and volunteers. Commenters also related favorable experiences with specific programs and services offered by Banc One and First Chicago.

A number of state and local government agencies commented favorably on their experiences with Banc One and First Chicago. The Wisconsin Housing and Economic Development Authority ("WHEDA"), for example, commended Banc One's record of providing credit and financial assistance to LMI home buyers, farmers, and small businesses in Wisconsin. The Mayor of Milwaukee, Wisconsin, commended Banc One's leadership role in the formation and continued success of New Opportunities for Homeownership in Milwaukee ("NOHIM"), which helps individuals purchase and renovate affordable homes in Milwaukee. The Metropolitan Housing Authority of Columbus, Ohio, commended Banc One's financial and technical contributions to the city's housing redevelopment program. The Economic Development Coordinator of Rockford, Illinois, also complimented Banc One for its participation in various small business loan programs sponsored by the city and commended Banc One for supporting the Northern Illinois Minority Companies Association.

In addition, a number of community groups and private developers commended Banc One and First Chicago for providing loans, grants, and technical assistance for affordable housing projects for low-income, elderly, and disabled individuals. Several community groups also commended the records of Banc One and First Chicago for making affordable home mortgages and other housing-related loans. Other community organizations praised both banking organizations for their contributions to educating first-time home buyers.

Several private organizations supported the proposal based on the records of Banc One and First Chicago of supporting small businesses and micro-enterprises, particularly small businesses owned by women and minorities, both directly and through nonprofit financial intermediaries. In addition, comments from owners of small businesses stated that Banc One had offered credit and technical assistance when other financial institutions were unwilling to do so.

Approximately 150 commenters opposed the proposal or requested that the Board approve the merger subject to conditions suggested by the commenter.³⁴ These comment-

LMI and minority communities. The Board also considered these comments in reviewing the convenience and needs factor.

33. The commenters included:

- (1) members of the U.S. House of Representatives and the U.S. Senate;
- (2) several mayors, including the mayors of Louisville, Kentucky; Columbus, Ohio; Baton Rouge, Louisiana; Milwaukee, Wisconsin; Ft. Wayne, Indiana; and Ogden, Utah;
- (3) a number of community groups, including the Woodstock Institute, Chicago, Illinois; Detroit Alliance for Fair Banking, Detroit, Michigan; and Chicago Rehab Network, Chicago, Illinois;
- (4) state and local government agencies, including the Wisconsin Housing and Economic Development Authority, Madison, Wisconsin; Colorado Housing and Finance Authority, Denver, Colorado; and the Wilmington Housing Authority, Wilmington, Delaware;
- (5) groups supporting the development and growth of small businesses, including the Five Points Business Association, Denver, Colorado; and the Illinois State Microenterprise Initiative, Chicago, Illinois; and
- (6) representatives of other community, civic, and nonprofit organizations based in Arizona, Illinois, Indiana, Kentucky, Louisiana, Michigan, Nebraska, Ohio, Oklahoma, Tennessee, Texas, Utah, and Wisconsin.

34. The commenters included:

- (1) several members of the U.S. House of Representatives and the U.S. Senate;

ers either expressed general concerns regarding the effects of large merger proposals on the convenience and needs of the communities to be served or expressed specific concerns about the CRA performance records of Banc One and First Chicago.³⁵

A number of the commenters opposed to the merger proposal contended that Banc One and First Chicago have inadequate records of performance under the CRA, particularly in serving the banking and credit needs of LMI and minority individuals and of census tracts with predominantly LMI and minority populations.³⁶ Some commenters questioned First Chicago's and Banc One's compliance with the Equal Credit Opportunity Act (15 U.S.C. § 1691 *et seq.*) and the Fair Housing Act (42 U.S.C. § 3601 *et seq.*) (collectively, "fair lending laws") and criticized the lending and credit referral practices of Banc One's banking and nonbanking subsidiaries, including Banc One Mortgage Corporation ("BOMC") and Banc One Financial Services ("BOFS").³⁷ A number of commenters also criticized the lending records of Banc One and First Chicago, as reported under the Home Mortgage Disclosure Act (12 U.S.C. § 2801 *et seq.*) ("HMDA").

Several commenters criticized the branch closing records of First Chicago and Banc One and expressed concerns about the plans of New Bank One to close certain branches.³⁸ Particular concern was expressed that branch closings

would reduce the availability of banking services to individuals in LMI and minority neighborhoods and elderly individuals.

A number of commenters expressed concern about New Bank One's CRA plans and Banc One's refusal to enter into community reinvestment agreements similar to the agreements entered into by First Chicago in Detroit and Chicago. Some commenters contended that Banc One has not cooperated with community groups or has negotiated with community groups in bad faith. Several commenters who commended First Chicago's CRA performance because it made specific CRA agreements contended that the Board should require Banc One to enter into similar agreements covering the communities in which Banc One currently operates and should monitor and enforce New Bank One's compliance with commitments made by First Chicago.

Some commenters also expressed concern that the merger would result in the loss of local control over lending decisions, decreased levels of service, and higher banking and credit-related fees. Other commenters were concerned that the relocation of Banc One's headquarters from Columbus, Ohio, to Chicago, Illinois, would adversely affect Banc One's commitment to meeting the convenience and needs of Columbus and other Ohio communities. In addition, commenters contended that the proposal would adversely affect local communities through job losses and reduced levels of charitable contributions.³⁹

B. CRA Performance Examinations

As provided in the CRA, the Board has evaluated the convenience and needs factor in light of evaluations by the appropriate federal supervisors of the CRA performance records of the relevant institutions. An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed on-site evaluation of the institution's overall record of performance under the CRA by the appropriate federal financial supervisory agency.

All of Banc One's subsidiary banks received "outstanding" or "satisfactory" ratings in the most recent examinations of their CRA performance.⁴⁰ In particular, Banc

(2) several state and local government officials, including the mayors of Gary, Indiana, and Lorain, Ohio; members of the city council of Denver, Colorado; city aldermen and other elected officials from Chicago, Illinois; and state senators and representatives from Colorado, Illinois, Louisiana, and Texas;

(3) Association of Community Organizations for Reform Now, Washington, D.C. ("ACORN"), and regional offices of ACORN in Chicago, Illinois; Denver, Colorado; Detroit, Michigan; Houston and Dallas, Texas; Milwaukee, Wisconsin; and New Orleans, Louisiana;

(4) Inner City Press/Community on the Move, Bronx, New York;

(5) Delaware Community Reinvestment Action Council, Inc., Wilmington, Delaware;

(6) Coalition for Reinvestment in Lorain County, Lorain, Ohio;

(7) Rural Opportunities, Inc., Alliance, Ohio;

(8) Wisconsin Rural Development Center, Inc., Mt. Horeb, Wisconsin;

(9) Central Illinois Organizing Project, Springfield, Illinois; and

(10) representatives of other community and nonprofit organizations based in Arizona, Illinois, Indiana, Michigan, Louisiana, Ohio, Texas, Utah, Virginia, Washington, D.C., and Wisconsin.

35. Some commenters claimed that large multistate banking organizations engage in less small business lending, relative to their size and total lending activities, than small banks. Commenters also contended that multistate bank holding companies charge higher fees for and reduce the availability of banking services by closing branches.

36. Several commenters also expressed concern about Banc One's record of serving rural communities. Other commenters expressed concern about the organizations' records of serving Native-American populations.

37. Some commenters expressed concern about Banc One's settlement of certain allegations regarding fair lending law violations brought by the Department of Housing and Urban Development and the Arizona Attorney General.

38. Commenters criticized Banc One as being unresponsive to community concerns in closing branches in Alliance and Lorain, in Ohio, and in Woodruff Place and in other communities in Indianapolis.

lis. Commenters also expressed concern about reports that Banc One and First Chicago independently have plans to close or consolidate a number of their branches by the year 2000.

39. Several commenters opposed the proposal based on unfavorable experiences with Banc One in particular loan transactions or business dealings. The Board has reviewed these comments in light of all the facts of record, including information provided by Banc One. The Board has provided copies of these comments to the appropriate federal supervisor of the subsidiary.

40. Some commenters contended that the CRA performance examinations of Banc One's subsidiary banks are outdated and should be discounted by the Board. The Board notes that four of Banc One's subsidiary banks were examined in 1997: Bank One, Colorado, N.A., Denver, Colorado ("Bank One Colorado"); Bank One, Texas, N.A., Dallas, Texas ("Bank One Texas"); Bank One, Utah, N.A., Salt Lake City, Utah ("Bank One Utah"); and Bank One, West Virginia, N.A., Huntington, West Virginia ("Bank One West Virginia"). Each of the

One's lead bank, Bank One, Columbus, N.A., Columbus, Ohio ("Bank One Columbus") received an "outstanding" performance rating from the OCC, as of February 1995. In addition, Bank One, Springfield, Springfield, Illinois ("Bank One Springfield"); Bank One, Indianapolis, N.A., Indianapolis, Indiana ("Bank One Indianapolis"); and Bank One Colorado all received "outstanding" ratings from their appropriate federal supervisors, as of December 1994, February 1995, and March 1997, respectively.⁴¹

All of First Chicago's subsidiary banks also received "outstanding" or "satisfactory" ratings at the most recent examinations of their CRA performance. For example, First Chicago's lead subsidiary bank, First Chicago Bank, received a "satisfactory" rating at its most recent examination from the OCC, as of November 1997. NBD Bank, Detroit, Michigan ("NBD Michigan"), received an "outstanding" rating from the Federal Reserve, as of May 1996; NBD Bank, N.A., Indianapolis, Indiana ("NBD Indiana"), received an "outstanding" rating from the OCC, as of October 1995; and NBD Bank, Elkhart, Indiana, received an "outstanding" rating from the FDIC, as of July 1998.

C. CRA Policies and Programs

Banc One and First Chicago have indicated that the CRA policies and programs of New Bank One would draw on the best parts of the CRA policies and programs currently in place at the two institutions and that New Bank One would seek to expand the combined customer base served by the two banking organizations. Banc One has stated, for example, that it expects to expand the products and services offered to small businesses in the communities currently served by First Chicago and, in particular, that it expects New Bank One to introduce a variety of small business financing programs, including loan programs subsidized and guaranteed by the Small Business Administration ("SBA") to markets where First Chicago currently operates.

Banc One has committed that New Bank One will continue to offer products to assist in meeting the credit needs of LMI home buyers and would continue to participate in programs that offer financial and technical assistance to first-time home buyers. Banc One also has stated that New

Bank One will pursue opportunities to finance affordable rental housing through construction, temporary, and equity financing in all the banking markets where the combined organization operates. New Bank One also will use innovative financing for low-income, multifamily housing projects and provide philanthropic grants to community-based organizations that support housing for individuals with special needs. In addition, New Bank One will participate in government-sponsored programs that finance affordable housing projects.

Banc One also has stated that New Bank One will offer basic banking accounts at affordable prices. New Bank One will, for example, cash government benefit checks for accountholders at no charge and will encourage recipients of government benefits to open accounts and to use direct-deposit services. Banc One currently offers a no-fee banking account for individuals who have government benefits checks deposited directly into their accounts. New Bank One also will support efforts to educate LMI consumers about affordable banking services.

New Bank One will continue to employ CRA officers to assist in effectively addressing community needs. Banc One also has stated that New Bank One also will support "outreach" programs that complement traditional mortgage and consumer lending. In addition, New Bank One would support educational initiatives that teach principles of financial management.

Banc One has noted that the community reinvestment strategies of Banc One and First Chicago currently emphasize the particular needs and opportunities in each community in which each banking organization operates. Banc One has stated that New Bank One will continue to focus locally in conducting community development and in other activities designed to assist in meeting the needs of the communities it serves.

Banc One also has emphasized that the decision to locate the corporate headquarters of New Bank One in Chicago would not reduce the CRA-related activities conducted in Ohio, where Banc One's corporate headquarters currently are located. Banc One notes that lending and retail banking service delivery decisions are not made at corporate holding company levels and will be unaffected by the location of the corporate headquarters.

Banc One and First Chicago have well-established CRA policies and programs that serve the credit and banking needs of their communities. The Board expects that New Bank One will implement policies and programs that help to address the credit and banking needs of local communities, including LMI neighborhoods.

D. Banc One's CRA Performance Record

Overview. Banc One recently initiated a comprehensive reorganization effort, entitled Project One, that standardized its product offerings, services, and marketing programs. Banc One maintains that Project One enhances its ability to meet the needs of all the communities that it

banks received an "outstanding" or "satisfactory" CRA performance rating. In addition, the Board has carefully reviewed information in the record about the CRA performance of Banc One's subsidiary banks since their last performance examinations.

41. After their most recent CRA performance examinations, Bank One Columbus, Bank One Springfield, and Bank One Indianapolis were merged with other Banc One banks in their home states of Ohio, Illinois, and Indiana and were renamed, respectively, Bank One, N.A., Columbus, Ohio ("Bank One Ohio"); Bank One Illinois, N.A., Springfield, Illinois ("Bank One Illinois"); and Bank One Indiana, N.A., Indianapolis, Indiana ("Bank One Indiana"). All the banks that were merged into Bank One Ohio, Bank One Illinois, and Bank One Indiana had "outstanding" or "satisfactory" CRA performance ratings.

serves.⁴² Banc One also has stated that CRA officers of its subsidiary banks will continue to be responsible for understanding the needs of individual communities and developing appropriate community development strategies.

Banc One has been an active small business lender and, in 1996, Banc One made approximately \$5 billion in small business loans. In 1997, Banc One's small business lending increased to approximately \$7.5 billion. Banc One represents that, in both years, 80 percent of these small business loans were in amounts of less than \$100,000, and that more than 25 percent of its small business loans were made in LMI communities. The growth in Banc One's small business lending is due, in part, to Banc One's business outreach program. In 1997, Banc One's lending officers contacted more than 6,500 small businesses each month. Through its Women Entrepreneurs Initiative, Banc One contacted more than 8,000 businesses owned by women in 1997.

In addition to its direct lending to small businesses, Banc One has made investments in and provided financial support to a variety of programs and nonprofit financial intermediaries that assist small and emerging companies. From 1996 through June 1998, Banc One has made loans and investments totaling approximately \$10 million to small business funds in seven states.

Banc One offers mortgage loans primarily through BOMC.⁴³ BOMC offers a range of affordable housing products, participates in a number of down-payment assistance programs, and offers certain loans that feature flexible underwriting and lower closing costs for real property renovation. Banc One's Consumer Lending Division ("CLD") makes home equity and consumer installment loans. Banc One reports that, in 1997, its CLD made more than 131,000 home equity loans, totaling \$4.8 billion, and almost 12 percent of the loans were to LMI borrowers. Banc One also has an "Outreach Program" to serve LMI individuals. Under the program, Banc One representatives visit community and neighborhood centers at scheduled times to offer affordable credit and banking products, in-

cluding low-cost basic account services and secured credit cards.

Banc One Capital Funding Corporation ("Capital Funding Corp.") has funded numerous multifamily housing projects. Banc One reports that, in 1996 and 1997, Capital Funding Corp. provided more than \$40 million in financing to affordable multifamily housing developments.⁴⁴ Capital Funding Corp.'s financial support resulted in more than 1,600 new affordable housing units.

Banc One Community Development Corporation ("Banc One CDC") also makes investments and loans for a variety of housing, community development, and small business development projects. The loan and investment commitments made by Banc One CDC totalled approximately \$280 million for almost 200 projects.

Lending Record in General. CRA performance examinations of Banc One's subsidiary banks conducted by the appropriate federal supervisory agencies generally found that each bank offered a full range of consumer, housing-related, and small business loans, including loan products with flexible credit terms and underwriting guidelines. Examiners found that the banks effectively identified the credit needs of their service communities and affirmatively solicited loan applications from all segments of their communities, including LMI neighborhoods.

The examinations generally indicated that the banks' lending activities reached LMI individuals and that the loans made by Banc One's subsidiary banks were reasonably distributed throughout the local communities they served, including LMI communities. Examiners also found that the banks participated in lending programs designed to make credit available for affordable housing and small businesses. In addition, all of Banc One's banks offered community development lending, investment, and technical assistance.⁴⁵

Ohio. According to the CRA performance examinations, Banc One's subsidiary banks in Ohio, which were consolidated to form Bank One Ohio, developed programs to identify the credit needs of their delineated communities and responded to those needs through a wide variety of credit products and banking services. The banks also gener-

42. Several commenters expressed concern about the ability of Banc One to address the specific needs of local communities in light of this initiative. Banc One has stated that its centralized structure allows it to accumulate its experience with a product or service in a wide variety of circumstances in order to make the product or service more accessible to all communities served. Banc One also has represented that certain lending decisions and charitable contributions and other aspects of Banc One's CRA program will continue to be conducted at the local level.

43. A number of commenters expressed concern that mortgage lending would not represent a significant line of business for the New Bank One. Banc One stated at the public meeting that New Bank One would continue to originate mortgage loans. Banc One also noted that it recently formed a partnership with the Federal National Mortgage Association ("Fannie Mae") and other lenders to originate 35,000 affordable mortgages to low-income and minority home buyers over the next five years. The Board notes that the CRA does not require an institution to offer any specific credit products but allows an institution to help serve the credit needs of the institution's community by providing credit of the types consistent with the institution's overall business strategy and expertise.

44. Capital Funding Corp., for example, invested \$1.5 million in a 40-unit housing project that provides housing for LMI senior citizens in Milwaukee, Wisconsin. In addition, Banc One provided construction financing for the housing project.

45. A few commenters expressed particular concern regarding the CRA performance record of Banc One's subsidiary credit card bank, First USA Bank, Wilmington, Delaware ("First USA"). First USA was not acquired by Banc One until May 1997. First USA received a "satisfactory" rating in its last CRA performance examination in August 1996, before its acquisition by Banc One. Banc One has implemented several CRA-related programs and investments at First USA since its acquisition, including purchasing a \$10.5 million portfolio of mortgage loans to LMI borrowers; exploring various partnership opportunities with the Wilmington Housing Authority; and making \$600,000 in investments to certain loan pools that provide financing for community and housing development. In addition, in July 1998, First USA and its Banc One affiliates were selected by one of Delaware's largest social services organizations to provide equity financing for the rehabilitation of two buildings that will provide affordable housing for mentally disabled individuals.

ally had a significant volume of consumer, home-related, and small business loans in all segments of their communities. For example, the CRA performance examination states that, in 1994, Bank One Columbus had more than 3,700 small business credit relationships and made small business loans totaling more than \$243 million in the Columbus area. Since the most recent CRA examinations, Banc One's banks originated more than 1,950 small business loans in the Cleveland, Ohio, MSA, totaling \$165 million, and more than 16 percent of the loans were made in LMI communities.

The record also indicates that Banc One and its affiliates originated more than 12,000 small business loans, totaling over \$1.1 billion, throughout Ohio in 1996. Approximately 22 percent of these loans were made in LMI census tracts. In addition, the SBA's district offices in Cleveland and Columbus designated Bank One Ohio as the number one SBA lender in 1997. In the Cleveland SBA district, Bank One Ohio made 140 SBA loans, totaling \$15.4 million, and in the Columbus SBA district, the bank made 224 SBA loans, totaling \$34.6 million.

The CRA performance examinations indicate that Banc One's subsidiary banks in Ohio, in conjunction with BOMC, generally offered a range of loans for affordable housing and home improvements. For example, Bank One Columbus introduced an affordable mortgage product with lower payments and flexible debt-to-income limits and, in 1994, Bank One Columbus originated 182 affordable mortgages, totaling \$8.9 million, in its assessment area. Bank One Columbus outperformed competitors in originations of home improvement loans, particularly in LMI and minority census tracts, according to its CRA performance examination. Examiners also noted that Bank One, Akron, N.A., Akron, Ohio, established an "Own a Home" Loan program to provide affordable mortgage and home-related loan financing. In 1994, the bank originated more than 350 "Own a Home" Loans, totaling more than \$15 million.

Examiners noted that Bank One Columbus played an active role in making loans that were insured, guaranteed, or subsidized under programs by local, state, and federal governmental agencies for families, small businesses, and small farms. In 1994, Bank One Columbus participated in government-sponsored loans totaling more than \$24 million. The bank originated \$1.2 million in loans through the Ohio Agricultural Linked Deposit program, a program that offers loans of less than \$100,000 to full-time farmers. The bank also participated in a similar state program for small businesses, originating 16 loans totaling approximately \$2.3 million in 1994. Examiners noted that Bank One, Cleveland, N.A., Cleveland, Ohio, participated in several government loan programs, including a home buyer down-payment assistance program with the City of Cleveland that originated 59 mortgage loans, totaling \$127,000, through the first nine months of 1994.

Banc One's Capital Funding Corp. also financed a number of multifamily housing projects in Ohio in 1996 and 1997. In the Dayton-Springfield, Ohio, MSA, for example, Capital Funding Corp. originated more than \$8.9 million for housing projects in 1996 and 1997 that provided more

than 350 housing units. In the Columbus, Ohio, MSA, Capital Funding Corp. originated more than \$3.9 million for housing projects in the same two years that provided more than 210 housing units.

The record also shows that Bank One Ohio has entered into partnerships with a number of community-based organizations. Banc One reports that, in 1996 and 1997, Bank One Ohio invested approximately \$4.2 million in community-based, CRA-related initiatives.

Indiana. Examiners concluded that Bank One's subsidiary banks in Indiana, which were consolidated to form Bank One Indiana, generally offered loan products to meet the important credit needs of the communities they served. For example, Bank One Indianapolis, in conjunction with BOMC, offered several affordable home mortgage and home improvement loan programs. The CRA performance examination indicates that the bank made 435 loans, totaling \$22.4 million, under these affordable home lending programs in 1994. Since the most recent CRA examinations, Bank One Indiana and its affiliates originated approximately 150 mortgage and more than 740 home improvement loans to LMI families in 1997.

Banc One's subsidiary banks in Indiana generally have been active small business lenders. During 1994, Bank One Indianapolis made more than 620 small business loans, totaling \$25.8 million. In Indiana, Banc One developed the Banc One Business Line of Credit ("BOBLOC"), a low-cost credit line for small businesses generally seeking less than \$250,000. By the end of 1994, Bank One Indianapolis had made \$3.3 million in loans under the BOBLOC program. In 1995, Bank One Marion, N.A., Marion, Indiana, originated 11 loans under the BOBLOC program, totaling \$1.3 million. Banc One and its subsidiaries also have invested more than \$200,000 in and provided a \$1.8 million line of credit to the Indiana Community Business Credit Corporation, which provides financing to small businesses in Indiana.

Examiners commended Bank One Indianapolis for participating in governmentally insured, guaranteed, and subsidized loan programs. Examiners noted that Bank One Indianapolis was the second largest provider of SBA loans in Indiana and within the Indianapolis MSA. According to the CRA performance examination, Bank One Indianapolis made more than 20 SBA loans totaling \$5.3 million in 1994. The bank also made seven loans, totaling \$235,000, under a small business loan program established by the Indiana Development Finance Authority in 1994. Since the most recent CRA examinations, Banc One's subsidiaries in Indiana made more than 150 government-sponsored small business loans in 1996 and 1997, totaling more than \$14 million.

Since the CRA examinations, Bank One Indiana also has actively engaged in extending credit to LMI consumers and in LMI neighborhoods. During 1997, for example, the bank and its affiliates originated more than 12,000 consumer loans, totaling more than \$100 million, to consumers residing in LMI census tracts in the Indianapolis banking market.

Illinois. The record indicates that Bank One Illinois,

which was formed through the consolidation of Banc One's subsidiary banks in Illinois, offers a variety of credit products to serve all its communities, including LMI communities. For example, in 1997, Bank One Illinois originated more than 2,000 consumer loans, totaling more than \$15 million, in LMI census tracts. Examiners also noted that Banc One's banks in Illinois have demonstrated a willingness to meet the credit needs of the communities they serve. The CRA performance examinations of Banc One's subsidiary banks in Illinois generally indicated that these depository institutions originated loans consistent with the credit needs of their delineated service communities.

Banc One states that Bank One Illinois, in conjunction with BOMC, offers more than 55 different home purchase mortgage products, including affordable mortgage products. Banc One's subsidiary banks in Illinois also generally have been active in pursuing opportunities to finance affordable housing needs in their service communities. The CRA performance examination of Bank One Peoria, Peoria, Illinois, noted that, in 1993 and 1994, the bank made 51 mortgages, totaling \$1.74 million, under its Affordable Housing Program, which offers financial assistance to first-time and LMI home buyers. Similarly, Bank One, Chicago, N.A., Chicago, Illinois, originated \$2.1 million in affordable home purchase loans in 1994 and 1995.

Bank One Illinois and its affiliates have participated in government-sponsored small business loan programs since the last CRA examinations of Banc One's banks in Illinois. Banc One reports that, in 1996 and 1997, Bank One Illinois and its affiliates originated 49 government-sponsored small business loans, totaling more than \$5 million.

In 1997, Bank One Illinois made \$37.6 million in small business loans in Chicago. The bank also originated a significant volume of small business loans in MSAs outside Chicago. In 1997, Bank One Illinois made 333 small business loans in Springfield, totaling \$28 million, and 241 small business loans in Champaign-Urbana, totaling \$11.4 million.

Colorado. Examiners commended Bank One Colorado for its efforts to address the credit needs of its service communities through residential mortgage, home rehabilitation, home improvement, consumer, small business, and farm loans. Examiners highlighted, for example, the bank's small business lending efforts, noting that Bank One Colorado originated \$248 million in small business loans in 1996. Examiners also commended the bank's small business lending in LMI communities. In 1996, 37 percent of its small business loans were made in LMI areas, which compares favorably to the 32 percent of the population that lives in LMI census tracts. According to the CRA performance examination, Bank One Colorado also won an award from the SBA for its strong commitment to lending, service, and outreach to minority-owned small businesses. Since the examination, Bank One Colorado has originated 45 loans, totaling \$2.3 million, under the SBA "FastTrack" program for loans of less than \$100,000. Bank One Colorado was one of only 18 banks nationwide that originally offered FastTrack as a pilot program.

Examiners found that Bank One Colorado had agricul-

tural loans totaling \$96 million on its books as of December 31, 1996. Examiners also stated that Bank One Colorado had more agricultural loans on its books than any other local competitor.

According to the CRA performance examination, Bank One Colorado's mortgage, consumer, and small business loan originations were well distributed throughout the bank's communities. Examiners stated, for example, that the bank was the leading home improvement lender in its communities, originating 11.9 percent of all home improvement loans, and that Bank One Colorado ranked second in home improvement lending to LMI individuals, originating 10.2 percent of all home improvement loans to LMI individuals.

Examiners also commended Bank One Colorado for providing technical assistance to individuals and small businesses. The bank, for example, participated in a partnership with the Urban League and Fannie Mae to provide home buyer seminars and one-on-one counseling to prospective home buyers in Denver. The bank also participated in numerous conferences for small businesses and sponsored many community events to promote and advertise its products and services.

Louisiana. Examiners noted that the volume of mortgage, home improvement, small business and small farm lending conducted by Bank One, Louisiana, N.A., Baton Rouge, Louisiana ("Bank One Louisiana"), demonstrated responsiveness to the credit needs of the bank's communities. The bank solicited credit applications and extended credit throughout its service area, including LMI communities. The bank, moreover, had marketing programs that focused on minority and LMI communities.

Examiners commended Bank One Louisiana for introducing innovative products and employing flexible underwriting standards to increase the availability of credit. In 1994, for example, Bank One Louisiana developed the Foundations Affordable Housing Program ("Foundations"), which offers 95 percent financing of home purchases and home refinancings to individuals on their completion of a home buyer training class. From January 1994 through June 1996, Bank One Louisiana originated over \$12 million in Foundations loans.

From June 30, 1995 to June 30, 1996, Bank One Louisiana originated more than 5,600 small business loans totaling \$141 million and approximately 400 small farm loans totaling \$10 million. The bank also has introduced a "BusinessLine" product to help provide working capital to small businesses. In addition, the bank provides technical and educational programs to small businesses and businesses owned by minorities and women throughout its communities.⁴⁶

46. Some commenters expressed concern that the lending record of Bank One Louisiana had deteriorated since Banc One acquired the depository institution from Premier Bancorp in 1995. Banc One represents that since the bank's acquisition, Bank One Louisiana has increased the number of loans made to LMI and minority individuals. In 1996, for example, Bank One Louisiana made more purchase money mortgage loans to LMI African Americans than Premier's

Texas. According to the performance examination conducted by the OCC, Bank One Texas effectively made its credit services available to all segments of its community. Bank One Texas made a significant number of mortgage, home improvement, consumer, credit card, and small business loans in 1996 and 1997, and examiners generally noted that the geographic distribution of the bank's loans throughout its service communities was good. Examiners noted, for example, that 36 percent of the businesses in the service area were in LMI census tracts and that 34 percent of the small business loans were made by Bank One Texas to businesses in LMI census tracts.

Banc One represents that the efforts of Bank One Texas to extend credit to all segments of its service communities has continued since the examination. In 1997, for example, Bank One Texas originated more than 18,000 consumer loans, totaling \$131 million, in LMI communities in the Houston MSA.

In 1996 and the first quarter of 1997, Bank One Texas and BOMC made more than 5,300 home purchase mortgage loans totaling \$303 million. The bank and BOMC offered home mortgage products with flexible underwriting criteria, including loan-to-value ratios exceeding 95 percent, higher debt-to-income ratios, and non-traditional credit histories. In addition, Bank One Texas offered financial education to first-time home buyers. The bank also originated more than 10,800 home improvement loans totaling approximately \$198 million.

In 1996 and the first quarter of 1997, Bank One Texas made 107 community development loans totaling \$72 million. Of this total, 71 loans were for affordable housing projects and 36 loans to promote the development of small businesses. In addition, Banc One states Bank One Texas has established partnerships with over 50 community-based organizations to serve the needs of LMI communities.

Wisconsin. Examiners generally concluded that Banc One's subsidiary banks in Wisconsin, which were merged after the date of their examinations to form Bank One, Wisconsin, N.A., Milwaukee, Wisconsin ("Bank One Wisconsin"), offered various credit products to address the credit needs of the communities served. Bank One, Milwaukee, N.A., Milwaukee, Wisconsin ("Bank One Milwaukee"), for example, introduced the "American Dream" mortgage program, which features flexible underwriting guidelines and low down payment requirements. From its introduction in 1993 to the end of 1994, the bank originated 92 "American Dream" loans totaling \$5 million. The CRA performance examination also noted that Bank One Milwaukee participated in a program to offer low-interest loans for the purpose of making homes more energy efficient. The bank originated more than 60 of these home improvement loans in 1994, totaling \$192,000.

Examiners noted that Bank One Milwaukee developed a marketing program designed to reach all segments of the communities it serves, including LMI areas. As part of the program, the bank's consumer lending division conducted a mailing to residents of LMI communities in the bank's service area, which resulted in 305 new loans. Since the most recent CRA examinations, Bank One Wisconsin made more than 4,000 consumer loans in 1997, totaling more than \$33 million, to residents in LMI census tracts.

Examiners generally commended Bank One's subsidiary banks in Wisconsin for being active small business lenders. The record indicates that, since the CRA examinations, Banc One's subsidiary banks have continued to make small business loans. In 1996, Bank One Wisconsin extended more than 1,700 loans to small businesses in the Milwaukee MSA, and more than 170 of the loans were made to small businesses in LMI census tracts. In 1997, Bank One Wisconsin made more than 240 small business loans in LMI census tracts.

Bank One's banks in Wisconsin also have used government and other credit enhancement programs to assist small businesses. The CRA performance examination noted that Bank One Milwaukee participated in Milwaukee's Capital Access Program to address the credit needs of higher-risk businesses. Under the program, the bank originated 17 loans in 1993 and 1994, totaling more than \$320,000. Similarly, according to its CRA performance examination, Bank One Green Bay, Green Bay, Wisconsin, also was an active participant in several government guaranteed and sponsored loans.

Bank One Milwaukee participated in numerous local community development and redevelopment projects and programs. In 1994, the bank made a \$1.4 million loan for the rehabilitation of commercial office space in downtown Milwaukee. The bank also lent \$232,000 to the Northwest Side Community Development Corporation to purchase and renovate a building to house an alternative high school that trains students for jobs with industrial firms. In addition, Banc One states that Bank One Wisconsin has provided philanthropic support to 41 organizations serving the needs of LMI individuals and communities.

Banc One's subsidiaries in Wisconsin have been actively engaged in meeting the affordable housing needs of LMI communities. In Milwaukee, Banc One's subsidiaries are active participants in NOHIM, a public-private partnership with the city of Milwaukee that assists LMI families in purchasing homes. Bank One Wisconsin and Banc One CDC also have developed a joint venture with WHEDA in which WHEDA will originate and Banc One CDC will fund permanent, fixed-rate loans of up to \$2.5 million for low-income housing tax credit projects throughout Wisconsin. The funds primarily will be used in rural Wisconsin, and Banc One represents that, of the nine projects under consideration, seven are located in rural counties.

Since their CRA examinations, Banc One's subsidiaries have attempted to meet the credit needs of rural communities and small farms. In 1996 and 1997, for example, Bank One Wisconsin and its affiliates originated nine Farm Service Administration loans, totaling \$972,000, according to

subsidiary bank made in 1995. In addition, the number of consumer and small business loans made by Bank One Louisiana and its affiliates in LMI census tracts increased in 1997, compared with 1996 data.

Banc One. In addition, Banc One notes that Bank One Wisconsin originated 81 SBA loans in 1996 and 1997, and that 22 percent of the businesses receiving the loans were in rural counties. During the Board's public meeting, a representative of WHEDA noted that Bank One Wisconsin made 133 agricultural production loan guarantees, totaling \$1.7 million, and two beginning farmer loans, totaling \$288,000.⁴⁷

E. First Chicago's CRA Performance Record

Overview. First Chicago oversees and manages its community development programs through its Community Affairs/CRA Coordinating Council ("CRA Council"). First Chicago represents that the CRA Council combines corporate-level oversight with local-level decision making to assure efficient deployment of First Chicago's resources to support its communities.

First Chicago provides a range of affordable home mortgage and small business lending products in the communities it serves. The banking organization participates in numerous flexible financing programs for affordable housing, including state-based and neighborhood initiatives. In addition, First Chicago supports a variety of micro-enterprise programs and participates in various small business credit enhancement programs.

First Chicago also has a strong record of participating in community development projects. In 1997, for example, First Chicago originated 64 loans, totaling \$30 million, for affordable housing projects and made 48 loans, totaling more than \$57 million, for economic development purposes. Examples of its community development initiatives include providing pre-development and construction financing and \$3.5 million for mortgage financing for a re-development project in a LMI community in downtown Detroit; providing construction financing for a single-family subdivision containing 170 lots in Flint, Michigan; and rehabilitating two low-income housing projects in Chicago containing 380 units.

Lending Record in General. Examiners generally determined that loan originations by First Chicago's subsidiary banks were reasonably distributed throughout their communities, including LMI communities. The banks generally met the identified credit needs of their communities through a variety of loan products, including affordable mortgage financing and small business lending.

Examiners also generally commended First Chicago subsidiary banks for using innovative and flexible loan products to serve their communities. First Chicago's subsidiary banks initiated the "Community Pride" loan program under which low-income borrowers can obtain loans in amounts as small as \$500 for purposes such as home improvements. Through the first three quarters of 1997,

First Chicago Bank originated more than 1,200 "Community Pride" loans, totaling \$25 million.

In addition, First Chicago's subsidiary banks were generally found to be active participants in government lending programs for housing and small business. The banks offered loans through programs sponsored by the Federal Housing Administration, the Veterans Administration, the SBA, and various state agencies.

Illinois. OCC examiners found that First Chicago Bank extended various types of credit to the communities it serves, including LMI areas. Examiners determined that the bank had a good distribution of housing and consumer loans in census tracts with different average income levels and had a good distribution of small business loans to borrowers of different income levels. In particular, examiners commended the bank's level of consumer loans to LMI borrowers, noting that the bank made 46 percent of its consumer loans in 1996 and the first three quarters of 1997 to LMI consumers, which compared favorably to the 37 percent of LMI individuals that resided in the bank's service areas.

First Chicago Bank has a strong record of lending to very small businesses, which examiners characterized as businesses with revenues less than \$1 million. The bank made more than 2,000 loans to very small businesses in 1996 and the first three quarters of 1997. These loans represented approximately half the business loans made by First Chicago Bank during this period. The bank supplemented its direct lending efforts by supporting financial intermediaries, such as the ACCION Microlending Program, that lend to very small businesses.

Examiners noted that First Chicago Bank demonstrated leadership in its use of innovative and complex products to support community development lending. In 1996 and the first three months of 1997, the bank made more than 100 loans, totaling approximately \$88 million, for affordable housing and economic development purposes. One innovative project noted by examiners was the bank's participation in developing a shopping center that provided a grocery store owned by a national chain to an area that lacked such a facility. First Chicago Bank provided construction financing for and established a branch in the shopping center.

The bank has initiated efforts to extend mortgage loans to LMI families through down-payment assistance and other programs to help home buyers pay closing costs. First Chicago Bank also has made more than \$1.7 million in affordable home purchase loans in Chicago through the New Beginnings program, under which a local developer builds affordably priced homes on lots owned by the City of Chicago. In addition, the record developed since the CRA examination indicates that First Chicago Bank made more than \$109 million in mortgage loans in LMI areas of Chicago in 1997, an increase of more than 40 percent from the amount of these loans made in 1996.

In Chicago, First Chicago has entered into two separate agreements with community groups under which the banking organization has agreed to provide over \$8 billion in home mortgage, home improvement, and small business

47. WHEDA also noted that many of the loans made by Bank One Wisconsin in conjunction with WHEDA are not reported in the bank's HMDA data and that the HMDA data for Bank One Wisconsin, accordingly, understate the bank's lending.

loans and other forms of financial assistance to LMI and minority neighborhoods. Goals set under the agreements included the origination of \$120 million in home mortgage loans and \$130 million in home improvement loans to LMI and minority communities over the next ten years. First Chicago also has stated that it would open four new branches in LMI communities in the Chicago area. In addition, First Chicago has agreed to continue to support homeownership education and counseling programs, particularly in LMI areas. The agreements provide for monitoring by and regular meetings with community groups.

Indiana. OCC examiners determined that NBD Indiana addressed a significant portion of the identified credit needs of the communities it serves through its credit products, including its affordable mortgages and small business loans. The bank was an active small business lender and, in the first nine months of 1995, it made more than 2,500 small business loans, totaling \$184 million. Twenty-eight percent of the loans were made to businesses in LMI communities, which examiners noted correlated favorably to the fact that 28 percent of the population in the bank's communities resided in LMI census tracts.

NBD Indiana originated a significant amount of home purchase and home improvement loans. In 1994, the bank made more than 2,000 home purchase loans, totaling approximately \$214 million, and more than 1,600 home improvement loans, totaling approximately \$6 million. NBD Indiana offered a number of products to promote affordable housing, including low-down-payment mortgages and a specialized rehabilitation loan to help consumers, particularly in urban areas, to purchase and rehabilitate owner-occupied dwellings. In Indianapolis, the bank also supplemented its direct home mortgage lending by investing \$2 million in an Indianapolis Neighborhood Housing Partnership mortgage pool to assist LMI home buyers.

Examiners found that NBD Indiana marketed its credit and credit-related products to all portions of the communities it served. The bank's CRA officers called on local community groups and other organizations that promote revitalization of the bank's communities. NBD Indiana also participated in a variety of seminars to promote awareness of credit and financial products, including programs for first-time home buyers and small businesses.

Michigan. The CRA performance examination of NBD Michigan concluded that the bank was responsive to the credit needs of the communities it served and that the bank had introduced a number of new products or modified several existing products to better serve those needs. These products included an acquisition/rehabilitation program for inner city homes that was initiated in the third quarter of 1994. Since the program was introduced, the bank has made 38 acquisition/rehabilitation loans, totaling more than \$1.8 million.

NBD Michigan actively marketed its credit products and services in all its communities, including LMI areas. In July 1995, for example, the bank sent a mailing for pre-approved \$1,000 personal loans to approximately 4,500 individuals earning less than \$25,000 per year. The bank also sent materials promoting the bank's mortgage hotline

and the benefits of home ownership to 4,800 renters living in the Detroit Empowerment Zone. CRA representatives from the bank also participated in a 30-minute weekly radio show on a radio station with a predominantly minority audience.

Examiners noted that, in February 1995, NBD Michigan entered into a three-year strategic plan with the Alliance for Fair Banking to originate \$678 million in loans and investments to revitalize Detroit. Under the plan, in 1995, the bank made 146 home mortgages in LMI census tracts, totaling \$6.8 million, and made 311 business loans, totaling \$35.9 million, to businesses with annual sales of less than \$1 million. In total, NBD Michigan originated \$232 million in consumer and business loans in the city of Detroit in 1995, which was 13 percent more than the plan's goal.

Since the last CRA examination, First Chicago renewed its CRA agreement in Detroit in 1998. Under the new agreement, NBD Michigan proposes to make loans and investments totaling \$3 billion over three years to support LMI, minority, and inner-city communities. The agreement specifies that the bank will make approximately \$2.2 billion in loans to businesses in Detroit and will assist in developing at least one major downtown project valued at \$50 million or more. The agreement also provides for grants to community development organizations. NBD Michigan also has stated that it would train additional staff to process SBA loan applications and that it would continue a second-review process for small business and residential mortgage loan applications. New Bank One intends to honor the CRA agreements entered into by First Chicago and its subsidiary banks in Detroit and Chicago.

F. HMDA Data and Fair Lending

The Board also has carefully considered the lending records of Banc One and First Chicago in light of comments regarding HMDA data reported by subsidiaries of the organizations. In particular, commenters alleged that HMDA data from Banc One's banking and nonbanking subsidiaries evidence discrimination against minority credit applicants in violation of the fair lending laws.

Banc One and First Chicago deny allegations of illegal credit practices and have provided HMDA data and other information evidencing efforts by Banc One and First Chicago to serve minority and LMI communities.⁴⁸ Banc One also has stated that New Bank One will continue to market a variety of products with flexible terms to all segments of its service communities, and pursue opportuni-

48. Examples provided by Banc One include the fact that Bank One Ohio and BOMC originated 171 mortgage loans in the Cincinnati, Ohio, MSA in 1996, and that more than 13 percent of such loans were made to African Americans, who constitute 12.5 percent of the population of the Cincinnati MSA. Banc One also represents that more than 8 percent of the home purchase mortgage loans made in Springfield, Illinois, in 1997 were to African-American borrowers, and that African Americans constituted approximately 8 percent of the population of the Springfield banking market. Banc One has provided similar statistics for other areas.

ties to expand the customer base served by the banking organization through partnerships with community-based organizations.

The Board has carefully considered the 1995, 1996, and 1997 HMDA data reported by Banc One and First Chicago. The data generally show that Banc One and First Chicago have assisted in meeting the housing-related credit needs of minority and LMI borrowers and borrowers in LMI census tracts. The data also generally do not indicate that the banking organizations are excluding any geographic areas or population segments on a prohibited basis.

The data also reflect certain disparities in the rates of loan applications, originations, and denials among members of different racial groups and persons at different income levels, both generally and in certain states and local areas. The Board is concerned when an institution's record indicates such disparities in lending, and believes that all banks are obligated to ensure that their lending practices are based on criteria that assure not only safe and sound banking, but also equal access to credit by creditworthy applicants regardless of their race or income level. The Board recognizes, however, that HMDA data alone provide an incomplete measure of an institution's lending in its community because the data cover only a few categories of housing-related lending. HMDA data, moreover, provide only limited information about the covered loans.⁴⁹ HMDA data, therefore, have limitations that make the data an inadequate basis, absent other information, for concluding that an institution has not adequately assisted in meeting its communities' credit needs or has engaged in illegal discrimination in making lending decisions.

Because of the limitations of HMDA data, the Board has carefully considered the data in light of other information, including examination reports that provide an on-site evaluation of the compliance by the subsidiary banks of First Chicago and Banc One with the fair lending laws and the overall lending and community development activities of the banks. Examiners found no evidence of prohibited discrimination or illegal credit practices at the subsidiary banks of Banc One. At Bank One Indianapolis, for example, examiners conducted a comprehensive review of the bank's home improvement loan portfolio to test for racial discrimination. The review, which included a review of all African-American applicants for home-improvement loans who were denied credit between June 1 and December 31, 1994, found that white and African-American applicants were treated equally and provided with the same level of assistance in the applications process. Examiners also tested for discrimination in direct consumer loans at Bank One Texas and found no violation of anti-discrimination

laws. The examinations of First Chicago's subsidiary banks also found no illegal discrimination in the credit programs at the banks. For example, in the CRA examination of First Chicago Bank, OCC examiners did not detect any illegal discrimination on the basis of gender in a review of the bank's indirect automobile loan program. OCC examiners' review of the home improvement loan files of NBD Indiana revealed no fair lending law violations or illegal practices.

The Board notes that examiners reviewed the fair lending policies, procedures, and training maintained by the depository institutions of Banc One and First Chicago and found them to be appropriate for monitoring compliance with fair lending laws. The Board also has considered the HMDA data in light of the overall lending records of Banc One and First Chicago, which show that their subsidiary depository institutions assist in meeting the credit needs of their entire communities, including LMI neighborhoods.

Several commenters questioned Banc One's credit referral practices, alleging that minority applicants are referred from Banc One's other subsidiaries to BOFS, which charges higher interest rates on its loans.⁵⁰ In addition, commenters alleged that there are disparities in the denial rates of credit applications, based on race or other prohibited factors, at BOMC and at other nonbanking subsidiaries of Banc One.

The Board carefully considered substantially similar allegations in a previous case involving Banc One.⁵¹ Based on all the facts of record in that case, including certain preliminary information developed in the course of the Board's supervision of Banc One, the Board decided to conduct an examination of BOMC to ensure its compliance with fair lending laws. During 1997, examiners from the Federal Reserve System conducted an on-site examination of BOMC, which included a thorough review of BOMC's loan and application files in several markets and investigations of certain complaints filed by minority loan applicants against BOMC.

The Federal Reserve System's examination found no evidence of lending discrimination or unlawful and illegal credit practices at BOMC. In connection with the examination, the Federal Reserve System offered several recommendations to BOMC to improve its fair lending oversight and systems, including improvements to its systems and procedures for loan documentation and HMDA data collection. Those recommendations have been or are being implemented, and the Federal Reserve System will continue to monitor measures taken by Banc One to ensure fair lending compliance at BOMC.

49. The data, for example, do not account for the possibility that an institution's outreach efforts may attract a larger proportion of marginally qualified applicants than other institutions attract and do not provide a basis for an independent assessment of whether an applicant who was denied credit was, in fact, creditworthy. Credit history problems and excessive debt levels relative to income (reasons most frequently cited for a credit denial) are not available from HMDA data.

50. Commenters also alleged that creditworthy applicants are not referred from BOFS to other Banc One subsidiaries that may offer lower-cost credit options.

51. See *Banc One Corporation*, 83 *Federal Reserve Bulletin* 520 (1997).

G. Branch Closures

A number of commenters expressed concerns about branch closures by Banc One and First Chicago. Commenters alleged that a disproportionate number of Banc One's branches were closed in LMI and minority communities and that the closings have adversely affected these local communities.⁵² Commenters also alleged that Banc One's branches in LMI communities offered inadequate services when compared with Banc One's branches in other areas. In addition, commenters expressed concern that the proposed merger would result in additional branch closings, particularly in LMI neighborhoods.⁵³

Banc One has indicated that branches may be closed as a result of the proposed merger. Banc One represents, however, that the analysis required to determine branch closings has not been completed and that no final decisions regarding branch closures have been made. Banc One states that it is reviewing branches of the two organizations that are within close geographic proximity as likely, but not automatic, candidates for closure.⁵⁴ On this basis, Banc One states that approximately 120 of the 650 branches in Illinois, Indiana, and Wisconsin are under review. Of the branches under review, 24 branches, out of a total of approximately 120 branches in these states, are in LMI census tracts. The Board has carefully considered the public comments about past and potential branch closures in light of all the facts of record, including information provided by Banc One.

The Board also has carefully considered the record of Banc One and First Chicago in opening and closing branches and the branch closing policy of Banc One. As part of its Project One reorganization, Banc One instituted a new corporate branch closing policy in January 1997, which will be adopted as the branch closing policy for the subsidiary banks of New Bank One. When a branch is identified for closing, the policy requires that the business case analysis include a discussion of how the closing would affect banking access for LMI consumers. If a decision is made to close a branch, based on that analysis and other information, a retention plan must be developed that contains a strategy for serving customers of the com-

munity affected by the closing, with particular attention to serving LMI consumers. The bank's CRA personnel participate in the process and review branch closing plans with community leaders to consider whether the retention plan responds to the concerns expressed by the community in light of all the facts of circumstances.

Banc One represents that its new branch closing policy was submitted to the OCC for review and that suggestions made by the OCC with respect to the policy were incorporated. Examiners from the OCC also have considered the effect of branch closings under the policy on the communities served by Banc One's subsidiary banks. The OCC's CRA performance examination of Bank One Texas, conducted after the implementation of the new branch closing policy, concluded that the bank had a satisfactory record of opening and closing branches and provided reasonable access to services for all segments of the bank's communities. The most recent CRA performance examinations of Banc One's banks, including Bank One Texas and Bank One West Virginia, generally noted no materially adverse effects on LMI neighborhoods from branch closings.

Examiners also concluded that the branch and ATM networks and alternative delivery systems of Banc One's subsidiary banks reasonably served the credit needs of all segments of their communities, including LMI areas. Examiners generally determined that hours of operation and services offered through branch networks were reasonable and that variations in hours and services did not adversely affect LMI communities. In some cases, examiners noted that Banc One's banks offered bilingual services that would enhance access to services for certain minority communities. In addition, examiners reviewed the record of branch closings of First Chicago's subsidiary banks and generally concluded that the banks had good records of opening and closing branches.

The Board also has considered that federal banking law provides a specific mechanism for addressing branch closings. Federal law requires an insured depository institution to provide notice to the public and to the appropriate federal regulatory agency before closing a branch.⁵⁵ The law does not authorize federal regulators to prevent the closing of any branch. Any branch closings resulting from the proposed transaction will be considered by the appropriate federal supervisor at the next CRA examination of the relevant subsidiary bank.

The Board expects that Banc One's branch closing policy would be used by New Bank One for any branch closings that result from the proposal. To permit the Board to assess the effectiveness of the branch closing policy of New Bank One, the Board conditions its action on this

52. Banc One's response to these comments noted that, as of July 1, 1997, approximately 26 percent of its branches were in LMI census tracts and that the percentage of branches in LMI census tracts remained unchanged as of March 31, 1998.

53. Several commenters also expressed concerns that the proposal would result in increased fees for banking products and services. Banc One and First Chicago offer a full range of banking products and services, including low-fee bank accounts, and New Bank One intends to continue to offer affordable basic checking and savings accounts. Moreover, although the Board has recognized that banks help to serve the banking needs of communities by making basic services available at nominal or no charge, the CRA does not require an institution to limit the fees charged for its services or provide any specific types of credit products.

54. Banc One has stated that, in evaluating its branch network, New Bank One will consider other relevant factors, including the volume of activity, trends in deposit share and profitability, viability of physical facilities, competition in the market, and traffic patterns.

55. Section 42 of the Federal Deposit Insurance Act (12 U.S.C. § 1831r-1), as implemented by the Joint Policy Statement Regarding Branch Closings (58 *Federal Register* 49,083 (1993)), requires that a bank provide the public with at least 30 days notice and the appropriate federal supervisory agency with at least 90 days notice before the date of the proposed branch closing. The bank also is required to provide reasons and other supporting data for the closure, consistent with the institution's written policy for branch closings.

proposal on the requirement that New Bank One report to the Federal Reserve System, on a semi-annual basis during the two-year period after consummation, all branch closings, including consolidations, that occur as a result of this proposal. For branches closed in LMI census tracts, New Bank One should indicate the proximity of the closed branch to the nearest branch of New Bank One and the steps that New Bank One took to mitigate the impact of the branch closure.⁵⁶

H. Conclusion on Convenience and Needs Factor

The Board recognizes that the proposed merger would create a large banking organization that will have a significant presence in the Midwest and in other parts of the country. Accordingly, the Board has carefully reviewed the proposal and its effects on the convenience and needs of all the communities to be served by New Bank One.

In conducting its review, the Board has carefully considered all the comments on the convenience and needs factor. A significant number of commenters have expressed support for the proposal based on the records of Banc One and First Chicago in helping to serve the banking and, in particular, the lending needs of their entire communities, including LMI areas. Other commenters have expressed reservations about whether Banc One and First Chicago have been, and New Bank One would be, responsive to the banking and credit needs of all their communities.⁵⁷ The Board has carefully considered these concerns and weighed them against the overall CRA records of Banc One and First Chicago, reports of examinations of CRA performance, and information provided by the two banking organizations, including Banc One's responses to the comments.

As discussed in this order, the record in this case demonstrates that Banc One and First Chicago have established records of helping to meet the convenience and needs of the communities that each currently serves. Banc One has

indicated that New Bank One will draw on the CRA policies and programs of both organizations. The Board expects that New Bank One will demonstrate the same commitment to helping to serve the banking needs of its communities, including LMI neighborhoods, that Banc One and First Chicago have demonstrated to date. Based on a review of the entire record, the Board concludes that convenience and needs considerations, including the CRA records of performance of both organizations' subsidiary depository institutions, are consistent with approval of the proposal.

Nonbanking Activities

Banc One also has filed a notice under section 4(c)(8) of the BHC Act to acquire First Chicago's nonbanking companies and thereby to engage in a number of nonbanking activities, including underwriting and dealing to a limited extent in all types of equity and debt securities ("bank-ineligible securities"). The nonbanking activities for which Banc One has requested approval are described in Appendix A.

A. Activities Approved by Regulation

The Board has determined by regulation that extending credit and servicing loans, activities related to extending credit, engaging in leasing personal or real property, performing trust company functions, providing financial and investment advisory services, providing agency transactional services for customer investments, engaging in investment transactions as principal, engaging in certain insurance agency and underwriting activities, engaging in community development activities, and providing data processing services are all closely related to banking for purposes of the BHC Act.⁵⁸ Banc One has committed that, after consummation of the proposal, New Bank One would conduct these nonbanking activities in accordance with the limitations set forth in Regulation Y and the Board's orders and interpretations.

B. Underwriting and Dealing in Bank-Ineligible Securities

First Chicago currently is engaged in underwriting and dealing in bank-ineligible securities, to a limited extent, through First Chicago Capital Markets, Inc., Chicago, Illinois ("FCCM"). Banc One also currently is engaged in underwriting and dealing in bank ineligible securities, to a limited extent, through Banc One Capital Corporation, Columbus, Ohio ("BOCC"). FCCM and BOCC are, and would continue to be, broker-dealers registered with the SEC, and members of the National Association of Securities Dealers, Inc. ("NASD"). Accordingly, both entities would remain subject to the recordkeeping and reporting

56. Several commenters expressed concern that the merger would result in the loss of jobs. The effect of a proposed transaction on employment in a community is not among the factors included in the BHC Act, and the federal banking agencies, courts, and Congress consistently have interpreted the convenience and needs factor to relate to the effect of a proposal on the availability and quality of banking services in the community. See, e.g., *Wells Fargo & Company*, 82 *Federal Reserve Bulletin* 445, 457 (1996).

57. A number of commenters criticized Banc One for not entering into agreements with community-based organizations that would provide separate monetary goals for CRA performance for a particular geographic area. The Board recognizes that communications by depository institutions with community groups provide a valuable method of assessing and determining how best to meet the credit needs of a community. Neither the CRA nor the CRA regulations of the federal supervisory agencies, however, require depository institutions to enter into agreements with any organization. The Board, therefore, has viewed such agreements and their enforceability as private contractual matters between the parties and has focused on the existing record of performance by the applicant and the programs that the applicant has in place to serve the credit needs of its communities. The Board also notes that New Bank One will have a responsibility to help serve the credit needs of its entire community, including LMI neighborhoods, with or without private CRA agreements.

58. See 12 C.F.R. 225.28(b)(1), (2), (3), (5), (6), (7), (8), (11)(i), (12), and (14).

obligations, fiduciary standards, and other requirements of the Securities Exchange Act of 1934 (15 U.S.C. § 78a *et seq.*), the SEC, and the NASD.

The Board has determined that, subject to the framework of prudential limitations established in previous decisions to address the potential for conflicts of interests, unsound banking practices, or other adverse effects, underwriting and dealing in bank-ineligible securities is so closely related to banking as to be a proper incident thereto within the meaning of section 4(c)(8) of the BHC Act.⁵⁹ The Board also has determined that underwriting and dealing in bank-ineligible securities is consistent with section 20 of the Glass-Steagall Act (12 U.S.C. § 377), provided that the company engaged in the activities derives no more than 25 percent of its gross revenues from underwriting and dealing in bank-ineligible securities over a two-year period.⁶⁰

Banc One has committed that, after consummation of the transaction, FCCM and BOCC each would conduct their bank-ineligible securities underwriting and dealing activities subject to the 25-percent revenue limitation and the prudential limitations previously established by the Board. This order is conditioned on compliance by New Bank One with the revenue restriction and Operating Standards established for section 20 subsidiaries.⁶¹

C. Proper Incident to Banking

In order to approve Banc One's notice to engage in nonbanking activities, the Board must determine that the acquisition of the nonbanking subsidiaries of First Chicago and the performance of those activities by New Bank One is a proper incident to banking. That is, the Board must determine that the proposed transaction "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."⁶²

As part of its evaluation of these factors, the Board considers the financial condition and managerial resources of Banc One and its subsidiaries, including the companies to be acquired, and the effect of the proposed transaction on those resources. For the reasons noted above, and based on all the facts of record, the Board has concluded that financial and managerial considerations are consistent with approval of the notice.

The Board also has reviewed the capitalization of New Bank One, FCCM, and BOCC in light of the standards set forth in the Section 20 Orders. The Board finds the capitalization of each to be consistent with approval of the proposal and the Section 20 Orders. The Board's determination is based on all the facts of record, including the projections of the volume of bank-ineligible securities underwriting and dealing activities to be conducted by FCCM and BOCC. The Board also has considered that Banc One and First Chicago have established policies and procedures to ensure compliance with this order and the Section 20 Orders, including computer, audit, and accounting systems, internal risk management controls, and the necessary operational and managerial infrastructure.

The Board also has considered the competitive effects of the proposed acquisition by Banc One of the nonbanking subsidiaries of First Chicago in light of all the facts of record, including the public comments received.⁶³ Many of the markets in which the nonbanking subsidiaries of Banc One and First Chicago compete are national or regional and are unconcentrated.⁶⁴ The Board concludes that consummation of this proposal would have a *de minimis* effect on the markets for servicing residential mortgages, commercial mortgage banking, corporate and commercial leasing, securities brokerage and related services, securities underwriting and dealing, data processing, credit-card issuing, and credit-card processing.⁶⁵ The Board notes that

59. See *J.P. Morgan & Co. Incorporated, et al.*, 75 *Federal Reserve Bulletin* 192 (1989), *aff'd sub nom. Securities Industry Ass'n v. Board of Governors of the Federal Reserve System*, 900 F.2d 360 (D.C. Cir. 1990) ("*J.P. Morgan*"); *Citicorp. et al.*, 73 *Federal Reserve Bulletin* 473 (1987), *aff'd sub nom. Securities Industry Ass'n v. Board of Governors of the Federal Reserve System*, 839 F.2d 47 (2d Cir.), *cert. den.*, 486 U.S. 1059 (1988) ("*Citicorp*"); as modified by *Review of Restrictions on Director, Officer and Employee Interlocks, Cross-Marketing Activities, and the Purchase and Sale of Financial Assets Between a Section 20 Subsidiary and an Affiliated Bank or Thrift*, 61 *Federal Register* 57,679 (1996), *Amendments to Restrictions in the Board's Section 20 Orders*, 62 *Federal Register* 45,295 (1997); and *Clarification to the Board's Section 20 Orders*, 63 *Federal Register* 14,803 (1998) (collectively, "Section 20 Orders").

60. See Section 20 Orders. Compliance with the revenue limitation shall be calculated in accordance with the method stated in the Section 20 Orders, as modified by the *Order Approving Modifications to the Section 20 Orders*, 75 *Federal Reserve Bulletin* 751 (1989), and *10 Percent Revenue Limit on Bank-Ineligible Activities of Subsidiaries of Bank Holding Companies Engaged in Underwriting and Dealing in Securities*, 61 *Federal Register* 48,953 (1996); and *Revenue Limit on Bank-Ineligible Activities of Subsidiaries of Bank Holding Companies Engaged in Underwriting and Dealing in Securities*, 61 *Federal Register* 68,750 (1996) (collectively, "Modification Orders").

61. 12 C.F.R. 225.200. As long as FCCM and BOCC operate as separate corporate entities, both companies will be independently subject to the 25-percent revenue limitation on underwriting and dealing in bank-ineligible securities. See *Citicorp* at 486 n. 45.

62. 12 U.S.C. § 1843(c)(8).

63. A number of commenters expressed concern that Banc One's acquisition of First Chicago's credit-card lending and servicing businesses would have an adverse effect on competition in the credit-card lending and servicing market.

64. The Board previously has determined that the market for residential mortgage origination is local. *NBD Bancorp, Inc.*, 71 *Federal Reserve Bulletin* 258, 261 (1985); *First National City Corp.*, 60 *Federal Reserve Bulletin* 50, 51 (1974). The Board has reviewed the 26 banking markets where Banc One and First Chicago have reported mortgage originations under the HMDA. These data show that, in every market except the Marion, Indiana, banking market, consummation of the proposal would not exceed DOJ Guidelines and prior Board precedent. Complete data are not available in the Marion banking market because most of the lending institutions in the Marion banking market do not report their residential mortgage loans under the HMDA. A significant number of competitors would remain in the Marion banking market and in each of the other banking markets after this transaction. In addition, there are low barriers to entry in the mortgage origination business.

65. The Board previously has determined that the markets for credit card issuers and credit card processors are national and are not

numerous competitors would remain in each of these markets. Based on all the facts of record, the Board concludes that it is unlikely that significantly adverse competitive effects would result from the nonbanking acquisitions proposed in this transaction.⁶⁶

Banc One has indicated that by combining the resources and operations of Banc One and First Chicago, New Bank One would be able to provide better products and services more efficiently through an enhanced delivery system to the current and future customers of Banc One and First Chicago. New Bank One would draw on the product strengths of each of its predecessor bank holding companies and offer a greater range of products in a larger number of locations than Banc One or First Chicago could offer separately. Banc One states that New Bank One would achieve greater operational efficiencies through expense reductions, greater economies of scale, and elimination of redundant systems and technologies. These efficiencies would strengthen New Bank One's ability to compete more effectively in the markets in which it operates. In addition, as the Board has previously noted, there are

concentrated. *See Banc One Corporation*, 83 *Federal Reserve Bulletin* 602 (1997). Based on data provided by the 100 largest bank credit card issuers, Banc One is the third largest credit card issuer, controlling approximately 11.1 percent of outstanding credit card balances. First Chicago is the sixth largest credit card issuer, controlling approximately 4.7 percent of outstanding credit card balances. On consummation of this proposal, Banc One would become the second largest issuer of credit cards, controlling approximately 15.8 percent of outstanding credit card balances. The HHI would increase by 104 points to less than 1000.

Based on data provided by the top 25 credit card processors, Banc One is the seventh largest credit card processor, handling approximately 10 percent of the total credit and debit transactions processed. First Chicago is not one of the top 25 credit card processors, and it processed less than 1 percent of the total transactions processed by the largest credit card processor. On consummation of this proposal, Banc One would remain the seventh largest credit card processor, and the HHI would increase by 3 points to 1483.

66. As a result of the proposal, New Bank One would be a member of four regional ATM networks. One commenter expressed concern that combinations of large banking organizations that are significant members of separate regional ATM networks may lead to the merger of the ATM networks and, thereby, result in a reduction in competition for ATM network services. Under section 4 of the BHC Act, a bank holding company is required to obtain the Board's approval before acquiring more than 5 percent of the voting shares of any company engaged in activities that are closely related to banking, including a company formed by the merger of two or more ATM networks. In the event that a merger of regional ATM networks controlled by bank holding companies is proposed at some time in the future, the Board would have the opportunity to address the issues raised by the commenter in the context of the specific facts presented at that time.

The commenter also expressed concern that financial institutions that operate very large numbers of ATMs may decide to perform their own ATM transactions processing, rather than relying on an ATM network or third parties for such processing, and that financial institutions that engage in significant levels of credit card lending may seek to establish a separate brand identity for the credit cards that they issue. Commenter has presented no evidence to demonstrate that, if such actions were to occur, they would result in a violation of the antitrust laws, and the Board notes that the events discussed by the commenter could, in fact, increase competition for ATM transaction processing or credit card lending by creating a new competitor for such services.

public benefits to be derived from permitting capital markets to operate so that bank holding companies can make potentially profitable investments in nonbanking companies and from permitting banking organizations to allocate their resources in the manner they consider to be most efficient when such investments and actions are consistent, as in this case, with the relevant considerations under the BHC Act.⁶⁷

The Board also believes that the conduct of the proposed nonbanking activities within the framework established by this order, prior orders, and Regulation Y is not likely to result in adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices, that would outweigh the public benefits of the proposal, such as increased customer convenience and gains in efficiency. Accordingly, based on all the facts of record, the Board has determined that the balance of public interest factors that the Board must consider under the proper incident to banking standard of section 4(c)(8) of the BHC Act is favorable and consistent with approval of Banc One's notice.

Banc One also has provided notice, in accordance with section 4(c)(13) of the BHC Act and section 211.5(c) of the Board's Regulation K (12 C.F.R. 211.5(c)), to acquire First Chicago's foreign nonbanking operations. In addition, Banc One has provided notice under sections 25 and 25A of the Federal Reserve Act and section 211.5(c) of Regulation K to acquire First Chicago NBD Bank, Canada, Toronto, Canada, a foreign bank held directly by First Chicago Bank; and First Chicago International, New York, New York, and First Chicago International Finance Corporation, Chicago, Illinois, both of which are organized under section 25A of the Federal Reserve Act. The Board concludes that all the factors required to be considered under the Federal Reserve Act, the BHC Act, and the Board's Regulation K in connection with the foregoing notices are consistent with approval of the proposal.

Requests for Additional Public Meetings

A number of commenters requested that the Board hold additional public meetings or hearings on the proposal in areas that may be affected by the merger, including communities in Colorado, Indiana, Michigan, Ohio, Louisiana, Texas, Wisconsin, and major cities throughout the country. The Board has carefully considered these requests in light of the BHC Act, its Rules of Procedure, and the substantial record developed in this case.⁶⁸

As explained above, the Board held a public meeting on the proposal in Chicago to clarify issues related to the

67. *See, e.g., Banc One Corporation*, 84 *Federal Reserve Bulletin* 553 (1998); *First Union Corporation*, 84 *Federal Reserve Bulletin* 489 (1998).

68. Section 3(b) of the BHC Act does not require that the Board hold a public hearing on an application unless the appropriate supervisory authority for the bank to be acquired makes a timely written recommendation of denial of the application. 12 U.S.C. § 1842(b). In this case, the Board has not received such a recommendation from any state or federal supervisory authority.

application and notice and to provide an opportunity for members of the public to testify.⁶⁹ The Board considered Chicago to be an appropriate location for the public meeting because New Bank One would be headquartered there and because Chicago was a reasonably central location in the region of the country in which the new bank holding company would have its most significant geographic presence. More than 85 interested persons appeared and provided oral testimony at the public meeting, including elected representatives and members of community groups from cities and towns throughout the Midwest and from a number of other states, including Colorado, Delaware, Texas, Virginia, and Louisiana. In addition, the public comment period provided more than 70 days for interested persons to submit written comments on the proposal, and the Board received and considered written comments from more than 245 interested persons who did not testify at the public meeting.

In the Board's view, all interested persons have had ample opportunity to submit their views either in writing or orally at the public meeting in Chicago. Numerous commenters have, in fact, submitted substantial materials that have been carefully considered by the Board in acting on the proposal. Commenters requesting additional public meetings have failed to show why their written comments do not adequately present their views, evidence, and allegations. They also have not shown why the public meeting in Chicago and the 70-day comment period did not provide an adequate opportunity for all interested parties to present their views and voice their concerns. Moreover, the Board has carefully considered the lending records of Banc One and First Chicago separately in many of the states where commenters requested public meetings, particularly Colorado, Indiana, Louisiana, Ohio, Michigan, Texas and Wisconsin. For these reasons, and based on all the facts of record, the Board has determined that additional public meetings or hearings are not required and are not necessary or warranted to clarify the factual record on the proposal. Accordingly, the requests for additional public meetings or hearings on the proposal are hereby denied.

Conclusion

Based on the foregoing, and in light of all the facts of record, the Board has determined that the application and notices should be, and hereby are, approved. In reaching this conclusion, the Board has carefully considered all oral testimony and the written comments regarding this proposal in light of the factors it is required to consider under the BHC Act and other applicable statutes and concludes that the comments do not warrant delay or denial of the proposal.⁷⁰

Approval of the application and notice is specifically conditioned on compliance by Banc One with all the commitments made in connection with the proposal and with the conditions stated or referred to in this order, including Banc One's divestiture commitments. The Board's determination in the nonbanking activities also is subject to all the terms and conditions set forth in Regulation Y, including those in sections 225.7 and 225.25(c) (12 C.F.R. 225.7 and 225.25(c)), 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 ensure compliance with, and to prevent evasion of, the provisions of the BHC Act and the Board's regulations and orders thereunder. For purposes of this transaction, the commitments and conditions referred to above shall be deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law. Underwriting and dealing in any manner other than as approved in this order and the Section 20 Orders (as modified by the Modification Orders) is not within the scope of the Board's approval and is not authorized for New Bank One.

The acquisition of First Chicago's subsidiary banks shall not be consummated before the fifteenth calendar day following the effective date of this order, and the proposal 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, acting pursuant to delegated authority.

By order of the Board of Governors, effective September 14, 1998.

Voting for this action: Chairman Greenspan and Governors Kelley, Meyer, Ferguson, and Gramlich. Absent and not voting: Vice Chair Rivlin.

ROBERT DEV. FRIERSON
Associate Secretary of the Board

- (ii) Banc One made a nationwide CRA pledge or entered into CRA agreements with local community groups;
- (iii) Banc One provided further information about its CRA plans or responded to specific allegations or concerns; or
- (iv) Pending lawsuits against Banc One were resolved.

The Board believes that the record in this case does not warrant postponement of the Board's consideration of the proposal. The Board has accumulated a significant record in this case, including reports of examination, supervisory information, public reports and information, and considerable public comment. For the reasons discussed above, the Board believes that commenters have had ample opportunity to submit their views and, in fact, have provided substantial written submissions and oral testimony that have been considered carefully by the Board in acting on the proposal. Based on a review of all the facts of record, the Board concludes that the record in this case is sufficient to warrant Board consideration and action on the proposal at this time, and further delay of consideration of the proposal, another extension of the comment period, or denial of the proposal on the grounds discussed above or on the basis of informational insufficiency is not warranted.

69. See 12 C.F.R. 262.3(e) and 262.25(d).

70. A number of commenters requested that the Board delay action on the proposal or extend the comment period until:

(i) New CRA or other examinations of Banc One or First Chicago or their subsidiaries were completed;

Appendix A

Nonbanking Activities of First Chicago¹

- (1) Extending credit and servicing loans in accordance with section 225.28(b)(1) of Regulation Y (12 C.F.R. 225.28(b)(1)), through First Chicago Capital Corporation, ANB Mezzanine Corporation, First Chicago Investment Corporation, First Chicago Leasing Corporation, First Chicago Properties, Inc., and First Chicago Realty Services Corporation, all of Chicago, Illinois; First Card Services, Inc., Uniondale, New York; First Chicago NBD Mortgage Company, Troy, Michigan; and FCC National Bank, Wilmington, Delaware.
- (2) Activities related to extending credit in accordance with section 225.28(b)(2) of Regulation Y (12 C.F.R. 225.28(b)(2)), through First Chicago Realty Services Corporation and First Chicago Properties, Inc., both of Chicago, Illinois; First Chicago NBD Real Estate Services, Inc., Indianapolis, Indiana; and FCC National Bank, Wilmington, Delaware.
- (3) Engaging in leasing personal or real property in accordance with section 225.28(b)(3) of Regulation Y (12 C.F.R. 225.28(b)(3)), through First Chicago Lease Holdings, Inc., First Chicago Leasing Corporation, and Palo Verde Leasing Corporation, all of Chicago, Illinois; and FNW Capital, Inc., Mt. Prospect, Illinois.
- (4) Performing trust company functions in accordance with section 225.28(b)(5) of Regulation Y (12 C.F.R. 225.28(b)(5)), through First Chicago Trust Company of New York, New York, New York.
- (5) Providing financial and investment advisory services in accordance with section 225.28(b)(6) of Regulation Y (12 C.F.R. 225.28(b)(6)), through First Chicago Capital Markets, Inc., Chicago, Illinois ("FCCM").
- (6) Providing agency transactional services for customer investments in accordance with section 225.28(b)(7) of Regulation Y (12 C.F.R. 225.28(b)(7)), through FCCM.
- (7) Engaging in investment transactions as principal in accordance with section 225.28(b)(8) of Regulation Y (12 C.F.R. 225.28(b)(8)), through FCCM and First Chicago Hedging Services Corporation, Chicago, Illinois.
- (8) Engaging in insurance agency and underwriting activities in accordance with section 225.28(b)(11)(i) of Regulation Y (12 C.F.R. 225.28(b)(11)(i)), through First Chicago NBD Insurance Company and NBD Insurance Agency, Inc., both of Troy, Michigan; Charter Oak Insurance Agency of Michigan, Inc., Lathrup Village, Michigan; and NBD Insurance Services, Inc., Birmingham, Michigan.

- (9) Engaging in community development activities in accordance with section 225.28(b)(12) of Regulation Y (12 C.F.R. 225.28(b)(12)), through NBD Community Development Corporation, Detroit, Michigan; NBD Neighborhood Revitalization Corporation, Indianapolis, Indiana; and First Chicago Leasing Corporation, Chicago, Illinois.
- (10) Providing data processing services in accordance with section 225.28(b)(14) of Regulation Y (12 C.F.R. 225.28(b)(14)), through NBD Services Corporation, Troy, Michigan; and Cash Station, Inc., Chicago, Illinois.

Appendix B

Banking Market Definitions

A. Illinois Banking Markets

- (1) The *Aurora* banking market is approximated by the southern three tiers of townships in Kane County; Plano, Bristol, Oswego, Fox, and Kendall townships in Kendall County; and Sandwich township in DeKalb County, all in Illinois.
- (2) The *Chicago* banking market is approximated by Cook, Du Page, and Lake Counties, all in Illinois.
- (3) The *Elgin* banking market is approximated by Marengo, Seneca, Nunda, Riley, Coral, Grafton, and Algonquin townships in McHenry County; and the northern two tiers of townships in Kane County, all in Illinois.
- (4) The *Rockford* banking market is approximated by Winnebago and Boone Counties; and Byron, Marion, Scott, and Monroe townships in Ogle County, all in Illinois.

B. Indiana Banking Markets

- (1) The *Bloomington* banking market is approximated by Monroe County, Indiana.
- (2) The *Corydon* banking market is approximated by Crawford County and Harrison County, both in Indiana, excluding Morgan, Jackson, and Franklin townships.
- (3) The *Elkhart-Niles-South Bend* banking market is approximated by Elkhart County; St. Joseph County, excluding Olive and Warren townships; Scott, Jefferson, Van Buren, and Turkey Creek townships in Kosciusko County, all in Indiana; Cass County, Michigan; and Oronoko, Berrien, Buchanan, Niles, and Bertrand townships in Berrien County, Michigan.
- (4) The *Gary-Hammond* banking market is approximated by Lake County; Porter County, except for Pine township; and New Durham, Clinton, Cass, Dewey and Prairie townships in La Porte County, all in Indiana.
- (5) The *Indianapolis* banking market is approximated by Boone, Hamilton, Hancock, Hendricks, Johnson, Marion, Morgan, and Shelby Counties, and Green township in Madison County, all in Indiana.

1. Subsidiaries also include organizations controlled by such subsidiaries.

- (6) The *Lafayette* banking market is approximated by Tippecanoe County and Carroll County, both in Indiana, except for Burlington township.
- (7) The *Lawrence County* banking market is approximated by Lawrence County, Indiana.
- (8) The *Marion* banking market is approximated by Grant County; Jackson township in Wells County; Washington township in Blackford County; and Jackson township in Miami County, all in Indiana.
- (9) The *Rensselaer* banking market is approximated by Jasper County, Indiana.

C. Kentucky Banking Market

- (1) The *Louisville* banking market is approximated by Jefferson, Oldham, and Bullitt Counties, all in Kentucky; Clark and Floyd Counties, Indiana; and Morgan, Jackson and Franklin townships in Harrison County, in Indiana.

D. Wisconsin Banking Markets

- (1) The *Milwaukee* banking market is approximated by the Milwaukee Ranally Metro Area, and portions of Jefferson, Racine, Walworth, and Washington Counties, all in Wisconsin.
- (2) The *Madison* banking market is approximated by Dane County, excluding the eastern tier of townships; plus Dekorra, Lowville, Otsego, Fountain Prairie, Columbus, Hampden, Leeds, Arlington, Lodi, and West Point townships in Columbia County, all in Wisconsin.

Appendix C

Banking Markets With No Divestitures

A. Illinois Banking Markets

- (1) *Aurora*—Banc One is the 18th largest depository institution in the market, controlling deposits of \$18 million, representing less than 1 percent of total market deposits. First Chicago is the third largest depository institution in the market, controlling deposits of \$184.1 million, representing 6.6 percent of total market deposits. On consummation of the proposal, Banc One would become the third largest of 22 depository institutions in the market, controlling deposits of \$202.1 million, representing 7.3 percent of total market deposits. The HHI would increase by 9 points to 1324.
- (2) *Chicago*—Banc One is the 16th largest depository institution in the market, controlling deposits of \$1.2 billion, representing less than 1 percent of total market deposits. First Chicago is the largest depository institution in the market, controlling deposits of \$25.2 billion, representing 18.8 percent of total market deposits. On consummation of the proposal, Banc One would become the largest of 228 depository

institutions in the market, controlling deposits of \$26.4 billion, representing 19.6 percent of total market deposits. The HHI would increase by 33 points to 882.

- (3) *Elgin*—Banc One is the 16th largest depository institution in the market, controlling deposits of \$58.3 million, representing 2.2 percent of total market deposits. First Chicago is the largest depository institution in the market, controlling deposits of \$422.7 million, representing 15.6 percent of total market deposits. On consummation of the proposal, Banc One would become the largest of 31 depository institutions in the market, controlling deposits of \$481 million, representing 17.8 percent of total market deposits. The HHI would increase by 68 points to 772.
- (4) *Rockford*—Banc One is the third largest depository institution in the market, controlling deposits of \$545.2 million, representing 14.6 percent of total market deposits. First Chicago is the 20th largest depository institution in the market, controlling deposits of \$19 million, representing less than 1 percent of total market deposits. On consummation of the proposal, Banc One would become the second largest of 23 depository institutions in the market, controlling deposits of \$564.2 million, representing 15.1 percent of total market deposits. The HHI would increase by 15 points to 1340.

B. Indiana Banking Markets

- (1) *Elkhart-Niles-South Bend*—Banc One is the 16th largest depository institution in the market, controlling deposits of \$26.8 million, representing less than 1 percent of total market deposits. First Chicago is the third largest depository institution in the market, controlling deposits of \$606 million, representing 12.2 percent of total market deposits. On consummation of the proposal, Banc One would become the third largest of 22 depository institutions in the market, controlling deposits of \$632.8 million, representing 12.8 percent of total market deposits. The HHI would increase by 13 points to 1339.
- (2) *Gary-Hammond*—Banc One is the fifth largest depository institution in the market, controlling deposits of \$508.3 million, representing 8.1 percent of total market deposits. First Chicago is the largest depository institution in the market, controlling deposits of \$1.6 billion, representing 26 percent of total market deposits. On consummation of the proposal, Banc One would become the largest of 24 depository institutions in the market, controlling deposits of \$2.1 billion, representing 34.1 percent of total market deposits. The HHI would increase by 421 points to 1634.
- (3) *Marion*—Banc One is the third largest depository institution in the market, controlling deposits of \$94.8 million, representing 14.8 percent of total market deposits. First Chicago is the largest depository

institution in the market, controlling deposits of \$115.2 million, representing 18 percent of total market deposits. On consummation of the proposal, Banc One would become the largest of ten depository institutions in the market, controlling deposits of \$210 million, representing 32.8 percent of total market deposits. The HHI would increase by 533 points to 1712.

C. Kentucky Banking Market

Louisville—Banc One is the third largest depository institution in the market, controlling deposits of \$2.3 billion, representing 15.9 percent of total market deposits. First Chicago is the seventh largest depository institution in the market, controlling deposits of \$413.5 million, representing 2.9 percent of total market deposits. On consummation of the proposal, Banc One would remain the third largest of 30 depository institutions in the market, controlling deposits of \$2.7 billion, representing 18.8 percent of total market deposits. The HHI would increase by 89 points to 1716.

D. Wisconsin Banking Market

- (1) *Milwaukee*—Banc One is the third largest depository institution in the market, controlling deposits of \$2 billion, representing 9.9 percent of total market deposits. First Chicago is the 33rd largest depository institution in the market, controlling deposits of \$54.8 million, representing less than 1 percent of total market deposits. On consummation of the proposal, Banc One would remain the third largest of 54 depository institutions in the market, controlling deposits of \$2 billion, representing 10.2 percent of total market deposits. The HHI would increase by 5 points to 1499.
- (2) *Madison*—Banc One is the fourth largest depository institution in the market, controlling deposits of \$253.4 million, representing 5.3 percent of total market deposits.¹ First Chicago is the 34th largest depository institution in the market, controlling \$4.7 million in deposits, representing less than 1 percent of total market deposits. On consummation of the proposal, Banc One would remain the fourth largest of 34 depository institutions in the market, controlling deposits of \$258.1 million, representing 5.4 percent of market deposits. The HHI would increase by 1 point to 1185.

Appendix D

Banking Markets with Divestitures—All in Indiana (Other than Indianapolis and Lafayette)

- (1) *Bloomington*—Banc One is the largest depository institution in the market, controlling deposits of \$336.4 million, representing 31.6 percent of market deposits. First Chicago is the sixth largest depository institution in the market, controlling deposits of \$68.6 million, representing 6.4 percent of total market deposits. Banc One proposes to divest two branches controlling deposits of approximately \$31.4 million. On consummation of the proposal, and after giving effect to the divestitures, Banc One would remain the largest of ten depository institutions in the market, controlling deposits of \$373.6 million, representing 35.1 percent of market deposits. The HHI would increase by 200 points to 2270.
- (2) *Corydon*—In the Corydon, Indiana banking market, Banc One is the third largest depository institution in the market, controlling deposits of \$61.5 million, representing 19.4 percent of market deposits. First Chicago is the second largest depository institution in the market, controlling deposits of \$84.3 million, representing 26.6 percent of total market deposits. Banc One proposes to divest two branches controlling deposits of approximately \$39.3 million. On consummation of the proposal, and after giving effect to the divestitures, Banc One would become the largest of seven depository institutions in the market, controlling deposits of \$106.5 million, representing 33.6 percent of total market deposits. The HHI would increase by 199 points to 2495.
- (3) *Lawrence County*—Banc One is the largest depository institution in the market, controlling deposits of \$109.6 million, representing 29.9 percent of total market deposits. First Chicago is the second largest depository institution in the market, controlling deposits of \$81.7 million, representing 22.3 percent of total market deposits. Banc One proposes to divest two branches controlling deposits of approximately \$56.4 million. On consummation of the proposal, and after giving effect to the divestitures, Banc One would remain the largest of seven depository institution in the market, controlling deposits of \$134.8 million, representing 36.7 percent of total market deposits. The HHI would increase by 199 points to 2051.
- (4) *Rensselaer*—Banc One is the largest depository institution in the market, controlling deposits of \$111.6 million, representing 30.6 percent of total market deposits. First Chicago is the sixth largest depository institution in the market, controlling deposits of \$28 million, representing 7.7 percent of total market deposits. Banc One proposes to divest one branch controlling approximately \$28 million. On consummation of the proposal, and after giving effect to the divestitures, Banc One would remain the largest of seven depository institutions in the market.

1. Deposit data for this market are as of December 31, 1997, and reflect First Chicago's entry into the market after June 30, 1997.

controlling deposits of \$111.6 million, representing 30.6 percent of total market deposits. The HHI would remain unchanged at 2056.

Travelers Group Inc.
New York, New York

Citicorp
New York, New York

Order Approving Formation of a Bank Holding Company and Notice to Engage in Nonbanking Activities

Travelers Group Inc. ("Travelers"), a holding company for securities, insurance and other financial services firms, has requested the Board's approval under section 3 of the Bank Holding Company Act of 1956 (12 U.S.C. § 1842) ("BHC Act") to become a bank holding company by acquiring all the voting shares of Citicorp, a bank holding company within the meaning of the BHC Act, and all of Citicorp's subsidiary banks, including its lead subsidiary bank, Citibank, N.A., New York, New York ("Citibank").¹ Travelers also has requested the Board's approval under section 4(c)(8) of the BHC Act and section 225.24 of the Board's Regulation Y (12 C.F.R. 225.24) to acquire various domestic nonbank subsidiaries and investments of Citicorp, including Citibank, Federal Savings Bank, San Francisco, California, and Citicorp Securities Inc., New York, New York, and to retain certain nonbanking subsidiaries of Travelers, including Travelers Bank & Trust, fsb, Newark, Delaware, and Salomon Smith Barney Inc., New York, New York. Travelers proposes to own and operate these companies and to conduct the proposed activities in accordance with the requirements of the BHC Act, Regulation Y and relevant Board orders governing these activities and subsidiaries. In addition, Travelers has filed applications and notices under section 4(c)(13) of the BHC Act (12 U.S.C. § 1843(c)(13)) and the Board's Regulation K (12 C.F.R. 211) to acquire the foreign operations of Citicorp and to retain certain foreign investments and continue certain foreign activities of Travelers.² Finally, Travelers has requested an exemption from the quantitative requirements of section 23A of the FRA to permit Citicorp to transfer its existing mortgage subsidiary, Citicorp Mort-

gage, Inc. ("CMI"), to Citibank to facilitate financing for CMI's business using liquidity available to Citibank.³

Travelers, with total consolidated assets of approximately \$420 billion, is a diversified financial services firm engaged in a variety of securities, insurance, lending, financial advisory, and other financial activities in the United States and overseas.⁴ More than 70 percent of Travelers's total assets and more than 60 percent of its total revenues are associated with activities that are permissible for bank holding companies under the BHC Act, including securities underwriting, dealing, brokerage, and advisory activities; mortgage lending and consumer finance activities; consumer advisory activities; and credit-related insurance activities.⁵

Travelers also engages domestically and internationally in a number of nonbanking activities that are not permissible for bank holding companies, which Travelers proposes to conform to the requirements of the BHC Act or divest. These activities include underwriting property and casualty, life and commercial insurance and annuities; general insurance agency activities; investing in more than 5 percent of the voting shares of commercial companies; controlling and distributing shares of open-end investment companies registered under the Investment Company Act of 1940 ("mutual funds"); real estate management and investing activities; proprietary trading in physical commodities; oil and gas exploration and investments; and certain other impermissible activities and investments. Travelers has committed to conform all impermissible activities to the requirements of the BHC Act by restructuring the activity or subsidiary, by terminating the activity, or by selling or divesting the subsidiary, as necessary, within the period provided in the BHC Act for new bank holding companies to conform impermissible investments and activities.

In addition, Travelers controls several domestic subsidiaries that cannot be affiliated with a bank under section 20 of the Glass-Steagall Act (12 U.S.C. § 377). These companies engage in securities underwriting and dealing activities, distributing shares of open-end mutual funds, and controlling open-end mutual funds. Travelers has committed to conform the activities of these companies to the requirements of the Glass-Steagall Act and the Board's orders and interpretations thereunder, including the limitations on the amount of revenue derived from securities underwriting and dealing activities, on consummation of the proposed transaction in accordance with the requirements of this order.

Citicorp, with total consolidated assets of approximately \$331 billion, is the third largest commercial banking orga-

1. Travelers proposes to acquire Citicorp through a merger with a newly formed direct subsidiary of Travelers. The other domestic subsidiary banks of Citicorp that Travelers proposes to acquire are Citibank (New York State), Pittsford, New York; Citibank Delaware, New Castle, Delaware; Citibank (Nevada), N.A., Las Vegas, Nevada; Citibank (South Dakota), N.A., Sioux Falls, South Dakota; and Universal Bank, N.A., Columbus, Georgia.

2. Travelers also proposes to acquire Citicorp's export trading company, pursuant to section 4(c)(14) of the BHC Act, and the agreement and Edge corporations of Citicorp, pursuant to sections 25 and 25A, respectively, of the Federal Reserve Act ("FRA") (12 U.S.C. §§ 601 *et seq.*, 611 *et seq.*).

3. Travelers also has requested an exemption under section 23A of the FRA for a subsidiary of Citibank to purchase the stock of Travelers's Canadian consumer finance subsidiary.

4. Asset data for Travelers and Citicorp are as of June 30, 1998, unless otherwise noted.

5. These percentages do not account for a number of activities and investments that might be restructured or conformed to the requirements of the BHC Act without divestiture or complete termination of the activity.

nization in the United States and the 22d largest commercial banking organization in the world.⁶ Citicorp's subsidiary banks and savings associations operate in California, Connecticut, Delaware, Florida, Georgia, Illinois, Maryland, Nevada, New Jersey, New York, South Dakota, Texas, Utah, Virginia, Washington, D.C., Guam, Puerto Rico, and U.S. Virgin Islands. Citicorp operates approximately 1100 branches and offices in the United States and almost 100 foreign countries, and engages in a number of permissible nonbanking activities.

The proposed transaction would create the largest commercial banking organization in the United States and the world, initially with total consolidated assets of approximately \$751 billion. Travelers's subsidiary depository institutions operate in Delaware. Travelers has indicated that after the proposed acquisition the combined organization would operate under the name Citigroup Inc.

Public Comment on the Proposal

To give interested members of the public an opportunity to submit comments to the Board on the statutory factors that it is charged with reviewing, the Board published notice of the proposal and provided a period for public comment.⁷ The Board extended the initial public comment period to accommodate the broad public interest in the proposal. The extended public comment period provided interested persons 48 days to submit written comments on the proposal.

Because of the public interest in the proposal, the Board also held a public meeting on June 25 and 26, 1998, in New York, New York, which gave interested persons an opportunity to present oral and written testimony on the various factors that the Board is charged with reviewing under the BHC Act. Approximately 115 people testified at the public meeting; many of the commenters who testified also submitted written comments.

In total, more than 425 organizations and individuals submitted comments on the proposal, either through oral testimony or written comments.⁸ Commenters included

federal, state and local government officials, community and nonprofit organizations, small business owners, customers of Citicorp, several trade associations, and other interested organizations and individuals from more than 20 states (including California, Connecticut, Florida, Illinois, and New York) and Guam, Puerto Rico, U.S. Virgin Islands, and Washington, D.C.

A substantial number of commenters supported the proposal. These commenters supported Travelers and Citicorp for their commitment to local communities and their leadership in community revitalization, social welfare or educational activities. In addition, these commenters commended Travelers's and Citicorp's records of providing investments, grants and loans in support of economic or community development projects and other community needs and making charitable contributions in local communities. Many commenters also commended the organizations for providing educational seminars or technical assistance to small businesses and nonprofit organizations. A number of these commenters also praised Travelers's and Citicorp's \$115 billion, ten-year community pledge ("Citigroup community pledge") and expected that this pledge would increase community and economic development funding and the availability of homeowners insurance in underserved urban areas.

A significant number of other commenters contended that the proposal would violate the BHC Act and the Glass-Steagall Act and urged the Board not to consider the proposal unless and until Congress amends the law to allow unlimited combinations of insurance, banking and securities businesses. A number of commenters also expressed concern about the performance records of Citicorp and Travelers under the Community Reinvestment Act ("CRA") (12 U.S.C. § 2901 *et seq.*), particularly with respect to Citicorp's record of lending to minority and low-to moderate-income ("LMI") residents, to small businesses and in LMI communities and communities with predominately minority populations ("minority communities"). Many commenters also expressed concern that Citicorp has disproportionately closed branches and downgraded branch services in LMI and minority communities, particularly in New York. Commenters in California expressed concern about Citicorp's record of lending to LMI individuals and minorities, particularly Hispanics, and its banking service fees. Some commenters contended that Travelers's marketing and sales practices for its subprime mortgage loans, personal loans and insurance products adversely affect consumers. These commenters also believed that the proposal would provide incentives for Citigroup to "steer" LMI and minority consumers to its subprime lenders. In addition, many commenters criticized the Citigroup community pledge, contending that the initiative is not enforceable, lacks specific lending or investment commitments for particular products or geographic areas, and relates primarily to consumer credit and to insurance

6. The ranking data for Citicorp and Travelers are based on data as of December 31, 1997, and reflect the proposed merger of NationsBank Corporation, Charlotte, North Carolina, with BankAmerica Corporation, San Francisco, California, which the Board approved. See *NationsBank Corporation*, 84 *Federal Reserve Bulletin* 858 (1998).

7. Notice of the proposal was published in the *Federal Register* (63 *Federal Register* 17,874 (1998)) and in local newspapers in accordance with the Board's Rules of Procedure. See 12 C.F.R. 262.3(b).

8. A number of commenters requested that the Board extend the public comment period on the proposal for up to an additional 45 days after the public meeting or until after certain requested documents were publicly released. As noted above, the Board held a public meeting on June 25 and 26 and extended the initial 30-day comment period to 48 days. During this comment period, a substantial number of commenters provided timely information and views to the Board. The Board believes that the extended comment period and the public meeting in this case provided the public with a reasonable period of time to submit comments on all aspects of the proposal that are

relevant to the factors that the Board must consider, and that a further extension of this period is not warranted.

products that are not relevant for purposes of the CRA. Commenters also discussed other potential adverse effects of the proposal, including undue concentration of financial resources, conflicts of interest from the proposed operation of impermissible activities and cross-marketing activities, and concerns regarding the use of confidential customer information.

Impermissible Activities and Investments

The Board is required to review this proposal under the provisions of the BHC Act and the Glass-Steagall Act. In light of the size, scope and type of activities currently conducted by Travelers, the Board has considered, as a threshold matter, whether the proposal by Travelers to become a bank holding company and to conform its existing activities and investments to the requirements of the BHC Act is consistent with the nonbanking limitations in the BHC Act and the purposes of the BHC Act. As part of this consideration, the Board has carefully weighed the views of commenters and the arguments presented by Travelers.⁹ The Board has paid particular attention to the terms of the relevant sections of the BHC Act as those sections currently apply and to relevant legislative history and Board precedent. On the basis of this review, the Board concludes that Travelers's proposal to acquire Citicorp is permissible under the express terms of the BHC Act, is contemplated by and consistent with the legislative history and the purposes of that Act, and is consistent with the Board's longstanding precedent and practice.

Section 4 of the BHC Act governs the investments that may be held by bank holding companies and the activities that may be conducted by bank holding companies and their nonbank subsidiaries. In enacting section 4, Congress contemplated that companies that engage in and control subsidiaries that engage in impermissible activities and that hold impermissible investments would seek to become bank holding companies.¹⁰ Consequently, section 4 by its express terms delays the applicability of the nonbanking prohibitions of that section to the existing investments and activities of any company that becomes a bank holding company to give that new bank holding company a period of time to conform existing investments and activities to the requirements of the BHC Act.¹¹ For any company that

becomes a bank holding company, section 4 provides an automatic two-year delay in applying the nonbanking prohibitions to existing investments and activities, beginning from the date the company becomes a bank holding company.¹² The two-year period is provided to bank holding companies as a matter of right and does not require the approval of the Board. Section 4(a)(2) specifically authorizes the Board, on request, to grant up to three one-year extensions of this two-year conformance period, if the Board finds that the extension "would not be detrimental to the public interest."¹³

In granting a new bank holding company a period to conform its existing investments and activities to the requirements of the BHC Act, the Act does not distinguish among different types of activities.¹⁴ In fact, when the BHC Act was enacted in 1956 and it was amended to cover one-bank holding companies in 1970, the legislative history indicates that companies that controlled banks conducted a variety of impermissible activities, including insurance underwriting activities and various types of manufacturing activities. Nonetheless, the BHC Act provided the same conformance period for all types of nonconforming activities and investments.

The Board has consistently interpreted section 4(a)(2) as giving a new banking holding company at least a two-year period to conform to the BHC Act the nonbanking investments held and activities conducted by the company as of the date it became a bank holding company.¹⁵ Several of these cases involved companies with a significant portion of nonconforming assets and activities, including manufac-

companies that became bank holding companies as a result of enactment of the BHC Act in 1956 or amendments to the Act in 1970. The terms of the BHC Act and the varying lengths of conformance periods provided for new bank holding companies and companies covered in 1956 and 1970 make clear that the reading suggested by these commenters is incorrect. See footnote 12.

12. Sections 4(a)(1) and (2) provide, in pertinent part:

[e]xcept as otherwise provided in this . . . [Act], no bank holding company shall —

(1) After May 9, 1956, acquire direct or indirect ownership or control of any voting shares of any company which is not bank,

(2) Or after two years from the date as of which it becomes a bank holding company, . . . retain direct or indirect ownership or control of any voting shares of any company which is not a bank or bank holding company or engage in any activities other than:

(A) those of banking or of managing or controlling banks and other subsidiaries authorized under [the BHC Act] . . . and
(B) those permitted under [section 4(c)(8) of the BHC Act] . . .

12 U.S.C. §§ 1843(a)(1) and (2) (emphasis added).

13. 12 U.S.C. § 1843(a)(2). See also 12 C.F.R. 225.22(f).

14. Some commenters have contended that the Board should not, in any event, allow affiliations between a banking organization and a company, such as Travelers, with a significant amount of insurance activities or other nonconforming activities.

15. 12 C.F.R. 225.22(f). See *Atico Financial Corporation*, 73 *Federal Reserve Bulletin* 717 (1987) ("*Atico Financial*"); *Newworld Bancorp, Inc.*, 73 *Federal Reserve Bulletin* 357 (1987); *Korea First Bank*, 70 *Federal Reserve Bulletin* 43 (1984); *Banca Commerciale Italiana*, 68 *Federal Reserve Bulletin* 423 (1982); *Walter Heller International Corp.*, 59 *Federal Reserve Bulletin* 463 (1973) ("*Walter Heller*").

9. Many commenters contended that the proposal exceeds the scope and legislative intent of section 4(a)(2) of the BHC Act. Some commenters argued that section 4(a)(2) is not available to new bank holding companies that are voluntarily formed, and that the Board does not have the discretion to permit a bank holding company to engage in insurance activities beyond the limited exceptions in the BHC Act. Other commenters argued that section 4(a)(2) is available only to allow new bank holding companies that control a small amount of impermissible assets a limited time period for an orderly disposition of those assets.

10. See, e.g., H.R. Rep. No. 84-609, at 24 (1955) (owning nonbanking shares and engaging in impermissible nonbanking businesses only "become unlawful" two years from the date of enactment or "after a company becomes a bank holding company, whichever is later").

11. Several commenters contended that the delay in applying the nonbanking restrictions in section 4 was intended to apply only to

turing activities.¹⁶ In this case, the nonconforming activities currently conducted by Travelers represent approximately 25 percent of its total assets and less than 40 percent of its total revenues prior to the proposed transaction, and would represent less than 15 percent of the combined company's total assets and less than 20 percent of its revenues on a *pro forma* basis. Thus, it is not necessary for Travelers to change the nature of its business or to divest the very banks it is seeking to acquire in this application in order to conform to the requirements of the BHC Act. In this light, the Board does not believe that this proposal represents an attempt to evade the prohibitions of the BHC Act on the conduct of insurance or other impermissible activities by a bank holding company.

Several commenters have argued that Travelers should not be permitted to merge with Citicorp unless and until Travelers submits a detailed plan for divesting its insurance subsidiaries and conforming its other activities to the requirements of the BHC Act. In its application, Travelers has submitted substantial detail about the scope of its nonconforming activities and the steps available to Travelers to conform those activities and investments to the requirements of the BHC Act.

Travelers has specifically committed to conform all its current activities and investments to the requirements of the BHC Act within two years of the date of consummation of this proposal (or such extended period as the Board, in its discretion, may grant), including by modifying activities to meet the requirements of the Act, divesting impermissible investments, terminating various activities, and divesting subsidiaries as necessary. Travelers also has recognized that all its activities and investments after consummation of this proposal would be subject to the constraints in section 4 of the BHC Act. The Board concludes that, in light of the various alternatives available to Travelers to meet the requirements of the BHC Act, Travelers has provided sufficient detail to allow the Board to act on this proposal.

For the reasons above, the Board finds that the BHC Act does not require denial of this proposal based on the type, scope or amount of nonbanking activities currently conducted by Travelers. The Board's action on this case is subject to the condition that Travelers and Citigroup take all actions necessary to conform the activities and investments of Travelers and all its subsidiaries to the requirements of the BHC Act in a manner acceptable to the Board, including by divestiture as necessary, within two years of the date of consummation of the proposed acquisition of

Citicorp.¹⁷ In addition, the Board's action on this proposal is subject to the condition that all investments and activities of Travelers and Citigroup after consummation of the proposed acquisition of Citicorp conform to the requirements of the BHC Act and the Board's regulations and orders thereunder. During the section 4(a)(2) conformance period, Citigroup may not expand its investments and activities by acquiring direct or indirect control of, or all or substantially all the assets of, a company engaged in any activity, whether or not conducted by Travelers or one of its subsidiaries before becoming a bank holding company, unless otherwise authorized by the BHC Act.¹⁸

Factors Governing Board Review of Transaction

The BHC Act specifically enumerates the factors that the Board must consider when reviewing the formation of a bank holding company and the acquisition of bank holding companies or banks. As the Board explained in testimony before Congress, the Board must consider the proposed transaction that is presented and determine whether the proposal and the particular companies involved meet the statutory factors of the BHC Act. The Board is not granted authority under the BHC Act to disapprove a proposal that meets these statutory factors and complies with other relevant law.¹⁹ The Board, for example, cannot deny the pro-

17. If before expiration of this two-year period Citigroup requests the Board to extend the conformance period, the Board would consider all the facts and circumstances existing at that time in accordance with its policies on divestitures, including consideration of Citigroup's good faith efforts to divest or otherwise conform its impermissible investments and activities. See Statement of Policy Concerning Divestitures by Bank Holding Companies, February 15, 1977.

18. As an integral part of their insurance business, the Travelers insurance underwriting subsidiaries invest insurance premiums they collect in a variety of investments. A small amount of this investment activity, both in terms of the number of investments and the amount of premiums invested, involves ownership of more than 5 percent of the voting shares of various companies. This investment activity is subject to limitations on liquidity, diversification and amount under applicable state insurance laws. As noted above, Travelers must conform its ownership of its insurance underwriting subsidiaries to the requirements of section 4 of the BHC Act prior to the conclusion of the conformance period provided in the Act. Congress contemplated that, during this conformance period, a new bank holding company would continue fully to operate nonconforming subsidiaries to be able to obtain full value upon the sale of the subsidiary. Consequently, under section 4(a)(2), the Travelers insurance underwriting subsidiaries may continue their current investment activity and retain their current nonconforming investments subject to the requirement of section 4(a)(2) that these investments and activities be conformed to the requirements of section 4(c) of the BHC Act prior to the end of the conformance period. This is also subject to the conditions that the investment activity involving the acquisition of more than 5 percent of the shares of a company remain a small portion of the insurance underwriting subsidiaries' equity investment portfolios, not result in the subsidiaries acquiring control (for purposes of the BHC Act) of any company engaged in impermissible nonbanking activities, and not involve the acquisition of the voting shares of a bank or bank holding company.

19. Statement of Laurence H. Meyer, Member of the Board, before the House of Representatives Committee on Banking and Financial Services, April 29, 1998.

16. In 1973, in *Walter Heller*, the Board permitted Walter Heller International Corp. ("Heller") to become a bank holding company subject to the divestiture of its interests in manufacturing activities, which comprised approximately 12 percent of Heller's total income. In 1987, the Board approved the application of Atico Financial Corporation ("Atico"), a unitary savings and loan holding company, to acquire a bank and become a bank holding company subject to the requirement that the company divest its thrift subsidiary or convert the thrift to a bank insured by the Federal Deposit Insurance Corporation ("FDIC"). The thrift to be divested represented 44 percent of Atico's total deposits after consummation. See *Atico Financial*.

posals simply because Travelers and Citicorp are large organizations, if the proposal meets the statutory factors under the BHC Act and is consistent with other relevant law.

The factors that the Board must consider under the BHC Act in determining whether a company may become a bank holding company are the financial and managerial resources and future prospects of the companies and banks involved in the transaction; the competitive effects of the proposal in the relevant geographic markets; the convenience and needs of the communities to be served, including the records of performance under the CRA of the insured depository institutions involved in the transaction; and the availability of information needed to determine and enforce compliance with the BHC Act.²⁰ In addition, the Board must consider whether performance by the applicant and its nondepository institution subsidiaries of the proposed nonbanking 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.

Financial, Managerial and Supervisory Factors

The proposed combination of Travelers and Citicorp would create the largest financial services firm in the United States and the world, in terms of total assets. The companies view their proposed merger as a strategic alliance through which each company would continue to operate its separate businesses and would benefit from the other's strengths. Travelers and Citicorp believe that Citigroup would be financially stronger and more diversified than either organization separately, and that the formation of Citigroup would foster stronger domestic capital markets.

The Board has carefully considered the financial and managerial resources and future prospects of the companies and banks involved in the proposal, the effect the proposed transaction would have on those resources and other supervisory factors in light of all the facts of record, including public comments. A number of commenters expressed concerns about the financial and managerial resources of Travelers, Citicorp and the combined organization.²¹ In addition, commenters questioned whether the

Board could adequately supervise the combined organization. Some commenters also questioned whether the activities of Citigroup, particularly its insurance activities, would present special risks to the federal deposit insurance funds or the financial system in general.²²

In considering financial and managerial factors, the Board has reviewed the consolidated financial position of Travelers and Citicorp, the financial position of each of their principal subsidiaries and the financial position of the *pro forma* organization. The Board also has considered confidential examination and other supervisory information assessing the financial and managerial strength of Citicorp and the insured depository institution subsidiaries of Travelers and Citicorp.²³ In addition, the Board has reviewed public and confidential supervisory reports and information regarding the activities and financial position of the regulated subsidiaries of Travelers. The Board has also consulted with the relevant state and federal supervisors of the principal subsidiaries of Travelers and with the federal supervisory agencies of the insured depository institutions controlled by Citicorp. In addition, the Board has reviewed information submitted by both Travelers and Citicorp regarding the programs that the companies have implemented to prepare their systems for the Year 2000 and confidential examination and supervisory information assessing Citicorp's efforts to ensure Year 2000 readiness.

The Board has consistently considered capital adequacy to be an especially important aspect in analyzing financial factors.²⁴ Citicorp and all the subsidiaries of Citicorp and Travelers that are subject to regulatory capital requirements currently exceed the relevant requirements. In addition, Citicorp and all of the subsidiary depository institu-

22. Several commenters urged the Board to establish higher capital levels for Citigroup to protect against the risks of Travelers's insurance and commodities activities and Citigroup's international exposures.

23. Some commenters referred to lawsuits or administrative actions involving Travelers or its subsidiaries. Several commenters noted that Travelers's subsidiary, Salomon Smith Barney Inc., had been the subject of several class action lawsuits and administrative actions or complaints related to its securities activities. These lawsuits, actions and complaints were resolved or settled, and Travelers has stated that Salomon Smith Barney Inc. has instituted policies and procedures and taken other actions to correct the deficiencies alleged in the lawsuits, actions, or complaints.

In addition, several commenters asserted that Salomon Smith Barney Inc. and a number of other securities firms currently are under investigation for alleged improprieties in connection with their municipal bond activities. A commenter also noted that Travelers's consumer finance subsidiary, Commercial Credit Company, is a defendant with other consumer finance companies in pending judicial proceedings, including lawsuits alleging that these companies have engaged in improper lending and credit insurance practices. Some commenters also noted that several complaints alleging violations of fair lending laws by certain consumer finance and insurance subsidiaries of Travelers have been filed with the U.S. Department of Housing and Urban Development ("HUD"). There have been no adjudications of wrongdoing by Travelers or any of its subsidiaries in any of these matters, and each matter is before a forum that can provide adequate redress if the allegations of wrongdoing can be sustained.

24. See *Chemical Banking Corporation*, 82 *Federal Reserve Bulletin* 230 (1996).

20. In cases involving interstate bank acquisitions, the Board also must consider the concentration of deposits in the nation and certain individual states, as well as the compliance with the other provisions of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994. Pub. L. No. 103-328, 108 Stat. 2338 (1994). In cases involving a foreign bank, the Board also must consider whether the foreign bank is subject to comprehensive supervision or regulation on a consolidated basis by appropriate authorities in the foreign bank's home country.

21. The Board received comments criticizing the adequacy of the management of Travelers or Citicorp based on the manner in which their subsidiaries handled loan or financial service transactions in individual cases. The Board also has considered these comments in reviewing the convenience and needs factor in this case.

tions of Citicorp and Travelers currently are well capitalized under applicable federal guidelines. Citigroup also would be well capitalized on a pro forma basis on consummation of the transaction. The proposed transaction is structured as a stock-for-stock combination and would not increase the debt service requirements of the combined company. In addition, both companies have reported positive earnings in recent periods. The Board also has reviewed the potential effect on Citigroup of actions that would be required to conform its activities to the requirements of the BHC Act, and concluded that, while the actions include potential divestitures that may be material, they should not raise concerns regarding capital adequacy.

The senior management of Citigroup would be drawn from the senior management of Travelers and Citicorp.²⁵ Citicorp and its depository institutions are well managed, and the Board has extensive experience with the senior management of the organization. While the Board has not had direct experience with the management of Travelers, the company's senior management has extensive experience in the operations of Travelers's different business lines, and the Board has considered information from other functional supervisors regarding their experience with management of various Travelers subsidiaries. Further, Travelers and Citicorp currently have appropriate risk-management processes in place, and Citigroup is expected to have in place a risk-management structure sufficient to monitor and manage the risks of a diverse organization, including the insurance risks that would exist during the section 4(a)(2) conformance period. Both companies have comprehensive programs designed to ensure compliance with relevant laws and regulations, including those pertaining to consumer protections. These programs would be retained after consummation and adapted to create a comprehensive compliance program for Citigroup.

25. Several commenters alleged that the current management of Travelers and Citicorp, and the proposed management of Citigroup, would not include a sufficient number of minorities. The racial and gender composition of management and the breadth of an organization's internal policies on employment discrimination are not factors the Board is permitted to consider under the BHC Act. The Board notes that the Equal Employment Opportunity Commission has jurisdiction to determine whether companies like Travelers or banking organizations like Citicorp are in compliance with federal equal employment opportunity statutes under the regulations of the Department of Labor. See 41 C.F.R. 60-1.7(a) and 60-1.40.

A commenter also alleged that certain management officials of Salomon Smith Barney Inc. engaged in sexual harassment in the workplace. Travelers denied the allegation and explained the policies and procedures it has implemented to avoid any such conduct. Several commenters also noted that Salomon Smith Barney Inc. was a defendant in a judicial proceeding regarding alleged employment discrimination and sexual harassment and the securities industry's system of settling employment disputes through mandatory industry arbitration. The court in this proceeding recently approved a proposed settlement, which included the establishment of a more independent arbitration process, a comprehensive diversity training program, and an audit and reporting system.

There has been no finding by an appropriate authority or court that either Travelers or Citicorp is in violation of applicable employment laws. The Board expects all banking organizations to comply with applicable federal, state and local laws.

The Board has extensive experience supervising Citicorp, which is a complex worldwide financial institution. Building on this experience, the Board has developed a supervisory plan that, in the Board's view, would permit the Board to monitor and supervise the combined organization effectively on a consolidated basis. The plan involves, among other things, continuous holding company supervision, including both on- and off-site reviews, of the combined organization's material risks on a consolidated basis and across business lines; access to and analyses of the combined organization's internal reports for monitoring and controlling risks on a consolidated basis; and frequent contact with the combined organization's senior management and risk management personnel. The processes implementing the plan would be coordinated with those of the functional regulators for a number of Citigroup's subsidiaries, including regulated securities and insurance activities. The Board expects that management of Citigroup will cooperate fully with this supervisory plan to ensure that the Board has complete access to information on the combined organization's operations, risks, risk management, financial condition, and efforts to ensure Year 2000 compliance. In addition to furnishing copies of certain reports filed with primary insurance and securities regulators, it is the Board's expectation that Citigroup will cooperate fully in providing specialized financial data requested by the Board for the supervision of financial conglomerates.

For these reasons, and based on all the facts of record, including review of the comments, the Board has concluded that considerations relating to the financial and managerial resources and future prospects of Travelers, Citicorp, their respective subsidiaries, and Citigroup and other supervisory factors are consistent with approval of the proposal under the BHC Act.

Competitive Aspects Under Section 3 of the BHC Act

Section 3 of the BHC Act prohibits the Board from approving a proposal to acquire a bank that would result in a monopoly or that would substantially lessen competition in any relevant banking market, if the anticompetitive effects of the proposal are not clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.²⁶

The proposal involves the acquisition of banks by Travelers, which does not own a commercial bank. Travelers owns a savings association, a limited-purpose credit card bank and a variety of nonbanking companies. Based on all the facts of record, the Board has determined that consummation of the proposal by Travelers to acquire the subsidiary banks of Citicorp would not likely result in a significantly adverse effect on competition or on the concentration of banking resources in any relevant banking market. Accordingly, the Board has determined that competitive factors under section 3 of the BHC Act are consis-

26. 12 U.S.C. § 1842(c)(1).

tent with approval of the proposal. The competitive effects of the proposed nonbanking activities are discussed below.

Convenience and Needs Factor

In acting on the proposal, the Board also must consider the convenience and needs of the communities to be served and take into account the records of the relevant depository institutions under the CRA. The CRA requires the federal financial supervisory agencies to encourage financial institutions to help meet the credit needs of local communities in which they operate, consistent with their safe and sound operation, and requires the appropriate federal financial supervisory agency to take into account an institution's record of meeting the credit needs of its entire community, including LMI neighborhoods, in evaluating bank expansion proposals. The Board has carefully considered the convenience and needs factor and the CRA performance records of the subsidiary depository institutions of Citicorp and Travelers in light of all the facts of record, including public comments on the proposal.

A. Summary of Public Comments on Convenience and Needs Factor

The Board provided an extended period for public comment on the proposal and convened a public meeting in New York to collect information on the statutory factors the Board is required to consider, including the effect of the proposal on the convenience and needs of the affected communities and the CRA performance records of the insured depository institutions involved. As noted above, more than 425 interested members of the public either submitted written remarks or testified at the public meeting.

More than 320 commenters supported the proposal or commented favorably on the CRA-related activities or other community-related activities of Citicorp or Travelers. Commenters who expressed support for Citicorp represented a wide variety of entities, including public and private community development and social welfare organizations, educational and artistic nonprofit organizations, religious organizations, and educational entities.²⁷ A number of these organizations commended Citicorp for providing their organizations with charitable gifts, loans, equity products developed by Citicorp, and tax credit investments.²⁸ A number of state and local government officials

commented favorably on their experiences with Citicorp and praised Citicorp for helping their communities as a significant employer, a leader in community development and a generous benefactor. Some affordable housing and economic development organizations commended Citicorp as a corporate leader that helped mobilize community action on their behalf or created useful products and services, such as tax credits, to assist them. Numerous commenters also noted that Citicorp provided community organizations with grants for their general operational needs and fund raising efforts, technical assistance for their organizational staff, and training or counseling for their constituent communities. In addition, several minority or women business owners commended Citicorp for providing small business loans, technical assistance and educational programs.

Commenters who expressed support for Travelers included organizations involved in microeconomic development, job training, social welfare, medical research, and education, and certain local government agencies. These commenters reported that Travelers has assisted them by providing grants, in-kind donations of equipment and office space, and advisory services. Citicorp and Travelers also were commended for permitting their officers and employees to volunteer or serve on the organizations' boards of directors.

Several small business owners also supported the proposal for Citigroup to cross-market loan, insurance and investment products. These commenters believed that allowing "one-stop shopping" for all types of financial products would increase convenience and efficiencies, particularly for small businesses.

In addition, a number of commenters praised the Citigroup community pledge and asserted that the lending, investment and financial-education components of the pledge would help LMI communities and the economy generally. Several commenters also believed that the urban insurance components of the Citigroup community pledge would increase the availability of homeowners insurance in several urban areas.

More than 105 commenters either opposed the proposal, requested that the Board approve the merger subject to

27. Several commenters argued that the Board should give less weight to comments supporting the proposal if the commenter received financial assistance from Travelers or Citicorp. The Board notes that the number of comments is discussed in this order only to indicate the degree of public interest in the proposal, and is not a numerical weighing by the Board of the favorable or unfavorable comments. The Board has carefully considered the substance of oral and written submissions in light of the entire record in this case and the factors the Board is required to consider under the BHC Act.

28. These commenters included:

(1) Two members of the U.S. House of Representatives from Florida;

(2) Local government officials, including the governors of Florida, Nevada and Guam, state senators and representatives from New York, Florida and Guam, and the mayor of Las Vegas;

(3) Greater Rochester Housing Partnership;

(4) New York City Housing Partnership;

(5) Greater Harlem Housing Development Corporation;

(6) Local Initiatives Support Corporation (New York);

(7) Low Income Housing Fund (New York);

(8) American Red Cross (New York Chapter);

(9) Florida Community Loan Fund;

(10) Habitat for Humanity of Broward, Inc. (Florida);

(11) Resources for Community Development (California);

(12) Lenders for Community Development (California); and

(13) Community development organizations, nonprofit organizations and small businesses in Alabama, Connecticut, Delaware, Maryland, Massachusetts, Nevada, New Jersey, Pennsylvania, Rhode Island, South Dakota, Virginia, Washington, D.C., Guam, Puerto Rico, and U.S. Virgin Islands.

conditions suggested by the commenter, requested delay of Board action or expressed concerns about the CRA performance record of Citicorp or the record of Travelers with regard to Travelers's lending and insurance related activities.²⁹

A number of commenters contended that Citicorp has an inadequate record of mortgage lending to LMI and minority individuals and communities, particularly in New York and California. Commenters alleged that Citicorp makes few direct mortgage loans in LMI or minority communities, relying instead on intermediaries to make such loans, and that Citicorp does not offer sufficient mortgage loans for multifamily housing. Citicorp's policies on branch location, outreach efforts and customer service were alleged to discourage minority families from applying for loans, and to result in directing capital away from LMI and minority communities throughout its assessment area. Commenters also maintained that Citibank has an inadequate record of small business lending in LMI and minority communities and that the proposed transaction would result in fewer loans to small businesses. A number of commenters criticized the lending record of Citicorp evidenced in data submitted by the banking organizations under the Home Mortgage Disclosure Act (12 U.S.C. § 2801 *et seq.*) ("HMDA").³⁰

In addition, a number of commenters maintained that Citicorp has abandoned LMI communities, particularly those in New York, and has disproportionately closed branches and downgraded branches to Automated Teller Machines ("ATMs") or video branches without on-site personnel in those communities. Commenters also contended that the merger would result in fewer community investments and development activities in the future, particularly in minority communities.

Some commenters questioned the compliance of certain Travelers subsidiaries with fair lending laws, criticized the lending practices of Travelers's subprime lending subsidiaries, and asserted that Travelers has failed to meet the

convenience and needs of LMI communities through the interrelated activities of its insurance and lending subsidiaries. Several commenters alleged that these subsidiaries market higher-cost loans and overpriced, misleading term life insurance products to LMI and minority consumers.

Commenters opposing the proposal also maintained that Travelers excludes LMI and minority communities from conventional homeowners insurance coverage through its marketing efforts and underwriting policies. Furthermore, commenters alleged that the requirements for, and terms of, Travelers's insurance policies have a disparate and discriminatory impact on LMI and minority communities.

A number of commenters also criticized the Citigroup community pledge. Many of those commenters asked the Board to disregard the pledge because it was too small and failed to delineate specific amounts of lending and investment programs for particular state or local markets. The pledge also was criticized by commenters as focusing primarily on consumer lending that would not help increase home mortgage and small business loans in LMI or minority communities. Some commenters contended that the Citigroup community pledge would harm LMI and minority communities if it were implemented through the marketing of expensive or unsuitable consumer credit, insurance and investment products.

Numerous commenters also argued that the merger would result in a two-tiered structure through which Citigroup would market higher-cost loan and insurance products to LMI and minority communities, while marketing competitively priced loan and insurance products to more affluent communities. Several commenters also expressed concern that the merger might undermine the CRA by encouraging a shift of banking assets and operations to nonbanking affiliates that are not subject to the CRA.³¹

B. CRA Performance Records

In its consideration of the convenience and needs of the communities to be served by Citigroup, the Board has reviewed in detail the CRA performance records of Citicorp and Travelers, including their mortgage and small business lending records, community development and investment programs and initiatives to increase lending in LMI areas in states served by their subsidiary insured depository institutions.³² Travelers proposes to continue Citicorp's current CRA organization, policies and programs, including its proprietary affordable home-related

29. These commenters included:

- (1) Several members of the U.S. House of Representatives, including members from California and New Jersey;
- (2) Independent Bankers Association of America;
- (3) Consumers Union;
- (4) Citicorp-Travelers Watch (a consortium of ten community advocacy organizations in New York City);
- (5) Inner City Press/Community on the Move;
- (6) Association of Community Organizations for Reform Now;
- (7) Greater Rochester Community Reinvestment Coalition;
- (8) New Jersey Citizens Action;
- (9) California Reinvestment Committee;
- (10) The Greenlining Institute;
- (11) The National Organization for Women; and
- (12) community groups, nonprofit organizations, bank associations, banks, and individuals in Arizona, California, Connecticut, Delaware, Florida, Georgia, Indiana, Iowa, Kansas, Maryland, Massachusetts, Minnesota, Missouri, New Hampshire, New Jersey, New York, South Carolina, South Dakota, Texas, Wisconsin, and Washington, D.C.

30. Commenters also asserted that Citicorp and Travelers have discriminated in conducting business with minority vendors or providing equity capital for businesses owned by women and minorities.

31. Several commenters also opposed the proposal based on unfavorable experiences with Citicorp or Travelers in particular credit, transactional account or business dealings. The Board has reviewed these comments in light of all the facts of record, including information provided by Citicorp and Travelers, and the Board has provided copies of these comments to the appropriate federal or state supervisor.

32. Some commenters asserted that lending to small businesses declines as a result of large bank mergers. The Board has considered these comments in light of Citicorp's record of lending performance, including its record of assisting in meeting the credit needs of small businesses.

lending products, participation in national and local government guaranteed or subsidized loan programs, and community and economic development activities.

C. CRA Performance Examinations

As provided in the CRA, the Board has evaluated the convenience and needs factor in light of examinations of the CRA performance records of the relevant institutions conducted by the appropriate federal supervisory agency. An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed on-site evaluation of the institution's overall record of performance under the CRA by its appropriate federal financial supervisory agency.³³

Citicorp's lead subsidiary bank, Citibank, which primarily serves the metropolitan New York City area, received a "satisfactory" CRA performance rating from the Office of the Comptroller of the Currency ("OCC") at its most recent examination for CRA performance, as of October 1996.³⁴ Citibank accounts for approximately 68 percent of Citicorp's total domestic deposits. Citibank New York State, Pittsford, New York ("Citibank NYS"), received a "satisfactory" rating from the FDIC and the New York State Banking Department ("NYSBD") at its most recent examination for CRA performance, as of March 1998.³⁵ In addition, Citibank, Federal Savings Bank, San Francisco, California ("Citibank FSB"), received an "outstanding" CRA performance rating from the Office of Thrift Supervision ("OTS"), as of March 1997.³⁶ The OTS based its overall "outstanding" CRA performance rating of Citibank FSB on assessments of the institution's performance in five markets. Citibank FSB received an "outstanding" rating in three of these areas, California, Florida and Illinois, and a "satisfactory" rating in Connecticut and the Washington-Baltimore area.³⁷

33. The Statement of the Federal Financial Supervisory Agencies Regarding the Community Reinvestment Act provides that a CRA examination is an important and often controlling factor in the consideration of an institution's CRA record and that reports of these examinations will be given great weight in the applications process. 54 *Federal Register* 13,742 and 13,745 (1989); see also 62 *Federal Register* 52,150 (1997).

34. The examination included evaluation of Citibank's CRA performance in its assessment areas in Guam, Puerto Rico and U.S. Virgin Islands.

35. Citibank NYS has branches in the Buffalo and Rochester metropolitan areas.

36. Citibank FSB has branches in California, Connecticut, Florida, Illinois, Maryland, New Jersey, Virginia, and Washington, D.C. Citibank FSB also recently opened a branch in Texas, which primarily serves Citicorp employees at a service center facility.

37. Citibank (Nevada), N.A., Las Vegas, Nevada, received a "satisfactory" rating from the OCC, as of May 1997; Citibank Delaware, New Castle, Delaware, a limited-purpose bank, received a CRA rating of "outstanding" from the FDIC, as of November 1996; Citibank South Dakota, N.A. Sioux Falls, South Dakota ("Citibank SD"), a limited-purpose bank, received an "outstanding" rating from the OCC, as of June 1997; Universal Bank, N.A., Columbus, Georgia, a limited-purpose bank, received a "satisfactory" rating from the OCC,

Travelers's subsidiary depository institutions, The Travelers Bank and The Travelers Bank USA, both in Newark, Delaware, each received a "satisfactory" CRA performance rating from the FDIC, as of March 1997. The Travelers Bank was converted to Travelers Bank and Trust, fsb ("Travelers FSB") on November 24, 1997, and has not been examined for CRA performance under its new charter.

Examiners did not note any evidence of discrimination or other illegal credit practices during any of the most recent CRA performance examinations. In addition, examiners did not identify any practices intended to discourage applications for the types of credit offered by Citicorp's or Travelers's depository institution subsidiaries.³⁸

D. Citicorp's CRA Performance Record

Overview. Citicorp has various programs and policies for ascertaining the credit needs of the community and implementing programs to help address those needs. Citicorp has recently implemented a number of changes to these programs and policies to improve its lending performance and to address weaknesses in its earlier efforts.

For example, Citicorp originated or purchased more than 30,000 HMDA-reported loans in 1997, totaling \$5.9 billion, including approximately 4,400 loans totaling \$514 million in LMI communities.³⁹ This amount of lending represented a 44-percent increase over 1996 in the number, and an 86-percent increase in the total dollar amount, of home mortgage loans in LMI communities. Citicorp reported that in 1997 it extended \$146 million in loans to LMI borrowers or in LMI communities through 70 national and local affordable housing mortgage programs, which offer a variety of low down payment options, higher-than-normal qualifying ratios and other flexible underwriting standards.

Some categories of Citicorp's home mortgage lending to LMI and minority borrowers and communities in 1996 and 1997 were below the percentages for the aggregate in several of Citicorp's CRA assessment areas.⁴⁰ In 1997, Citicorp implemented a number of changes in its marketing and underwriting divisions, marketing efforts and home mortgage loan products and programs to increase its lending to LMI and minority residents and communities nationwide. Citicorp reported that in 1998 these changes in-

as of August 1996; and Universal Financial Corporation, Salt Lake City, Utah, an industrial loan company, received a "satisfactory" rating from the FDIC, as of January 1996.

38. Several commenters alleged that Travelers and Citicorp should purchase more goods and services from businesses owned by women and minorities. Although the Board fully supports programs designed to stimulate and create economic opportunities for all members of society, the Board concludes that consideration of vendor purchase contracts of Travelers and Citicorp is beyond the scope of the CRA and other relevant federal banking statutes.

39. The lending data in this order include data for CMI, the New York assessment areas of Citibank and Citibank NYS, and all the assessment areas of Citibank FSB, unless otherwise indicated.

40. The aggregate represents the cumulative lending for all financial institutions that have reported HMDA data in a given market.

creased the percentage of home mortgage lending to LMI and minority borrowers and in LMI and predominantly minority census tracts in most of the assessment areas of Citibank, Citibank FSB and Citibank NYS.

Citicorp created two specialized units to serve LMI customers: the Homeownership Development Unit, which develops products and recommends credit policy changes to serve the needs of LMI customers, and the Community Lending Underwriting Team, which underwrites affordable mortgages for LMI customers. Citicorp also expanded the mortgage sales force in its assessment areas to include specialized teams of Community Mortgage Consultants for the specific purpose of originating loans to LMI borrowers and in LMI communities. In addition, Citicorp hired additional employees nationally to focus on developing business with real estate brokerage companies owned by minorities and brokers who serve LMI and ethnically diverse communities. Citicorp hired additional employees in California and New York to focus on building business relationships with companies owned by minorities and companies with a high concentration of ethnically diverse employees and to offer mortgages to the employees of such companies. Citicorp also increased its marketing to LMI and minority communities and households.

Significantly, Citicorp introduced new or expanded products and programs designed to increase credit opportunities for LMI borrowers. Citicorp, for example, reintroduced the CitiAffordable Purchase Assistance Program, which provides for a minimum down payment of \$500, flexible qualifying ratios, and an unsecured installment loan for down payment and closing-cost assistance. Citicorp also expanded the availability of its CitiAffordable Mortgage Program to cooperatives. This product provides for a minimum down payment of 2 percent from the borrower's own funds and a maximum loan-to-value ratio of 97 percent. In 1997 and the first quarter of 1998, Citibank originated loans totaling more than \$35 million through these products and programs.

In 1996 and 1997, Citicorp also increased access to credit for LMI borrowers by expanding its home improvement credit products to offer more flexible underwriting standards and to require no application, appraisal or annual fees. Citicorp, for example, adjusted its underwriting criteria to allow loan-to-value ratios of 100 percent for loans up to \$25,000. In 1997, Citicorp also introduced an unsecured home improvement loan product for LMI borrowers financing amounts as low as \$500. Citicorp conducted a pre-approved, direct-mail marketing of this product primarily to LMI residents, which resulted in \$12 million in loans.

In 1997, Citicorp originated more than 12,000 small business loans, totaling \$1.2 billion, which included more than 2,300 loans, totaling more than \$260 million in LMI census tracts and representing 22 percent of the total dollar amount of Citicorp's small business loans.⁴¹ This level of

lending represents an increase over 1996 of 20 percent in the number, and 23 percent in the total dollar amount, of small business loans in LMI census tracts. To expand financing opportunities for businesses that generally would not qualify for conventional loans, Citicorp offers a variety of Small Business Administration ("SBA") loan programs, which offer loans of \$2,500 up to \$10 million. Citibank is one of only two banks in New York offering the SBA's FASTRACK program authority, under which Citibank may originate loans up to \$100,000 with a 50-percent SBA guarantee through a streamlined application process. In 1997, the SBA extended the FASTRACK program to Citibank in California, Connecticut, Florida, Illinois, and New Jersey. Citicorp also developed the SBA Capital Access program, which provides loans of up to \$250,000 to businesses owned by minorities or women, high-tech firms, and high-growth importers and exporters. This program was offered in Citicorp's California and Florida markets as a pilot program. In 1997, Citibank FSB was named SBA Lender of the Year. In addition, Citicorp extends loans of up to \$50,000 through its Character Lending Program ("character loans") to creditworthy entrepreneurs who cannot qualify for SBA loans. Since 1993, Citicorp has made loans totaling approximately \$33 million under this program in New York, California and Nevada.

Citicorp also is an active participant in community and economic development projects and programs. Citicorp reported that in 1997 it increased its new community development lending originations to \$230 million, an increase of 59 percent over 1996. Citibank and the Citicorp Foundation also made grants totaling \$26 million to support affordable housing, revitalization of LMI communities and nonprofit community service providers.⁴²

As noted above, the appropriate federal supervisory agencies conducted CRA performance examinations of Citibank in 1996, Citibank FSB in 1997 and Citibank NYS in 1998 ("Citibank Examinations"). Examiners concluded that the geographic distribution of the institutions' lending throughout their communities, including LMI communities, was adequate. Examiners also reported that the delineations of the institutions' communities were reasonable and did not arbitrarily exclude LMI census tracts.

Examiners found that the institutions provided an array of credit products designed to assist in meeting the credit needs in their assessment areas, including innovative and flexible products to meet the credit needs of LMI communities. These products included the proprietary CitiAffordable Mortgage program, CitiAffordable Purchase Assistance program and home improvement loan products. Examiners also noted that Citicorp participates in a number of government-subsidized loan programs that provide low-down payment financing, below-market interest rates

most small businesses in LMI census tracts and businesses owned by minorities. Citicorp reported that in 1997 it extended approximately 10,000 loans that were in amounts of less than \$100,000.

42. Some commenters maintained that Citigroup's CRA investment in the inner-cities was threatened by Citicorp's Asian lending and its compensation packages to management.

41. Some commenters maintained that Citibank has a minimum loan amount of \$100,000 for small business loans, which excludes

and/or closing-cost assistance to LMI borrowers, including the Enhanced Fannie Neighbors with the Community Home Buyers Program and the Fannie 97 Affordable Mortgage Program through the Federal National Mortgage Association ("FNMA") and the Affordable Gold Program through the Federal Home Loan Mortgage Corporation ("FHLMC"). In 1997, Citicorp originated loans totaling \$89 million under these programs.⁴³

The Citibank Examinations concluded that the institutions were involved in community and economic development activities. Citicorp provided loans for the acquisition, construction, rehabilitation, and permanent financing of affordable multifamily rental, owner-occupied and special-needs housing. In addition, Citicorp provided funding for projects that support small businesses and promote job creation in LMI neighborhoods, including participation in lending consortia in partnership with nonprofit organizations or government agencies. Citicorp also made community development investments, including investments in community development financial institutions, intermediary loan funds, low-income housing tax credits, and securities backed by mortgage loans to LMI borrowers or on properties in LMI areas.

In addition, the Citibank Examinations noted no evidence of discrimination or other illegal credit practices.⁴⁴ Examiners found that the institutions had implemented various programs to promote and ensure compliance with fair lending laws and regulations, including compliance department audits, multilevel review processes for any proposed loan denials for applicants with incomes below specified thresholds, annual self-assessments, and annual "mystery shopper" testing. Examiners also reported that the institutions conducted ongoing fair lending law training for their employees.

Citibank. Citibank is the lead bank among Citicorp's depository institution subsidiaries, and holds approximately 68 percent of Citicorp's total domestic deposits. The 1996 OCC examination of Citibank reported that the bank extended a wide variety of loan products that helped to address housing-related, consumer and small business credit needs of its New York City assessment area.⁴⁵ Examiners found that Citibank had sound marketing and advertising programs in place to inform all segments of its community of the credit services offered by the bank. In addition, examiners found a reasonable penetration of lend-

ing in all segments of Citibank's delineated community, including LMI areas.⁴⁶

Examiners noted that Citibank offered proprietary home lending products that provided lower down payment requirements, closing-cost assistance and flexible underwriting criteria, and also offered flexible, low-interest home mortgage loans under loan programs sponsored by the State of New York Mortgage Agency ("SONYMA"). Citibank originated 105 SONYMA loans totaling \$10 million. OCC examiners also reported that in 1996 Citibank introduced several new initiatives to increase home ownership opportunities for first-time home buyers and LMI families in New York. Citibank, for example, began offering mortgages guaranteed by the Federal Home Administration ("FHA") in 1995. In addition, Citibank began participating in the New York City Housing Partnership New Home Program ("NYC New Home Program"), through which it made mortgage loans available to home buyers in two multi-family housing projects in Queens. In addition, Citibank introduced a new product called Neighbor Works Affordable Rehabilitation Mortgage Program ("Neighbor Works Mortgage Program") in partnership with Neighborhood Housing Services of New York ("NHS"), FNMA and FHLMC. This loan product combined a low down payment for home purchase and rehabilitation mortgages with NHS's education and technical assistance programs. In 1997, Citibank originated approximately \$5 million of loans under the NYC New Home Program and the Neighbor Works Mortgage Program.

Examiners found that Citibank offered a variety of specially designed credit products for small businesses and was an active small business lender, including through participation with SBA loan programs. Examiners reported that 18 percent of Citibank's small business loans in its New York assessment area were made to businesses in LMI census tracts. Examiners also reported that 40 percent of Citibank's small business loans were for amounts of less than \$25,000, and 89 percent were in for amounts of less than \$100,000.

Examiners reported that Citibank began several initiatives in 1995 and 1996 to help meet the credit needs of small businesses in New York. Examiners noted that in 1995 Citibank began to take a more active role in SBA loan programs and introduced the SBA's FASTRACK program. From October 1995 to October 1996, Citibank originated 162 SBA loans totaling \$18 million. In addition, Citibank assigned 54 small business representatives to its branches and streamlined its approval process for small business loans. Citibank also lowered its minimum amount for lease financing to small businesses for commercial equipment to \$2500. In 1997, Citibank made more than

43. All discussion of lending activities noted in the Citicorp Examinations are for the assessment periods covered by the examinations, unless otherwise indicated. Those periods are as follows: Citibank (September 10, 1994, through October 4, 1996); Citibank NYS (January 1996 through December 1997); and Citibank FSB (January 1995 through December 1996).

44. The 1998 FDIC examination of Citibank NYS and the 1997 OTS examination of Citibank FSB reported no substantive violations of the fair lending laws and regulations.

45. Citibank's New York assessment area is comprised of the entire New York, New York, Metropolitan Statistical Area ("MSA"), except for Putnam County, and the Nassau/Suffolk MSA.

46. Examiners found that the geographic distribution of Citibank's consumer and small business loans was strong, but that Citibank's percentage of home mortgage lending in the LMI census tracts of its New York assessment area was below the percentage of the aggregate in such census tracts. They also found that Citibank's percentage of home mortgage lending to LMI borrowers in New York was comparable with the percentage for the aggregate.

1000 small business loans, totaling \$104 million in LMI census tracts in its New York assessment area and representing 19 percent of the total dollar amount of its small business loans. This level of lending represented a 22-percent increase over 1996 in the total dollar amount of small business loans in LMI census tracts in Citibank's New York assessment area.

In addition, examiners found that Citibank played a leadership role in activities that promoted affordable housing, economic development and community services. Examiners reported that Citibank maintained a high level of participation, including investments in community development projects and programs in its delineated areas. In addition, examiners noted that Citibank worked with community development groups, intermediaries and government organizations engaged in providing community development financing for large affordable housing projects, participated in equity funding pools for small businesses and provided loans to nonprofit providers of health and social services.

Examiners also reported that Citibank originated \$93 million in community development loans in its New York assessment area, including \$49 million in affordable housing loans and construction financing for affordable housing, which provided more than 2,400 affordable housing units in LMI communities or targeted for LMI individuals.⁴⁷ The 1996 OCC examination described Citibank as one of the lead banks in the Neighborhood Entrepreneur Program, which accelerated the redevelopment and sale of properties owned by New York City and distressed city blocks. Through this program, Citibank provided a \$9.6 million loan to renovate 114 rental units in the Bronx and a \$13.6 million loan to construct 169 units in central Harlem.⁴⁸

Examiners also reported that Citibank originated \$26 million in loans for 400 units of affordable housing in New York City in connection with New York City Housing Partnership programs. In addition, examiners noted that Citibank had provided \$3.5 million in funding for the loan pool of the New York Business Development Corporation, which provided financial assistance to existing and new small- and medium-size businesses in New York.

Citibank NYS. Citibank NYS is a state-chartered bank that operates primarily in Upstate New York. The 1998 FDIC examination of Citibank NYS concluded that the bank's level of home mortgage and small business loans reflected good responsiveness to the credit needs of its assessment areas. The 1998 NYSBD examination of Citibank NYS concluded that the geographic distribution of the bank's loans reflected good penetration throughout its assessment area and among customers of different income levels.

47. Some commenters criticized Citicorp for not making any direct multifamily housing loans in New York City or San Francisco. Citicorp stated that it helps to meet the need for multifamily housing as an active construction lender for multi-family housing projects.

48. Citibank reported that it has provided a total of \$63 million in construction financing for this program.

FDIC examiners found that the bank's percentage of its home purchase mortgage lending to LMI individuals and in LMI communities was close to or exceeded the percentage for the aggregate in 1995 and 1996. In addition, they found that the bank's percentage of mortgage refinancing and home improvement lending to LMI individuals and in LMI communities generally was comparable to or less than the percentage for the aggregate during this time period.⁴⁹ FDIC examiners noted that, in 1997, Citibank NYS's management began taking steps to improve its performance in these areas, including by increasing its advertising in LMI communities to reach more potential borrowers for refinancing and home improvement loans.

FDIC and NYSBD examiners found that the bank offered various flexible lending products with low down payment options that are attractive to first-time home buyers, including loans guaranteed by the FHA, the Veterans Administration and SONYMA. In 1996 and 1997, Citibank NYS originated loans totaling \$7.9 million under these programs. NYSBD examiners noted that, in 1997, Citibank re-introduced the CitiAffordable Purchase Assistance Program and originated loans totaling \$2.1 million under this program. Examiners also reported that, in 1996 and 1997, Citibank NYS originated loans totaling \$3.4 million under the FNMA Enhanced Fannie Neighbors with the Community Homebuyers Program, the FNMA Fannie 97 Affordable Mortgage Program and the FHLMC Affordable Gold Program.

Examiners concluded that Citibank NYS's small business lending reflected a good dispersion throughout census tracts of all income levels, particularly LMI census tracts. Examiners noted that Citibank NYS's small business lending had increased 32 percent since 1996.⁵⁰ Examiners also reported that, in 1996 and 1997, more than 30 percent of the total dollar amount, and more than 70 percent of the number, of the bank's small business loans were for amounts of less than \$100,000. During 1996 and 1997, the bank extended SBA loans totaling \$9.6 million in its assessment area and, in 1997, extended character loans totaling \$780,000.

The 1998 FDIC and NYSBD examinations also found that Citibank NYS was an active participant in community development projects and initiatives to construct or rehabilitate affordable housing, promote economic development and support community services. Examiners reported that Citibank NYS participated in lending initiatives totaling \$9.2 million during 1996, 1997 and the first quarter of 1998, of which \$2.5 million was for affordable housing and

49. NYSBD examiners reported that the total number of Citibank NYS's residential real estate loans originated in LMI areas, as a percentage of total loans, was less than the percentage for the aggregate in 1996 and increased in 1997. In addition, examiners noted that Citibank's percentage of home purchase mortgage loans extended to LMI borrowers in 1996 was well below the percentage for the aggregate, but that the bank's percentage of such loans to LMI borrowers increased significantly in 1997.

50. Although the percentage of these small business loans by number in LMI areas declined between 1996 and 1997, the percentage of such loans by dollar amount increased.

economic development programs, including the Greater Rochester Housing Partnership and NHS of Rochester ("GRHP"). In 1997, Citibank NYS extended two lines of credit totaling \$1.5 million to GRHP for construction of affordable single-family and multifamily housing. NYSBD examiners also noted that Citibank NYS made community development investments totaling \$5.6 million during 1996 and 1997, including low-income housing tax credits and investments in securities backed by mortgage loans to LMI borrowers or on properties in LMI areas.

Citibank FSB. The 1997 OTS examination found that Citibank FSB provided an array of credit products designed to meet many different community needs and continued to develop loan programs to meet the needs of LMI individuals. Examiners found that, although the percentage of home purchase mortgage lending of Citibank FSB and its affiliates in LMI census tracts in 1995 and 1996 was low in comparison to the percentage for the aggregate, their percentage of home improvement and multifamily home loans in LMI census tracts was comparable with or exceeded aggregate results. OTS examiners concluded that the levels of small business lending and amounts of consumer lending in LMI areas by Citibank FSB and its affiliates demonstrated a commendable commitment to meeting community credit needs.

The 1997 OTS examination report concluded that Citibank FSB affirmatively solicited credit applications from all segments of its delineated community and had an effective marketing program to inform residents, including those in LMI communities, of the institution's available credit products. Examiners noted that Citibank FSB offered various home mortgage products with flexible underwriting criteria in each of its assessment areas to help serve the needs of LMI residents, including its proprietary CitiAffordable Mortgage Program, the FNMA Community Home Buyers Program and the FHLMC Affordable Gold Program. Examiners also reported that Citibank FSB participated in various government subsidized mortgage lending programs sponsored by local and state government agencies. According to examiners, Citibank FSB continued to expand its community development activities during 1995 and 1996.

Examiners also reported that Citibank FSB was an active small business lender and participant in SBA loan programs. In 1995 and 1996, Citibank FSB originated 249 SBA loans totaling more than \$48 million. In 1995, Citibank FSB introduced the Capital Access Program in its California and Florida markets as a pilot program.

(1) *California.* Examiners determined that Citibank FSB demonstrated flexibility in developing products and participating in various programs to meet the credit needs of its California assessment areas.⁵¹ Citibank FSB, for example,

originated more than 240 mortgage loans in 1995 and 1996 under its CitiAffordable Mortgage Program, FNMA's Community Home Buyers Program and FHLMC's Affordable Gold Program. Examiners also reported that Citibank FSB and its affiliates made small business loans totaling more than \$75 million in LMI census tracts in California. According to examiners, Citibank FSB made 117 SBA loans totaling \$28 million in California. In 1997, Citibank FSB made small business loans totaling more than \$41 million in LMI census tracts, which represented a 5 percent increase in the total dollar amount of such loans over 1996.

Examiners also noted that Citibank FSB had met community development needs in its California assessment areas in 1995 and 1996 through funding of, and construction financing for, affordable housing projects, participating in lending consortia and marketing community and economic development investments. Examiners noted, for example, that Citibank FSB extended more than \$15 million in reduced-interest-rate loans for the acquisition and/or rehabilitation of multifamily properties in LMI census tracts in California and more than \$25 million in market-rate loans secured by multifamily and commercial properties in such areas. Citibank FSB extended \$15.8 million in loans to community organizations in California to provide permanent financing for multifamily affordable housing and special-needs housing projects, which assisted in providing 381 units of housing for low-income families and individuals. In addition, the Federal Home Loan Bank of San Francisco ("FHLB") advanced more than \$2.5 million to Citibank FSB, under the FHLB's Affordable Housing Program, to support the development of nine multifamily housing projects that provided more than 450 units of housing to low-income families in San Francisco, Los Angeles and San Diego. Examiners also reported that Citibank FSB made community development investments of approximately \$3 million and grants of approximately \$1 million to community development organizations.

(2) *Florida.* Examiners reported that Citibank FSB originated more than 140 mortgage loans in 1995 and 1996 under its CitiAffordable Mortgage program and FNMA's Community Home Buyer Program. Examiners also noted that during this time period Citibank FSB participated in a number of state and local government programs to provide below-market interest rate mortgage loans to qualifying LMI families. Citibank FSB funded, for example, more than 100 loans totaling more than \$5 million under the Florida Housing Finance Agency Homeowner Mortgage Revenue Bond Program and the Dade County Housing Finance Authority Bond Program, which provided below-market interest rate mortgages to eligible first-time home buyers. In 1997, Citibank FSB provided additional funding of \$4.3 million under these programs.

In addition, examiners reported that Citibank FSB and its affiliates made more than 380 small business loans in 1996, totaling more than \$60 million in LMI census tracts in Florida. Examiners noted that Citibank FSB funded 96 SBA Capital Access Program loans in 1995 and 1996, totaling more than \$10 million. Examiners also reported that Citibank FSB's funding of community development

51. Citibank FSB's California assessment area is comprised of the Los Angeles-Long Beach MSA, the Orange County MSA, the Ventura MSA, the San Francisco MSA, the Oakland MSA, and the San Jose MSA. Examiners noted that Citibank FSB did not offer insured, guaranteed or subsidized government loan programs for housing in California because of the high cost of housing.

and redevelopment projects during this time period included loans of more than \$17 million through government-assisted programs for affordable housing and small business development, approximately \$3 million in community development loans through lending consortia, \$2 million in community development investments, and grants of \$400,000 to community development organizations.

(3) *Illinois.* Examiners reported that Citibank FSB originated more than 844 mortgage loans in 1995 and 1996 under its CitiAffordable Mortgage program, FNMA's Community Home Buyer Program and FHLMC's Affordable Gold Program. Examiners also reported that Citibank FSB and its affiliates made more than 240 small business loans in 1996, totaling more than \$50 million in LMI census tracts in Illinois. In addition, OTS examiners noted that in 1995 and 1996 Citibank FSB originated SBA loans totaling more than \$9.5 million. Citibank FSB's level of community development funding during this same time period was commended by examiners. Citibank FSB's funding of community development and redevelopment projects included loans of approximately \$100 million for the acquisition or rehabilitation of multifamily properties in LMI census tracts (generally to small investors and owner-occupants), \$6 million in community development loans through lending consortia, loans of more than \$6.5 million directly to developers of affordable housing, more than \$700,000 in grants to community development organizations, and more than \$2.6 million in community development investments.

(4) *Other Areas.* In the Washington-Baltimore area, OTS examiners reported that Citibank FSB provided a number of credit products designed to meet community credit needs, including specific credit programs to meet the needs of LMI individuals. Examiners also stated that Citibank demonstrated an acceptable level of lending in LMI communities and to LMI individuals, but noted that this type of lending needed additional attention. Examiners reported that Citibank FSB originated 524 mortgage loans under its CitiAffordable Mortgage Program. Citibank and its affiliates also extended small business loans totaling approximately \$15.9 million, including approximately \$1.3 million loans in LMI census tracts in average amounts of \$88,000. According to examiners, Citibank's small business lending performance demonstrated a commendable commitment to serving the credit needs of the community. Examiners also found that Citibank FSB met community development needs through a variety of programs, including loans of \$3 million to community development organizations for the acquisition or rehabilitation of multifamily properties in LMI communities; a \$2.4 million commitment to local intermediary lenders to make loans for affordable housing development and small business formations; and a \$1 million investment in tax credits that provided equity to affordable housing projects.

In the state of Connecticut, OTS examiners reported that Citibank FSB demonstrated a reasonable penetration of LMI communities with its credit products and a record of serving the credit needs of LMI applicants. Examiners

noted that, although Citibank FSB's home mortgage lending was not strong in LMI communities, the institution's growing level of small business lending and substantial amounts of consumer lending in LMI communities demonstrated a firm commitment to meeting community credit needs. Examiners reported that Citibank FSB originated 40 home purchase and improvement loans in LMI communities in Connecticut during 1995 and 1996, totaling approximately \$6.7 million, and originated 22 home loans under the CitiAffordable Mortgage Program, FNMA's Community Home Buyer Program and FHLMC's Affordable Gold Program. Citibank FSB also extended 220 small business loans totaling approximately \$10.7 million, including 67 small business loans in LMI census tracts totaling approximately \$4.7 million. In addition, examiners found that Citibank FSB met community development needs through a variety of programs, including providing a \$1.35 million commitment to local, intermediary lenders to fund loans for affordable housing development and small business formation and investing \$2 million through the National Equity Fund for tax credits that provided equity to affordable housing projects.

HMDA Data. The Board also has carefully considered the lending record of Citicorp in light of comments about the HMDA data reported by its subsidiaries.⁵² The Board reviewed HMDA data for 1995, 1996 and 1997, and the data generally showed that Citicorp has assisted in meeting the housing-related credit needs of minority and LMI borrowers and borrowers in LMI areas.⁵³ The data showed, moreover, that from 1996 to 1997 Citicorp increased its number of housing-related loan originations to LMI borrowers by 47 percent, to borrowers in LMI areas by 47 percent, to African Americans by 42 percent, and to Hispanics by 55 percent.⁵⁴

The data also reflect certain disparities in application, denial and origination rates among members of different racial groups and persons of different income levels. In addition, data for 1997 also indicate that some categories of Citicorp's housing-related lending were below the percentage for the aggregate. In 1997, for example, the percentage of Citicorp's home mortgage originations in LMI census tracts was below the percentage for the aggregate in several of its assessment areas, including in New York, New Jersey, California, Connecticut, Florida, and Washington, D.C.⁵⁵ Citicorp also originated a lower percentage of

52. Some commenters expressed concern that in certain cities, including Baltimore, Chicago, Miami and Washington, D.C., HMDA data indicate that Citicorp does not meet the community credit needs of LMI and minority communities.

53. Citibank FSB did not incorporate New Jersey into its assessment area until 1997. Therefore, the Board only considered Citicorp's 1997 data for HMDA loans in the New Jersey assessment area.

54. These percentages include HMDA lending data for CMI, the New York assessment areas of Citibank and Citibank NYS, and all the assessment areas of Citibank FSB.

55. This assessment area data are for the Citicorp depository institution subsidiary that operates branches in the particular state and CMI on a combined basis. The Connecticut and New Jersey data also include the HMDA originations of Citibank.

its housing-related loans in predominantly minority census tracts and to African-American and Hispanic applicants in several of its assessment areas than did the aggregate. Citicorp has reported that in 1998 it has increased the percentage of HMDA lending in LMI and predominantly minority census tracts and to LMI and minority households in most of the assessment areas of Citibank, Citibank FSB and Citibank NYS.

The Board is concerned when the record of an institution indicates such disparities in lending, and believes that all banks are obligated to ensure that their lending practices are based on criteria that ensure not only safe and sound lending but also equal access to credit by creditworthy applicants regardless of their race or income level. The Board recognizes, however, that HMDA data alone provide an incomplete measure of an institution's lending in its community because these data cover only a few categories of housing-related lending. HMDA data, moreover, provide only limited information about the covered loans.⁵⁶ HMDA data, therefore, have limitations that make them an inadequate basis, absent other information, for concluding that an institution has not assisted adequately in meeting its communities' credit needs or has engaged in illegal lending discrimination.

In light of the limitations of HMDA data, the Board has carefully reviewed other information, particularly examination reports that provide an on-site evaluation of compliance with the fair lending laws by the subsidiaries of Citicorp and Travelers. As noted above, OCC, OTS and FDIC examiners found no evidence of prohibited discrimination or other illegal credit practices at the subsidiary banks of Citicorp or Travelers. Moreover, examiners reviewed the institutions' policies and procedures for compliance with fair lending laws and regulations, conducted comparative file analyses for racial discrimination, and did not find any substantive violations of the fair lending laws.

The record also indicates that Citicorp has taken a number of affirmative steps to ensure compliance with the fair lending laws. To ensure consistent application of its underwriting criteria, for example, Citibank manages a multi-level review process for loan applicants with less than the area median income. Moreover, Citicorp monitors its fair lending performance with a five-step program that includes an independent compliance review, fair lending self-assessments conducted by management, "mystery shopper" tests done by an independent firm to assess processing and service delivery, comparative file analyses to ensure comparable treatment for minorities, and corporate audits.⁵⁷

The Board also notes that Citicorp has made projections to the NYSBD that Citibank NYS, Citibank and CMI (collectively, "Citibank lenders") would increase their HMDA-reportable lending in certain predominantly minority census tracts in New York in 1998, 1999 and 2000. Specifically, Citicorp projects that the Citibank lenders' percentage of HMDA-reported lending in the predominantly minority census tracts in the cities of Buffalo and Rochester, Erie and Niagara Counties combined and Monroe County in each of these years would equal or exceed the percentage they achieved in these respective areas for the first half of 1998. Citicorp also projects that the percentage of the Citibank lenders' HMDA-reported lending in predominantly minority census tracts in their downstate New York assessment areas during these years would equal or exceed the adjusted aggregate's percentage of such lending in those markets.⁵⁸ The Citibank lenders will make confidential reports to the NYSBD on their progress in this respect.

The Board encourages the depository institutions involved in the proposal to continue to improve their record of lending in LMI and minority communities and to LMI and minority borrowers, and expects Citicorp to address any weaknesses in its CRA record that were noted in the most recent CRA performance examinations. In addition, the Board encourages Citicorp to meet the lending projections made to the NYSBD.

Branch Network and Services. Travelers has represented that no branch closures are expected to result from this transaction. A number of commenters contended that Citicorp has, in the past, disproportionately closed branches and down-graded branch services in LMI communities, particularly in its New York City assessment area.⁵⁹ Citicorp began restructuring its NYC branch network in 1995. This restructuring was reviewed by the OCC in Citibank's 1996 CRA examination. OCC examiners found that there had been a 28-percent decline in the number of full-service branches, but no closures in LMI census tracts. Examiners noted that four branches were converted to stand-alone ATM Citicard Banking Centers ("CBCs") in LMI census tracts. The decline in branches was balanced, according to OCC examiners, by a 124-percent increase in CBCs, expanded branch hours and significant price reductions for automated products and services. OCC examiners concluded that the branch closings and consolidations that occurred had "not negatively impacted the New York community." Moreover, OCC and NYSBD examiners

56. The data, for example, do not account for the possibility that an institution's outreach efforts may attract a larger proportion of marginally qualified applicants than other institutions attract and do not provide a basis for an independent assessment of whether an applicant who was denied credit was, in fact, creditworthy. Credit history problems and excessive debt levels relative to income (reasons most frequently cited for a credit denial) are not available from HMDA data.

57. Commenters alleged that Citibank FSB, an owner of a foreclosed building, used a discriminatory bidding process to sell the

building and changed the selection criteria so that it excluded a qualified minority bidder. Citicorp denied the allegation and stated that it fairly and sufficiently considered the minority bidder in accordance with relevant requirements.

58. The adjusted aggregate's percentage excludes independent mortgage bankers. The areas affected include Nassau and Suffolk Counties combined, Westchester and Rockland Counties combined, and the counties of Queens, Kings, Bronx, New York, and Richmond.

59. In addition, a representative of Yonkers asserted that Citibank has no branches in Yonkers and that Citibank's one ATM facility fails to meet the community's needs.

found that Citibank services were readily accessible to all segments of its communities.⁶⁰

OCC examiners also found that Citibank's management had followed the bank's internal branch policy, which provided guidelines for closing, converting and relocating branches. This policy requires an extensive analysis of the impact on the community. According to the examiners, management contacted legislative and community leaders to inform them and, in the process, ascertained specific community needs which were immediately addressed.

In 1998, the NYSBD analyzed the current branch network of, and record of opening and closing branches for, Citibank and Citibank NYS. The NYSBD concluded that LMI areas were not disproportionately affected by branch closings relative to middle- and upper-income areas. The NYSBD added that a comparison of the branch distribution for Citibank and Citibank NYS revealed that the total percentage of branches that are in or adjacent to LMI communities compares favorably with other banks throughout New York State. In the 1998 examination, NYSBD examiners found that Citibank NYS's record of opening and closing branches had not adversely affected the accessibility of its banking services, particularly for LMI individuals or in LMI geographies.

The Board has considered that federal banking law provides a specific mechanism for addressing branch closings. Federal law requires an insured depository institution to provide notice to the public and to the appropriate regulatory agency before closing any branch.⁶¹ The requirement applies any time a branch is closed, whether in connection with an acquisition or at any time after completion of an acquisition. This requirement for public notice cannot be limited by any commitment to the Board or to any community organization. The law does not authorize federal regulators to prevent the closing of any branch.

Several commenters maintained that Citicorp had one of the highest fee structures, particularly in New York, and that these fees discouraged LMI individuals from using Citicorp banking services.⁶² For LMI customers in New

York, Citibank offers Basic Checking, which provides customers up to eight debit transactions for a \$3.00 monthly service charge, eight free checks per month and free Citibank bill payment services. Citibank also eliminated the fees for many services including PC Banking and bill payment. For LMI consumers in California, Citibank FSB offers Basic Checking, which features a \$6.50 monthly service charge for six checks and two non-Citibank ATM transactions per month, unlimited Citibank ATM transactions, and free personal computer and phone banking, automatic payment to a third party and bill payment services.⁶³

E. Travelers's Convenience and Needs Record

CRA Performance Record. The 1997 FDIC examinations found that Travelers's two subsidiary depository institutions satisfactorily addressed the needs of their communities through numerous qualified investments that focused on community development organizations and through investments of funds in a local federal credit union. FDIC examiners noted that these institutions were unable to engage in traditional community development lending because of charter restrictions under Delaware state law, but that they extended credit cards and/or second-lien mortgages for debt consolidation purposes to LMI families and LMI individuals in their assessment area. Examiners counted these loans as community development loans and found that the institutions' overall CRA efforts were adequate in light of the legal limitations on the institutions and the community development opportunities in their assessment area.

On November 24, 1997, the OTS approved the conversion of The Travelers Bank to a federal savings association.⁶⁴ Since the approval order, the OTS has not conducted a CRA examination of Travelers FSB. The OTS imposed certain conditions on its approval. Specifically, Travelers FSB was required to develop a compliance plan covering high loan-to-value ratio loans and high-cost mortgages that would monitor sales practices of the representatives of its affiliate, Primerica Financial Services Home Mortgages,

60. Since the 1996 Citibank examination, Citibank closed two branches, one in a financial district and one at the John F. Kennedy Airport where another Citibank branch remains. Citibank also converted three branches and closed three CBC sites. Citicorp indicated that none of these CBC site conversions or closures were in LMI census tracts. During the same time period, Citibank also relocated two branches and one CBC. A branch and a CBC in Manhattan were moved across the street from their original sites, and one branch in the Bronx was moved several blocks to a modernized facility in a low-income census tract.

61. Section 42 of the Federal Deposit Insurance Act (12 U.S.C. § 1831r-1), as implemented by the Joint Policy Statement Regarding Branch Closings (58 *Federal Register* 49,083 (1993)), requires that a bank provide the public with at least 30 days notice and the primary federal supervisor with at least 90 days notice before the date of the proposed branch closing. The bank also is required to provide reasons and other supporting data for the closure, consistent with the institution's written branch closing policy.

62. Some commenters asserted that Citibank's New York State electronic benefits transfer ("EBT") program for government benefits does not meet the convenience and needs of low-income communities because it does not provide direct deposit services or actual bank

accounts for recipients to deposit funds, to write checks or to save money. The U.S. Treasury Department recently announced that banks that offer EBT will be required to offer four free monthly withdrawals and that recipients must be given the option of withdrawing their benefits at a teller window or ATM.

63. A number of commenters expressed concerns about Citicorp's fees for banking services. In particular, some commenters alleged that by increasing its minimum balance requirement for free checking to \$6,000 (\$10,000 in California) in various accounts and emphasizing computer banking, Citicorp has demonstrated a lack of commitment to LMI consumers. As discussed above, Citicorp offers a full range of banking products and services, including low-fee checking accounts with a certain number of free ATM transactions. Moreover, although the Board has recognized that banks help serve the banking needs of their communities by making basic services available at nominal or no charge, neither the CRA nor the primary federal supervisors of the banks involved in this case require an institution to limit the fees charged for its services or to provide any specific types of banking products.

64. See OTS Order No. 97-120 (November 24, 1997).

Inc., to ensure that applicants for these loans and mortgages are apprised of all financing options reasonably available to them through Travelers FSB and the costs and risks associated with each option; to provide compliance training to agents, underwriters and other personnel; to ensure that due consideration is given to a mortgage customer's ability to repay; and to ensure that senior Travelers FSB management exercises appropriate caution in approving these loans and addressing the thrift's ability to maintain customer and public confidence in its lending operations. As part of this application, Travelers has committed to comply with these and all other conditions in the OTS order.

Travelers made an initial pledge to the OTS to make home equity loans totaling at least \$430 million to LMI borrowers from 1998 through 2000. The OTS also required that Travelers FSB semiannually analyze and report to the OTS its progress in fulfilling the lending commitment to LMI borrowers and stated the OTS's expectation that the lending commitment would be increased as the business plans of Travelers FSB develop. The Board expects Travelers FSB to meet its commitments in this area.

Travelers's Insurance Activities. Several commenters criticized various aspects of the insurance underwriting and sales activities of Travelers.⁶⁵ In reviewing these comments, the Board has considered, as explained above, that Travelers must conform these activities to the requirements of section 4 of the BHC Act within a specified period of time. The Board also has considered that these sales practices are governed by various state insurance laws and reviewed by state insurance authorities. In addition, the Board has considered the managerial record and resources of Travelers and its record of compliance with applicable state insurance laws.

The Board notes that Travelers has made a number of efforts to improve the availability of property insurance in urban areas and to increase the number of minority insurance agents selling policies for the company, including establishing the Urban Availability of Insurance Program in 1994. This program also promotes education for LMI home buyers about topics such as insurance coverage and strategies available to reduce premiums and the relationship between home maintenance and insurance affordability. In addition, since 1994, Travelers Property Casualty Corporation ("Travelers P&C") has written 5,300 policies for homeowners insurance to owners of homes that were built or renovated by Habitat for Humanity with the help of the homeowners.⁶⁶

65. Commenters specifically alleged that Travelers does not have agent offices in urban areas, that Travelers has been accused of "redlining" automobile insurance in a report, and that Travelers operates its insurance business with a two-tiered marketing strategy that involves marketing whole life insurance to affluent communities and term life insurance to LMI consumers.

66. Some commenters asserted that Travelers P&C discriminates in its provision of homeowners insurance. The Fair Housing Council of Greater Washington and National Fair Housing Alliance filed complaints with HUD in 1997, alleging that Travelers and other insurance companies systematically violated the Fair Housing Act in Milwau-

Travelers's Nonbank Subsidiaries. Certain commenters alleged that Travelers's subsidiaries, Commercial Credit Company ("Commercial Credit") and Primerica Financial Services ("PFS"), focus their marketing on minority and LMI communities and provide customers with high-priced, inappropriate products.⁶⁷ These commenters alleged that minority and LMI customers may be illegally "steered" toward these affiliates on a prohibited basis, including based on the race of customer.⁶⁸

PFS representatives sell Travelers's lending, insurance and investment products to the public. According to Travelers, the PFS representatives obtain information from a customer through a financial needs analysis, inform the customer of available products and assist the customer in completing the relevant application. Applications on secured home improvement loans and unsecured personal loans are then sent to Travelers FSB and Commercial Credit, respectively, which conduct the entire credit evaluation of the application and decide whether to issue or underwrite the loan product.⁶⁹ The PFS representatives are not permitted to indicate interest rates or assess the likelihood of approval for the client—only Travelers FSB and Commercial Credit can determine loan qualification and approval.

kee, Richmond, Toledo, and Washington, D.C. These complaints include allegations that Travelers's underwriting policies limit replacement cost coverage in its home insurance policies to homes worth at least \$250,000 and not older than 45 years, which adversely affects LMI and minority communities. Travelers P&C has denied the allegations of discrimination in these complaints. According to Travelers, Travelers P&C does not maintain underwriting criteria such as a maximum home age and minimum home value that would have an illegal discriminatory affect on minority homeowners. Travelers P&C currently is participating in HUD's conciliation process for both complaints. There has been no adjudication of wrongdoing by Travelers P&C in any of these matters, and each matter currently is pending before a forum that can provide the plaintiffs adequate redress if their allegations can be sustained.

67. A complaint was filed with HUD in 1997, alleging that Commercial Credit violated fair lending and consumer disclosure laws because it made a loan to an African-American couple with a high interest rate, high closing costs, high insurance premiums, and improper disclosure. This dispute is currently before HUD, the federal agency with statutory authority to adjudicate the matter. There has been no adjudication of wrongdoing by Commercial Credit in this matter, which currently is pending before a forum that can provide the complainants with adequate redress if their allegations can be sustained.

68. One commenter also alleged, without providing any supporting facts, that Travelers's subsidiaries violate the Equal Credit Opportunity Act by not sending adverse action notices to potential borrowers.

69. Some commenters alleged that Travelers engaged in HMDA record-keeping violations. They alleged that the NYSBD found in 1997 that Travelers's subsidiary, Commercial Credit Company, engaged in HMDA violations by failing to record the race of HMDA applicants. Since that time, the NYSBD has examined Commercial Credit and found no violations in its HMDA data collection procedures. According to Travelers, the policy of its subsidiaries, Commercial Credit, PFS and Travelers FSB, is to gather HMDA data for all in-person loan applications taken by PFS representatives. This procedure is in accordance with the HMDA regulations, which require the race of an applicant to be reported if part of the application process is conducted in person. See 12 C.F.R. 203, Supplement 1; 203.4(a)(7).

The record of the application, including relevant reports of examination, indicates that Travelers's depository institution subsidiaries are not in violation of substantive provisions of the antidiscrimination laws. Moreover, Travelers has implemented a training program for employees and representatives of PFS, Commercial Credit and Travelers FSB on fair lending and consumer protection laws that regulate the sale of financial products.⁷⁰ Travelers has made a commitment to the OTS and the Board to provide compliance training to the PFS representatives, underwriters and other appropriate personnel in the loan approval process on regulatory matters and consumer protection issues associated with high loan-to-value ratio loans and high-cost mortgages.

The PFS representatives are required to provide numerous disclosures to customers so that customers can choose among lending, insurance and investment products. Travelers represents that the disclosure documents provided by the PFS representatives comply with federal and state requirements and provide the customers with the estimated costs at loan settlement, a description of the business relationship between the lender and the PFS representative, and an explanation of the lender's account servicing policies. Specific disclosures also are provided during the marketing of certain securities products, such as mutual funds and variable annuities, to notify customers of the costs and tax consequences of redeeming, buying and transferring their financial investments to other products.⁷¹

F. Citigroup Community Pledge

In connection with the proposal, Travelers and Citicorp have announced a ten-year, \$115 billion community pledge.⁷² The Citigroup community pledge includes the

70. Travelers began a general training program in 1995, when it introduced PFS University to inform Travelers FSB and Commercial Credit employees and PFS representatives that their actions are subject to numerous fair lending and consumer protection laws and regulations. PFS University also provides the PFS representatives with general product knowledge about the products that they sell and conducts insurance licensing renewal and continuing education courses.

71. As noted above, the OTS conditioned its approval of a thrift charter for Travelers on the development by Travelers FSB of a plan to monitor sales practices of the PFS representatives to ensure that all customers, particularly those who have applied for high loan-to-value ratio loans and for higher-cost mortgages, are informed of the financing options reasonably available to them through Travelers FSB.

72. The Citigroup community pledge includes the following major elements:

- (1) \$30 billion in small business loans;
- (2) \$20 billion in affordable mortgages;
- (3) \$59 billion in consumer credit, which includes student loans, credit card loans and other consumer loans; and
- (4) \$6 billion in community development loans and investments.

In addition, the pledge includes an insurance-related initiative in which Travelers will add two cities to its Urban Availability Insurance Program, which is designed to enhance agent diversity, insurance education and insurance affordability for LMI homeowners and small businesses. Travelers also plans to offer price discounts on insurance premiums to Citibank's LMI mortgage customers, subject to approval by relevant state insurance departments.

commitment by Travelers FSB to extend \$430 million to LMI borrowers during the next three years for home equity loans.⁷³

The CRA requires the Board, in considering Travelers's application to acquire Citicorp and Citicorp's subsidiaries, to review carefully the actual record of past performance of the insured depository institutions controlled by Citicorp and Travelers in helping to meet the credit needs of all their communities.⁷⁴ Consistent with this mandate, the Board previously has held that, to gain approval of a proposal to acquire an insured depository institution, an applicant must demonstrate a satisfactory record of performance under the CRA without reliance on plans or commitments for future action.⁷⁵

The Board has considered the Citigroup community pledge in this light as an indication of the intent of Citicorp and Travelers to maintain and strengthen their current commitment to serving the banking convenience and needs of their communities.⁷⁶ The Board notes, moreover, that the future activities of Citigroup, including any lending and community development activities in which Citigroup might engage under the announced community pledge, will be reviewed by the appropriate federal supervisors of those institutions in future performance examinations as the pledge is implemented, and that Citigroup's CRA performance record will be considered by the Board in future applications by Citigroup to acquire a depository institution.

G. Conclusion on Convenience and Needs Considerations

The Board recognizes that this proposal represents a significant expansion of the size of the resulting institution and of the types of activities that the resulting institution would conduct. Accordingly, an important component of the Board's review of the proposal is the consideration of the effects of the proposal on the convenience and needs of all communities served by Travelers and Citicorp.⁷⁷

73. As indicated above, commenters criticized the Citigroup community pledge and various features of the pledge.

74. As noted above, a number of commenters contended that the Board should not consider the plan in its review of the proposal.

75. See *Totalbank Corporation of Florida*, 81 *Federal Reserve Bulletin* 876 (1995); *First Interstate Bank Systems of Montana, Inc.*, 77 *Federal Reserve Bulletin* 1007 (1991).

76. A number of commenters criticized Travelers and Citicorp for not negotiating agreements with community-based organizations and stated that Citigroup should be required to negotiate CRA agreements with the political leaders and organizations in areas affected by the proposal. The Board previously has noted that, although communications by depository institutions with community groups provide a valuable method of assessing and determining how an institution may best address the credit needs of the community, neither the CRA nor the CRA regulations of the federal financial supervisory agencies require depository institutions to enter into agreements with any organization. See *Fifth Third Bancorp.*, 80 *Federal Reserve Bulletin* 838 (1994).

77. A commenter alleged that Citicorp has a record of treating employees poorly and other commenters expressed concern that the merger might result in job losses or adversely affect minority employ-

Commenters have expressed concern about Citicorp's CRA performance and Citigroup's ability to meet the convenience and needs of LMI and minority customers. Commenters also expressed a general concern that Citigroup might not meet the credit needs of LMI and minority communities because LMI and minority customers may be "steered" to Travelers affiliates that would offer products with less favorable terms.

The Board has weighed these concerns and the other concerns raised by commenters in light of all the facts of record, including the overall CRA records of Citicorp and Travelers, reports of examination of CRA performance, reports from other banking regulators, information provided by Citicorp and Travelers, and information from other commenters about the records of Citicorp and Travelers in meeting the credit needs of their communities. As discussed in this order, all the facts of record demonstrate that Citicorp's and Travelers's depository institution subsidiaries have a record of complying with the antidiscrimination and consumer protection laws, and with applicable laws that prohibit the selective targeting of groups and the provision of misleading information during the sale of lending, insurance and securities products to customers. The Board expects that Citigroup will comply with the regulations and laws that affect these activities, as would be required of any other financial services organization. As noted in this order, the Board also encourages the depository institutions involved in this proposal to continue to improve their record of lending to LMI and minority communities and to LMI and minority individuals.

Based on a review of the entire record, the Board concludes that convenience and needs considerations, including the CRA records of performance of both organizations' subsidiary depository institutions, are consistent with approval of the proposal under section 3 of the BHC Act.

Nonbanking Activities

Travelers also has requested Board approval under section 4(c)(8) of the BHC Act to engage in, and control subsidiaries that are engaged in, activities the Board has found to be closely related to banking, including operating savings associations; engaging in consumer lending, mortgage banking and other lending activities; engaging in credit card and data processing activities; providing financial and investment advisory services; underwriting and dealing, to a limited extent, in equity and debt securities; providing administrative service to open-end investment companies ("mutual funds"); and acting as a commodity pool operator.

Travelers has committed that it will conduct these activities in accordance with the limitations set forth in Regula-

tion Y and the Board's orders and interpretations relating to each of the activities. As a condition of the Board's action in this case, Citigroup must comply with the limitations in Regulation Y and the Board's orders and interpretations relating to each of the proposed nonbanking activities.

A. Underwriting and Dealing in Bank-Ineligible Securities

Travelers has applied to acquire Citicorp Securities Inc. ("CSI") and to retain Salomon Smith Barney Inc. ("SSB") and The Robinson-Humphrey Company, LLC ("Robinson"). These companies are engaged in a variety of securities activities, such as underwriting and dealing in U.S. government securities, underwriting and dealing in corporate debt and equity securities, acting as a securities broker, and providing financial and investment advice to institutional and retail customers. Each securities company currently is, and after consummation of the proposal will continue to be, registered with the Securities and Exchange Commission ("SEC") as a broker-dealer under the Securities Exchange Act of 1934 (15 U.S.C. § 78a *et seq.*) ("1934 Act") and as a member of the National Association of Securities Dealers, Inc. ("NASD"). Accordingly, each securities company is and will be subject to the recordkeeping and reporting obligations, fiduciary standards and other requirements of the 1934 Act, the SEC and the NASD.

As noted above, the Board has determined by regulation that underwriting and dealing in U.S. government securities, acting as a securities broker, and providing financial and investment advice are activities that are closely related to banking and permissible for bank holding companies to conduct. In addition, the Board has determined that, subject to the framework of prudential limitations established in previous decisions to address the potential for conflicts of interests, unsound banking practices or other adverse effects, the activities of underwriting and dealing in bank-ineligible securities are so closely related to banking as to be proper incidents thereto within the meaning of section 4(c)(8) of the BHC Act.⁷⁸ The Board also has determined that underwriting and dealing in bank-ineligible securities in the United States is consistent with section 20 of the Glass-Steagall Act (12 U.S.C. § 377), provided that the company engaged in the activity derives no more

ees. The effect of a proposed transaction on employment in a community is not among the factors included in the BHC Act. The convenience and needs factor has been consistently interpreted by the federal banking agencies and the courts to relate to the effect of a proposal on the availability and quality of banking services in the community.

78. See *J.P. Morgan & Co. Incorporated, et al.*, 75 *Federal Reserve Bulletin* 192 (1989), *aff'd sub nom. Securities Indus. Ass'n v. Board of Governors of the Federal Reserve System*, 900 F.2d 360 (D.C. Cir. 1990); *Citicorp, et al.*, 73 *Federal Reserve Bulletin* 473 (1987), *aff'd sub nom. Securities Indus. Ass'n v. Board of Governors of the Federal Reserve System*, 839 F.2d 47 (2d Cir.), *cert. denied*, 486 U.S. 1059 (1988); *as modified by Review of Restrictions on Director, Officer and Employee Interlocks, Cross-Marketing Activities, and the Purchase and Sale of Financial Assets Between a Section 20 Subsidiary and an Affiliated Bank or Thrift*, 61 *Federal Register* 57,679 (1996); *Amendments to Restrictions in the Board's Section 20 Orders*, 62 *Federal Register* 45,295 (1997); and *Clarification to the Board's Section 20 Orders*, 63 *Federal Register* 14,803 (1998) (collectively, "Section 20 Orders").

than 25 percent of its gross revenues from underwriting and dealing in bank-ineligible securities.⁷⁹

Travelers has committed that each of its proposed securities subsidiaries will conduct its underwriting and dealing activities using the methods and procedures and subject to the Board's operating standards established for section 20 subsidiaries ("Operating Standards").⁸⁰ Travelers also has committed that each company will conduct its domestic bank-ineligible securities underwriting and dealing activities subject to the Board's revenue restriction.⁸¹ As a condition of the Board's action in this case, Travelers and each of its subsidiaries engaged in bank-ineligible securities underwriting and dealing activities is required to conduct its bank-ineligible securities activities subject to the revenue restrictions and the Operating Standards.⁸² In addition, as a condition of the Board's action in this case,

79. Two of Travelers's insurance underwriting subsidiaries issue variable rate annuities and variable life insurance, which are securities for purposes of the federal securities laws. The revenue derived by each of these companies from this activity represents less than 25 percent of each company's total revenues. As noted above, Citigroup must divest or otherwise conform the activities of these companies to the requirements of section 4 of the BHC Act within the period provided by that section. During the period these companies are held by Citigroup, the securities activities of these companies also must meet the requirements of the Glass-Steagall Act, including remaining in compliance with the Board's revenue test.

80. 12 C.F.R. 225.200.

81. Compliance with the revenue limitation shall be calculated in accordance with the method stated in the Section 20 Orders, as modified by the *Order Approving Modifications to the Section 20 Orders*, 75 *Federal Reserve Bulletin* 751 (1989); *10 Percent Revenue Limit on Bank-Ineligible Activities of Subsidiaries of Bank Holding Companies Engaged in Underwriting and Dealing in Securities*, 61 *Federal Register* 48,953 (1996); and *Revenue Limit on Bank-Ineligible Activities of Subsidiaries of Bank Holding Company Engaged in Underwriting and Dealing in Securities*, 61 *Federal Register* 68,750 (1996) (collectively, "Modification Orders"). Travelers has requested that SSB and Robinson each be permitted to calculate compliance with the revenue limitation on an annualized basis during the first year after consummation of the proposed acquisition. Under this method, each company would ensure that its revenues from bank-ineligible securities during the first year of affiliation with Citigroup would not exceed 25 percent of the company's total annual revenues. After the first year, each company would compute compliance with the revenue limit on the standard rolling quarterly average. This method of calculating compliance is consistent with previous Board decisions. See *Dauphin Deposit Corporation*, 77 *Federal Reserve Bulletin* 672 (1991). The annualized test recognizes that the measure of the amount of business conducted by a company is most appropriately calculated over a period of time that is sufficient in length to measure flows of business and not to permit manipulation. An annualized test that begins on the date of the original affiliation also recognizes that the Glass-Steagall Act limitations do not apply to a company prior to the time it becomes affiliated with a bank and, therefore, that business conducted by a securities company during the period prior to its affiliation with a bank should not be included in determining whether the securities company meets the requirements of the Glass-Steagall Act after its affiliation with the bank.

82. 12 C.F.R. 225.200. The securities companies may provide services that are necessary incidents to the proposed underwriting and dealing activities. Unless a domestic securities company receives specific approval under section 4(c)(8) of the BHC Act to conduct the activities independently, any revenues from the incidental activities must be treated as ineligible revenues subject to the Board's revenue limitation.

Travelers and its subsidiaries must terminate or conform their mutual fund distribution activities to the provisions of the Glass-Steagall Act and the Board's orders thereunder on consummation of the proposal.

"Engaged principally" test under section 20 of the Glass-Steagall Act. Section 20 of the *Glass-Steagall Act* provides that "no member bank shall be affiliated . . . with any corporation, association, business trust, or other similar organization engaged *principally* in the issue, flotation, underwriting, public sale, or distribution at wholesale or retail or through syndicate participation of stocks, bonds, debentures, notes, or other securities."⁸³ It is well established that section 20 of the Glass-Steagall Act does not prohibit the affiliation of a member bank with a securities firm that engages in some bank-ineligible securities activities so long as the company does not engage principally in bank-ineligible securities activities.⁸⁴ In 1996, the Board determined that a securities firm is not engaged principally in bank-ineligible securities activities if the firm derives less than 25 percent of its total revenues from bank-ineligible securities activities.⁸⁵

All but one of Travelers's domestic subsidiaries engaged in securities activities that are proposed to be retained by Citigroup currently derive less than 25 percent of their total revenue from bank-ineligible securities activities. As explained above, Travelers has committed that all the domestic companies engaged in securities activities that will be controlled by Citigroup will conform to the Board's revenue test on consummation of the transaction and will remain in compliance with the revenue test, and the Board's action is expressly conditioned on these commitments.

Several commenters asserted that approval of the notice and application in this case would violate the Glass-Steagall Act because approval would allow the affiliation of a member bank with one of the largest securities firms in the United States. These commenters argued that the Board's revenue test is not an adequate or appropriate measure of compliance with section 20 of the Glass-Steagall Act. The commenters contended that section 20 prohibits affiliations based solely on the absolute size of the securities firm or on the relative standing of the securities firm among all securities firms, and that the largest securities firms in the United States must be considered to be engaged principally in bank-ineligible securities underwriting and dealing activities.⁸⁶ They argued that the Glass-

83. 12 U.S.C. § 377.

84. See *Citicorp, J.P. Morgan & Co., and Bankers Trust New York Corp.*, 73 *Federal Reserve Bulletin* 473 (1987), *aff'd sub nom., Securities Indus. Ass'n v. Board of Governors of the Federal Reserve System*, 839 F.2d 47 (2d Cir.), *cert. denied*, 486 U.S. 1059 (1988) (hereinafter "*SIA v. Board*").

85. 61 *Federal Register* 68,750 (1996).

86. Several commenters also alleged that Travelers has proposed to calculate compliance by its securities subsidiaries with the 25-percent revenue test on a consolidated basis, rather than on a separate-subsidiary basis, and contended that this approach would violate the Glass-Steagall Act and the Board's orders. While Travelers originally requested authority to calculate compliance with the revenue test by

Steagall Act was enacted precisely to prevent the affiliation of companies such as SSB and Citibank, which are among the largest securities firms and member banks in the United States. In addition, some commenters argued that section 20 includes a qualitative element that requires a careful evaluation of the quality of assets and other measures of risk to commercial banks from a proposed affiliation with a securities firm.

As noted above, in 1996, the Board reviewed the revenue test that it applies for purposes of determining compliance with section 20. As part of its consideration, the Board sought public comment on the level of activity that would cause a company to be "engaged principally" in bank-ineligible securities activities for purposes of section 20, and the Board carefully considered all the comments received. Several commenters on this application have reiterated the same issues as they originally presented in 1996.

For the reasons more fully explained in its 1996 order, which the Board expressly incorporates herein, the Board determined that a company would not be engaged principally in bank-ineligible securities activities for purposes of section 20 of the Glass-Steagall Act if the company derived less than 25 percent of its total revenues from such activities.⁸⁷ As explained in its 1996 order, the Board reasoned, based on its experience in supervising the manner in which securities activities are conducted and the relative importance of various types of securities activities to the overall business of a securities firm, that a company would not be "engaged principally" in bank-ineligible securities activities if more than 75 percent of the total revenues of the company were derived from other activities. The Board also considered that differences in the fee structure for various types of bank-eligible and bank-ineligible securities activities, and changes in the marketplace that affected those fee structures since the Board initially established the revenue limit, indicate that a company would not be "engaged principally" in bank-ineligible securities activities if its revenues from those activities did not exceed 25 percent of the firm's total revenues.

With regard to the claim raised by commenters that the revenue limit established by the Board would negate the basic purposes of the Glass-Steagall Act, the Board also carefully considered changes in the marketplace and changes in the types of activities conducted by securities firms today as compared with the time when that Act was enacted. The Board noted that the Glass-Steagall Act was intended to prevent banks from affiliating with securities firms "of the 1920s and 1930s" and that securities firms in

that period commonly derived more than 25 percent of their revenue from underwriting and dealing in bank-ineligible securities. In contrast, securities firms today often engage in a much different and broader range of activities than securities firms operating at the time the Glass-Steagall Act was enacted. Today, for example, securities firms engage in a significant amount of securities activities that are permissible for banks to conduct directly, such as underwriting and dealing in U.S. government securities, while historical data suggest that securities firms of the 1920s and 1930s did not.

The Board also considered the argument made by commenters that the absolute size or market prominence of a securities firm causes a firm to be "engaged principally" in bank-ineligible securities activities for purposes of section 20. The Board noted that the court has specifically considered and rejected the argument that the market share controlled by a securities firm reflects whether a firm is "engaged principally" in securities activities.⁸⁸ Moreover, the term "engaged principally" itself recognizes that the absolute size of a securities company is not relevant; instead, the adverb "principally" can only be defined by reference to the relative amount of ineligible securities activities conducted by a firm as a proportion of the company's overall business.⁸⁹ Consequently, the Board rejects the argument made by commenters that the absolute size of a securities firm or its market position, without reference to the relative amount of bank-ineligible securities activities conducted by the firm, is a proper measure of compliance with section 20 of the Glass-Steagall Act.⁹⁰

In this case, SSB is among the largest securities firms in asset size in the United States. It engages in a wide variety of activities with respect to both bank-eligible and bank-ineligible securities and is one of the largest securities brokerage companies in the United States. However, for the reasons discussed above, the Board believes that the

88. See *SIA v. Board*, at 67–8.

89. Commenters argue that the court in *SIA v. Board* indicated, by reference to a specific large securities firm, that size or prominence in the industry alone is sufficient to find a company to be "engaged principally" in bank-ineligible securities activities. The Board believes that commenters have misconstrued the court's holding in that case. In *SIA v. Board*, the court considered a specific example to illustrate its conclusion that the term "principally" as used in section 20 does not mean "chief" or "first" activity. At the same time, as noted above, the court specifically considered and rejected a market share test as a measure of compliance with section 20. Instead, the court explained that section 20 was intended to address "the perceived risk to bank solvency from their over-involvement in securities activity." *SIA v. Board*, at 68 (emphasis added). Thus, the court did not hold, as commenters contend, that the size alone of the securities company or the relative position of the securities firm among competing securities firms indicates a violation of section 20. The court, in fact, rejected these arguments in favor of a test based on the relative amount of ineligible securities business conducted by the securities firms.

90. The Board also notes that the court in *SIA v. Board* considered and rejected the argument that a different measure of "engaged principally" should be used for different companies. The court found that "section 20 must be read to set down at some point a hard and fast limit on the amount of bank-ineligible securities activity . . . and it cannot be drawn differently in each case." *SIA v. Board*, at 68–9.

consolidating revenues of SSB and Robinson, Travelers has amended its proposal to provide that it would calculate compliance with the revenue test for each of its securities companies separately in accordance with Board precedent. The Board's action in this case is conditioned on the requirement that each domestic affiliate engaged in bank-ineligible securities activities comply with the requirements of the Glass-Steagall Act and the Board's revenue test on an individual basis in accordance with the Board's Section 20 Orders.

87. 61 *Federal Register* 68,750 (1996).

relevant measure for purposes of compliance with section 20 of the Glass-Steagall Act is the amount of the ineligible securities underwriting and dealing activities that SSB would conduct after consummation of this proposal.⁹¹ In this regard, SSB currently derives less than 25 percent of its total revenues from bank-ineligible securities activities, and, after its affiliation with member banks controlled by Citicorp, neither SSB nor any other affiliate engaged in securities activities may derive more than 25 percent of its total revenues from bank-ineligible securities activities.

Dealing activities under the BHC Act. As part of their current securities dealing activities, SSB and Robinson (collectively, SSB“) maintain five principal lines of business in the United States:

- (1) Market-making activities in which SSB holds itself out as willing to buy and sell equity securities of approximately 1200 companies;
- (2) Block trading activities involving voting securities of publicly traded companies;
- (3) Market-making activities involving preferred securities that could be considered voting shares under the BHC Act;
- (4) Market-making activities in convertible bonds and convertible preferred securities where the position is hedged by purchasing and selling the underlying security; and
- (5) Buying and selling listed and over-the-counter equity options and entering into equity swap transactions with its customers. The activities aid the liquidity of the markets and are conducted by SSB regardless of the prospects for appreciation in the stock, and not with a view toward profiting from arbitrage in the price of the stock.

SSB does not acquire securities for investment purposes as part of any of these dealing lines of business. In a small number of cases, SSB acquires more than 5 percent of a

class of voting securities in the ordinary course of conducting these businesses. In each case, SSB divests these shares within a brief period after their acquisition. Travelers has requested authority to continue to acquire more than 5 percent of a class of voting securities pursuant to section 4(a)(2) of the BHC Act as part of the ordinary course of conducting these dealing activities.

As discussed above, section 4(a)(2) permits a new bank holding company to continue to engage in those activities in which it was engaged at the time it became a bank holding company. SSB has historically engaged in acquiring more than 5 percent of a class of voting securities as part of its dealing activities, and the market currently expects SSB to acquire securities without limit. Under section 4(a)(2), SSB must conform its conduct of these activities to the requirements of section 4 of the BHC Act before conclusion of the conformance period. Moreover, during the conformance period, the portion of SSB's dealing activities that involve the acquisition of more than 5 percent of the shares of a company may not be expanded in size or scope, and SSB may not acquire securities for investment purposes pursuant to section 4(a)(2). The Board also expects that, in its dealing activities, SSB would maintain its current practice of being neutral to market movements.

In order to ensure that SSB does not engage in investment or arbitrage activities during the section 4(a)(2) conformance period, voting shares acquired in connection with:

- (i) the market-making, block trading or preferred securities businesses must be reduced to less than 5 percent of the voting securities of any individual issuer within 30 days of exceeding the 5 percent limit;
- (ii) the convertible debt trading business must be reduced to less than 5 percent within five days after conversion of a convertible security; and
- (iii) the equity derivatives business must be reduced to less than 5 percent within 30 days after the expiration of a cash-settled derivative or within five days after the expiration of a physically-settled derivative.

In addition, SSB may not, as part of its dealing activities, acquire more than 25 percent of any class of voting securities of, or otherwise control, any company at any time. Moreover, the Board has relied on Travelers's commitments that SSB would clearly identify positions in securities held pursuant to section 4(a)(2) and that the securities held pursuant to section 4(a)(2) would not be voted by SSB or any representative or agent of SSB. Further, SSB may not acquire more than 5 percent of a class of voting securities of a bank or bank holding company without prior Board approval.

B. Mutual Fund Activities

The Board previously has determined that providing administrative services to mutual funds is closely related to banking within the meaning of section 4(c)(8) of the BHC

91. The Board also considered the question raised by commenters about whether the risks associated with the assets or activities of a securities firm must be considered in determining whether a company is "engaged principally" in bank-ineligible securities activities. As explained more fully in its 1996 decision, section 20 does not allow the Board to find that a securities firm may derive 100 percent of its revenues from bank-ineligible securities activities if the Board finds that the risk associated with those activities are minimal, nor does section 20 allow the Board to prohibit an affiliation where the securities activities of a particular company are highly risky, but would not amount to a substantial activity for the company. However, the level of risk from an affiliation is a factor that may be considered under the BHC Act, and, as explained below, the Board has considered the risks in this case in analyzing the financial and managerial factors under the standards in the BHC Act. In addition, the Board has conducted a preliminary due diligence of the policies, procedures and controls of SSB and Robinson to ensure that they would have the necessary policies and procedures to comply with the requirements of this order and the Board's Section 20 Orders, including computer, audit and accounting systems, internal risk management controls, and the necessary operational and managerial infrastructure. This order is conditioned on completion of a successful examination of the securities activities, policies and procedures of SSB and Robinson to be conducted after consummation.

Act.⁹² Travelers proposes to provide investment advisory, brokerage, administrative, and other services that previously have been approved by the Board, and Travelers has committed that the proposed activities will be conducted in compliance with Regulation Y and subject to the prudential and other limitations established by the Board.⁹³

Travelers has committed that, before consummation of this transaction, subsidiaries of Travelers engaged in the distribution of shares of mutual funds will terminate these securities distribution activities and all such activities will be the responsibility of distributors unaffiliated with Citigroup. The independent distributor also would be responsible for supervising sales as the principal underwriter for purposes of the federal securities laws.⁹⁴

Travelers also proposes to have certain director and officer interlocks with the funds. In particular, Travelers proposes that up to 25 percent of the directors of a mutual fund would be employees, officers or directors of Travelers or one of its subsidiaries. Travelers proposes that one of these directors may serve as chairman of the board of the fund. In addition, Travelers seeks to have up to three directors, officers or employees of Travelers or its subsidiaries serve as senior officers of the fund and have other Travelers personnel serve as junior-level officers of the fund.⁹⁵ None of these interlocks would involve an officer, director or employee of any depository institution controlled by Citigroup.

The Board previously has authorized a bank holding company and its nonbank subsidiaries to have such limited director and officer interlocks with mutual funds that the bank holding company advises and administers.⁹⁶ As in previous cases, the funds in this case would be controlled by their independent directors and the independent direc-

tors would be responsible for the selection and review of the investment adviser, the underwriter and the other major service contractors of the fund.⁹⁷ Based on the foregoing and subject to the condition that Travelers immediately terminate or divest its securities distribution activities, the Board concludes in this case that the mutual fund activities proposed by Travelers and described in this order are permissible under section 4(c)(8) of the BHC Act and under the Glass-Steagall Act.

C. Commodity Pool Operator and Private Investment Vehicles

Travelers has applied to act as a commodity pool operator ("CPO") for private investment vehicles, including private limited partnerships organized as commodity pools that invest in assets in which a bank holding company is permitted to invest ("CPO Partnerships"). In addition, Travelers has proposed to establish private investment vehicles that would invest in assets, such as precious metals or securities, in which a bank holding company is permitted to invest for its own account.

The Board previously has determined by order that acting as a CPO for and controlling a private limited partnership that invests solely in investments that a bank holding company is permitted to make directly are activities that are closely related to banking and, therefore, permissible for bank holding companies.⁹⁸ Travelers has committed that all the investments of CPO Partnerships would be permissible for a bank holding company to make directly, and that Travelers will conduct its CPO activities and relationships with CPO Partnerships in accordance with the commitments relied on by the Board in *Dresdner*.

The Board also has authorized bank holding companies to control private investment vehicles, such as limited partnerships, that make investments that a bank holding company may make for its own account.⁹⁹ Travelers currently controls private investment vehicles that have investments that would be impermissible for a bank holding company. Travelers has committed to conform, within two years of the acquisition of Citicorp, all activities and investments of these private investment vehicles to those permissible for bank holding companies under section 4 of the BHC Act and Regulation Y. Following consummation of the acquisition of Citicorp, Travelers must conduct all activities related to private investment vehicles in accordance with the Board's regulations and orders governing those activities.

92. See, e.g., *Bankers Trust New York Corporation*, 83 *Federal Reserve Bulletin* 780 (1997) ("BTNY"); *Commerzbank AG*, 83 *Federal Reserve Bulletin* 679 (1997).

93. See, e.g., *BTNY*. The administrative services that Travelers would provide to mutual funds through its subsidiaries include those listed in *BTNY* and *Societe Generale*, 84 *Federal Reserve Bulletin* 680 (1998). Such activities include computing the fund's financial data, maintaining and preserving the records of the fund, providing office facilities and clerical support for the fund, and preparing and filing tax returns for the funds. The Board previously has determined that the Glass-Steagall Act does not prohibit a bank holding company from providing advisory and administrative services to a mutual fund. See 12 C.F.R. 225.125.

94. An independent distributor would enter into any sales agreements with brokers or other financial intermediaries to sell shares of mutual funds. The independent distributor also would have legal responsibility under the rules of the NASD for the form and use of all advertising and sales literature and also would be responsible for filing these materials with the NASD or the SEC.

95. Senior officers include the president, secretary, treasurer, and vice presidents with policy-making functions. Junior officers include assistant secretaries, assistant treasurers or assistant vice-presidents of the funds. Junior officers are fund employees who have no authority or responsibility to make policy.

96. See, e.g., *Societe Generale*, 84 *Federal Reserve Bulletin* 680 (1998); *Lloyds TSB Group plc*, 84 *Federal Reserve Bulletin* 116 (1998); *BankAmerica Corporation*, 83 *Federal Reserve Bulletin* 913 (1997); *The Governor and Company of the Bank of Ireland*, 82 *Federal Reserve Bulletin* 1129 (1996).

97. Under the 1940 Act, at least 40 percent of the board of directors of a mutual fund must be individuals who are not affiliated with the mutual fund, investment adviser or any other major contractor to the fund. The 1940 Act and related regulatory provisions require that independent directors annually review and approve the mutual fund's investment advisory contract and any plan of distribution or related agreement.

98. See *Dresdner Bank AG*, 84 *Federal Reserve Bulletin* 361 (1998) ("*Dresdner*"); *The Bessemer Group, Inc.*, 82 *Federal Reserve Bulletin* 569 (1996) ("*Bessemer*").

99. 12 C.F.R. 225.28(b)(6)(i); *BTNY*; *Bessemer*.

D. Proper Incident Considerations

To approve the proposal under section 4(c)(8) of the BHC Act, the Board must determine that the proposal by Citigroup to engage in nonbanking activities under section 4(c)(8), including through the acquisition of the nonbanking subsidiaries engaged in activities that are permissible for bank holding companies under that section, 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.

Public Benefits. Travelers maintains that the acquisition of Citicorp would result in significant public benefits. On consummation of the transaction, customers of the combined organization would have access to a wide variety of financial products and services. Customers would be able to obtain banking products (such as deposit accounts) and investment products (such as mutual funds) from the same organization. Customers of Citigroup would also likely benefit from Citigroup's enhanced ability to offer access to the financial products and services through single points of access, such as an automated teller machine, home banking, a physical branch location, or a single sales representative.

At the public meeting, a number of commenters indicated that so-called "one-stop shopping" for financial services is convenient and efficient, especially for small business owners. A number of commenters also indicated that their individual communities or businesses would particularly benefit from Citigroup having the ability to offer a broader array of products and services. In addition, commenters noted that Citigroup would have a larger geographic service area than Citicorp and, therefore, more people, businesses and community groups would obtain access to the expanded product mix.

Commenters at the public meeting contended that the acquisition presented an opportunity for greater community involvement in the areas where Citigroup would do business. They expected that the combined organization would develop a strong community outreach program and would be able to draw on the expertise of various subsidiaries, such as SSB, to develop innovative products designed to meet special needs of various communities.

The Board also has considered that the combined organization would be a bank holding company engaged in a wide variety of nonbanking activities. Diversity of business activities should enhance Citigroup's ability to withstand cycles that affect individual types of businesses and events that affect a single industry or company. Since Citigroup would generate revenue from a wide spectrum of financial products and services, its capital strength should be enhanced.

Travelers expects that its affiliation with Citicorp would increase the ability of the combined organization to develop new and innovative financial products and to deliver these products to customers in more ways.

Travelers anticipates that the proposal also would foster stronger domestic capital markets and increased competition through its ability to combine lending, securities underwriting, corporate finance, and risk management capabilities and expertise. In addition, there are public benefits from permitting capital markets to operate so that bank holding companies can make potentially profitable investments in nonbanking companies and from permitting banking organizations to allocate their resources in the manner they consider to be most efficient when such investments and actions are consistent, as in this case, with the relevant considerations under the BHC Act.

For these reasons, the Board concludes that the proposal is likely to result in significant public benefits.

Possible Adverse Effects. Section 4(c)(8) of the BHC Act requires that the Board weigh likely public benefits against possible adverse effects of a proposal to conduct activities that are closely related to banking. As part of its analysis of this factor, the Board has carefully considered the public comments that the Board has received and information provided by Travelers and Citicorp on the measures the combined organization proposes to take to address the potential for certain adverse effects. The Board also has considered public and confidential supervisory information received in its contacts with other federal and state supervisors of companies operated by Travelers and Citicorp, as well as the Board's experience in supervising Citicorp and other banking organizations.

Commenters expressed concern that the proposal might result in a number of potential adverse effects. In particular, some commenters asserted that allowing the combined organization to cross-market bank, insurance and securities products would provide the organization with an unfair competitive advantage over other bank holding companies and independent insurance companies, and argued that the cross-marketing activities indicated that Travelers has no present intention to conform its impermissible insurance and other activities to the requirements of section 4 of the BHC Act. Commenters also expressed concern that the combined organization would share confidential customer information, particularly information regarding the health of the customer, among its insurance and depository institution affiliates to the detriment of customers seeking to establish or maintain credit and other banking relationships and customers seeking to obtain insurance.

Some commenters also contended that, because of the size and prominence of Travelers and Citicorp within their respective industries, the proposal would result in an undue concentration of resources and in an organization that is both "too big to fail" and "too big to supervise." Several commenters expressed concern regarding the risks from insurance underwriting activities, particularly property and casualty insurance underwriting, and the potential that such risks may spread to an affiliated depository institution that is federally insured. In addition, several commenters contended that Travelers engages in predatory and high-pressured sales practices that would be increased if the transaction were approved, and that both companies fail to market and sell low-cost products in LMI communities.

(1) *Competitive effects.* As part of its analysis of the net public benefits of the proposal, the Board has considered the potential effects on competition in nonbanking services from the proposed combination of Travelers and Citicorp. The nonbank subsidiaries of Citicorp compete with Travelers in a number of geographic and product markets. For virtually all these markets, the Board has determined that the relevant geographic market is regional or national in scope. In particular, nonbank subsidiaries of Travelers and Citicorp compete in underwriting and dealing activities involving U.S. government, municipal government, asset-backed, and corporate debt and equity securities; investment advisory activities, including providing advice on mergers, acquisitions, and corporate finance; securities brokerage activities; asset management activities; brokerage of shares of mutual funds and related advisory activities; credit card operations; mortgage origination and servicing activities; consumer finance activities; syndicated lending activities; foreign exchange activities; financial data processing activities; trust services; and certain types of insurance underwriting and brokerage activities.

The record indicates that there are numerous, active competitors providing each of these products and services, and that the markets for these products and services are unconcentrated. Travelers and Citicorp offer complementary products with few significant overlaps in competition. In any product market in which one party to this merger has a significant presence, the other party has a relatively small market share. For these reasons, and based on all the facts of record, the Board concludes that consummation of the proposal would have a *de minimis* effect on competition in any relevant market.

(2) *Unfair competition.* As used in the BHC Act, unfair competition “was intended to refer to unfair or unethical business conduct (as defined by common law or under state or federal law), not disparities or advantages based on the structure and operations of the banking industry.”¹⁰⁰ In evaluating this potentially adverse effect, the legislative history of the BHC Act indicates that Congress intended the Board to consider whether a proposal would result in practices such as the facilitation of commercial espionage, price discrimination or inducement of a breach of contract. There is no evidence in the record that the proposal would result in these types of effects.

The Board also has considered whether the proposal would allow Citigroup to engage in unfair competition because it would, for some period, continue to engage in insurance and other activities that are not permissible generally for bank holding companies, and because Citigroup proposes to cross-market some of these products and services with products and services that may be provided by bank holding companies. The Board does not believe that the nonconforming investments and activities of Citigroup would cause Citigroup to be engaged in unfair competition. As explained above, section 4 of the BHC Act by its terms

delays the applicability of the prohibitions in section 4 to the existing activities and investments of Citigroup. Consequently, retention of those investments and conduct of those activities cannot be considered to be improper or to confer an advantage that Congress believed to be unfair during the conformance period.

Moreover, as explained in more detail below, the Board does not believe that the proposal to cross-market various products and services would result in an unfair competitive advantage, as that term is intended to be construed under the BHC Act. Cross-marketing activities are not prohibited by the BHC Act or other law. In addition, cross-marketing activities are commonly conducted by other bank holding companies with grandfathered insurance affiliates and with affiliates engaged in permissible activities, as well as between bank holding companies and unaffiliated companies that sell a variety of products impermissible for bank holding companies to provide directly.

(3) *Cross-marketing activities and related effects.* Travelers asserts that significant public benefits would result from its ability, after consummation of this proposal, to market to its customers various combinations of banking, insurance and securities products. As noted above, some commenters, particularly small business owners, agreed that this type of cross-marketing would provide significant advantages to customers, including increased convenience and efficiencies. Others expressed concerns that allowing Citigroup to cross-market insurance products that bank holding companies generally are not permitted to originate or sell along with banking and securities products would provide Citigroup with an unfair competitive advantage, impair the ability of Citigroup to conform to the requirements of the BHC Act, and result in improper sharing of confidential customer information.¹⁰¹

As an initial matter, the Board notes that the BHC Act does not specifically prohibit a bank holding company or any subsidiary of a bank holding company from marketing products of an affiliate, and the Board generally has not imposed such restrictions on companies held for divestiture under section 4(a)(2).¹⁰² Cross-marketing is a common

101. Several commenters also speculated that cross-marketing would encourage improper sales practices, particularly in LMI areas and involving LMI individuals. The sales practices related to insurance products and securities are governed by various state and federal insurance and securities laws and are enforced by designated functional supervisors. The examinations of various Citicorp affiliates does not indicate any pattern or practice of improper sales practices. Moreover, as explained in detail above, the record indicates that both Travelers and Citicorp market their products and services broadly, including in LMI areas and to LMI individuals. While Citigroup argues that the proposed cross-marketing activities would allow it to provide its products and services to a broader range of customers, Citigroup has recognized the continuing obligation of its depository institutions to help meet the credit needs of all areas, including LMI areas.

102. Several commenters pointed out that the Board has prohibited foreign banks that sought special rights to retain insurance operations in the United States from cross-marketing insurance products through offices of the foreign bank in the United States or sharing customer information among such insurance and bank operations in the United States. These cases involving foreign banks present a situation differ-

100. *BankAmerica Corporation*, 69 *Federal Reserve Bulletin* 105 (1983), quoting H.R. Rep. No. 91-1747, 91st Cong., 2nd Sess. (1970).

activity among bank holding company affiliates. For example, a number of bank holding companies with special grandfather rights under section 4 of the BHC Act to underwrite and/or sell insurance engage in cross-marketing insurance, banking and securities products of affiliates. In addition, the record indicates that a number of bank holding companies have arrangements with unaffiliated insurance and securities firms to cross-market the same types of packages of banking, insurance and securities products and services as proposed by Citigroup. There is no evidence in the record to indicate that these practices have led to abuses or adverse effects.¹⁰³

The BHC Act, however, requires that Citigroup conform its activities and investment to the requirements of sec-

ent from this case. In this case, section 4(a)(2) of the BHC Act allows Travelers to retain its insurance affiliates for a specified period as a matter of right without any exercise of discretion by the Board and without any finding on the public benefits or adverse effects that may result from retaining these affiliates. The foreign banks in the cases cited by commenters sought a special exception under section 4(c)(9) of the BHC Act that included the right to expand their impermissible insurance activities in the United States. Section 4(c)(9) authorizes the Board to permit certain qualifying foreign banking organizations to conduct impermissible activities in the United States when, in the Board's judgment and subject to any conditions imposed, the authorization "*would not be substantially at variance with the purposes of the [BHC] Act and would be in the public interest.*" 12 U.S.C. § 1843(c)(9) (emphasis added). Thus, under section 4(c)(9), the Board may grant the exception *only* if the Board finds that the exception is in the public interest and consistent with the purposes of the BHC Act. To meet this test, the Board approved proposals by foreign banking organizations involving impermissible insurance activities that (unlike this case) could be expanded within the United States, subject to conditions restricting cross-marketing activities during a divestiture period to avoid potential anticompetitive effects on domestic banking organizations that cannot engage in such activities. *See, e.g.,* Letter from Jennifer J. Johnson to Michael Bradfield, November 21, 1990 (approval of a four-year, section 4(c)(9) exemption to NMB Postbank Groep N.V. and Natinale-Nederlanden N.V. to conform impermissible insurance activities); Letters from Ms. Johnson to Mr. Bradfield, December 16, 1997, and March 16, 1998 (ING Group exception to acquire Banque Bruxelles Lambert).

103. The Board has limited or prohibited cross-marketing and customer data sharing activities in several cases where the Board was required to ascertain the public benefits of a proposal as part of the Board's discretion to allow a new activity under section 4(c)(8). For example, when the Board initially authorized bank holding companies to acquire savings associations and to affiliate with securities firms, the Board restricted the cross-marketing activities of these new affiliates in an effort to limit the potential that bank holding companies would evade (through savings association affiliates) interstate branching restrictions, and to limit the potential for adverse effects, such as the perception of tying, from the affiliation of a bank with a securities affiliate. The Board subsequently removed cross-marketing restrictions on both of these activities after gaining experience with the manner in which the underlying activities were conducted. In the notice amending the "firewalls" applicable to securities affiliates, for example, the Board noted that, "even assuming that the cross-marketing restriction helps to create competitive equality between Section 20 subsidiaries and other firms . . . the Board does not believe that keeping customers ignorant of business opportunities is an effective or appropriate way to maintain competitive equality." 61 *Federal Register* 57,679 (1996). As noted above, the insurance subsidiaries of Travelers may be held for a limited period pursuant to section 4(a)(2) of the BHC Act and are not subject to section 4(c)(8) during the conformance period.

tion 4 within a specified period of time, as explained above. Travelers has committed that Citigroup will conform all the activities and investments conducted by Citigroup and its subsidiaries to the requirements of the BHC Act within the conformance period provided in section 4, including through divestiture of various subsidiaries as necessary, and the Board's action in this case is expressly conditioned on Citigroup's compliance with those requirements to the satisfaction of the Board. Those requirements must be met on a timely basis, regardless of any cross-marketing activities conducted by Citigroup and its affiliates.

Travelers has recognized that Citigroup's cross-marketing activities may not be used to impair or inhibit its compliance with the requirements of section 4 of the BHC Act, and has committed to take steps to assure that it will be able to meet the requirements of the BHC Act. In particular, Travelers has committed that each insurance underwriting subsidiary will remain independently organized and operated in order to facilitate divestitures as necessary. In addition, Travelers has committed that all cross-marketing activities that Citigroup will conduct will be on terms consistent with substantially similar programs conducted by or involving unaffiliated third parties. Moreover, any Citigroup subsidiary that currently is not engaged in cross-marketing activities may begin to sell or broker products only in accordance with Board precedent designed to assure that the marketing activities do not cause the subsidiary to become engaged in impermissible activities.¹⁰⁴ Travelers also argues that allowing cross-marketing would enhance the value of its insurance affiliates, thereby making it easier to divest these companies, and would significantly increase customer convenience through "one-stop shopping" during the conformance period.

In order to limit the potential for adverse effects from its proposed cross-marketing activities and to assure that Citigroup will comply with the requirements of section 4 of the BHC Act, Travelers also has committed that:

- (1) Any cross-marketing activities will comply with the antitying restrictions applicable to banks and their affiliates;
- (2) Insurance products will be offered by Citigroup affiliates on the same terms and conditions as they are offered for sale through third-party providers to similarly-situated customers;
- (3) The terms of any cross-marketing agreement between a depository institution controlled by Citigroup and any other affiliate will be on market terms and other-

104. For example, Board precedent permits employees of bank holding companies to sell insurance as an agent, as long as the employees are acting on behalf of a third-party agent that is permitted to sell insurance, the third party is responsible for licensing and paying the employee for insurance sales, and the bank holding company is not paid insurance commissions or does not become engaged in insurance activities for purposes of state insurance laws. *See* Letter from J. Virgil Mattingly, Jr., to Caroline L. Powell, Esq., May 15, 1998 (incorporating by reference Letter, from J. Virgil Mattingly, Jr., to Caroline W. Lewis, Esq., April 10, 1997, and Letter from J. Virgil Mattingly, Jr., to Russell J. Brummer, Esq., December 6, 1995).

wise consistent with the limitations of sections 23A and 23B of the FRA, which govern transactions between depository institutions and their affiliates;¹⁰⁵

- (4) Customers of Citigroup will be provided an opportunity, in writing, to "opt-out" of cross-marketing activities by electing not to allow the sharing of customer information among Citigroup affiliates in different lines of business for marketing purposes;¹⁰⁶
- (5) Customer data bases will be maintained in a manner that allows their separation in the event of divestiture and the preservation of confidentiality of customer information; and
- (6) Citigroup will establish training, audit and compliance programs to prepare, monitor and maintain compliance with these commitments and the provisions of law governing sales, transactions with affiliates, and privacy.

In addition to these commitments, the Board has taken into account that, in connection with its cross-marketing activities, Citigroup and its affiliates must abide by a number of federal and state laws that impose important disclosure requirements.¹⁰⁷ For example, the sale of annuities and other securities, when done on the premises of a depository institution or by a section 20 affiliate to a retail customer, must comply with the Interagency Policy Statement on Retail Sales of Investment Products. That Statement requires disclosure that annuities and securities are not FDIC insured and are subject to investment risk.

In evaluating the potential that cross-marketing activities may result in adverse effects, the Board also has considered that the market for the products and services that Citigroup proposes to cross-market is highly competitive. Neither Travelers nor Citicorp separately, nor Citigroup on a *pro forma* basis, would have a dominant market share in any of the products they intend to cross-market, including annuities, life insurance, property and casualty insurance, mutual funds, credit cards, deposit products, mortgage loans, or consumer loans. The markets for each of these products are unconcentrated and numerous competitors would continue to exist in each product market after consummation of the proposal. The competition in these markets coupled with the various rules that govern disclosure and the sale of securities, insurance and banking products limit the poten-

tial for voluntary or involuntary tying of products and services.¹⁰⁸

Several commenters contended that Travelers's proposal to cross-market products would result in the sharing among affiliates of confidential customer information in a manner that could result in conflicts of interests leading to customers being pressured to buy products that they do not want or need.¹⁰⁹ In addition, several commenters expressed concern that medical or health information received by Travelers's insurance companies would be shared with and used inappropriately by lending affiliates.

The Board notes that the disclosure of confidential customer information is governed by a variety of federal and state laws, including the Fair Credit Reporting Act, which prohibits any company from disclosing certain types of confidential customer information obtained in the course of extending credit to a customer.¹¹⁰ Travelers has committed that Citigroup will comply with the requirements of all applicable laws.

To address the concerns about the use of customer information for cross-marketing purposes, Travelers has committed to implement a "Global Privacy Promise" to provide customers the right to prevent Citigroup from sharing customer information with others, including affiliates in other lines of business, for cross-marketing purposes.¹¹¹ A written disclosure will be given to each customer when the customer initially purchases a Citigroup product, and the disclosure will be supplemented at least annually to provide customers an opportunity to remove their names from marketing lists. Existing customers also will receive annual disclosures under the "Global Privacy Promise" regarding this "opt-out" system. Travelers has stated that its notices to customers providing this opportunity to "opt-out" will be communicated clearly to each customer before entering into an account relationship.

Under this system, Citigroup will cross-market its products and services only to customers of an affiliate who wish their names to remain on the Citigroup's marketing lists. Moreover, customers who elect to "opt-out" of cross-marketing will not appear on marketing lists provided by Citigroup's affiliates to third parties or to affiliates in other lines of business.

In addition, Travelers stated that a customer's medical or health information will not be shared for any marketing purposes. Travelers has indicated its intention and practice

105. Travelers has indicated that many of the agreements that it currently has with third parties and among its affiliates for the cross-marketing of products and services are not exclusive contracts that prevent the marketer from also selling the products of other companies or insurers. If the contract has an exclusivity arrangement, the contract is typically of short duration (one year or less) and/or includes a right by the marketer to terminate the arrangement on relatively short notice (between 30 days and 180 days).

106. The separate lines of business identified by Citigroup are insurance and annuities, credit cards, retail banking, and securities.

107. Among the federal laws imposing disclosure requirements that would govern products proposed to be sold by Citigroup are the Truth in Lending Act, the Truth in Savings Act, the Real Estate Settlement Procedures Act, the federal securities laws, and various regulations and orders issued under those laws.

108. See *Commerce Bancshares, Inc.*, 69 *Federal Reserve Bulletin* 447 (1983).

109. Other commenters contended that the ability of affiliates to share confidential customer information would increase convenience for customers, particularly small business customers who find it burdensome to provide significant amounts of customer information to multiple financial services providers.

110. See 15 U.S.C. § 1681a(d)(2)(A). In addition, a number of states have adopted statutes and regulations on the use and communication of customer information among affiliates.

111. Some commenters urged the Board to require that Citigroup disclose to each customer its intent to use customer information for cross-marketing purposes and provide customers with an affirmative right to "opt-in" before customer information may be shared with affiliates or third parties.

of keeping confidential all customer health and medical information, and has indicated that it will share such information only with the customer's consent or under very limited circumstances.¹¹²

Travelers has committed that Citigroup will implement training, audit and compliance programs in each Citigroup subsidiary to ensure full implementation of this system for assuring customers an opportunity to restrict the sharing of customer information for cross-marketing purposes. In addition, Citigroup will institute training, audit and compliance programs to assure compliance with all federal and state laws governing the use of confidential customer information.

The Board concludes, on the basis of the full record, that the cross-marketing and customer-data-sharing arrangements proposed in this case are not likely, within the framework outlined in this order, to result in any significantly adverse effects.¹¹³

(4) *Undue concentration of resources and related effects.* The Board also has considered whether the proposal may result in an undue concentration of resources. This factor reflects Congressional concern that "concentration of economic resources in a single entity beyond a certain point [is] harmful regardless of the proven existence of any anticompetitive effects of such concentration."¹¹⁴ Thus, consideration of whether a proposal would result in an undue concentration of resources is a somewhat different inquiry than whether a proposal would have an adverse effect on competition.

Under this factor, the Board has in previous cases considered whether the absolute size of the institution or the institution's relative size in a specific market would result in an adverse effect on market structure. The Board has stated that the possibility of undue concentration is mitigated by the presence of a large number of competitors in the market.

112. Health and medical information would be shared only for limited purposes, including for insurance underwriting and reinsuring policies; reporting, investigating, or preventing insurance fraud; processing insurance claims or defending a lawsuit related to such claims; providing information to the customer's physician; participating in research projects (but only on an anonymous basis or as otherwise authorized by the customer); or providing information at the customer's direction or as required by law.

113. In particular, some commenters expressed concerns that customer confusion and inconvenience would result from the required divestitures if Citigroup markets a combination of financial products and services under a common brand name (or "wrapper"), without identifying the particular entities that issued or "manufactured" the products or provided the services. The sale of multiple products and services under a single brand name is not a prohibited practice and is, in fact, conducted by unaffiliated companies today. Many mutual funds include, as a feature of ownership in a single brand-named fund, a transaction-type account that is, in fact, provided by an unaffiliated depository institution. The record does not support a finding that cross-marketing would confuse or has confused customers in a way that would impair any required divestiture.

114. *Alabama Ass'n of Ins. Agents v. Board of Governors of the Federal Reserve System*, 533 F.2d 224, 251 (5th Cir. 1976), modified 558 F.2d 729 (5th Cir. 1977), cert. denied, 435 U.S. 904 (1978).

The record in this case indicates that the combined organization would control only a small portion of the total assets of companies competing in the markets in which Citigroup would compete. For example, the combined domestic assets of Citigroup, on a pro forma basis, would represent less than 5.5 percent of the total domestic assets of commercial banks and insurance companies for 1997, and less than 3 percent of the total domestic assets of financial companies engaged in the broader lines of business proposed to be conducted by Citigroup.

In addition, there are a significant number of small, medium and large competitors in each of the markets in which Citigroup would compete, including companies that provide the same range of products and services that Citigroup proposes to provide. There is no evidence in the record that the size or breadth of Citicorp's activities would allow it to distort or dominate any relevant market.

As explained in detail above, the Board has extensive experience supervising Citicorp and, building on that experience, has developed a comprehensive, risk-based supervision plan to permit the Board to monitor the combined organization on a consolidated basis. This plan includes coordination and cooperation with other supervisory agencies, such as the SEC and state insurance supervisors, to assist the Board in understanding Citigroup's business and the risk profiles of those businesses.

In addition, the Board notes that Travelers controls only a small savings association and a limited-purpose bank. Consequently, the proposal would not increase significantly the amount of deposits insured by the FDIC that would be controlled by a single organization. The Federal Deposit Insurance Act also prohibits the FDIC from providing assistance to shareholders of depository institutions and, therefore, limits the potential that federal deposit insurance would be used to protect Citigroup or its nondepository institution affiliates.

(5) *Other potential effects.* As part of its review of the factors under section 4(c)(8) of the BHC Act, the Board has considered the financial and managerial resources of Citigroup and its proposed subsidiaries and the effect the transaction is likely to have on those resources. For the reasons explained in detail above, the Board finds that the financial and managerial resources of these companies weigh in favor of approval of this proposal.

The Board also has reviewed the capitalization of Citigroup, SSB, Robinson, and CSI in accordance with the standards set forth in the Section 20 Orders and finds the capitalization of each to be consistent with approval. The Board also finds that, under the framework established in this and prior cases for conducting limited securities underwriting and dealing activities, including the operating standards adopted by the Board, the conduct of limited securities underwriting and dealing activities through SSB, Robinson and CSI is not likely to result in any significantly adverse effects. The Board's action in this case is conditioned on compliance by Citigroup and its domestic subsidiaries, including SSB, Robinson and CSI, with the prudential limitations established in the Section 20 Orders, as revised. As noted above, the Board also has conducted a

preliminary due diligence of the policies, procedures and controls of SSB and Robinson to ensure that they would have the necessary policies and procedures to comply with the requirements of this order and the Board's Section 20 Orders, including computer, audit and accounting systems, internal risk management controls, and the necessary operational and managerial infrastructure. This order is conditioned on completion of a successful examination of the securities activities, policies and procedures of SSB and Robinson to be conducted subsequent to consummation.

Conclusion Under Proper Incident Test. Under section 4(c)(8) of the BHC Act, the Board is required to determine whether the public benefits reasonably expected from the nonbanking aspects of a proposal outweigh possible adverse effects. The record indicates that significant public benefits are likely to result from consummation of the nonbanking portion of this proposal. For example, Citigroup would be able to offer its customers a broader array of products and services, and customers would benefit from the convenience and efficiencies of "one-stop shopping" for financial products and services. On consummation of this proposal, Citigroup would be a well capitalized banking organization that would be able to compete effectively with banking organizations worldwide. As a result of the transaction, the combined organization could use its broader resources and expertise to develop and implement innovative products and services and to offer existing products and services more efficiently.

The potential for adverse effects from the nonbanking portion of this proposal are limited and are significantly mitigated by the commitments for safeguarding confidential customer information, the framework for proposed cross-marketing activities, the prudential and other limitations imposed by the Board's orders and regulations governing various nonbanking activities, and the fact that the transaction would not result in a substantial adverse effect on competition.

Accordingly, based on all the facts of record, the Board has determined that the balance of public benefits that it must consider under the proper incident to banking standard of section 4(c)(8) of the BHC Act is favorable and consistent with approval of the proposal. The Board's approval of the proposed nonbanking activities is conditioned on Citigroup's compliance with the limitations set forth in Regulation Y and the Board's orders, including its Section 20 Orders as revised, the Board's interpretations relating to each of the nonbanking activities, and the conditions described in this order.

Section 23A Exemption Request

In connection with this proposal, Travelers and Citicorp have requested an exemption from the quantitative requirements of section 23A of the FRA¹¹⁵ in order to transfer the stock of CMI, a U.S. subsidiary of Citicorp engaged in mortgage banking, to Citibank and for Citibank to pur-

chase the stock of Commercial Credit Corporation CCC Limited ("CCC"), a Canadian subsidiary of Travelers engaged in consumer finance.

Section 23A limits the amount of "covered transactions," which include loans and purchases of assets between a bank and any single affiliate, to 10 percent of the bank's capital stock and surplus and limits the aggregate of all covered transactions between a bank and all of its affiliates to 20 percent of the bank's capital stock and surplus. The transfer of CMI to, and the purchase of CCC by, Citibank are covered transactions for purposes of section 23A. Section 23A specifically authorizes the Board to exempt "at its discretion . . . transactions or relationships from the requirements of this section if it finds such exemptions to be in the public interest and consistent with the purposes of this section".¹¹⁶

The Board has approved similar transactions in connection with one-time transfers of assets or companies that are part of a corporate reorganization and that are structured to ensure the quality of the transferred assets.¹¹⁷ Travelers maintains that the transfer of CMI from the bank holding company would "facilitate financing for CMI's mortgage business" and that "Citibank has ample sources of liquidity with which to provide funding to CMI." Citibank maintains that allowing CMI access to Citibank's funding sources would result in benefits to CMI's customers. Travelers proposes to transfer the shares of CMI to Citibank and has committed that Citigroup will make quarterly capital contributions to Citibank to compensate Citibank for any loans in CMI's portfolio that become classified as low-quality assets within two years of the transfer.¹¹⁸

Travelers proposes to reorganize its Canadian operations in accordance with Canadian law by making CCC, a relatively new company engaged in consumer finance activities in Canada, an indirect subsidiary of Citibank. Citibank proposes to purchase the shares of CCC from Citigroup for an amount that approximates the book value of CCC's assets (minus any low-quality assets) at the time of the transfer. CCC's low-quality assets would be donated to Citibank. In addition, Citigroup has committed to make quarterly capital contributions to Citibank to compensate it for any assets that become low-quality assets within two years of the date of the transfer.

The transfer of CMI and the purchase of CCC are one-time corporate reorganizations that appear to be on terms at least as favorable to Citibank as terms that would be offered to third parties. The assets of CMI have been subject to examination and supervision under policies of the federal banking agencies. CCC is a newly formed subsidiary with few assets. Citigroup has committed to ensure the quality of the assets transferred with quarterly

¹¹⁶ 12 U.S.C. § 371c(e)(2).

¹¹⁷ See Letter from James McAfee to Timothy C. Roach, Esq., April 19, 1988; Letter from William W. Wiles to Timothy McGinnis, August 6, 1987.

¹¹⁸ For purposes of compliance with this commitment, "low-quality assets" has the same meaning as in section 23A(b)(10). 12 U.S.C. § 371c(b)(10).

¹¹⁵ 12 U.S.C. § 371c.

contributions as necessary. On this basis, and subject to these commitments, the transactions appear to be in the public interest and consistent with the purposes of section 23A, and the Board hereby grants the requested exemptions.

Investments and Activities Abroad

Travelers has requested authority under the BHC Act and Regulation K to retain a number of foreign subsidiaries, joint ventures and portfolio investments and to continue to engage in certain activities abroad after consummation of the proposal. Travelers also has requested authority to retain the foreign subsidiaries, joint ventures and portfolio investments of Citicorp.

A. Foreign Equity Underwriting and Dealing Activities

Travelers seeks authority under section 211.5(d)(14) of Regulation K for several subsidiaries and joint ventures to engage in equity underwriting and/or dealing activities abroad.¹¹⁹ After reviewing the controls Travelers has adopted for these activities and finding them to be consistent with approval, the Board approves this request. Travelers also has requested that certain of its subsidiaries abroad be permitted to exceed the equity underwriting and dealing limits set out in this section. In support of this request, Travelers states that many of these foreign subsidiaries currently underwrite and/or deal in excess of these limits and that, without authority to continue to take positions in excess of these limits, these companies effectively would have to curtail substantially their business in foreign markets.

The Board agrees that requiring Travelers's foreign securities subsidiaries to be in compliance with the limits in section 211.5(d)(14) of Regulation K on consummation would cause a disruption of their business and an undue hardship. Based on all the facts of record, the Board has determined to grant Travelers a period of six months under section 4(c)(13) of the BHC Act to provide Travelers the opportunity to conform and, if necessary, to restructure its foreign equity operations to meet the applicable Regulation K limits.

B. Portfolio Investments

Travelers has requested authority under section 4(c)(13) of the BHC Act and sections 211.5(c) and 211.5(b)(1)(iii) of Regulation K to retain portfolio investments in a number of foreign companies and to acquire indirectly the portfolio investments of Citicorp. Travelers has stated that, to its knowledge and after substantial due diligence, the portfolio investments held by it—and by it and Citicorp together—comply with the individual and aggregate limits on portfolio investments in Regulation K.¹²⁰ Travelers also has

stated that portfolio investments to be made in the future would comply with these provisions. Certain of Travelers's portfolio investments in foreign companies, however, do not appear to comply with restrictions in Regulation K on a foreign company's direct or indirect activities in the United States.¹²¹ In these circumstances, the Board authorizes Citigroup to retain the following investments:

- (1) Under section 4(c)(13) of the BHC Act and section 211.5(c) of Regulation K, all existing portfolio investments that fully comply with Regulation K limits; and
- (2) Under section 4(a)(2) of the BHC Act and only for the conformance period, any existing portfolio investments that do not comply with Regulation K limits for any reason.¹²²

C. Westpac Investment

Travelers has an investment in 6.3 percent of the shares of Westpac Banking Corporation, Sydney, Australia ("Westpac"), which directly and indirectly engages in permissible banking and nonbanking activities in the United States. Travelers has requested that the Board exercise its discretion under section 211.602 of Regulation K to allow it to retain this investment.¹²³ The Board has stated that it would allow a U.S. banking organization to hold an investment in a foreign company that engages in business in the United States as long as certain criteria are satisfied. The Board has determined that Travelers's investment in Westpac meets these criteria and that this investment may be retained under section 211.602 of Regulation K.

D. Other Subsidiaries and Joint Ventures

Travelers has requested authority to retain a number of other subsidiaries and joint ventures that engage in activities permissible under Regulation K.¹²⁴ The Board approves this request. To the extent that any activities or investments of an existing subsidiary or joint venture of Travelers otherwise do not comply with the requirements of Regulation K, such entity may be retained under section 4(a)(2) of the BHC Act and must be conformed to the requirements of Regulation K within the conformance period.¹²⁵

121. See 12 C.F.R. 211.5(b)(4)(i)(B).

122. Travelers also has requested authority under section 4(a)(2) of the BHC Act to make new portfolio investments for its own account for investment purposes, which would not comply with the Regulation K limits. The Board denies this request.

123. See 12 C.F.R. 211.602.

124. The Board also has no objection to Travelers's proposed acquisition of Citicorp's export trading company, Edge corporation and agreement corporation.

125. Travelers's recent investment in The Nikko Securities Company, Ltd, Tokyo, Japan ("Nikko"), appears to conform to the requirements of Regulation K relating to joint ventures. Nikko has operations in the United States, which also must conform to the requirements of Regulation K within two years.

119. 12 C.F.R. 211.5(d)(14).

120. See 12 C.F.R. 211.5(b)(1)(iii)(A) and (B).

Requests for Additional Public Meetings

Some commenters requested that the Board hold additional public meetings or hearings on the proposal in other areas that might be affected by the merger, including California, Florida, Illinois, and Washington, D.C. The Board has carefully considered these requests in light of the BHC Act, its Rules of Procedure, and the substantial record developed in this case.¹²⁶

As explained above, the Board held a two-day public meeting on the proposal in New York to clarify issues related to the applications and notices and to provide an opportunity for members of the public to testify.¹²⁷ Approximately 115 interested persons appeared and provided oral testimony at the public meeting, including individuals and representatives of organizations and businesses from Connecticut, Delaware, Florida, New Jersey, New York, and Washington, D.C. In addition, the Board has received and considered written comments from more than 310 interested persons who did not attend the public meeting, including from each of the locations where additional public meetings were requested, and from more than 17 other states.

In the Board's view, all interested persons have had ample opportunity to submit their views either in writing or orally at the two-day public meeting in New York. Numerous commenters have, in fact, submitted substantial materials that have been carefully considered by the Board in acting on the proposal. Commenters requesting additional public meetings or hearings have failed to show why their written comments do not adequately present their views, evidence and allegations, and why the public meeting in New York did not provide an adequate opportunity to present oral testimony. Moreover, the Board has carefully considered the lending records of Citicorp and Travelers separately in the locations where commenters requested public meetings. For these reasons, and based on all the facts of record, the Board has determined that additional public meetings or hearings are not required and are not necessary or warranted to clarify the factual record on the proposal. Accordingly, the requests for additional public meetings or hearings on the proposal are denied.

Conclusion

In evaluating this proposal under existing law, the Board has carefully considered the information and views presented by all commenters, including the information and

testimony provided at the public meeting and the views and information submitted in writing.¹²⁸ The Board also has considered all the information presented in the applications and notices and in supplemental filings by Travelers as well as various reports filed by the relevant companies and publicly available information and other reports. In addition, the Board has reviewed confidential supervisory information, including examination reports regarding the companies and depository institutions involved, and information provided by the other federal banking agencies, the Department of Justice and the NYSD.

For the reasons discussed in this order, and after a careful review of all the facts of record, the Board has concluded that, subject to the conditions noted in this order, including the termination, conformance or divestiture of certain activities that are not now permissible for bank holding companies in a manner acceptable to the Board, the proposed transaction is permissible under the BHC Act, the Glass-Steagall Act and other relevant statutes, as currently enacted, and that the statutory factors the Board is required to consider under the BHC Act and other relevant banking statutes are consistent with approval of the proposal. In reaching its conclusion, the Board has considered all the issues raised in public comments filed in connection with the proposal in light of the factors that the Board is required to consider under the BHC Act and other applicable statutes and concludes that the comments do not warrant a delay or denial of the proposal.¹²⁹

128. A number of commenters requested that the Board delay action until pending lawsuits, investigations or administrative actions against Travelers and Citicorp are resolved. As noted above, these matters are in the proper forums to provide appropriate remedies and redress, if the allegations of wrongdoing can be sustained. Therefore, the requests for delay do not warrant postponement of the Board's consideration of the proposal. The Board has accumulated a significant record in this case, including reports of examination, supervisory information, public reports and information, and considerable public comment. In the Board's view, for the reasons discussed above, commenters have had ample opportunity to submit their views and, in fact, have provided substantial written submissions and oral testimony that have been considered carefully by the Board in acting on the proposal. Based on a review of all the facts of record, the Board concludes that the record in this case is sufficient to warrant Board consideration and action on the proposal at this time, and that further delay of consideration of the proposal or denial of the proposal on the grounds discussed above or on the basis of informational insufficiency is not warranted.

129. Some commenters have asked that the Board's Chairman, its General Counsel and members of the General Counsel's staff recuse themselves from consideration of the applications and notices or, alternatively, that the applications and notices be dismissed, because of discussions that occurred between these individuals and representatives of Travelers and Citicorp before the applications and notices were filed. The commenters claimed that Travelers sought and received prior approval of certain aspects of the applications and notices in these discussions, thereby depriving the commenters and others of an opportunity to comment meaningfully on all aspects of the proposal. The Board has carefully considered this request and concludes that neither dismissal nor recusal are warranted. The Board finds no factual basis for commenters' claims that any aspect of the applications or notices was pre-approved. Moreover, all matters discussed in the pre-filing meetings that could be material to the Board's decision on the applications and notices were later made part of the public

126. Section 3(b) of the BHC Act does not require that the Board hold a public hearing on an application unless the appropriate supervisory authority for the bank to be acquired makes a timely written recommendation of denial of the application. See 12 U.S.C. § 1842(b). In this case, the Board has not received such a recommendation from any state or federal supervisory authority. Section 4 of the BHC Act and the Board's rules thereunder provide for a hearing on a notice to acquire a savings association, such as Citibank FSB, if there are disputed issues of material fact that cannot be resolved in some other manner. See 12 U.S.C. § 1843(c)(8); 12 C.F.R. 225.25(a)(2).

127. See 12 C.F.R. 262.3(e) and 262.25(d).

Based on the foregoing and all other facts of record, the Board has determined that the applications and notices should be, and hereby are, approved. The Board's approval is specifically conditioned on compliance by Citigroup with all the commitments made in connection with these applications and notices, and all the terms and conditions discussed in this order and the above-noted Board regulations and orders. The Board's approval of the nonbanking aspects of the proposal also is subject to all the terms and conditions set forth in Regulation Y, including those in sections 225.7 and 225.25(c) of Regulation Y (12 C.F.R. 225.7 and 225.25(c)), and 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 ensure compliance with, and to prevent evasion of, the provisions of the BHC Act and the Board's regulations and orders issued thereunder. These commit-

ments and conditions are deemed to be conditions imposed in writing by the Board in connection with its findings and decision, and, as such, may be enforced in proceedings under applicable law. Underwriting and dealing in any manner other than as approved in this order and the Section 20 Orders, as modified by the Modification Orders, is not within the scope of the Board's approval and is not authorized for Citigroup.

The acquisition of Citicorp's subsidiary banks may not be consummated before the fifteenth calendar day after the effective date of this order, and the proposal may 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, acting pursuant to delegated authority.

By order of the Board of Governors, effective September 23, 1998.

Voting for this action: Chairman Greenspan, Vice Chair Rivlin, and Governors Kelley, Meyer, and Gramlich. Abstaining from this action: Governor Ferguson.

ROBERT DEV. FRIERSON
Associate Secretary of the Board

record. Finally, the Board finds that the prefiling discussions were proper both as a matter of Board policy and as a matter of administrative law. *See Action for Children's Television v. FCC*, 564 F.2d 458, 474 n.28, and 477 (D.C. Cir. 1977).

APPLICATIONS APPROVED UNDER BANK HOLDING COMPANY ACT

By the Secretary of the Board

Recent applications have been approved by the Secretary of the Board as listed below. Copies are available upon request to the Freedom of Information Office, Office of the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

Section 3

Applicant(s)	Bank(s)	Effective Date
Norwest Corporation, Minneapolis, Minnesota	DR Horton, Inc.-Los Angeles, Los Angeles, California	September 29, 1998
DRH Mortgage, LLC, Corona, California		
Norwest Corporation, Minneapolis, Minnesota	First National Bank of Missouri City, Missouri City, Texas	September 10, 1998
RSNB Bancorp, Rock Springs, Wyoming	Rock Springs National Bank, Rock Springs, Wyoming	September 3, 1998
South Alabama Bancorporation, Inc., Mobile, Alabama	Commercial National Bank of Demopolis, Demopolis, Alabama	September 21, 1998

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
Associated Banc-Corp, Green Bay, Wisconsin	Associated Bank Illinois, N.A., Rockford, Illinois	Chicago	September 15, 1998
The Banc Corporation, Birmingham, Alabama	First Citizens Bancorp, Inc., Monroeville, Alabama First Citizens Bank of Monroe County, Monroeville, Alabama City National Corporation, Sylacauga, Alabama City National Bank of Sylacauga, Sylacauga, Alabama Commercial Bancshares of Roanoke, Inc. Roanoke, Alabama Commercial Bank of Roanoke, Roanoke, Alabama	Atlanta	September 23, 1998
The Banc Corporation, Birmingham, Alabama	Warrior Capital Corporation, Birmingham, Alabama The Bank, Birmingham, Alabama	Atlanta	September 23, 1998
Banque Nationale de Paris, Paris, France	First Hawaiian, Inc., Honolulu, Hawaii First Hawaiian Bank, Honolulu, Hawaii Pacific One Bank, Portland, Oregon	San Francisco	September 17, 1998
Bodcaw Bancshares, Inc., Stamps, Arkansas	Bodcaw Bank, Stamps, Arkansas	St. Louis	September 3, 1998
Capitol Bancorp Ltd., Lansing, Michigan	Detroit Commerce Bank, Detroit, Michigan	Chicago	August 28, 1998
Capitol Bancorp Ltd., Lansing, Michigan	Mesa Bank, Mesa, Arizona	Chicago	August 28, 1998
Sun Community Bancorp Limited, Phoenix, Arizona			
Commerce Bancshares, Inc., Kansas City, Missouri	Fidelity Bankshares, Inc., Garden City, Kansas	Kansas City	September 21, 1998
CBI-Kansas, Inc., Kansas City, Missouri			
Community Financial Group, Inc., Davenport, Washington	The Wheatland Bank, Davenport, Washington	San Francisco	September 2, 1998
Eagle Lake Bancshares, Inc., Eagle Lake, Texas	The First National Bank of Eagle Lake, Eagle Lake, Texas	Dallas	September 16, 1998
FINABEL Corporation, Dover, Delaware			

Section 3—Continued

Applicant(s)	Bank(s)	Reserve Bank	Effective Date
Eggemeyer Advisory Corp., Rancho Santa Fe, California	Continental National Bancshares, Inc., El Paso, Texas	San Francisco	September 14, 1998
Castle Creek Capital, L.L.C., Rancho Santa Fe, California	Continental National Bank, El Paso, Texas		
Castle Creek Capital Partners Fund-I, L.P., Rancho Santa Fe, California			
Equitable Financial Corporation, Fort Lauderdale, Florida	Equitable Bank, Fort Lauderdale, Florida	Atlanta	August 31, 1998
First Belmond Bancorporation, Belmond, Iowa	Community Bank of Oelwein, Oelwein, Iowa	Chicago	September 1, 1998
First Bancorp., San Juan, Puerto Rico	FirstBank Puerto Rico, San Juan, Puerto Rico	New York	September 14, 1998
First Hawaiian, Inc., Honolulu, Hawaii	BancWest Corporation, San Francisco, California	San Francisco	September 17, 1998
	Bank of the West, San Francisco, California		
First National Bancshares, Inc., Bradenton, Florida	First National Bank of Manatee, Bradenton, Florida	Atlanta	September 11, 1998
First Pecos Bancshares, Inc., Midland, Texas	First Alpine, Inc., Alpine, Texas	Dallas	September 16, 1998
FLAG Financial Corporation, LaGrange, Georgia	Empire Bank Corp., Homerville, Georgia	Atlanta	September 16, 1998
	Empire Banking Co., Homerville, Georgia		
Holland Financial Corporation, Holland, Michigan	The Bank of Holland, Holland, Michigan	Chicago	September 11, 1998
Keene Bancorp, Inc. 401(k) Employee Stock Ownership Plan & Trust, Keene, Texas	Keene Bancorp, Inc., Keene, Texas	Dallas	August 18, 1998
Killbuck Bancshares, Killbuck, Ohio	The Commercial & Savings Bank Company, Danville, Ohio	Cleveland	August 27, 1998
National City Bancshares, Inc., Evansville, Indiana	Commonwealth Commercial Corp., Crittenden, Kentucky	St. Louis	September 15, 1998
	Bank of Crittenden, Crittenden, Kentucky		
National Commerce Bancorporation, Memphis, Tennessee	First Community Bancorp, Inc., Cartersville, Georgia	St. Louis	September 23, 1998
	First Community Bank and Trust, Cartersville, Georgia		
NCB Holdings, Inc., Chicago, Illinois	New Century Bank, Chicago, Illinois	Chicago	September 14, 1998
Northwest Bancorporation, Inc., Houston, Texas	Redstone Bancorporation, Inc., Houston, Texas	Dallas	September 2, 1998
	Redstone Bank, N.A., Houston, Texas		

Section 3—Continued

Applicant(s)	Bank(s)	Reserve Bank	Effective Date
Popular, Inc., Hato Rey, Puerto Rico	Gore Bronson Bancorp., Inc., Prospect Heights, Illinois	New York	September 17, 1998
Popular International Bank, Inc. Hato Rey, Puerto Rico	The Bronson-Gore Bank, Prospect Heights, Illinois		
Popular North America, Inc., Mt. Laurel, New Jersey	The Irving Bank, Chicago, Illinois		
	Water Tower Bank, Chicago, Illinois		
Popular, Inc. Hato Rey, Puerto Rico	First State Bank of Southern California, Santa Fe Springs, California	New York	September 17, 1998
Popular International Bank, Inc., Hato Rey, Puerto Rico			
Popular North America, Inc., Mt. Laurel, New Jersey			
Premier Bancshares, Inc., Atlanta, Georgia	Frederica Bank & Trust, St. Simons, Georgia	Atlanta	September 8, 1998
Redstone Bancorporation, Inc., Houston, Texas	Redstone Bank, N.A., Houston, Texas	Dallas	September 2, 1998
Sandy Spring Bancorp, Inc., Olney, Maryland	Community Bankshares of Maryland, Inc., Bowie, Maryland	Richmond	September 3, 1998
The Savannah Bancorp, Inc. Savannah, Georgia	Bryan Bancorp, Inc., Richmond Hill, Georgia	Atlanta	September 23, 1998
	Bryan Bank and Trust, Richmond Hill, Georgia		
Second National Financial Corporation, Culpeper, Virginia	Virginia Heartland Bank, Fredericksburg, Virginia	Richmond	September 22, 1998
State National Bancshares, Inc., Lubbock, Texas	Continental National Bancshares, Inc., El Paso, Texas	Dallas	September 11, 1998
	Continental National Bank, El Paso, Texas		
Sterling Bancshares, Inc., Houston, Texas	Hometown Bancshares, Inc., Houston, Texas	Dallas	August 19, 1998
Sterling Bancorporation, Inc., Wilmington, Delaware	Clear Lake National Bank, Houston, Texas		
Union Bankshares, Inc., Union, West Virginia	The Bank of Monroe, Union, West Virginia	Richmond	September 9, 1998
WFC, Inc., Waukon, Iowa	Iowa State Bank, Oelwein, Iowa	Chicago	September 16, 1998
Western Sierra Bancorp, Cameron Park, California	Roseville 1st Community Bancorp, Roseville, California	San Francisco	September 17, 1998
	Roseville 1st National Bank, Roseville, California		

Section 4

Applicant(s)	Nonbanking Activity/Company	Reserve Bank	Effective Date
Acadiana BancShares, Inc., Lafayette, Louisiana	Cadence Holdings, L.L.C., Lafayette, Louisiana	Atlanta	September 21, 1998
Androscoggin Bancorp, MHC, Lewiston, Maine	Financial Institutions Service Corp., Lewiston, Maine	Boston	September 10, 1998
Androscoggin Bancorp. Inc., Lewiston, Maine			
Banque Nationale de Paris, Paris, France	FHL Lease Holding Company, Honolulu, Hawaii	San Francisco	September 17, 1998
Community West Bancshares, Goleta, California	Palomar Savings and Loan Association, Escondido, California	San Francisco	September 14, 1998
Financial Investors of the South, Inc., Birmingham, Alabama	Alabama Lenders Institute, Decatur, Alabama	Atlanta	September 17, 1998
First Lansing Bancorp, Inc., Lansing, Illinois	Support Services L.L.C., Lansing, Illinois	Chicago	September 1, 1998
First National Corporation, Orangeburg, South Carolina	NewSouth Financial Services Corporation, Orangeburg, South Carolina	Richmond	September 22, 1998
	Superior Mortgage Corporation, Florence, South Carolina		
Firsttrust Corporation, New Orleans, Louisiana	Extra Value Network, Atlanta, Georgia	Atlanta	September 9, 1998
Automated Technology Machines, Inc., Metairie, Louisiana			
Fishback Financial Corporation, Brookings, South Dakota	Midwest Card Services, Inc., Brookings, South Dakota	Minneapolis	September 11, 1998
FLAG Financial Corporation, LaGrange, Georgia	E.B.C. Financial Services, Inc., Homerville, Georgia	Atlanta	September 16, 1998
Franklin Bancorp, Inc., Minneapolis, Minnesota	To engage <i>de novo</i> in the nonbanking activity of making Small Business Administration loans	Minneapolis	September 17, 1998
Mercantile Bancorp, Inc., Hammond, Indiana	Support Services L.L.C., Lansing, Illinois	Chicago	September 1, 1998
Sequatchie Valley Bancshares, Inc., Dunlap, Tennessee	Commercial Bancshares Services, Inc., Birmingham, Alabama	Atlanta	September 18, 1998
UnionBancorp, Ottawa, Illinois	Mercier Insurance Agency, L.P., Spring Valley, Illinois	Chicago	September 10, 1998
	Bryan Insurance Associates, Spring Valley, Illinois		
Union Planters Corporation, Mempis, Tennessee	FundsXpress, Inc., Austin, Texas	St. Louis	August 26, 1998
United Bankshares, Inc., Charleston, West Virginia	Fed One Bancorp, Wheeling, West Virginia	Richmond	September 3, 1998
Upson Bankshares, Inc., Thomaston, Georgia	First Finance Co. of Thomaston, Inc., Thomaston, Georgia	Atlanta	September 16, 1998
Wintrust Financial Corporation, Lake Forest, Illinois	Wintrust Asset Management Company, National Association, Lake Forest, Illinois	Chicago	August 28, 1998

Sections 3 and 4

Applicant(s)	Nonbanking Activity/Company	Reserve Bank	Effective Date
Maryland Permanent Capital Corporation, Owings Mills, Maryland	Maryland Permanent Bank & Trust Co., Owings Mills, Maryland	Richmond	September 18, 1998
Summit Bancorp, Princeton, New Jersey	NSS Bancorp, Inc., Norwalk, Connecticut NSS Bank, Norwalk, Connecticut	New York	September 2, 1998
Voyager Financial Services Corporation, Eden Prairie, Minnesota	The Family Bank, f.s.b., Eden Prairie, Minnesota Voyager Mortgage Corporation, Eden Prairie, Minnesota	Minneapolis	September 17, 1998

APPLICATIONS APPROVED UNDER BANK MERGER 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.

Applicant(s)	Bank(s)	Reserve Bank	Effective Date
The Bank of Monroe, Union, West Virginia	Monroe Interim Bank, Union, West Virginia	Richmond	September 9, 1998
The Commercial & Savings Bank Company, Danville, Ohio	Killbuck Savings Bank, Killbuck, Ohio	Cleveland	August 27, 1998
The Eaton Bank, Eaton, Colorado	Farmers Bank, Fort Collins, Colorado	Kansas City	September 16, 1998
FCNB Bank, Frederick, Maryland	Capital Bank, National Association, Rockville, Maryland	Richmond	September 15, 1998
Fifth Third Bank of Southern Ohio, Hillsboro, Ohio	Bank One, N.A., Columbus, Ohio	Cleveland	August 27, 1998
Laurel Bank, Johnstown, Pennsylvania	The Peoples National Bank of Rural Valley, Rural Valley, Pennsylvania	Philadelphia	September 22, 1998
Virginia Heartland Interim Bank, Fredericksburg, Virginia	Virginia Heartland Bank, Fredericksburg, Virginia	Richmond	September 22, 1998

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.

Wasserman v. Board of Governors, No. 98-CIV-6017 (S.D.N.Y., filed August 24, 1998). Complaint alleging wrongful failure to investigate activities of a bank. On September 14, 1998, the Board filed its motion to dismiss the complaint.

Pharaon v. Board of Governors, No. 98-103 (U.S. Supreme Court, filed July 15, 1998). Petition for writ of certiorari seeking review of the decision of the Court of Appeals for

the District of Columbia Circuit affirming the Board's order dated January 31, 1997, imposing civil money penalties and an order of prohibition for violations of the Bank Holding Company Act.

Inner City Press/Community on the Move v. Board of Governors, No. 98-CIV-4608 (DLC) (S.D.N.Y., filed June 30, 1998). Freedom of Information Act case. On July 1, 1998, the court denied plaintiff's motion for a temporary restraining order extending the public comment period on the application by Travelers Group Inc. to acquire Citicorp. On August 13, 1998, the Board filed its motion to dismiss or for summary judgment.

Clarkson v. Greenspan, No. 98-5349 (D.C. Cir., filed July 29, 1998). Appeal of district court order granting Board's motion for summary judgment in a Freedom of Information Act case. On September 14, 1998, the Board filed a motion for summary affirmance of the district court dismissal.

Board of Governors v. Carrasco, No. 98 Civ. 3474 (LAK) (S.D.N.Y., filed May 15, 1998). Action to freeze assets of individual pending administrative adjudication of civil money penalty assessment by the Board. On May 26, 1998, the court issued a preliminary injunction restraining the transfer or disposition of the individual's assets and appointing the Federal Reserve Bank of New York as receiver for those assets.

Board of Governors v. Pharaon, No. 98-6101 (2d Cir., filed May 4, 1998). Appeal of partial denial of Board's motion for summary judgment in action to freeze assets of individual pending administrative adjudication of civil money penalty assessment by the Board. On May 22, 1998, the appellee filed a cross-appeal from the partial final judgment.

Research Triangle Institute v. Board of Governors, No. 97-1719 (U.S. Supreme Court, filed April 28, 1998). Petition for writ of certiorari to review dismissal by the United States Court of Appeals for the Fourth Circuit of a contract claim against the Board. The Board filed its opposition to the writ on June 30, 1998.

Fenili v. Davidson, No. C-98-01568-CW (N.D. California, filed April 17, 1998). Tort and constitutional claim arising out of return of a check. On June 5, 1998, the Board filed its motion to dismiss. *Wilkins v. Warren*, No. 98-1320 (4th Cir., filed March 2, 1998). Appeal of District Court dismissal of action involving customer dispute with a bank. On June 10, 1998, the court of appeals dismissed the appeal.

Logan v. Greenspan, No. 1:98CV00049 (D.D.C., filed January 9, 1998). Employment discrimination complaint.

Goldman v. Department of the Treasury, No. 1-97-CV-3798 (N.D. Ga., filed December 23, 1997). Declaratory judgment action challenging Federal Reserve notes as lawful money. On March 2, 1998, the Board filed a motion to dismiss the action.

Kerr v. Department of the Treasury, No. CV-S-97-01877-DWH (S.D. Nev., filed December 22, 1997). Challenge to income taxation and Federal Reserve notes. On September 3, 1998, a motion to dismiss was filed on behalf of all federal defendants.

Allen v. Indiana Western Mortgage Corp., No. 97-7744 RJK (C.D. Cal., filed November 12, 1997). Customer dispute with a bank. On March 23, 1998, the district court dismissed the action.

Patrick v. United States, No. 97-75564 (E.D. Mich., filed November 7, 1997). Action for damages arising out of tax dispute. On August 20, 1998, the district court dismissed the action as to all defendants.

Patrick v. United States, No. 97-75017 (E.D. Mich., filed September 30, 1997). Action for damages arising out of tax dispute. On August 20, 1998, the district court dismissed the action as to all defendants.

Artis v. Greenspan, No. 97-5235 (D.C. Cir., filed September 19, 1997). Appeal of district court order dismissing employment discrimination class action.

Towe v. Board of Governors, No. 97-71143 (9th Cir., filed September 15, 1997). Petition for review of a Board order dated August 18, 1997, prohibiting Edward Towe and Thomas E. Towe from further participation in the banking industry. *In re: Subpoena Duces Tecum Served on the Office of the Comptroller of the Currency*, No. 97-5229 (D.C. Cir., filed September 12, 1997). Appeal of district court order denying motion to compel production of pre-decisional supervisory documents and testimony sought in connection with an action by Bank of New England Corporation's trustee in bankruptcy against the Federal Deposit Insurance Corporation. On June 26, 1998, the court of appeals reversed and remanded the case to the district court. On August 10, 1998, the Board filed a petition for rehearing and suggestion for rehearing en banc.

Bettersworth v. Board of Governors, No. 97-CA-624 (W.D. Tex., filed August 21, 1997). Privacy Act case.

Greeff v. Board of Governors, No. 97-1976 (4th Cir., filed June 17, 1997). Petition for review of a Board order dated May 19, 1997, approving the application by Allied Irish Banks, plc, Dublin, Ireland, and First Maryland Bancorp, Baltimore, Maryland, to acquire Dauphin Deposit Corporation, Harrisburg, Pennsylvania, and thereby acquire Dauphin's banking and nonbanking subsidiaries. On August 14, 1998, the court of appeals denied the petition.

FINAL ENFORCEMENT DECISION ISSUED BY THE BOARD OF GOVERNORS

In the Matter of a Notice to Prohibit Further Participation Against
Elena Espiritu
Former Employee

Bank of America, N.T. & S.A.
San Francisco, California

Docket Nos. AA-EC-98-04 and AA-EC-98-05

Final Decision

This is an administrative proceeding pursuant to the Federal Deposit Insurance Act ("FDI Act") in which the Office of the Comptroller of the Currency of the United States of America ("OCC") seeks to prohibit the Respondent, Elena Espiritu ("Espiritu"), from further participation in the affairs of any financial institution because of her conduct as an employee of Bank of America, N.T. & S.A., San Francisco, California (the "Bank"). Under the FDI Act, the OCC may initiate a prohibition proceeding against a former employee of a national bank, but the Board must make the final determination whether to issue an order of prohibition.

Upon review of the administrative record, the Board issues this Final Decision adopting the Recommended Decision ("Recommended Decision") of Administrative Law Judge Walter Alprin (the "ALJ"), and orders the issuance of the attached Order of Prohibition.

I. Statement of the Case

A. Statutory and Regulatory Framework

Under the FDI Act and the Board's regulations, the ALJ is responsible for conducting proceedings on a notice of charges. 12 U.S.C. § 1818(e)(4). The ALJ issues a recommended decision that is referred to the deciding agency together with any exceptions to those recommendations filed by the parties. The Board makes the final findings of fact, conclusions of law, and determination whether to issue an order of prohibition in the case of prohibition orders sought by the OCC. *Id.*; 12 C.F.R. 263.40.

The FDI Act sets forth the substantive basis upon which a federal banking agency may issue against a bank official or employee an order of prohibition from further participation in banking. In order to issue such an order, the Board must make each of three findings:

- (1) that the respondent engaged in identified *misconduct*, including an unsafe or unsound practice or a breach of fiduciary duty;
- (2) that the conduct had a specified *effect*, including financial loss to the institution or gain to the respondent; and
- (3) that the respondent's conduct involved either personal dishonesty or a willful or continuing disregard for the safety or soundness of the institution. 12 U.S.C. § 1818(e)(1)(A)-(C).

An enforcement proceeding is initiated by the filing of a notice of charges which is served on the respondent. Under the OCC's and the Board's regulations, the respondent must file an answer within 20 days of service of the notice. 12 C.F.R. 19.19(a) and 263.19(a). Failure to file an answer constitutes a waiver of the respondent's right to contest the allegations in the notice, and a final order may be entered unless good cause is shown for failure to file a timely answer. 12 C.F.R. 19.19(c)(1) and 263.19(c)(1).

B. Procedural History

On January 29, 1998, the OCC initiated a Notice of Removal and Notice of Charges (the "Notice") against Espiritu. The Notice alleged that Espiritu engaged in an unsafe and unsound banking practice while employed at the Bank. Specifically, the Notice alleged that Espiritu deposited into her account at the Bank two checks totaling \$5200 drawn on a closed account at another institution. She then wrote a check on her Bank account for \$2816 for the purchase of a cashier's check in that amount, receiving the benefit of that cashier's check. After offsetting amounts in her account and her final paycheck, the Bank's loss from Espiritu's actions was \$1905.29.

The Notice was served by certified mail, return receipt requested, to Espiritu's last known address in accordance with applicable regulations. 12 C.F.R. 19.11(c)(2). The return receipt indicated receipt by "Q. Espiritu." The Notice expressly warned that failure to file an answer within 20 days of service would constitute a waiver of the right to contest the allegations contained in the Notice. Nonethe-

less, Espiritu failed to file an answer to the Notice. Following Enforcement Counsel's motion for entry of a default order, the ALJ issued an Order to Show Cause to determine whether good cause existed for Espiritu's default. Again, the return receipt card indicated receipt of this Order, and again Espiritu failed to respond. Accordingly, the ALJ issued a recommended decision recommending entry of an order of prohibition against Espiritu, along with an order requiring restitution of the Bank's loss. On June 16, 1998, the OCC issued a final order requiring Espiritu to repay the Bank's loss.

II. Discussion

Because Espiritu's default prevents her from contesting the allegations in the Notice, the Board may take those allegations as established.¹ According to the Notice, Espiritu knowingly deposited worthless checks into her account at the Bank. She then wrote a check on her account at the Bank and obtained a Bank cashier's check in exchange, knowing that her account at the Bank lacked sufficient funds to cover the check. As a result of these actions, the Bank lost over \$1900.

These actions meet all of the requirements of an order of prohibition. Espiritu's action in causing the Bank to disburse funds on an account in which insufficient funds existed was both an unsafe or unsound banking practice and a breach of the fiduciary duty of loyalty owed by all bank employees to place the interests of their institution above their own personal interests. The action caused both a loss to the Bank and a gain to the respondent. Finally, Espiritu's action evidenced personal dishonesty in that she was aware that the checks she had deposited at the Bank were worthless and that her account at the Bank lacked sufficient funds to cover the check she drew upon it.

In sum, all elements necessary for the issuance of a prohibition order are presented in this case.

Conclusion

For these reasons, the Board orders the issuance of the attached Order of Prohibition.

By Order of the Board of Governors, this 8th day of September, 1998.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

JENNIFER J. JOHNSON
Secretary of the Board

1. Service of a notice by certified mail, return receipt requested, to the respondent's last known address is adequate under the OCC's and the Board's rules. 12 C.F.R. 19.11(c)(2)(iv) & 263.11(c)(2)(iv); *In the Matter of Paul E. Lokey*, 1991 WL 536895 (Board order of prohibition upon default where service was made by registered mail and received by agent for respondent); *In the Matter of Agha Hasan Abedi and Swaleh Naqvi*, 80 *Federal Reserve Bulletin* 74 (1994) (Board order of prohibition upon default where service was made by international registered mail, return receipt requested); *In the Matter of Kemal Shoaib*, Final Decision and Order dated March 3, 1992 (same).

Order of Prohibition

WHEREAS, pursuant to section 8(e) of the Federal Deposit Insurance Act, as amended, (the "Act") (12 U.S.C. § 1818(e)), the Board of Governors of the Federal Reserve System ("the Board") is of the opinion, for the reasons set forth in the accompanying Final Decision, that a final Order of Prohibition should issue against ELENA ESPIRITU ("Espiritu");

NOW, THEREFORE, IT IS HEREBY ORDERED, pursuant to section 8(e) of the Federal Deposit Insurance Act, as amended, (12 U.S.C. § 1818(e)), that:

1. In the absence of prior written approval by the Board, and by any other Federal financial institution regulatory agency where necessary pursuant to section 8(e)(7)(B) of the Act (12 U.S.C. § 1818(e)(7)(B)), Espiritu is hereby prohibited:
 - (a) from participating in the conduct of the affairs of any bank holding company, any insured depository institution or any other institution specified in subsection 8(e)(7)(A) of the Act (12 U.S.C. § 1818(e)(7)(A));
 - (b) from soliciting, procuring, transferring, attempting to transfer, voting or attempting to vote any proxy, consent, or authorization with respect to any voting rights in any institution described in subsection 8(e)(7)(A) of the Act (12 U.S.C. § 1818(e)(7)(A));
 - (c) from violating any voting agreement previously approved by the appropriate Federal banking agency; or
 - (d) from voting for a director, or from serving or acting as an institution-affiliated party as defined in

section 3(u) of the Act, (12 U.S.C. § 1813(u)), such as an officer, director, or employee.

2. This Order, and each provision hereof, is and shall remain fully effective and enforceable until expressly stayed, modified, terminated or suspended in writing by the Board.

This Order shall become effective at the expiration of thirty days after service is made.

By Order of the Board of Governors, this 8th day of September, 1998.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

JENNIFER J. JOHNSON
Secretary of the Board

*WRITTEN AGREEMENTS APPROVED BY FEDERAL
RESERVE BANKS*

*ShoreBank, Cleveland
Cleveland, Ohio*

The Federal Reserve Board announced on September 18, 1998, the execution of a Written Agreement by and between the Shorebank, Cleveland, Cleveland, Ohio, the Federal Reserve Bank of Cleveland, and the Ohio Division of Financial Institutions.

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SYMBOLS AND ABBREVIATIONS

c	Corrected	G-10	Group of Ten
e	Estimated	GNMA	Government National Mortgage Association
n.a.	Not available	GDP	Gross domestic product
p	Preliminary	HUD	Department of Housing and Urban Development
r	Revised (Notation appears on column heading when about half of the figures in that column are changed.)	IMF	International Monetary Fund
*	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)	IO	Interest only
0	Calculated to be zero	IPCs	Individuals, partnerships, and corporations
...	Cell not applicable	IRA	Individual retirement account
ATS	Automatic transfer service	MMDA	Money market deposit account
BIF	Bank insurance fund	MSA	Metropolitan statistical area
CD	Certificate of deposit	NOW	Negotiable order of withdrawal
CMO	Collateralized mortgage obligation	OCD	Other checkable deposit
CRA	Community Reinvestment Act of 1977	OPEC	Organization of Petroleum Exporting Countries
FFB	Federal Financing Bank	OTS	Office of Thrift Supervision
FHA	Federal Housing Administration	PMI	Private mortgage insurance
FHLBB	Federal Home Loan Bank Board	PO	Principal only
FHLMC	Federal Home Loan Mortgage Corporation	REIT	Real estate investment trust
FmHA	Farmers Home Administration	REMIC	Real estate mortgage investment conduit
FNMA	Federal National Mortgage Association	RP	Repurchase agreement
FSLIC	Federal Savings and Loan Insurance Corporation	RTC	Resolution Trust Corporation
G-7	Group of Seven	SCO	Securitized credit obligation
		SDR	Special drawing right
		SIC	Standard Industrial Classification
		VA	Department of Veterans Affairs

GENERAL INFORMATION

In many of the tables, components do not sum to totals because of rounding.

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.

A4 Domestic Financial Statistics □ November 1998

1.10 RESERVES, MONEY STOCK, LIQUID ASSETS, AND DEBT MEASURES

Percent annual rate of change, seasonally adjusted¹

Monetary or credit aggregate	1997		1998		1998 ¹				
	Q3	Q4	Q1	Q2 ²	Apr.	May	June	July	Aug.
<i>Reserves of depository institutions²</i>									
1 Total	-3.0	-2.7	-1.9	-3.8	-2.3	-9.6	-5.3	-15.3	4.9
2 Required	-3.7	-5.6	-1.8	-2.5	-3.1	-4.7	-18.1	-8.8	.9
3 Nonborrowed	-4.7	-8	-7	-4.3	-3.1	-11.7	-7.9	-15.5	4.6
4 Monetary base	6.2	7.9	6.9	4.1	3.3	4.7	6.2	5.0	8.9
<i>Concepts of money, liquid assets, and debt⁴</i>									
5 M1	.3	.9	3.0	.2	-.4	-3.3	-3.6	-3.2	-3.6
6 M2	5.7 ⁷	7.0 ⁸	8.0	7.5	9.7	3.0	5.3	4.7	8.3
7 M3	8.3 ⁸	10.0	11.0	10.0	10.6	6.8	6.2	1.0	12.1
8 L	7.3 ⁹	9.2	12.9 ⁹	7.8	5.5	3.6	6.7	-.8	n.a.
9 Debt	4.6 ⁹	6.0 ⁹	6.2 ⁹	6.1	6.1	5.6	5.7	6.2	n.a.
<i>Nontransaction components</i>									
10 In M2 ⁵	7.7 ⁹	9.3 ⁹	9.8 ⁹	10.1	13.2	5.2	8.4	7.5	12.4
11 In M3 only ⁶	16.9 ⁹	19.5 ⁹	20.3 ⁹	17.7	13.3	18.4	8.6	-9.8	23.3
<i>Time and savings deposits</i>									
<i>Commercial banks</i>									
12 Savings, including MMDAs	9.6	16.3	13.6	14.3	26.2	.4	10.9	16.8	14.9
13 Small time ^{8,9}	8.1	4.5	1.5	-1.0	.4	-4.4	-1.2	.2	5.4
14 Large time ^{8,9}	17.2	9.9	19.5 ⁹	18.0	-4.1	15.4	16.6	-31.3	14.9
<i>Thrift institutions</i>									
15 Savings, including MMDAs	1.0	1.4	7.6	11.6	10.2	16.3	3.6	8.2	2.7
16 Small time ⁸	-5.2	-3.1	-.4	-5.6	-9.8	-3.2	-1.1	-5.0	-12.4
17 Large time ⁸	10.0	5.4	14.4	-.8	11.0	-20.5	13.9	-9.6	-9.7
<i>Money market mutual funds</i>									
18 Retail	16.7 ⁷	15.1 ¹	19.3 ⁷	21.7	18.7	20.1	20.8	5.5	33.1
19 Institution-only	19.7	22.0	18.9	36.5	51.7	38.7	28.7	-5.3	36.5
<i>Repurchase agreements and Eurodollars</i>									
20 Repurchase agreements ¹⁰	14.0 ⁹	39.5 ⁹	34.1 ⁹	14.5	.0	7.9	-32.6	17.9	33.9
21 Eurodollars ¹⁰	18.6	24.3	7.5	-17.8	-3.6	12.6	-8.0	9.9	13.3
<i>Debt components⁴</i>									
22 Federal	.0	.4	.0	-1.4	-1.8	-4.0	-.9	-.9	n.a.
23 Nonfederal	6.2 ¹	7.9 ⁹	8.3 ¹	8.5	8.6	8.8	7.8	8.4	n.a.

1. Unless otherwise noted, rates of change are calculated from average amounts outstanding during preceding month or quarter.

2. Figures incorporate adjustments for discontinuities, or "breaks," associated with regulatory changes in reserve requirements. (See also table 1.20.)

3. 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 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 U.S. 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 owed 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 (OCDs), 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. Seasonally adjusted M1 is computed by summing currency, travelers checks, demand deposits, and OCDs, each seasonally adjusted separately.

M2: M1 plus (1) savings (including MMDAs), (2) small-denomination time deposits (time deposits—including retail RPs—in amounts of less than \$100,000), and (3) balances in retail money market mutual funds (money funds with minimum initial investments of less than \$50,000). Excludes individual retirement accounts (IRAs) and Keogh balances at depository institutions and money market funds. Seasonally adjusted M2 is calculated by summing savings deposits, small-denomination time deposits, and retail money fund balances, each seasonally adjusted separately, and adding this result to seasonally adjusted M1.

M3: M2 plus (1) large-denomination time deposits (in amounts of \$100,000 or more), (2) balances in institutional money funds (money funds with minimum initial investments of \$50,000 or more), (3) RP liabilities (overnight and term) issued by all depository institutions, and (4) Eurodollars (overnight and term) held by U.S. residents at foreign branches of U.S. banks worldwide and at all banking offices in the United Kingdom and Canada. Excludes

amounts held by depository institutions, the U.S. government, money market funds, and foreign banks and official institutions. Seasonally adjusted M3 is calculated by summing large time deposits, institutional money fund balances, RP liabilities, and Eurodollars, each seasonally adjusted separately, and adding this result to seasonally adjusted M2.

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 fund holdings of these assets. Seasonally adjusted L is computed by summing U.S. savings bonds, short-term Treasury securities, commercial paper, and bankers acceptances, each seasonally adjusted separately, and then adding this result to M3.

Debt: The debt aggregate is the outstanding credit market debt of the domestic nonfinancial sectors—the federal sector (U.S. government, not including government-sponsored enterprises or federally related mortgage pools) and the nonfederal sectors (state and local governments, households and nonprofit organizations, nonfinancial corporate and nonfarm noncorporate businesses, and farms). Nonfederal debt consists of mortgages, tax-exempt and corporate bonds, consumer credit, bank loans, commercial paper, and other loans. The data, which are derived from the Federal Reserve Board's flow of funds accounts, are break-adjusted (that is, discontinuities in the data have been smoothed into the series) and month-averaged (that is, the data have been derived by averaging adjacent month-end levels).

5. Sum of (1) savings deposits (including MMDAs), (2) small time deposits, and (3) retail money fund balances, each seasonally adjusted separately.

6. Sum of (1) large time deposits, (2) institutional money fund balances, (3) RP liabilities (overnight and term) issued by depository institutions, and (4) Eurodollars (overnight and term) of U.S. addressees, each seasonally adjusted separately.

7. Small time deposits—including retail RPs—are those issued in amounts of less than \$100,000. All IRA and Keogh account balances at commercial banks and thrift institutions are subtracted from small time deposits.

8. Large time deposits are those issued in amounts of \$100,000 or more, excluding those booked at international banking facilities.

9. Large time deposits at commercial banks less those held by money market funds, depository institutions, the U.S. government, and foreign banks and official institutions.

10. Includes both overnight and term.

1.11 RESERVES OF DEPOSITORY INSTITUTIONS AND RESERVE BANK CREDIT ¹

Millions of dollars

Factor	Average of daily figures			Average of daily figures for week ending on date indicated						
	1998			1998						
	June	July	Aug.	July 15	July 22	July 29	Aug. 5	Aug. 12	Aug. 19	Aug. 26
SUPPLYING RESERVE FUNDS										
1 Reserve Bank credit outstanding	480,045	479,603	481,257	481,517	476,864	479,086	480,661	481,970	479,828	480,993
2 U.S. government securities ²										
3 Bought outright—System account ³	441,368	440,572	441,902	441,798	440,121	439,960	441,092	441,906	441,783	442,278
4 Held under repurchase agreements	4,853	4,662	3,072	5,105	2,593	4,928	4,636	2,592	1,949	2,812
5 Federal agency obligations										
6 Bought outright	549	526	469	526	526	526	526	479	451	451
7 Held under repurchase agreements	736	838	3,013	1,121	840	674	1,275	3,135	2,932	3,638
8 Acceptances	0	0	0	0	0	0	0	0	0	0
9 Loans to depository institutions										
10 Adjustment credit	80	55	27	1	150	12	58	2	45	4
11 Seasonal credit	160	215	247	195	223	243	238	243	256	254
12 Extended credit	0	0	0	0	0	0	0	0	0	0
13 Float	779	377	414	391	421	31	73	644	343	421
14 Other Federal Reserve assets	31,522	32,358	32,113	32,381	31,989	32,712	32,763	32,970	32,069	31,135
15 Gold stock	11,048	11,047	11,045	11,047	11,046	11,047	11,046	11,045	11,044	11,044
16 Special drawing rights certificate account	9,200	9,200	9,200	9,200	9,200	9,200	9,200	9,200	9,200	9,200
17 Treasury currency outstanding	25,825	25,855 ^f	25,888	25,854 ^f	25,856 ^f	25,858 ^f	25,860	25,874	25,888	25,902
ABSORBING RESERVE FUNDS										
18 Currency in circulation	481,524	485,999 ^f	487,890	486,581 ^f	485,654 ^f	485,660 ^f	486,903	488,206	488,159	487,775
19 Treasury cash holdings	211	188	120	194	188	181	140	138	132	93
20 Deposits, other than reserve balances, with Federal Reserve Banks										
21 Treasury	10,401	5,430	5,130	5,171	5,155	5,115	5,234	4,839	5,450	4,905
22 Foreign	165	170	167	163	169	174	161	177	164	167
23 Service-related balances and adjustments	6,809	6,918 ^f	6,979	6,861	6,966	6,733	6,976	6,990	6,860	7,168
24 Other	332	277	347	292	264	252	292	330	354	373
25 Other Federal Reserve liabilities and capital	16,888	16,832	16,922	16,837	16,752	17,025	16,824	16,792	16,846	17,077
26 Reserve balances with Federal Reserve Banks ⁴	9,790	9,891 ^f	9,836	11,519	7,819	10,049	10,236	10,617	7,996	9,581
End-of-month figures										
Wednesday figures										
	June	July	Aug.	July 15	July 22	July 29	Aug. 5	Aug. 12	Aug. 19	Aug. 26
SUPPLYING RESERVE FUNDS										
1 Reserve Bank credit outstanding	496,967	482,030 ^f	487,879	487,207	476,479	484,416	479,525	489,802	478,560	488,228
2 U.S. government securities ²										
3 Bought outright—System account ³	439,773	440,612	442,135	440,887	436,103	441,354	441,908	442,278	442,059	441,355
4 Held under repurchase agreements	18,681	7,266	7,942	9,492	4,661	8,411	530	5,755	1,986	9,272
5 Federal agency obligations										
6 Bought outright	526	526	451	526	526	526	526	451	451	451
7 Held under repurchase agreements	1,865	760	3,566	2,425	1,956	1,110	1,955	6,135	3,148	4,964
8 Acceptances	0	0	0	0	0	0	0	0	0	0
9 Loans to depository institutions										
10 Adjustment credit	773	2	66	3	4	2	299	2	0	1
11 Seasonal credit	189	239	226	204	239	249	237	246	261	259
12 Extended credit	0	0	0	0	0	0	0	0	0	0
13 Float	1,416	-267 ^f	975	642	724	-518	1,565	1,152	220	271
14 Other Federal Reserve assets	33,743	32,893	32,518	33,027	32,267	33,282	32,506	33,784	30,435	31,656
15 Gold stock	11,047	11,046	11,046	11,047	11,046	11,047	11,046	11,045	11,042	11,046
16 Special drawing rights certificate account	9,200	9,200	9,200	9,200	9,200	9,200	9,200	9,200	9,200	9,200
17 Treasury currency outstanding	25,851 ^f	25,860 ^f	25,916	25,854 ^f	25,856 ^f	25,858 ^f	25,860	25,874	25,888	25,902
ABSORBING RESERVE FUNDS										
18 Currency in circulation	483,865	486,038 ^f	488,577	487,103 ^f	486,481 ^f	486,964 ^f	488,470	489,417	488,912	489,033
19 Treasury cash holdings	204	141	94	189	178	141	138	138	93	94
20 Deposits, other than reserve balances, with Federal Reserve Banks										
21 Treasury	18,140	4,648	6,704	5,309	4,426	5,184	5,045	5,138	4,372	4,331
22 Foreign	201	161	162	180	195	158	168	163	160	162
23 Service-related balances and adjustments	7,018	6,976 ^f	6,871	6,861	6,966	6,733	6,976	6,990	6,860	7,168
24 Other	296	264	332	279	247	262	346	336	378	365
25 Other Federal Reserve liabilities and capital	17,073	16,830	17,420	16,589	16,513	16,754	16,503	16,737	16,560	16,899
26 Reserve balances with Federal Reserve Banks ⁴	16,269	13,078 ^f	13,881	16,796	7,576	14,324	7,985	17,001	7,355	16,322

1. Amounts of cash held as reserves are shown in table 1.12, line 2.

2. Includes securities loaned—fully guaranteed by U.S. government securities pledged with Federal Reserve Banks—and excludes securities sold and scheduled to be bought back under matched sale-purchase transactions.

3. Includes compensation that adjusts for the effects of inflation on the principal of inflation-indexed securities.

4. Excludes required clearing balances and adjustments to compensate for float.

A6 Domestic Financial Statistics □ November 1998

1.12 RESERVES AND BORROWINGS Depository Institutions¹

Millions of dollars

Reserve classification	Prorated monthly averages of biweekly averages									
	1995	1996	1997	1998						
	Dec.	Dec.	Dec.	Feb.	Mar.	Apr.	May	June	July	Aug.
1 Reserve balances with Reserve Banks ²	20,440	13,395	10,673	9,394	10,140	11,053	9,646	9,668	9,646 ^r	9,683
2 Total vault cash ³	42,281	44,525	44,707	43,167	41,598	41,215	41,482	42,635	42,034	42,120
3 Applied vault cash ⁴	37,460	37,848	37,206	35,580	35,370	35,423	35,159	35,427	34,954	35,024
4 Surplus vault cash ⁵	4,821	6,678	7,500	7,587	6,228	5,792	6,323	7,208	7,080	7,096
5 Total reserves ⁶	57,900	51,243	47,880	44,974	45,509	46,475	44,805	45,095	44,600 ^r	44,706
6 Required reserves	56,622	49,819	46,196	43,450	44,193	45,131	43,655	43,475	43,235	43,190
7 Excess reserve balances at Reserve Banks ⁷	1,278	1,424	1,683	1,524	1,316	1,345	1,150	1,620	1,365 ^r	1,516
8 Total borrowings at Reserve Banks ⁸	257	155	324	58	41	72	153	251	258	271
9 Seasonal borrowings ⁹	40	68	79	12	22	41	94	159	215	242
10 Extended credit ⁹	0	0	0	0	0	0	0	0	0	0
Biweekly averages of daily figures for two week periods ending on dates indicated										
1998										
	May 6	May 20	June 3	June 17	July 1	July 15	July 29	Aug. 12 ^r	Aug. 26	Sept. 9
1 Reserve balances with Reserve Banks ²	9,841	9,365	9,898	9,340	9,969	10,225	8,933	10,428	8,799	10,370
2 Total vault cash ³	41,712	41,545	41,277	43,592	41,919	42,101	41,983	41,983	42,354	41,792
3 Applied vault cash ⁴	35,727	35,066	34,969	35,867	35,060	35,102	34,770	35,157	35,024	34,702
4 Surplus vault cash ⁵	5,985	6,479	6,307	7,725	6,859	6,999	7,213	6,826	7,329	7,090
5 Total reserves ⁶	45,568	44,430	44,867	45,206	45,029	45,327	43,703	45,585	43,823	45,072
6 Required reserves	44,339	43,409	43,597	43,676	43,232	43,999	42,341	44,147	42,392	43,127
7 Excess reserve balances at Reserve Banks ⁷	1,230	1,022	1,270	1,530	1,797	1,328	1,362	1,437	1,431	1,945
8 Total borrowings at Reserve Banks ⁸	81	165	178	236	285	198	314	271	280	247
9 Seasonal borrowings	61	85	123	145	184	196	233	241	255	209
10 Extended credit ⁹	0	0	0	0	0	0	0	0	0	0

1. Data in this table also appear in the Board's H.3 (502) weekly statistical release. For ordering address, see inside front cover. Data are not break-adjusted or seasonally adjusted.

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 depository institutions subject to reserve requirements. Dates refer to the maintenance periods during which the vault cash may be used to satisfy reserve requirements. The maintenance period for weekly reporters ends sixteen days after the lagged computation period during which the vault cash is held. Before Nov. 25, 1992, the maintenance period ended thirty days after the lagged computation period.

4. All vault cash held during the lagged computation period by "bound" institutions (that is, those whose required reserves exceed their vault cash) plus the amount of vault cash applied during the maintenance period by "nonbound" institutions (that is, 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. Also includes adjustment credit.

9. 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 with traditional short-term adjustment credit, the money market effect of extended credit is similar to that of nonborrowed reserves.

1.14 FEDERAL RESERVE BANK INTEREST RATES

Percent per year

Current and previous levels

Federal Reserve Bank	Adjustment credit ¹			Seasonal credit ²			Extended credit ³		
	On 10/16/98	Effective date	Previous rate	On 10/16/98	Effective date	Previous rate	On 10/16/98	Effective date	Previous rate
Boston	4.75	10/15/98	5.00	5.35	10/8/98	5.45	5.85	10/8/98	5.95
New York		10/15/98							
Philadelphia		10/15/98							
Cleveland		10/16/98							
Richmond		10/16/98							
Atlanta		10/15/98							
Chicago		10/15/98							
St. Louis		10/15/98							
Minneapolis		10/15/98							
Kansas City		10/15/98							
Dallas		10/16/98							
San Francisco	4.75	10/15/98	5.00	5.35	10/8/98	5.45	5.85	10/8/98	5.95

Range of rates for adjustment credit in recent years⁴

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—Nov. 2	13–14	13	1988—Aug. 9	6–6.5	6.5
1978—Jan. 9	6–6.5	6.5	Dec. 6	13	13	11	6.5	6.5
May 20	6.5	6.5	Dec. 4	12	12			
May 12	6.5–7	7	1982—July 20	11.5–12	11.5	1989—Feb. 24	6.5–7	7
July 3	7	7	Aug. 23	11.5	11.5	27	7	7
July 10	7–7.25	7.25	Aug. 2	11–11.5	11	1990—Dec. 19	6.5	6.5
Aug. 21	7.25	7.25	3	11	11			
Sept. 22	7.25	7.25	16	10.5	10.5	1991—Feb. 1	6–6.5	6
Oct. 16	7.75	7.75	27	10–10.5	10	4	6	6
Nov. 1	8	8	30	10	10	Apr. 30	5.5–6	5.5
Nov. 3	8–8.5	8.5	Oct. 12	9.5–10	9.5	May 2	5.5	5.5
	8.5	8.5	13	9.5	9.5	Sept. 13	5–5.5	5
	8.5–9.5	9.5	Nov. 22	9–9.5	9	17	5	5
	9.5	9.5	26	9	9	Nov. 6	4.5–5	4.5
1979—July 20	10	10	Dec. 14	8.5–9	9	7	4.5	4.5
Aug. 17	10–10.5	10.5	15	8.5–9	8.5	Dec. 20	3.5–4.5	3.5
Aug. 20	10.5	10.5	17	8.5	8.5	24	3.5	3.5
Sept. 19	10.5–11	11						
Oct. 21	11	11	1984—Apr. 9	8.5–9	9	1992—July 2	3–3.5	3
Oct. 8	11–12	12	13	9	9	7	3	3
Oct. 10	12	12	Nov. 21	8.5–9	8.5			
1980—Feb. 15	12–13	13	26	8.5	8.5	1994—May 17	3–3.5	3.5
May 19	13	13	Dec. 24	8	8	18	3.5	3.5
May 29	12–13	13				Aug. 16	3.5–4	4
June 13	12	12	1985—May 20	7.5–8	7.5	18	4	4
July 16	11–12	11	24	7.5	7.5	Nov. 15	4–4.75	4.75
July 28	11	11	1986—Mar. 7	7–7.5	7	17	4.75	4.75
Aug. 29	10–11	10	10	7	7			
Sept. 26	10	10	Apr. 21	6.5–7	6.5	1995—Feb. 1	4.75–5.25	5.25
Nov. 17	11	11	23	6.5	6.5	9	5.25	5.25
Dec. 5	12	12	July 11	6	6			
1981—May 5	12–13	13	Aug. 21	5.5–6	5.5	1996—Jan. 31	5.00–5.25	5.00
8	13	13		5.5	5.5	Feb. 5	5.00	5.00
	13–14	14	1987—Sept. 4	5.5–6	6	1998—Oct. 15	4.75–5.00	4.75
	14	14	11	6	6	Oct. 16	4.75	4.75
						In effect Oct. 16, 1998	4.75	4.75

1. Available on a short-term basis to help depository institutions meet temporary needs for funds that cannot be met through reasonable alternative sources. 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.

2. Available to help relatively small depository institutions meet regular seasonal needs for funds that arise from a clear pattern of intrayear movements in their deposits and loans and that cannot be met through special industry lenders. The discount rate on seasonal credit takes into account rates charged by market sources of funds and ordinarily is reestablished on the first business day of each two-week reserve maintenance period; however, it is never less than the discount rate applicable to adjustment credit.

3. May be made available to depository institutions when similar assistance is not reasonably available from other sources, including special industry lenders. Such credit may be provided when exceptional circumstances (including sustained deposit drains, impaired access to money market funds, or sudden deterioration in loan repayment performance) or practices involve only a particular institution, or to meet the needs of institutions experiencing difficulties adjusting to changing market conditions over a longer period (particularly at times of deposit disintermediation). The discount rate applicable to adjustment credit ordinarily is charged on extended-credit loans outstanding less than thirty days; however, at the discretion

of the Federal Reserve Bank, this time period may be shortened. Beyond this initial period, a flexible rate somewhat above rates charged on market sources of funds is charged. The rate ordinarily is reestablished on the first business day of each two-week reserve maintenance period, but it is never less than the discount rate applicable to adjustment credit plus 50 basis points.

4. For earlier data, see the following publications of the Board of Governors: *Banking and Monetary Statistics, 1914–1941*, and *1941–1970*; and the *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. A surcharge of 2 percent was reimposed on Nov. 17, 1980; 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 thirteen-week period. The surcharge was eliminated on Nov. 17, 1981.

1.15 RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS¹

Type of deposit	Requirement	
	Percentage of deposits	Effective date
<i>Net transaction accounts</i> ²		
1 \$0 million–\$47.8 million ³	3	1/1/98
2 More than \$47.8 million ⁴	10	1/1/98
3 Nonpersonal time deposits ⁵	0	12/27/90
4 Eurocurrency liabilities ⁶	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 the Monetary Control Act of 1980, depository institutions include commercial banks, mutual savings banks, savings and loan associations, credit unions, agencies and branches of foreign banks, and Edge Act corporations.

2. Transaction accounts include all deposits against which the account holder is permitted to make withdrawals by negotiable or transferable instruments, payment orders of withdrawal, or telephone or preauthorized transfers for the purpose of making payments to third persons or others. However, accounts subject to the rules that permit no more than six preauthorized, automatic, or other transfers per month (of which no more than three may be by check, draft, debit card, or similar order payable directly to third parties) are savings deposits, not transaction accounts.

3. 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 of each year. Effective with the reserve maintenance period beginning January 1, 1998, for depository institutions that report weekly, and with the period beginning January 15, 1998, for institutions that report quarterly, the amount was decreased from \$49.3 million to \$47.8 million.

Under the Garn–St Germain Depository Institutions Act of 1982, the Board adjusts the amount of reservable liabilities subject to a 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 made in the event of a decrease. The exemption applies only to accounts that would be subject to a 3 percent reserve requirement. Effective with the reserve maintenance period beginning January 1, 1998, for depository institutions that report weekly, and with the period beginning January 15, 1998, for institutions that report quarterly, the exemption was raised from \$4.4 million to \$4.7 million.

4. The reserve requirement was reduced from 12 percent to 10 percent on Apr. 2, 1992, for institutions that report weekly, and on Apr. 16, 1992, for institutions that report quarterly.

5. For institutions that report weekly, the reserve requirement on nonpersonal time deposits with an original maturity of less than 1½ years was reduced from 3 percent to 1½ percent for the maintenance period that began Dec. 13, 1990, and to zero for the maintenance period that began Dec. 27, 1990. For institutions that report quarterly, the reserve requirement on nonpersonal time deposits with an original maturity of less than 1½ years was reduced from 3 percent to zero on Jan. 17, 1991.

The reserve requirement on nonpersonal time deposits with an original maturity of 1½ years or more has been zero since Oct. 6, 1983.

6. The reserve requirement on Eurocurrency liabilities was reduced from 3 percent to zero in the same manner and on the same dates as the reserve requirement on nonpersonal time deposits with an original maturity of less than 1½ years (see note 5).

1.17 FEDERAL RESERVE OPEN MARKET TRANSACTIONS¹

Millions of dollars

Type of transaction and maturity	1995	1996	1997	1998						
				Jan.	Feb.	Mar.	Apr.	May	June	July
U.S. TREASURY SECURITIES ²										
Outright transactions (excluding matched transactions)										
Treasury bills										
1 Gross purchases	10,932	9,901	9,147	0	0	0	3,550	0	0	0
2 Gross sales	0	0	0	0	0	0	0	0	0	0
3 Exchanges	405,296	426,928	436,257	41,371 ¹	35,495	34,025	46,802	35,190	32,830	40,312
4 For new bills	405,296	426,928	435,907	41,371 ¹	35,495	34,025	46,802	35,190	32,830	40,312
5 Redemptions	900	0	0	2,000	0	0	0	0	0	0
Others within one year										
6 Gross purchases	390	524	5,549	0	0	1,501	1,369	0	0	0
7 Gross sales	0	0	0	0	0	0	0	0	0	0
8 Maturity shifts	43,574	30,512	41,716	3,447	6,098	1,964	4,369	6,951	1,520	2,638
9 Exchanges	-35,407	-41,394	-27,499	-400	-6,128	-5,736	-2,601	-4,990	-5,084	-2,242
10 Redemptions	1,776	2,015	1,996	478	0	0	286	0	0	1,311
One to five years										
11 Gross purchases	5,366	3,898	19,680	0	0	2,262	2,993	0	0	0
12 Gross sales	0	0	0	0	0	0	0	0	0	0
13 Maturity shifts	-34,646	-25,022	-37,987	-3,447	-3,213	-1,964	-4,369	-6,620	-1,520	-2,638
14 Exchanges	26,387	31,459	20,274	0	3,383	5,736	2,201	2,270	5,084	1,842
Five to ten years										
15 Gross purchases	1,432	1,116	3,849	0	0	283	495	0	0	0
16 Gross sales	0	0	0	0	0	0	0	0	0	0
17 Maturity shifts	-3,093	-5,469	-1,954	0	-2,884	0	0	-331	0	0
18 Exchanges	7,220	6,666	5,215	400	1,420	0	0	2,720	0	0
More than ten years										
19 Gross purchases	2,529	1,655	5,897	0	0	743	0	0	0	0
20 Gross sales	0	0	0	0	0	0	0	0	0	0
21 Maturity shifts	-2,253	-20	-1,775	0	0	0	0	0	0	0
22 Exchanges	1,800	3,270	2,360	0	1,325	0	400	0	0	400
All maturities										
23 Gross purchases	20,649	17,094	44,122	0	0	4,789	8,407	0	0	0
24 Gross sales	0	0	0	0	0	0	0	0	0	0
25 Redemptions	2,676	2,015	1,996	2,478	0	0	286	0	0	1,311
Matched transactions										
26 Gross purchases	2,197,736	3,092,399	3,577,954	332,581	326,813	364,307	354,756	367,934	369,358	373,285
27 Gross sales	2,202,030	3,094,769	3,580,274	332,795	326,235	364,537	354,741	368,281	370,569	371,142
Repurchase agreements										
28 Gross purchases	331,694	457,568	810,485	45,544	33,428	40,211	59,548	7,722	57,098	52,116
29 Gross sales	328,497	450,359	809,268	65,932	30,583	37,010	50,663	20,456	41,414	63,531
30 Net change in U.S. Treasury securities	16,875	19,919	41,022	-23,079	3,423	7,760	17,021	-13,081	14,473	-10,584
FEDERAL AGENCY OBLIGATIONS										
Outright transactions										
31 Gross purchases	0	0	0	0	0	0	0	0	0	0
32 Gross sales	0	0	0	0	0	0	0	0	0	0
33 Redemptions	1,003	409	1,540	0	10	50	74	0	25	0
Repurchase agreements										
34 Gross purchases	36,851	75,354	160,409	12,488	9,615	17,685	13,547	1,575	14,548	11,236
35 Gross sales	36,776	74,842	159,369	13,872	8,776	18,342	13,042	3,300	12,913	12,341
36 Net change in federal agency obligations	-928	103	-500	-1,384	829	-707	431	-1,725	1,610	-1,105
37 Total net change in System Open Market Account	15,948	20,021	40,522	-24,463	4,252	7,053	17,452	-14,806	16,083	-11,689

1. Sales, redemptions, and negative figures reduce holdings of the System Open Market Account; all other figures increase such holdings.

2. Transactions exclude changes in compensation for the effects of inflation on the principal of inflation-indexed securities.

A10 Domestic Financial Statistics □ November 1998

1.18 FEDERAL RESERVE BANKS Condition and Federal Reserve Note Statements¹

Millions of dollars

Account	Wednesday					End of month		
	1998					1998		
	July 29	Aug. 5	Aug. 12	Aug. 19	Aug. 26	June 30	July 31	Aug. 31
Consolidated condition statement								
ASSETS								
1 Gold certificate account	11,047	11,046	11,045	11,042	11,046	11,047	11,046	11,046
2 Special drawing rights certificate account	9,200	9,200	9,200	9,200	9,200	9,200	9,200	9,200
3 Coin	413	412	413	410	414	392	435	423
<i>Loans</i>								
4 To depository institutions	251	536	248	261	260	963	241	293
5 Other	0	0	0	0	0	0	0	0
6 Acceptances held under repurchase agreements	0	0	0	0	0	0	0	0
<i>Federal agency obligations</i>								
7 Bought outright	526	526	451	451	451	526	526	451
8 Held under repurchase agreements	1,110	1,955	6,135	3,148	4,964	1,865	760	3,566
9 Total U.S. Treasury securities	449,765	442,438	448,033	444,045	450,627	458,454	447,878	450,077
10 Bought outright ²	441,354	441,908	442,278	442,059	441,355	439,773	440,612	442,135
11 Bills	200,149	199,653	200,023	199,803	198,075	197,264	199,407	197,334
12 Notes	178,886	178,886	178,888	177,116	177,305	180,594	178,887	178,826
13 Bonds	62,318	63,367	63,367	65,140	65,975	61,915	62,318	65,975
14 Held under repurchase agreements	8,411	530	5,755	1,986	9,272	18,681	7,266	7,942
15 Total loans and securities	451,651	445,454	454,866	447,904	456,301	461,807	449,404	454,386
16 Items in process of collection	6,253	8,382	7,379	7,056	6,535	10,126	4,677	2,465
17 Bank premises	1,288	1,289	1,292	1,294	1,294	1,290	1,289	1,293
<i>Other assets</i>								
18 Denominated in foreign currencies ³	17,366	17,289	17,297	17,305	17,313	17,366	17,282	17,601
19 All other ⁴	14,659	13,963	15,201	11,915	13,068	15,126	14,378	13,671
20 Total assets	511,878	507,035	516,694	506,126	515,172	526,355	507,711	510,087
LIABILITIES								
21 Federal Reserve notes	461,660	463,161	464,095	463,527	463,639	458,610	460,754	463,179
22 Total deposits	27,222	19,860	29,579	19,683	28,491	42,287	25,312	27,520
23 Depository institutions	21,618	14,302	23,943	14,773	23,632	23,651	20,239	20,321
24 U.S. Treasury—General account	5,184	5,045	5,138	4,372	4,331	18,140	4,648	6,704
25 Foreign—Official accounts	158	168	163	160	162	201	161	162
26 Other	262	346	336	378	365	296	264	332
27 Deferred credit items	6,242	7,511	6,282	6,356	6,143	8,385	4,816	1,968
28 Other liabilities and accrued dividends	4,796	4,633	4,700	4,525	4,849	4,850	4,818	4,750
29 Total liabilities	499,920	495,165	504,656	494,091	503,122	514,132	495,699	497,417
CAPITAL ACCOUNTS								
30 Capital paid in	5,819	5,841	5,846	5,853	5,864	5,791	5,822	5,866
31 Surplus	5,220	5,220	5,220	5,220	5,220	5,220	5,220	5,220
32 Other capital accounts	919	809	971	962	965	1,212	970	1,583
33 Total liabilities and capital accounts	511,878	507,035	516,694	506,126	515,172	526,355	507,711	510,087
MEMO								
34 Marketable U.S. Treasury securities held in custody for foreign and international accounts	592,993	593,333	587,542	587,438	573,577	600,373	595,603	573,571
Federal Reserve note statement								
35 Federal Reserve notes outstanding (issued to Banks)	570,576	571,137	572,144	572,949	574,623	567,155	570,428	574,813
36 LESS: Held by Federal Reserve Banks	108,916	107,977	108,049	109,422	110,983	108,345	109,674	111,635
37 Federal Reserve notes, net	461,660	463,161	464,095	463,527	463,639	458,610	460,754	463,179
<i>Collateral held against notes, net</i>								
38 Gold certificate account	11,047	11,046	11,045	11,042	11,046	11,047	11,046	11,046
39 Special drawing rights certificate account	9,200	9,200	9,200	9,200	9,200	9,200	9,200	9,200
40 Other eligible assets	0	0	0	0	0	0	0	0
41 U.S. Treasury and agency securities	441,413	442,914	443,850	443,285	443,394	438,363	440,508	442,932
42 Total collateral	461,660	463,161	464,095	463,527	463,639	458,610	460,754	463,179

1. Some of the data in this table also appear in the Board's H.4.1 (503) weekly statistical release. For ordering address, see inside front cover.

2. Includes securities loaned—fully guaranteed by U.S. Treasury securities pledged with Federal Reserve Banks—and includes compensation that adjusts for the effects of inflation on the principal of inflation-indexed securities. 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 ninety days.

5. Includes exchange-translation account reflecting the monthly revaluation at market exchange rates of foreign exchange commitments.

1.19 FEDERAL RESERVE BANKS Maturity Distribution of Loan and Security Holding

Millions of dollars

Type of holding and maturity	Wednesday					End of month		
	1998					1998		
	July 29	Aug. 5	Aug. 12	Aug. 19	Aug. 26	June 30	July 31	Aug. 31
1 Total loans.....	251	536	248	261	260	963	241	293
2 Within fifteen days ¹	229	359	55	237	235	859	107	176
3 Sixteen days to ninety days.....	22	177	193	24	25	104	134	117
4 Total U.S. Treasury securities ²	449,765	442,438	448,033	444,045	450,627	458,634	447,878	442,135
5 Within fifteen days ¹	17,348	17,753	23,237	18,500	19,836	27,389	13,538	15,104
6 Sixteen days to ninety days.....	97,971	89,281	89,266	93,717	92,084	93,433	98,052	92,231
7 Ninety-one days to one year.....	142,449	143,445	143,570	137,335	143,190	145,693	145,377	145,997
8 One year to five years.....	97,797	96,711	96,711	100,306	100,306	98,145	96,711	101,535
9 Five years to ten years.....	43,018	43,018	43,018	40,972	41,275	43,016	43,018	41,276
10 More than ten years.....	51,181	52,231	52,231	53,214	53,935	50,778	51,181	53,935
11 Total federal agency obligations.....	1,635	2,481	6,586	3,599	5,415	2,391	1,286	4,017
12 Within fifteen days ¹	1,160	2,005	6,135	3,148	5,012	1,865	810	3,614
13 Sixteen days to ninety days.....	48	48	48	48	n.a.	98	48	5
14 Ninety-one days to one year.....	114	114	114	114	125	104	114	120
15 One year to five years.....	104	104	104	104	93	99	104	93
16 Five years to ten years.....	185	185	185	185	185	200	185	185
17 More than ten years.....	25	25	n.a.	n.a.	n.a.	25	25	n.a.

1. Holdings under repurchase agreements are classified as maturing within fifteen days in accordance with maximum maturity of the agreements.

2. Includes compensation that adjusts for the effects of inflation on the principal of inflation-indexed securities.

1.20 AGGREGATE RESERVES OF DEPOSITORY INSTITUTIONS AND MONETARY BASE¹

Billions of dollars, averages of daily figures

Item	1994 Dec.	1995 Dec.	1996 Dec.	1997 Dec.	1998								
					Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	
ADJUSTED FOR CHANGES IN RESERVE REQUIREMENTS ²	Seasonally adjusted												
1 Total reserves ³	59.41	56.40	50.08	46.67	46.50	45.72	46.05	45.96	45.59	45.39	44.81	45.00	
2 Nonborrowed reserves ⁴	59.20	56.14	49.93	46.35	46.29	45.66	46.01	45.89	45.44	45.14	44.56	44.73	
3 Nonborrowed reserves plus extended credit ⁵	59.20	56.14	49.93	46.35	46.29	45.66	46.01	45.89	45.44	45.14	44.56	44.73	
4 Required reserves ⁶	58.24	55.12	48.66	44.99	44.72	44.20	44.73	44.61	44.44	43.77	43.45	43.48	
5 Monetary base ⁷	418.12	434.17	452.38	480.15	482.84	484.23	485.86	487.20	489.10	491.63	493.67 ⁸	497.31	
Not seasonally adjusted													
6 Total reserves ⁷	61.13	58.02	51.52	47.97	47.49	44.99	45.55	46.53	44.87	45.17	44.69	44.81	
7 Nonborrowed reserves ⁸	60.92	57.76	51.37	47.65	47.28	44.94	45.50	46.45	44.71	44.92	44.43	44.54	
8 Nonborrowed reserves plus extended credit ⁹	60.92	57.76	51.37	47.65	47.28	44.94	45.50	46.45	44.71	44.92	44.43	44.54	
9 Required reserves ⁸	59.96	56.74	50.10	46.29	45.71	43.47	44.23	45.18	43.72	43.55	43.32	43.29	
10 Monetary base ⁹	422.51	439.03	456.72	485.11	484.41	481.35	484.00	487.36	488.28	491.18	495.32 ⁸	497.49	
NOT ADJUSTED FOR CHANGES IN RESERVE REQUIREMENTS ¹⁰													
11 Total reserves ¹¹	61.34	57.90	51.24	47.88	47.50	44.97	45.51	46.48	44.81	45.10	44.60	44.71	
12 Nonborrowed reserves ¹²	61.13	57.64	51.09	47.56	47.29	44.92	45.47	46.40	44.65	44.84	44.34	44.44	
13 Nonborrowed reserves plus extended credit ¹³	61.13	57.64	51.09	47.56	47.29	44.92	45.47	46.40	44.65	44.84	44.34	44.44	
14 Required reserves ¹²	60.17	56.62	49.82	46.20	45.71	43.45	44.19	45.13	43.66	43.48	43.24	43.19	
15 Monetary base ¹²	427.25	444.45	463.49	491.92	491.61	488.41	490.96	494.11	494.95	497.93	502.17 ¹³	504.39	
16 Excess reserves ¹³	1.17	1.28	1.42	1.68	1.78	1.52	1.32	1.35	1.15	1.62	1.37	1.52	
17 Borrowings from the Federal Reserve .....	.21	.26	.16	.32	.21	.06	.04	.07	.15	.25	.26	.27

1. Latest monthly and biweekly figures are available from the Board's H.3 (502) weekly statistical release. Historical data starting in 1959 and estimates of the effect on required reserves of changes in reserve requirements are available from the Money and Reserves Projections Section, Division of Monetary Affairs, Board of Governors of the Federal Reserve System, Washington, DC 20551.

2. Figures reflect adjustments for discontinuities, or "breaks," associated with regulatory changes in reserve requirements. (See also table 1.10.)

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 with traditional short-term adjustment credit, the money market effect 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 that are due to 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 include required reserves against transactions deposits and nonpersonal time and savings deposits (but not reservable nondeposit liabilities).

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 regulatory 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. Since the introduction of contemporaneous reserve requirements in February 1984, currency and vault cash figures have been measured over the computation periods ending on Mondays.

13. Unadjusted total reserves (line 11) less unadjusted required reserves (line 14).

1.21 MONEY STOCK, LIQUID ASSETS, AND DEBT MEASURES¹

Billions of dollars, averages of daily figures

Item	1994 Dec.	1995 Dec.	1996 Dec.	1997 Dec.	1998 ^r			
					May	June	July	Aug.
	Seasonally adjusted							
<i>Measures</i> ²								
1 M1	1,150.7	1,128.7	1,082.8	1,076.0	1,077.7	1,074.5	1,071.6	1,068.4
2 M2	3,503.0	3,651.2	3,826.1	4,046.4 ^r	4,177.6	4,196.1	4,212.7	4,242.0
3 M3	4,333.6	4,595.6	4,931.1	5,376.8 ^r	5,610.8	5,639.7	5,644.5	5,701.6
4 L	5,315.8	5,702.3	6,083.6	6,611.3 ^r	6,883.9	6,922.5	6,917.9	n.a.
5 Debt	12,999.5 ^r	13,697.6 ^r	14,425.2 ^r	15,167.8 ^r	15,554.6	15,628.3	15,708.7	n.a.
<i>M1 components</i>								
6 Currency ³	354.3	372.4	394.9	425.5	435.5	438.2	441.2	443.7
7 Travelers checks ⁴	8.5	8.9	8.6	8.2	8.0	7.8	7.7	7.8
8 Demand deposits ⁵	384.0	391.0	403.6	397.1	387.9	383.1	377.9	373.8
9 Other checkable deposits ⁶	403.9	356.4	275.9	245.2	246.3	245.4	244.7	243.1
<i>Nontransaction components</i>								
10 In M2 ⁷	2,352.3	2,522.6	2,743.2	2,970.4 ^r	3,099.9	3,121.6	3,141.2	3,173.7
11 In M3 only ⁸	830.6	944.4	1,105.0	1,330.4 ^r	1,433.3	1,443.6	1,431.8	1,459.6
<i>Commercial banks</i>								
12 Savings deposits, including MMDAs	752.6	775.0	904.8	1,020.9	1,078.6	1,088.4	1,103.6	1,117.3
13 Small time deposits ⁹	503.2	575.8	594.5	625.7	624.1	623.5	623.6	626.4
14 Large time deposits ^{10, 11}	298.7	345.4	413.2	487.5	528.6	535.9	521.9	528.4
<i>Thrift institutions</i>								
15 Savings deposits, including MMDAs	397.3	359.7	366.9	376.6	395.2	396.4	399.1	400.0
16 Small time deposits ⁹	314.2	357.2	354.3	343.9	339.2	338.9	337.5	334.0
17 Large time deposits ¹⁰	64.7	74.2	78.0	85.4	86.5	87.5	86.8	86.1
<i>Money market mutual funds</i>								
18 Retail	385.0	454.9	522.8	603.2 ^r	662.8	674.3	677.4	696.1
19 Institution-only	203.1	253.9	310.3	376.2	422.0	432.1	430.2	443.3
<i>Repurchase agreements and Eurodollars</i>								
20 Repurchase agreements ¹²	183.3	182.4	194.2	236.1 ^r	261.4	254.3	258.1	265.4
21 Eurodollars ¹²	80.8	88.6	109.2	145.3	134.7	133.8	134.9	136.4
<i>Debt components</i>								
22 Federal debt	3,492.4	3,638.9	3,780.6	3,798.4	3,778.6	3,775.7	3,772.9	n.a.
23 Nonfederal debt	9,507.0 ^r	10,058.7 ^r	10,644.7 ^r	11,369.4 ^r	11,775.9	11,852.6	11,935.8	n.a.
	Not seasonally adjusted							
<i>Measures</i> ²								
24 M1	1,174.4	1,152.4	1,104.9	1,097.6	1,068.3	1,073.8	1,072.5	1,067.1
25 M2	3,523.4	3,672.0	3,845.4	4,065.3 ^r	4,156.9	4,191.2	4,213.3	4,246.5
26 M3	4,353.2	4,615.2	4,948.9	5,394.0 ^r	5,588.8	5,629.7	5,636.6	5,702.8
27 L	5,344.6	5,732.8	6,111.6	6,636.8 ^r	6,860.7	6,904.6	6,903.4	n.a.
28 Debt	13,002.0 ^r	13,699.1 ^r	14,425.5 ^r	15,167.4 ^r	15,521.7	15,594.6	15,660.5	n.a.
<i>M1 components</i>								
29 Currency ³	357.5	376.2	397.9	429.0	436.1	438.3	442.6	444.3
30 Travelers checks ⁴	8.1	8.5	8.3	7.9	7.9	8.0	8.2	8.2
31 Demand deposits ⁵	400.3	407.2	419.9	413.0	380.1	382.5	378.7	373.8
32 Other checkable deposits ⁶	408.6	360.5	278.8	247.7	244.2	245.0	243.0	240.8
<i>Nontransaction components</i>								
33 In M2 ⁷	2,349.0	2,519.6	2,740.5	2,967.8 ^r	3,088.6	3,117.5	3,140.7	3,179.4
34 In M3 only ⁸	829.7	943.2	1,103.5	1,328.6 ^r	1,431.9	1,438.5	1,423.4	1,456.4
<i>Commercial banks</i>								
35 Savings deposits, including MMDAs	751.7	774.1	903.3	1,019.0	1,077.1	1,091.6	1,106.1	1,119.6
36 Small time deposits ⁹	501.5	573.8	592.7	624.1	624.7	623.9	624.3	626.5
37 Large time deposits ^{10, 11}	298.9	345.8	413.6	488.0 ^r	529.9	534.9	521.0	528.5
<i>Thrift institutions</i>								
38 Savings deposits, including MMDAs	396.8	359.2	366.4	375.9	394.7	397.6	400.0	400.9
39 Small time deposits ⁹	313.2	355.9	353.2	343.0	339.5	339.1	337.8	334.0
40 Large time deposits ¹⁰	64.8	74.3	78.1	85.4	86.7	87.3	86.7	86.2
<i>Money market mutual funds</i>								
41 Retail	385.9	456.4	524.8	605.8 ^r	652.6	665.2	672.6	698.4
42 Institution-only	204.6	255.8	312.7	378.9	414.1	424.5	425.3	441.1
<i>Repurchase agreements and Eurodollars</i>								
43 Repurchase agreements ¹²	179.6	178.0	188.8	229.4 ^r	265.5	259.4	258.5	265.9
44 Eurodollars ¹²	81.8	89.4	110.3	146.9	135.7	132.3	132.0	134.8
<i>Debt components</i>								
45 Federal debt	3,499.0	3,645.9	3,787.9	3,805.8	3,765.7	3,755.2	3,740.8	n.a.
46 Nonfederal debt	9,503.1 ^r	10,053.1 ^r	10,637.6 ^r	11,361.6 ^r	11,756.0	11,839.4	11,919.8	n.a.

Footnotes appear on following page.

NOTES TO TABLE 1.21

1. Latest monthly and weekly figures are available from the Board's H.6 (508) weekly statistical release. Historical data starting in 1959 are available from the Money and Reserves Projections Section, Division of Monetary Affairs, Board of Governors of the Federal Reserve System, Washington, DC 20551.

2. Composition of the money stock measures and debt is as follows:

M1: (1) currency outside the U.S. 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 owed 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 (OCDs), 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. Seasonally adjusted M1 is computed by summing currency, travelers checks, demand deposits, and OCDs, each seasonally adjusted separately.

M2: M1 plus (1) savings deposits (including MMDAs), (2) small-denomination time deposits (time deposits—including retail RPs—in amounts of less than \$100,000), and (3) balances in retail money market mutual funds (money funds with minimum initial investments of less than \$50,000). Excludes individual retirement accounts (IRAs) and Keogh balances at depository institutions and money market funds. Seasonally adjusted M2 is calculated by summing savings deposits, small-denomination time deposits, and retail money fund balances, each seasonally adjusted separately, and adding this result to seasonally adjusted M1.

M3: M2 plus (1) large-denomination time deposits (in amounts of \$100,000 or more) issued by all depository institutions, (2) balances in institutional money funds (money funds with minimum initial investments of \$50,000 or more), (3) RP liabilities (overnight and term) issued by all depository institutions, and (4) Eurodollars (overnight and term) held by U.S. residents at foreign branches of U.S. banks worldwide and at all banking offices in the United Kingdom and Canada. Excludes amounts held by depository institutions, the U.S. government, money market funds, and foreign banks and official institutions. Seasonally adjusted M3 is calculated by summing large time deposits, institutional money fund balances, RP liabilities, and Eurodollars, each seasonally adjusted separately, and adding this result to seasonally adjusted M2.

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 fund holdings of

these assets. Seasonally adjusted L is computed by summing U.S. savings bonds, short-term Treasury securities, commercial paper, and bankers acceptances, each seasonally adjusted separately, and then adding this result to M3.

Debt: The debt aggregate is the outstanding credit market debt of the domestic nonfinancial sectors—the federal sector (U.S. government, not including government-sponsored enterprises or federally related mortgage pools) and the nonfederal sectors (state and local governments, households and nonprofit organizations, nonfinancial corporate and nonfarm noncorporate businesses, and farms). Nonfederal debt consists of mortgages, tax-exempt and corporate bonds, consumer credit, bank loans, commercial paper, and other loans. The data, which are derived from the Federal Reserve Board's flow of funds accounts, are break-adjusted (that is, discontinuities in the data have been smoothed into the series) and month-averaged (that is, the data have been derived by averaging adjacent month-end levels).

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 owed 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 account balances at all depository institutions, credit union share draft account balances, and demand deposits at thrift institutions.

7. Sum of (1) savings deposits (including MMDAs), (2) small time deposits, and (3) retail money fund balances.

8. Sum of (1) large time deposits, (2) institutional money fund balances, (3) RP liabilities (overnight and term) issued by depository institutions, and (4) Eurodollars (overnight and term) of U.S. addressees.

9. Small time deposits—including retail RPs—are those issued in amounts of less than \$100,000. All IRAs and Keogh accounts at commercial banks and thrift institutions are subtracted from small time deposits.

10. Large time deposits are those issued in amounts of \$100,000 or more, excluding those booked at international banking facilities.

11. Large time deposits at commercial banks less those held by money market funds, depository institutions, the U.S. government, and foreign banks and official institutions.

12. Includes both overnight and term.

1.26 COMMERCIAL BANKS IN THE UNITED STATES Assets and Liabilities¹

A. All commercial banks

Billions of dollars

Account	Monthly averages								Wednesday figures			
	1997		1998 ²						1998			
	Aug.	Feb.	Mar.	Apr.	May	June	July	Aug.	Aug. 5	Aug. 12	Aug. 19	Aug. 26
	Seasonally adjusted											
Assets												
1 Bank credit	3,981.8 ³	4,185.0	4,222.9	4,220.3	4,248.7	4,260.0	4,278.1	4,338.3	4,302.2	4,318.6	4,327.1	4,365.0
2 Securities in bank credit	1,032.3 ³	1,112.8	1,129.6	1,109.8	1,125.7	1,119.9	1,127.9	1,153.3	1,140.0	1,142.6	1,147.6	1,167.4
3 U.S. government securities	714.9	770.4	782.0	766.1	773.3	756.6	759.5	769.7	771.8	761.6	765.4	773.9
4 Other securities	317.4 ³	342.4	347.6	343.6	352.4	363.2	368.5	383.6	368.2	380.9	382.2	393.5
5 Loans and leases in bank credit ²	2,949.5	3,072.2	3,093.2	3,110.5	3,123.0	3,140.1	3,150.1	3,185.0	3,162.2	3,176.0	3,179.5	3,197.6
6 Commercial and industrial	828.4 ³	870.7	872.7	870.4	878.6	888.4	893.9	901.5	895.2	898.0	901.6	904.6
7 Real estate	1,204.8 ³	1,251.7	1,264.6	1,273.1	1,274.9	1,274.0	1,275.4	1,285.0	1,283.9	1,288.9	1,279.9	1,284.1
8 Revolving home equity	94.3	98.1	98.3	98.4	97.9	97.7	97.4	97.4	97.3	97.2	97.4	97.4
9 Other	1,110.5 ³	1,153.6	1,166.3	1,174.7	1,176.9	1,176.3	1,178.0	1,187.6	1,186.6	1,191.6	1,182.5	1,186.7
10 Consumer	518.2	502.1	502.1	505.5	505.9	502.7	496.7	494.3	493.3	492.6	494.3	496.2
11 Security ³	94.6	118.1	116.9	115.8	120.9	127.7	131.1	138.4	132.0	135.3	140.9	142.1
12 Other loans and leases	303.5	329.6	337.0	345.7	342.8	347.2	353.0	365.9	357.8	361.2	362.8	370.6
13 Interbank loans	191.0	200.5	218.3	214.6	202.2	217.3	213.6	208.1	211.9	211.1	195.7	212.9
14 Cash assets ⁴	261.8	264.5	275.9	268.8	250.7	250.8	243.7	251.9	242.1	264.8	243.6	264.3
15 Other assets ⁵	290.9 ³	301.2	295.8	308.8	313.4	313.3	310.9	312.0	307.0	311.0	313.2	309.2
16 Total assets⁶	4,669.0⁷	4,894.3	4,955.7	4,955.0	4,957.4	4,983.9	4,988.8	5,053.4	5,006.0	5,048.4	5,022.8	5,094.5
Liabilities												
17 Deposits	3,033.4	3,159.2	3,198.8	3,211.9	3,205.5	3,223.0	3,197.1	3,228.8	3,232.6	3,225.1	3,212.3	3,236.5
18 Transaction	699.3	688.9	698.3	696.6	687.5	682.8	667.0	667.6	660.3	666.7	664.7	689.4
19 Nontransaction	2,334.0	2,470.4	2,500.5	2,515.3	2,518.0	2,540.2	2,530.1	2,561.3	2,572.3	2,558.4	2,547.6	2,547.1
20 Large time	604.0	660.8	677.3	674.5	674.9	685.1	667.4	679.2	681.6	675.8	675.1	679.0
21 Other	1,730.0	1,809.6	1,823.1	1,840.7	1,843.1	1,855.1	1,862.8	1,882.1	1,890.8	1,882.5	1,872.5	1,868.2
22 Borrowings	756.5	827.3	856.9	870.7	861.8	857.3	856.8	861.6	851.1	864.3	844.8	867.4
23 From banks in the U.S.	291.6 ³	292.0	306.8	305.9	282.2	287.6	289.3	293.9	291.4	296.3	285.2	296.7
24 From others	464.8	535.4	550.1	564.8	579.6	569.7	567.5	567.7	559.8	568.0	559.6	570.7
25 Net due to related foreign offices	207.3	226.9	205.4	179.8	174.4	170.6	186.1	201.1	184.5	196.7	207.1	215.9
26 Other liabilities	285.4 ³	303.5	296.1	295.2	299.1	308.2	317.9	325.4	319.9	327.3	323.1	326.2
27 Total liabilities	4,282.6⁷	4,516.9	4,557.2	4,557.6	4,540.7	4,559.1	4,558.0	4,617.0	4,588.1	4,613.3	4,587.3	4,646.0
28 Residual (assets less liabilities)⁷	386.4⁷	377.4	398.6	397.4	416.7	424.8	430.8	436.5	417.9	435.1	435.4	448.5
Not seasonally adjusted												
Assets												
29 Bank credit	3,972.4 ³	4,182.6	4,213.9	4,225.4	4,243.6	4,261.4	4,272.1	4,324.8	4,301.6	4,306.7	4,314.0	4,335.8
30 Securities in bank credit	1,025.8 ³	1,116.4	1,131.4	1,120.9	1,130.4	1,122.9	1,122.3	1,144.8	1,137.1	1,135.0	1,138.0	1,152.4
31 U.S. government securities	711.5	769.2	785.3	774.5	777.9	759.1	755.6	764.9	767.8	757.0	761.5	766.6
32 Other securities	314.3 ³	347.2	346.1	346.5	352.5	363.8	366.7	379.9	369.3	377.9	376.4	385.7
33 Loans and leases in bank credit ²	2,946.6	3,066.1	3,082.4	3,104.4	3,113.3	3,138.6	3,149.8	3,180.1	3,164.5	3,171.7	3,176.0	3,183.4
34 Commercial and industrial	823.1 ³	870.6	876.2	878.0	884.1	891.2	893.5	895.5	893.0	896.7	894.9	894.9
35 Real estate	1,207.9 ³	1,246.4	1,258.0	1,266.6	1,268.6	1,271.6	1,277.6	1,288.6	1,287.0	1,293.9	1,283.1	1,286.9
36 Revolving home equity	94.4	97.7	97.2	97.5	97.6	97.4	97.5	97.5	97.3	97.3	97.4	97.6
37 Other	1,113.5 ³	1,148.7	1,160.8	1,169.1	1,171.0	1,174.2	1,180.1	1,191.1	1,189.7	1,196.6	1,185.7	1,189.3
38 Consumer	519.9	501.7	495.6	500.5	500.6	499.9	494.7	495.9	492.7	493.1	496.3	499.1
39 Security ³	91.6	119.6	117.8	117.3	120.5	127.7	129.0	133.9	130.7	131.4	136.0	134.6
40 Other loans and leases	304.1	327.9	334.8	342.1	339.5	348.2	355.0	366.2	360.6	360.3	363.9	367.9
41 Interbank loans	185.2	203.4	217.8	217.3	197.8	214.0	207.2	201.0	209.0	203.0	190.9	197.4
42 Cash assets ⁴	249.1	264.7	264.4	264.1	246.3	245.8	239.3	239.6	237.2	244.7	231.6	238.8
43 Other assets ⁵	293.0 ³	302.3	295.6	307.2	312.8	311.7	312.1	314.0	310.9	312.9	314.2	309.1
44 Total assets⁶	4,642.7⁷	4,896.3	4,934.7	4,956.8	4,943.1	4,975.4	4,973.2	5,022.2	5,001.3	5,010.0	4,993.4	5,023.9
Liabilities												
45 Deposits	3,022.8	3,146.4	3,189.5	3,211.3	3,189.0	3,215.0	3,189.6	3,218.6	3,238.5	3,211.1	3,201.4	3,195.3
46 Transaction	685.6	682.1	685.9	701.7	675.6	677.8	662.1	654.1	661.7	648.6	651.2	649.7
47 Nontransaction	2,337.2	2,464.3	2,503.6	2,509.6	2,513.4	2,537.2	2,527.5	2,564.5	2,576.8	2,562.5	2,550.2	2,545.6
48 Large time	602.9	659.7	674.8	669.0	675.2	682.8	664.1	678.2	679.4	673.4	673.8	680.4
49 Other	1,734.3	1,804.6	1,828.8	1,840.6	1,838.2	1,854.4	1,863.4	1,886.3	1,897.3	1,889.0	1,876.4	1,865.2
50 Borrowings	750.1	827.9	848.6	870.1	867.3	867.1	861.4	854.6	847.6	853.5	842.7	855.2
51 From banks in the U.S.	288.2	292.9	304.3	305.0	283.4	290.6	289.9	288.4	290.3	290.3	283.7	290.9
52 From others	461.9	535.0	544.3	565.1	583.9	576.5	571.8	564.7	559.1	563.2	558.9	564.4
53 Net due to related foreign offices	206.5	225.5	203.9	179.0	183.0	176.5	188.2	201.6	178.5	196.7	206.3	222.0
54 Other liabilities	285.5 ³	304.6	296.3	294.4	298.6	307.4	317.2	325.4	319.5	327.5	322.9	326.5
55 Total liabilities	4,265.0⁷	4,504.4	4,538.4	4,554.8	4,537.9	4,566.0	4,556.4	4,600.3	4,584.0	4,588.8	4,573.3	4,599.0
56 Residual (assets less liabilities)⁷	377.7⁷	391.8	396.3	402.0	405.2	409.4	416.9	421.9	417.3	421.2	420.2	424.9
MEMO												
57 Revaluation gains on off-balance-sheet items ⁸	90.7	88.3	87.8	83.8	85.8	92.7	92.7	95.7	91.5	96.1	92.8	97.6
58 Revaluation losses on off-balance-sheet items ⁸	92.2	89.9	89.4	84.4	84.9	90.7	90.5	96.4	92.4	98.3	93.2	98.0

Footnotes appear on p. A21.

1.26 COMMERCIAL BANKS IN THE UNITED STATES Assets and Liabilities¹—Continued

B. Domestically chartered commercial banks

Billions of dollars

Account	Monthly averages								Wednesday figures			
	1997	1998 [†]							1998			
	Aug	Feb	Mar.	Apr	May	June	July	Aug.	Aug. 5	Aug. 12	Aug. 19	Aug. 26
Seasonally adjusted												
<i>Assets</i>												
1 Bank credit	3,447.0	3,613.4	3,656.7	3,663.4	3,685.7	3,693.9	3,706.0	3,748.5	3,714.3	3,732.5	3,746.0	3,771.2
2 Securities in bank credit	856.9	915.3	929.5	915.6	928.6	920.8	928.1	942.6	925.6	933.1	944.5	955.0
3 U.S. government securities	633.0	684.8	693.2	676.9	684.2	669.3	669.3	676.8	671.0	667.8	678.4	681.6
4 Other securities	223.9	230.5	236.3	238.7	244.5	251.6	258.8	265.8	254.6	265.3	266.1	273.5
5 Loans and leases in bank credit ²	2,590.2	2,698.1	2,727.2	2,747.8	2,757.0	2,773.1	2,778.0	2,805.9	2,788.7	2,799.4	2,801.5	2,816.2
6 Commercial and industrial	606.4 ¹	648.8	653.0	657.3	666.8	675.5	677.8	684.4	680.9	682.3	684.3	687.1
7 Real estate	1,176.2 ¹	1,224.6	1,238.7	1,248.2	1,250.5	1,249.9	1,251.6	1,261.3	1,259.8	1,265.0	1,256.2	1,260.6
8 Revolving home equity	94.3	98.1	98.3	98.4	97.9	97.7	97.4	97.4	97.3	97.2	97.4	97.4
9 Other	1,081.9 ¹	1,126.5	1,140.4	1,149.8	1,152.6	1,152.1	1,154.1	1,163.9	1,162.6	1,167.8	1,158.9	1,163.2
10 Consumer	518.2	502.1	502.1	505.5	505.9	502.7	496.7	494.3	493.3	492.6	494.3	496.2
11 Security ³	51.2	62.9	67.8	63.6	61.8	67.5	69.6	73.3	67.5	69.8	76.1	76.9
12 Other loans and leases	238.3	259.6	265.6	273.2	272.0	277.5	282.3	292.6	287.2	289.7	290.5	295.4
13 Interbank loans	172.6	174.5	195.1	192.0	180.4	193.4	191.6	185.6	192.5	189.2	176.3	186.0
14 Cash assets ⁴	227.8	231.4	241.3	233.2	215.9	215.5	208.5	217.9	208.2	229.7	209.8	230.9
15 Other assets ⁵	246.4	259.8	259.3	272.7	279.3	279.1	276.7	276.3	272.9	277.0	276.3	273.2
16 Total assets ⁶	4,037.5	4,222.6	4,295.7	4,304.0	4,304.0	4,324.7	4,325.6	4,371.6	4,331.0	4,371.7	4,351.8	4,404.7
<i>Liabilities</i>												
17 Deposits	2,771.1	2,871.4	2,907.5	2,917.9	2,910.2	2,920.3	2,899.9	2,922.6	2,925.3	2,923.4	2,909.2	2,928.5
18 Transaction	688.2	677.3	686.4	684.4	676.0	671.7	653.6	655.8	648.3	655.6	653.3	677.9
19 Nontransaction	2,082.9	2,194.0	2,221.2	2,233.5	2,234.2	2,248.6	2,246.2	2,266.8	2,276.9	2,267.8	2,255.9	2,250.7
20 Large time	353.7	387.4	400.8	394.5	391.7	393.2	384.5	384.0	386.4	385.1	382.5	381.3
21 Other	1,729.2	1,806.7	1,820.4	1,839.0	1,842.6	1,855.5	1,861.7	1,882.8	1,890.5	1,882.7	1,873.4	1,869.4
22 Borrowings	613.6 ⁷	682.9	704.1	704.7	698.4	690.2	686.9	691.6	675.2	691.9	680.4	705.2
23 From banks in the U.S.	260.0	268.6	279.8	279.2	259.8	258.0	262.5	269.8	267.6	273.2	261.8	275.4
24 From others	353.6 ⁷	414.3	424.3	425.4	438.6	432.2	424.5	421.8	407.6	418.7	418.6	429.8
25 Net due to related foreign offices	75.4	87.9	82.8	77.4	73.3	73.4	79.3	92.8	79.8	92.8	95.9	101.5
26 Other liabilities	185.7 ⁷	206.4	207.1	210.1	211.8	218.1	224.9	226.8	222.3	226.3	223.5	229.9
27 Total liabilities	3,645.7 ⁷	3,848.6	3,901.5	3,910.0	3,893.6	3,902.0	3,891.0	3,933.8	3,902.6	3,934.3	3,909.0	3,965.1
28 Residual (assets less liabilities) ⁷	391.8 ⁸	374.0	394.3	394.0	410.3	422.7	434.6	437.8	428.5	437.4	442.8	439.6
Not seasonally adjusted												
<i>Assets</i>												
29 Bank credit	3,435.4	3,611.4	3,647.5	3,668.2	3,678.9	3,692.3	3,697.2	3,732.6	3,709.2	3,717.4	3,727.5	3,742.9
30 Securities in bank credit	846.5	921.8	932.8	924.8	924.9	920.6	919.7	929.8	918.1	920.5	928.9	937.2
31 U.S. government securities	628.7	684.5	695.8	686.7	688.2	671.6	665.8	671.2	667.5	662.6	672.4	673.9
32 Other securities	217.9	237.3	237.0	238.1	241.2	249.0	253.9	258.7	250.7	257.9	256.5	263.3
33 Loans and leases in bank credit ²	2,588.8	2,689.6	2,714.7	2,743.4	2,749.5	2,771.7	2,777.5	2,802.7	2,791.1	2,796.9	2,798.5	2,805.7
34 Commercial and industrial	602.1 ¹	647.6	655.9	664.8	672.9	678.3	677.7	679.5	679.1	678.0	679.7	679.3
35 Real estate	1,179.4 ¹	1,219.1	1,232.1	1,241.9	1,244.3	1,247.6	1,253.9	1,265.0	1,263.3	1,270.2	1,259.6	1,263.5
36 Revolving home equity	94.4	97.7	97.2	97.5	97.6	97.4	97.5	97.5	97.3	97.3	97.4	97.6
37 Other	1,085.0 ¹	1,121.4	1,134.8	1,144.4	1,146.7	1,150.2	1,156.4	1,167.5	1,166.0	1,172.9	1,162.1	1,165.9
38 Consumer	519.9	501.7	495.6	500.5	500.6	499.9	494.7	495.9	492.7	493.1	496.3	499.1
39 Security ³	48.9	64.2	67.9	65.7	61.9	67.6	68.0	69.6	66.3	67.1	71.8	70.8
40 Other loans and leases	238.7	257.0	263.2	270.5	269.8	278.3	283.1	292.7	289.0	288.6	291.3	293.0
41 Interbank loans	166.8	177.5	194.6	194.7	176.0	190.1	185.2	178.6	189.6	181.1	171.5	170.6
42 Cash assets ⁴	215.0	232.1	231.0	230.2	211.9	209.5	204.2	205.6	203.3	209.8	197.7	205.3
43 Other assets ⁵	247.5	259.5	259.2	273.0	278.3	278.4	278.3	277.4	276.0	278.1	276.5	272.2
44 Total assets ⁶	4,007.9	4,224.1	4,275.7	4,309.2	4,288.0	4,313.0	4,307.7	4,337.0	4,320.9	4,329.3	4,316.1	4,334.1
<i>Liabilities</i>												
45 Deposits	2,761.7	2,860.8	2,897.1	2,919.0	2,891.0	2,910.6	2,894.2	2,913.7	2,933.2	2,911.9	2,900.2	2,886.6
46 Transaction	674.5	670.8	674.1	689.9	664.4	666.7	648.6	642.4	649.9	637.6	639.9	638.4
47 Nontransaction	2,087.2	2,190.0	2,223.0	2,229.1	2,226.6	2,243.9	2,245.5	2,271.3	2,283.3	2,274.3	2,260.3	2,248.2
48 Large time	355.4	387.7	396.2	390.3	389.9	390.8	383.4	386.4	387.2	386.6	385.3	384.4
49 Other	1,731.8	1,802.3	1,826.8	1,838.8	1,836.7	1,853.1	1,862.1	1,884.9	1,896.0	1,887.7	1,875.1	1,863.9
50 Borrowings	607.2	683.5	695.8	704.1	703.9	699.9	691.5	684.7	671.6	681.1	678.2	693.0
51 From banks in the U.S.	256.6	269.5	277.3	278.4	261.0	261.0	262.7	265.9	264.7	267.2	260.3	269.6
52 From others	350.6	414.0	418.5	425.7	443.0	439.0	428.7	418.8	406.9	413.9	417.9	423.4
53 Net due to related foreign offices	77.9	85.1	82.1	78.0	80.9	80.1	84.9	96.7	95.3	95.3	100.1	106.6
54 Other liabilities	185.7 ⁷	206.4	207.1	210.1	211.8	218.1	224.9	226.8	222.3	226.3	223.5	229.9
55 Total liabilities	3,632.5 ⁷	3,835.9	3,882.1	3,911.1	3,887.6	3,908.7	3,895.4	3,921.8	3,910.7	3,914.6	3,901.9	3,916.1
56 Residual (assets less liabilities) ⁷	375.4 ⁸	388.2	393.6	398.1	400.3	404.3	412.3	415.2	410.2	414.7	414.1	418.0
MEMO												
57 Revaluation gains on off-balance-sheet items ⁸	45.1	47.0	47.2	43.9	45.6	50.5	51.0	51.9	47.5	51.7	50.3	54.2
58 Revaluation losses on off-balance-sheet items ⁸	46.5	49.2	49.6	45.3	46.3	50.1	50.4	54.2	49.8	54.8	52.0	55.8
59 Mortgage-backed securities ⁹	256.3	294.5	300.7	295.6	298.0	291.2	294.4	301.9	298.0	297.7	301.0	303.5

Footnotes appear on p. A21.

1.26 COMMERCIAL BANKS IN THE UNITED STATES Assets and Liabilities¹—Continued

C. Large domestically chartered commercial banks

Billions of dollars

Account	Monthly averages								Wednesday figures				
	1997	1998 ^f							1998				
		Aug.	Feb.	Mar.	Apr.	May	June	July	Aug.	Aug. 5	Aug. 12	Aug. 19	Aug. 26
	Seasonally adjusted												
Assets													
1 Bank credit	2,079.2	2,190.0	2,227.6	2,228.0	2,240.9	2,239.0	2,238.8	2,269.2	2,238.5	2,259.7	2,264.9	2,289.8	
2 Securities in bank credit	460.4	512.0	523.9	511.2	520.1	512.1	513.9	524.7	508.4	517.1	525.0	537.3	
3 U.S. government securities	318.9	365.7	374.0	360.9	364.4	350.4	347.8	353.8	348.2	346.3	353.7	359.2	
4 Trading account	21.3	28.0	27.5	23.7	24.5	24.3	20.2	21.1	18.5	19.7	21.2	23.7	
5 Investment account	297.6	337.8	346.6	337.2	339.9	326.1	327.6	332.7	329.7	326.7	332.5	335.5	
6 Other securities	141.5	146.3	149.9	150.3	155.7	161.7	166.1	170.9	160.2	170.7	171.3	178.1	
7 Trading account	70.2	67.5	70.9	69.4	74.4	78.5	81.1	83.1	76.2	84.1	82.5	89.1	
8 Investment account	71.3	78.7	79.0	80.9	81.4	83.2	85.0	87.7	84.0	86.6	88.8	89.0	
9 State and local government	22.2	22.7	22.8	23.0	22.8	22.2	22.4	22.6	22.6	22.5	22.5	22.6	
10 Other	49.0	56.0	56.2	58.0	58.6	60.9	62.6	65.1	61.4	64.1	66.3	66.4	
11 Loans and leases in bank credit ²	1,618.8	1,678.0	1,703.7	1,716.8	1,720.8	1,726.9	1,724.8	1,744.5	1,730.1	1,742.6	1,739.9	1,752.5	
12 Commercial and industrial	431.2	463.9	467.8	470.6	477.7	484.2	485.0	488.4	486.5	487.5	488.1	490.4	
13 Bankers acceptances	1.5	1.3	1.3	1.2	1.3	1.2	1.3	1.3	1.2	1.2	1.3	1.3	
14 Other	429.7	462.7	466.5	469.4	476.4	483.0	483.7	487.2	486.7	487.8	488.4	490.8	
15 Real estate	658.3	670.1	681.7	686.1	685.8	679.0	675.1	677.7	678.6	683.9	672.6	675.4	
16 Revolving home equity	66.5	68.9	69.1	69.4	68.8	68.3	67.8	67.7	67.7	67.6	67.6	67.6	
17 Other	591.8	601.2	612.7	616.7	617.1	610.7	607.3	610.0	610.9	616.3	604.9	607.7	
18 Consumer	308.5	295.6	297.0	301.2	300.8	297.4	292.0	292.8	291.0	292.2	292.5	294.4	
19 Security ³	46.7	57.2	61.7	57.3	55.9	61.3	63.4	66.9	60.9	63.3	69.9	70.7	
20 Federal funds sold to and repurchase agreements with broker-dealers	30.3	41.2	43.8	39.8	37.6	42.8	44.8	47.9	42.6	43.9	50.8	51.4	
21 Other	16.4	16.0	17.9	17.6	18.3	18.6	18.6	19.0	18.3	19.5	19.1	19.3	
22 State and local government	12.1	11.4	11.2	11.2	11.3	11.2	11.1	11.2	11.2	11.1	11.4	11.2	
23 Agricultural	9.4	9.7	9.8	9.9	9.9	9.9	9.8	9.8	9.8	9.7	9.8	9.8	
24 Federal funds sold to and repurchase agreements with others	6.5	6.2	7.2	7.2	5.6	5.5	8.7	9.7	8.7	8.9	9.2	10.8	
25 All other loans	69.2	78.4	79.8	82.7	81.0	84.7	84.8	89.9	86.5	88.5	88.5	91.5	
26 Lease-financing receivables	76.9	85.5	87.4	90.5	92.7	93.6	95.0	97.9	96.8	97.6	97.9	98.3	
27 Interbank loans	121.6	119.3	132.5	127.8	115.5	124.9	120.4	112.5	120.7	116.7	105.3	111.1	
28 Federal funds sold to and repurchase agreements with commercial banks	76.8	70.5	82.2	76.1	65.1	74.5	67.7	60.4	68.6	63.8	53.8	59.2	
29 Other	44.8	48.8	50.3	51.7	50.3	50.4	52.7	52.1	52.1	52.9	51.5	52.0	
30 Cash assets ⁴	158.5	165.3	174.9	165.8	148.3	147.0	141.6	148.9	140.6	159.1	141.6	159.2	
31 Other assets ⁵	183.7	196.9	197.4	209.1	214.1	211.3	208.8	208.4	206.6	207.4	208.8	205.1	
32 Total assets ⁶	2,505.7	2,634.4	2,695.1	2,693.2	2,681.1	2,684.7	2,672.2	2,702.2	2,669.4	2,706.0	2,683.9	2,728.6	
Liabilities													
33 Deposits	1,542.5	1,598.0	1,626.6	1,629.3	1,613.4	1,610.1	1,586.3	1,593.9	1,602.5	1,596.7	1,583.1	1,593.0	
34 Transaction	393.2	384.7	391.4	390.8	382.8	376.6	361.7	363.2	359.3	363.1	361.7	375.7	
35 Nontransaction	1,149.3	1,213.3	1,235.1	1,238.5	1,230.6	1,233.5	1,224.6	1,230.7	1,243.2	1,233.6	1,221.4	1,217.3	
36 Large time	195.4	216.9	229.7	222.0	217.3	218.7	212.4	211.2	214.7	213.0	209.5	207.7	
37 Other	953.9	996.4	1,005.5	1,016.5	1,013.3	1,014.8	1,012.2	1,019.5	1,028.5	1,020.7	1,012.0	1,009.6	
38 Borrowings	462.7	528.5	548.0	546.4	537.6	528.3	522.0	527.2	510.7	527.2	515.5	541.7	
39 From banks in the U.S.	184.8	198.3	210.3	209.6	189.6	187.2	188.9	195.9	193.8	199.6	187.0	201.8	
40 From others	277.9	330.2	337.7	336.7	348.0	341.1	333.2	331.2	316.9	327.6	328.5	339.8	
41 Net due to related foreign offices	70.8	81.8	78.7	73.9	69.4	69.5	75.6	89.1	76.1	89.6	92.0	97.4	
42 Other liabilities	159.1	177.5	176.7	179.5	181.4	187.8	193.9	196.0	191.8	195.6	193.0	199.1	
43 Total liabilities	2,235.1	2,385.7	2,430.0	2,429.1	2,401.8	2,395.8	2,377.9	2,406.1	2,381.0	2,409.1	2,383.6	2,431.2	
44 Residual (assets less liabilities) ⁷	270.7	248.7	265.1	264.1	279.3	289.0	294.3	296.0	288.4	296.9	300.3	297.4	

Footnotes appear on p. A21.

1.26 COMMERCIAL BANKS IN THE UNITED STATES Assets and Liabilities¹—Continued

C. Large domestically chartered commercial banks—Continued

Account	Monthly averages								Wednesday figures			
	1997	1998 ²							1998			
	Aug.	Feb.	Mar.	Apr.	May	June	July	Aug.	Aug. 5	Aug. 12	Aug. 19	Aug. 26
Not seasonally adjusted												
<i>Assets</i>												
45 Bank credit	2,068.1	2,196.5	2,222.0	2,227.1	2,227.1	2,232.6	2,231.8	2,253.7	2,236.0	2,244.4	2,247.7	2,260.5
46 Securities in bank credit	451.1	520.6	525.8	514.9	516.7	508.8	506.9	513.0	502.8	505.0	511.2	519.7
47 U.S. government securities	315.5	367.5	375.4	365.6	365.1	350.1	345.6	349.0	346.3	341.5	349.2	351.5
48 Trading account	21.3	28.4	28.3	23.9	23.7	23.4	19.6	20.9	19.2	19.4	22.0	22.0
49 Investment account	294.2	339.1	347.1	341.7	341.4	326.7	325.9	328.1	327.1	322.1	327.3	329.5
50 Mortgage-backed securities	192.0	224.1	228.8	222.5	222.3	213.8	215.2	221.8	219.9	218.7	221.7	224.2
51 Other	101.0	113.5	116.8	117.8	117.7	111.6	109.4	104.9	107.2	103.4	105.6	105.3
52 One year or less	27.8	29.7	30.4	31.7	30.2	30.2	29.1	27.7	28.0	27.6	28.5	27.5
53 One to five years	51.1	52.3	52.2	51.6	50.2	47.0	49.8	46.8	48.4	45.4	47.3	46.9
54 More than five years	22.0	31.5	34.2	34.5	37.3	34.3	30.5	30.4	30.9	30.4	29.8	30.9
55 Other securities	135.7	153.1	150.4	149.3	151.6	158.7	161.3	164.0	156.5	163.4	162.0	168.2
56 Trading account	64.8	74.2	71.4	69.0	70.9	75.7	77.0	76.8	72.7	77.3	73.9	79.9
57 Investment account	70.9	78.8	79.0	80.3	80.7	82.9	84.3	87.2	83.7	86.1	88.1	88.3
58 State and local government	22.2	22.7	22.7	22.9	22.7	22.4	22.3	22.7	22.5	22.5	22.6	22.7
59 Other	48.7	56.1	56.3	57.3	58.0	60.6	62.1	64.6	61.2	63.6	65.6	65.6
60 Loans and leases in bank credit ³	1,616.9	1,675.9	1,696.2	1,712.2	1,710.4	1,723.8	1,724.9	1,740.7	1,733.2	1,739.4	1,736.5	1,740.9
61 Commercial and industrial	428.3	463.1	469.7	475.7	481.3	485.3	485.1	485.1	486.4	484.5	485.0	484.5
62 Bankers acceptances	1.5	1.2	1.2	1.2	1.2	1.2	1.2	1.3	1.2	1.2	1.3	1.3
63 Other	426.8	461.9	468.5	474.5	480.1	484.1	483.8	483.8	485.2	483.3	483.8	483.1
64 Real estate	661.2	668.4	677.5	680.2	678.0	676.1	677.4	681.0	682.4	688.3	675.7	677.4
65 Revolving home equity	66.8	68.5	68.1	68.4	68.3	68.0	68.0	68.0	67.9	67.8	67.9	67.9
66 Other	365.1	366.5	376.0	377.1	374.6	374.2	375.5	377.9	381.8	387.7	374.5	376.1
67 Commercial	226.1	230.2	230.2	231.5	231.9	230.7	231.3	232.8	232.7	233.2	233.3	233.4
68 Consumer	310.1	295.2	292.5	297.1	296.8	296.2	291.7	294.4	291.2	292.8	294.4	296.7
69 Security ⁴	44.4	58.6	61.8	59.4	56.0	61.4	61.8	63.2	59.7	60.6	65.5	64.6
70 Federal funds sold to and repurchase agreements with broker-dealers	28.6	42.5	44.0	41.7	37.6	42.4	43.8	45.0	42.4	42.5	47.2	45.6
71 Other	15.8	16.1	17.8	17.7	18.4	19.0	18.1	18.3	17.4	18.2	18.3	18.9
72 State and local government	12.2	11.4	11.2	11.1	11.2	11.2	11.1	11.3	11.2	11.1	11.4	11.3
73 Agricultural	9.7	9.3	9.4	9.5	9.7	10.0	10.1	10.1	10.2	10.1	10.1	10.2
74 Federal funds sold to and repurchase agreements with others	6.5	6.2	7.2	7.2	5.6	5.5	8.7	9.7	8.7	8.9	9.2	10.8
75 All other loans	68.7	76.9	78.9	81.7	79.8	84.9	84.5	89.2	87.4	86.7	88.4	88.5
76 Lease-financing receivables	75.9	86.8	88.0	90.3	92.0	93.2	94.5	96.7	95.9	96.4	96.7	97.0
77 Interbank loans	118.8	118.3	128.2	128.5	114.8	125.3	119.4	110.0	118.4	112.2	105.1	105.7
78 Federal funds sold to and repurchase agreements with commercial banks	74.6	69.7	78.8	77.3	64.8	74.9	67.0	58.6	66.9	60.7	54.3	54.3
79 Other	44.2	48.6	49.4	51.2	50.0	50.5	52.4	51.4	51.5	51.5	50.8	51.4
80 Cash assets ⁵	147.9	166.2	166.1	163.4	144.3	141.9	138.0	138.9	136.4	143.0	132.0	139.4
81 Other assets ⁶	183.7	196.9	197.4	209.1	214.1	211.3	208.8	208.4	206.6	207.4	208.8	205.1
82 Total assets ⁶	2,481.0	2,640.9	2,676.7	2,690.9	2,662.9	2,673.6	2,660.5	2,673.8	2,660.2	2,669.8	2,656.5	2,673.7
<i>Liabilities</i>												
83 Deposits	1,539.3	1,590.5	1,614.5	1,622.1	1,593.6	1,603.8	1,586.3	1,591.5	1,609.9	1,591.9	1,582.1	1,568.6
84 Transaction	383.9	381.6	382.2	392.8	373.3	373.2	359.5	354.0	359.4	350.7	353.5	349.0
85 Nontransaction	1,155.5	1,208.9	1,232.3	1,229.3	1,220.3	1,230.6	1,226.8	1,237.5	1,250.5	1,241.2	1,228.6	1,219.6
86 Large time	197.1	217.3	225.1	217.8	215.5	216.3	211.3	213.6	215.5	214.4	212.2	210.8
87 Other	958.3	991.6	1,007.2	1,011.6	1,004.8	1,014.3	1,015.5	1,023.9	1,035.0	1,026.8	1,016.3	1,008.8
88 Borrowings	455.3	530.8	543.0	547.6	542.9	537.6	526.5	518.9	507.7	515.4	511.6	527.3
89 From banks in the U.S.	180.7	200.0	209.0	209.1	190.1	189.6	188.9	191.3	190.9	192.9	184.5	194.9
90 From nonbanks in the U.S.	274.6	330.8	334.0	338.5	352.7	348.0	337.6	327.6	316.9	322.5	327.1	332.4
91 Net due to related foreign offices	73.3	79.0	78.0	74.5	77.1	76.2	81.2	92.9	80.0	92.1	96.2	102.5
92 Other liabilities	159.1	177.5	176.7	179.5	181.4	187.8	193.9	196.0	191.8	195.6	193.0	199.1
93 Total liabilities	2,227.0	2,377.8	2,412.2	2,423.7	2,395.0	2,405.4	2,388.0	2,399.4	2,389.4	2,395.0	2,382.8	2,397.4
94 Residual (assets less liabilities) ⁷	253.9	263.2	264.5	267.2	267.9	268.2	272.6	274.4	270.8	274.8	273.7	276.3
MEMO												
95 Revaluation gains on off-balance-sheet items ⁸	45.1	47.0	47.2	43.9	45.6	50.5	51.0	51.9	47.5	51.7	50.3	54.2
96 Revaluation losses on off-balance-sheet items ⁸	46.5	49.2	49.6	45.3	46.3	50.1	50.4	54.2	49.8	54.8	52.0	55.8
97 Mortgage-backed securities ⁹	210.0	243.5	248.6	242.3	243.0	235.1	237.6	244.2	241.6	241.1	244.1	246.8
98 Pass-through securities	143.4	165.3	169.9	165.3	164.7	156.8	156.9	160.2	157.9	156.2	160.4	163.2
99 CMOs, REMICs, and other mortgage-backed securities	66.7	78.1	78.8	77.0	78.3	78.2	80.7	84.0	83.7	85.0	83.7	83.5
100 Net unrealized gains (losses) on available-for-sale securities ¹⁰	2.2	3.3	2.9	3.0	2.8	3.2	3.5	3.1	2.9	3.0	2.9	3.2
101 Offshore credit to U.S. residents ¹¹	34.0	36.2	35.2	35.5	36.0	36.1	35.3	35.6	35.5	35.6	35.6	35.5

Footnotes appear on p. A21.

1.26 COMMERCIAL BANKS IN THE UNITED STATES Assets and Liabilities¹—Continued

D. Small domestically chartered commercial banks

Billions of dollars

Account	Monthly averages								Wednesday figures			
	1997	1998 ^f							1998			
	Aug.	Feb.	Mar.	Apr.	May	June	July	Aug.	Aug. 5	Aug. 12	Aug. 19	Aug. 26
Seasonally adjusted												
<i>Assets</i>												
1 Bank credit	1,367.8	1,423.5	1,429.1	1,435.4	1,444.8	1,454.9	1,467.3	1,479.3	1,475.9	1,472.8	1,481.1	1,481.4
2 Securities in bank credit	396.4	403.3	405.6	404.4	408.5	408.7	414.1	417.9	417.2	416.0	419.5	417.7
3 U.S. government securities	314.1	319.1	319.2	316.0	318.8	318.8	321.5	323.0	322.8	321.5	324.7	322.4
4 Other securities	82.3	84.3	86.4	88.4	88.7	89.9	92.6	94.9	94.4	94.6	94.9	95.3
5 Loans and leases in bank credit ²	971.4	1,020.1	1,023.5	1,031.0	1,036.3	1,046.2	1,053.2	1,061.5	1,058.6	1,056.8	1,061.6	1,063.7
6 Commercial and industrial	175.1	184.9	185.2	186.7	189.1	191.2	192.8	196.0	194.4	194.8	196.2	196.8
7 Real estate	517.8	554.5	556.9	562.0	564.7	570.9	576.5	583.6	581.3	581.2	583.6	585.2
8 Revolving home equity	27.8	29.3	29.2	29.0	29.1	29.4	29.6	29.7	29.6	29.6	29.7	29.8
9 Other	490.0	525.3	527.7	533.0	535.5	541.4	546.8	553.9	551.6	551.5	553.9	555.5
10 Consumer	209.7	206.6	205.1	204.3	205.1	205.3	204.7	201.5	202.3	200.5	201.8	201.8
11 Security ³	4.5	5.7	6.1	6.2	5.9	6.2	6.2	6.4	6.6	6.4	6.3	6.2
12 Other loans and leases	64.2	68.5	70.2	71.7	71.4	72.6	72.9	74.0	74.1	73.9	73.7	73.7
13 Interbank loans	51.1	55.2	62.6	64.1	64.9	68.5	71.1	73.1	71.8	72.5	71.0	74.9
14 Cash assets ⁴	69.3	66.1	66.4	67.4	67.7	68.3	66.9	69.0	67.6	70.6	68.2	71.7
15 Other assets ⁵	62.8	63.0	61.9	63.6	65.1	67.8	67.9	67.9	66.2	69.6	67.5	68.1
16 Total assets ⁶	1,531.8	1,588.3	1,600.6	1,610.8	1,622.8	1,640.0	1,653.4	1,669.4	1,661.6	1,665.7	1,667.9	1,676.1
<i>Liabilities</i>												
17 Deposits	1,228.6	1,273.4	1,281.0	1,288.5	1,296.8	1,310.2	1,313.5	1,328.8	1,322.8	1,326.6	1,326.1	1,335.5
18 Transaction	295.0	292.6	294.9	293.6	293.2	295.1	289.1	292.6	292.5	292.5	291.6	302.1
19 Nontransaction	933.5	980.7	986.0	995.0	1,003.6	1,015.1	1,021.6	1,036.1	1,033.7	1,034.1	1,034.5	1,033.4
20 Large time	158.3	170.4	171.1	172.5	174.4	174.5	172.1	172.8	171.7	172.1	173.0	173.6
21 Other	775.3	810.3	814.9	822.5	829.2	840.6	849.5	863.3	862.0	862.0	861.4	859.8
22 Borrowings	150.9	154.5	156.1	158.3	160.7	161.9	164.9	164.5	164.5	164.7	164.8	163.5
23 From banks in the U.S.	75.2	70.3	69.5	69.6	70.2	70.8	73.6	73.9	73.8	73.6	74.8	73.6
24 From others	75.7	84.2	86.6	88.7	90.6	91.1	91.3	90.6	90.7	91.1	90.1	89.9
25 Net due to related foreign offices	4.6	6.1	4.1	3.5	3.8	3.9	3.7	3.7	3.7	3.3	3.9	4.1
26 Other liabilities	26.6	29.0	30.3	30.6	30.4	30.3	31.0	30.7	30.5	30.6	30.5	30.9
27 Total liabilities	1,410.6	1,462.9	1,471.5	1,480.9	1,491.8	1,506.2	1,513.1	1,527.7	1,521.6	1,525.2	1,525.3	1,533.9
28 Residual (assets less liabilities) ⁷	121.1	125.3	129.1	129.9	131.0	133.7	140.3	141.8	140.1	140.5	142.5	142.2
Not seasonally adjusted												
<i>Assets</i>												
29 Bank credit	1,367.3	1,414.9	1,425.5	1,441.1	1,451.8	1,459.7	1,465.4	1,478.8	1,473.3	1,473.0	1,479.7	1,482.4
30 Securities in bank credit	395.4	401.2	407.0	409.9	412.7	411.9	412.8	416.8	415.4	415.5	417.7	417.6
31 U.S. government securities	313.2	317.0	320.4	321.1	323.1	321.5	320.2	322.2	321.2	321.1	323.1	322.5
32 Other securities	82.2	84.2	86.6	88.8	89.6	90.3	92.6	94.7	94.2	94.4	94.5	95.1
33 Loans and leases in bank credit ²	971.9	1,013.7	1,018.5	1,031.1	1,039.2	1,047.8	1,052.6	1,062.0	1,057.9	1,057.5	1,062.1	1,064.8
34 Commercial and industrial	173.7	184.5	186.2	189.1	191.7	193.0	192.6	194.4	193.3	193.5	194.7	194.9
35 Real estate	518.2	550.7	554.6	561.7	566.3	571.5	576.5	584.0	580.9	581.9	583.9	586.0
36 Revolving home equity	27.7	29.2	29.1	29.2	29.3	29.4	29.5	29.5	29.4	29.4	29.5	29.6
37 Other	490.6	521.5	525.5	532.5	537.0	542.1	547.0	554.5	551.4	552.5	554.3	556.4
38 Consumer	209.8	206.4	203.2	203.4	203.9	203.7	203.0	201.6	201.5	200.3	201.9	202.4
39 Security ³	4.5	5.7	6.1	6.2	5.9	6.2	6.2	6.4	6.6	6.4	6.3	6.2
40 Other loans and leases	65.7	66.3	68.4	70.7	71.4	73.5	74.2	75.6	75.7	75.4	75.4	75.3
41 Interbank loans	47.9	59.2	66.4	66.2	61.2	64.7	65.8	68.6	71.2	68.9	66.3	64.9
42 Cash assets ⁴	67.0	65.9	64.9	66.8	67.6	67.6	66.3	66.7	66.8	66.7	65.7	65.9
43 Other assets ⁵	63.8	62.6	61.8	63.9	64.2	67.1	69.5	69.0	69.3	70.7	67.7	67.1
44 Total assets ⁶	1,526.9	1,583.2	1,599.0	1,618.3	1,625.1	1,639.4	1,647.2	1,663.3	1,660.8	1,659.5	1,659.5	1,660.3
<i>Liabilities</i>												
45 Deposits	1,222.4	1,270.4	1,282.6	1,296.9	1,297.3	1,306.8	1,307.9	1,322.2	1,323.3	1,320.0	1,318.1	1,318.0
46 Transaction	290.6	289.3	291.9	297.1	291.1	293.5	289.1	288.4	290.5	286.9	286.4	289.3
47 Nontransaction	931.7	981.1	990.7	999.7	1,006.2	1,013.3	1,018.7	1,033.8	1,032.8	1,033.1	1,031.8	1,028.7
48 Large time	158.3	170.4	171.1	172.5	174.4	174.5	172.1	172.8	171.7	172.1	173.0	173.6
49 Other	773.5	810.7	819.6	827.2	831.8	838.8	846.6	861.0	861.1	860.9	858.8	855.1
50 Borrowings	151.9	152.7	152.9	156.5	161.1	162.3	164.9	165.8	163.9	165.7	166.6	165.7
51 From banks in the U.S.	75.9	69.6	68.4	69.3	70.9	71.4	73.8	74.6	73.8	74.3	75.9	74.0
52 From others	76.0	83.1	84.5	87.2	90.2	91.0	91.2	91.7	90.1	91.4	90.8	91.0
53 Net due to related foreign offices	4.6	6.1	4.1	3.5	3.8	3.9	3.7	3.7	3.7	3.3	3.9	4.1
54 Other liabilities	26.6	29.0	30.3	30.6	30.4	30.3	31.0	30.7	30.5	30.6	30.5	30.9
55 Total liabilities	1,405.5	1,458.2	1,469.9	1,487.4	1,492.6	1,503.3	1,507.5	1,522.4	1,521.4	1,519.6	1,519.2	1,518.6
56 Residual (assets less liabilities) ⁷	121.5	125.0	129.1	130.9	132.5	136.1	139.7	140.9	139.4	139.9	140.4	141.7
MEMO												
57 Mortgage-backed securities ⁹	46.3	51.1	52.1	53.3	55.0	56.1	56.8	57.8	56.4	56.6	56.9	56.8

Footnotes appear on p. A21.

A20 Domestic Financial Statistics □ November 1998

1.26 COMMERCIAL BANKS IN THE UNITED STATES Assets and Liabilities¹—Continued

E. Foreign-related institutions

Billions of dollars

Account	Monthly averages								Wednesday figures			
	1997	1998 ^f							1998			
	Aug.	Feb.	Mar.	Apr.	May	June	July	Aug.	Aug. 5	Aug. 12	Aug. 19	Aug. 26
Seasonally adjusted												
<i>Assets</i>												
1 Bank credit	534.8 ^f	571.5	566.1	556.9	563.0	566.0	572.0	589.8	587.9	586.1	581.1	593.7
2 Securities in bank credit	175.5 ^f	197.5	200.1	194.1	197.0	199.0	199.9	210.7	214.4	209.5	203.1	212.4
3 U.S. government securities	81.9	85.6	88.8	89.2	89.1	87.4	90.2	92.9	100.8	93.8	87.0	92.3
4 Other securities	93.6 ^f	111.9	111.3	105.0	107.9	111.7	109.7	117.8	113.6	115.6	116.1	120.1
5 Loans and leases in bank credit ²	359.4 ^f	374.1	366.0	362.8	366.0	367.0	372.2	379.1	373.5	376.6	378.0	381.3
6 Commercial and industrial	222.0	221.9	219.6	213.1	211.8	213.0	216.1	217.1	214.3	215.7	217.3	217.4
7 Real estate	28.7	27.1	25.9	25.0	24.4	24.2	23.9	23.7	24.0	23.8	23.7	23.5
8 Security ³	43.5	55.2	49.1	52.2	59.1	60.2	61.5	65.1	64.5	65.5	64.8	65.2
9 Other loans and leases	65.2	69.9	71.3	72.5	70.8	69.7	70.7	73.2	70.7	71.5	72.3	75.1
10 Interbank loans	18.4	25.9	23.1	22.6	21.8	23.9	22.0	22.5	19.4	21.9	19.4	26.8
11 Cash assets ⁴	34.1	33.1	34.5	35.6	34.8	35.3	35.2	34.0	33.8	35.0	33.8	33.5
12 Other assets ⁵	44.5 ^f	41.3	36.4	36.2	34.1	34.1	34.2	35.8	34.1	34.0	36.9	36.0
13 Total assets⁶	631.5^f	671.7	660.0	651.0	653.4	659.2	663.2	681.8	675.0	676.8	671.0	689.8
<i>Liabilities</i>												
14 Deposits	262.3	287.9	291.2	294.0	295.3	302.6	297.2	306.2	307.3	301.7	303.0	308.0
15 Transaction	11.1	11.5	12.0	12.3	11.5	11.1	13.4	11.8	11.9	11.1	11.3	11.5
16 Nontransaction	251.2	276.3	279.3	281.8	283.7	291.6	283.9	294.4	295.4	290.6	291.7	296.5
17 Borrowings	142.9	144.4	152.8	166.0	163.4	167.1	169.9	169.9	175.9	172.4	164.5	162.2
18 From banks in the U.S.	31.6	23.4	27.0	26.6	22.4	29.6	26.8	24.0	23.8	23.1	23.4	21.3
19 From others	111.3	121.0	125.8	139.4	141.0	137.5	143.1	145.9	152.2	149.3	141.1	140.9
20 Net due to related foreign offices	131.9	139.0	122.6	102.5	101.2	97.2	106.8	108.3	103.9	103.9	111.2	114.4
21 Other liabilities	99.7	97.1	89.1	85.1	87.3	90.1	93.0	98.7	97.6	101.0	99.6	96.3
22 Total liabilities	636.9	668.3	655.7	647.6	647.1	657.1	667.0	683.2	685.5	679.0	678.3	680.9
23 Residual (assets less liabilities) ⁷	-5.4 ^f	3.3	4.3	3.4	6.4	2.1	-3.8	-1.3	-10.5	-2.3	-7.4	8.9
Not seasonally adjusted												
<i>Assets</i>												
24 Bank credit	537.0 ^f	571.1	566.3	557.2	564.7	569.1	574.9	592.3	592.4	589.3	586.5	592.9
25 Securities in bank credit	179.3 ^f	194.6	198.6	196.1	201.0	202.2	202.6	214.9	218.9	214.5	209.1	215.1
26 U.S. government securities	82.8	84.7	89.5	87.8	89.7	87.4	89.8	93.7	100.3	94.4	89.2	92.7
27 Trading account	17.4	13.9	17.5	18.5	20.8	18.9	24.9	30.7	34.7	28.5	25.8	32.7
28 Investment account	65.4 ^f	70.8	72.1	69.3	68.9	68.5	64.9	63.1	65.6	65.9	63.3	60.0
29 Other securities	96.5 ^f	109.9	109.1	108.3	111.3	114.8	112.8	121.2	118.6	120.1	119.9	122.4
30 Trading account	58.0 ^f	68.2	65.8	64.8	66.6	70.2	70.1	75.2	72.1	73.2	74.1	77.0
31 Investment account	38.4 ^f	41.6	43.3	43.6	44.7	44.6	42.7	46.0	46.5	46.8	45.8	45.4
32 Loans and leases in bank credit ²	357.8	376.5	367.7	361.0	363.7	366.9	372.3	377.3	373.4	374.8	377.5	377.8
33 Commercial and industrial	221.1	223.0	220.3	213.1	211.2	212.9	215.8	216.0	213.7	215.0	217.0	215.5
34 Real estate	28.5	27.3	25.9	24.7	24.3	24.0	23.6	23.6	23.7	23.7	23.6	23.4
35 Security ³	42.7	55.3	49.9	51.6	58.6	60.1	60.9	64.3	64.4	64.3	64.3	63.9
36 Other loans and leases	65.5 ^f	70.9	71.6	71.6	69.7	70.0	71.9	73.5	71.6	71.8	72.6	75.0
37 Interbank loans	18.4	25.9	23.1	22.6	21.8	23.9	22.0	22.5	19.4	21.9	19.4	26.8
38 Cash assets ⁴	34.1	32.6	33.4	33.9	34.4	36.3	35.1	34.1	34.0	34.9	34.0	33.5
39 Other assets ⁵	45.5 ^f	42.8	36.4	34.2	34.5	33.4	33.8	36.6	34.9	34.8	37.7	36.9
40 Total assets⁶	634.8	672.2	659.0	647.6	655.2	662.4	665.5	685.2	680.4	680.6	677.4	689.9
<i>Liabilities</i>												
41 Deposits	261.1	285.6	292.5	292.3	298.0	304.4	295.4	304.9	305.4	299.2	301.1	308.7
42 Transaction	11.1	11.3	11.9	11.8	11.2	11.1	13.5	11.8	11.8	11.0	11.3	11.4
43 Nontransaction	250.0	274.3	280.6	280.5	286.8	293.3	282.0	293.2	293.5	288.2	289.8	297.3
44 Borrowings	142.9	144.4	152.8	166.0	163.4	167.1	169.9	169.9	175.9	172.4	164.5	162.2
45 From banks in the U.S.	31.6	23.4	27.0	26.6	22.4	29.6	26.8	24.0	23.8	23.1	23.4	21.3
46 From others	111.3	121.0	125.8	139.4	141.0	137.5	143.1	145.9	152.2	149.3	141.1	140.9
47 Net due to related foreign offices	128.7	140.3	121.7	101.0	102.1	96.5	103.3	105.0	94.8	101.3	106.2	115.5
48 Other liabilities	99.8	98.2	89.3	84.3	86.8	89.3	92.3	98.7	97.2	101.2	99.5	96.5
49 Total liabilities	632.5	668.5	656.3	643.7	650.3	657.3	660.9	678.5	673.3	674.1	671.3	682.9
50 Residual (assets less liabilities) ⁷	2.3	3.7	2.7	3.9	4.9	5.1	4.6	6.7	7.1	6.5	6.0	6.9
MEMO												
51 Revaluation gains on off-balance-sheet items ⁸	45.7	41.3	40.6	39.9	40.2	42.2	41.7	43.8	44.0	44.4	42.5	43.5
52 Revaluation losses on off-balance-sheet items ⁸	45.7	40.6	39.8	39.0	38.6	40.6	40.2	42.2	42.5	43.4	41.1	42.2

Footnotes appear on p. A21.

NOTES TO TABLE 1.26

NOTE. Tables 1.26, 1.27, and 1.28 have been revised to reflect changes in the Board's H.8 statistical release, "Assets and Liabilities of Commercial Banks in the United States." Table 1.27, "Assets and Liabilities of Large Weekly Reporting Commercial Banks," and table 1.28, "Large Weekly Reporting U.S. Branches and Agencies of Foreign Banks," are no longer being published in the *Bulletin*. Instead, abbreviated balance sheets for both large and small domestically chartered banks have been included in table 1.26, parts C and D. Data are both merger-adjusted and break-adjusted. In addition, data from large weekly reporting U.S. branches and agencies of foreign banks have been replaced by balance sheet estimates of all foreign-related institutions and are included in table 1.26, part E. These data are break-adjusted.

The not-seasonally-adjusted data for all tables now contain additional balance sheet items, which were available as of October 2, 1996.

1. Covers the following types of institutions in the fifty states and the District of Columbia: domestically chartered commercial banks that submit a weekly report of condition (large domestic); other domestically chartered commercial banks (small domestic); branches and agencies of foreign banks, and Edge Act and agreement corporations (foreign-related institutions). Excludes International Banking Facilities. Data are Wednesday values or *pro rata* averages of Wednesday values. Large domestic banks constitute a universe; data for small domestic banks and foreign-related institutions are estimates based on weekly samples and on quarter-end condition reports. Data are adjusted for breaks caused by reclassifications of assets and liabilities.

The data for large and small domestic banks presented on pp. A17–19 are adjusted to remove the estimated effects of mergers between these two groups. The adjustment for mergers changes past levels to make them comparable with current levels. Estimated quantities of balance sheet items acquired in mergers are removed from past data for the bank

group that contained the acquired bank and put into past data for the group containing the acquiring bank. Balance sheet data for acquired banks are obtained from Call Reports, and a ratio procedure is used to adjust past levels.

2. Excludes federal funds sold to, reverse RPs with, and loans made to commercial banks in the United States, all of which are included in "Interbank loans."

3. Consists of reverse RPs with brokers and dealers and loans to purchase and carry securities.

4. Includes vault cash, cash items in process of collection, balances due from depository institutions, and balances due from Federal Reserve Banks.

5. Excludes the due-from position with related foreign offices, which is included in "Net due to related foreign offices."

6. Excludes unearned income, reserves for losses on loans and leases, and reserves for transfer risk. Loans are reported gross of these items.

7. This balancing item is not intended as a measure of equity capital for use in capital adequacy analysis. On a seasonally adjusted basis this item reflects any differences in the seasonal patterns estimated for total assets and total liabilities.

8. Fair value of derivative contracts (interest rate, foreign exchange rate, other commodity and equity contracts) in a gain/loss position, as determined under FASB Interpretation No. 39.

9. Includes mortgage-backed securities issued by U.S. government agencies, U.S. government-sponsored enterprises, and private entities.

10. Difference between fair value and historical cost for securities classified as available-for-sale under FASB Statement No. 115. Data are reported net of tax effects. Data shown are restated to include an estimate of these tax effects.

11. Mainly commercial and industrial loans but also includes an unknown amount of credit extended to other than nonfinancial businesses.

1.32 COMMERCIAL PAPER AND BANKERS DOLLAR ACCEPTANCES OUTSTANDING

Millions of dollars, end of period

Item	Year ending December					1998					
	1993 Dec.	1994 Dec.	1995 Dec.	1996 Dec.	1997 Dec.	Feb.	Mar.	Apr.	May	June	July
Commercial paper (seasonally adjusted unless noted otherwise)											
1 All issuers	555,075	595,382	674,904	775,371	966,699	1,004,662	1,049,222	1,041,681	1,053,995	1,091,554	1,102,307
Financial companies ¹											
2 Dealer-placed paper ² , total	218,947	223,038	275,815	361,147	513,307	520,940	550,670	558,817	569,065	597,193	616,382
3 Directly placed paper ³ , total	180,389	207,701	210,829	229,662	252,536	268,001	282,083	275,415	274,469	276,476	266,022
4 Nonfinancial companies ⁴	155,739	164,643	188,260	184,563	200,857	215,721	216,469	207,449	210,460	217,885	219,904
Bankers dollar acceptances (not seasonally adjusted) ⁵											
5 Total	32,348	29,835	29,242	25,754	↑	↑	↑	↑	↑	↑	↑
By holder											
6 Accepting banks	12,421	11,783	↑	↑	↑	↑	↑	↑	↑	↑	↑
7 Own bills	10,707	10,462									
8 Bills bought from other banks	1,714	1,321									
Federal Reserve Banks ⁶											
9 Foreign correspondents	725	410	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
10 Others	19,202	17,642									
By basis											
11 Imports into United States	10,217	10,062									
12 Exports from United States	7,293	6,355									
13 All other	14,838	13,417	↓	↓	↓	↓	↓	↓	↓	↓	↓

1. Institutions engaged primarily in 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. As reported by financial companies that place their paper directly with investors.

4. Includes public utilities and firms engaged primarily in such activities as communications, construction, manufacturing, mining, wholesale and retail trade, transportation, and services.

5. Data on bankers dollar acceptances are gathered from approximately 100 institutions. The reporting group is revised every January. Beginning January 1995, data for Bankers dollar acceptances are reported annually in September.

6. In 1977 the Federal Reserve discontinued operations in bankers dollar acceptances for its own account.

1.33 PRIME RATE CHARGED BY BANKS Short-Term Business Loans¹

Percent per year

Date of change	Rate	Period	Average rate	Period	Average rate	Period	Average rate
1995—Jan. 1	8.50	1995	8.83	1996—Jan.	8.50	1997—Jan.	8.25
Feb. 1	9.00	1996	8.27	Feb.	8.25	Feb.	8.25
July 7	8.75	1997	8.44	Mar.	8.25	Mar.	8.30
Dec. 20	8.50			Apr.	8.25	Apr.	8.50
		1995—Jan.	8.50	May	8.25	May	8.50
1996—Feb. 1	8.25	Feb.	9.00	June	8.25	June	8.50
		Mar.	9.00	July	8.25	July	8.50
1997—Mar. 26	8.50	Apr.	9.00	Aug.	8.25	Aug.	8.50
		May	9.00	Sept.	8.25	Sept.	8.50
1998—Sept. 30	8.25	June	9.00	Oct.	8.25	Oct.	8.50
Oct. 16	8.00	July	8.80	Nov.	8.25	Nov.	8.50
		Aug.	8.75	Dec.	8.25	Dec.	8.50
		Sept.	8.75				
		Oct.	8.75			1998—Jan.	8.50
		Nov.	8.75			Feb.	8.50
		Dec.	8.65			Mar.	8.50
						Apr.	8.50
						May	8.50
						June	8.50
						July	8.50
						Aug.	8.50
						Sept.	8.50

1. The prime rate is one of several base rates that banks use to price short-term business loans. The table shows the date on which a new rate came to be the predominant one quoted by a majority of the twenty-five largest banks by asset size, based on the most recent Call

Report. Data in this table also appear in the Board's H.15 (519) weekly and G.13 (415) monthly statistical releases. For ordering address, see inside front cover.

1.35 INTEREST RATES Money and Capital Markets

Percent per year; figures are averages of business day data unless otherwise noted

Item	1995	1996	1997	1998				1998, week ending				
				May	June	July	Aug.	July 31	Aug. 7	Aug. 14	Aug. 21	Aug. 28
MONEY MARKET INSTRUMENTS												
1 Federal funds ^{1,2,3}	5.83	5.30	5.46	5.49	5.56	5.54	5.55	5.54	5.61	5.50	5.59	5.48
2 Discount window borrowing ^{2,4}	5.21	5.02	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Commercial paper ^{3,4,5,6}												
Nonfinancial												
3 1-month	n.a.	n.a.	5.57	5.49	5.51	5.51	5.50	5.52	5.51	5.50	5.50	5.50
4 2-month	n.a.	n.a.	5.57	5.49	5.50	5.50	5.50	5.50	5.51	5.49	5.50	5.49
5 3-month	n.a.	n.a.	5.56	5.48	5.48	5.48	5.48	5.50	5.49	5.48	5.47	5.47
Financial												
6 1-month	n.a.	n.a.	5.59	5.50	5.53	5.52	5.51	5.54	5.52	5.51	5.51	5.50
7 2-month	n.a.	n.a.	5.59	5.50	5.52	5.51	5.51	5.51	5.51	5.51	5.51	5.50
8 3-month	n.a.	n.a.	5.60	5.50	5.50	5.50	5.50	5.51	5.51	5.50	5.50	5.49
Commercial paper (historical) ^{3,5,6,7}												
9 1-month	5.93	5.43	5.54	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
10 3-month	5.93	5.41	5.58	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
11 6-month	5.93	5.42	5.62	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Finance paper, directly placed (historical) ^{3,5,7,8}												
12 1-month	5.81	5.31	5.44	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
13 3-month	5.78	5.29	5.48	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
14 6-month	5.68	5.21	5.48	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Bankers acceptances ^{3,5,9}												
15 3-month	5.81	5.31	5.54	5.48	5.50	5.50	5.49	5.49	5.50	5.49	5.49	5.49
16 6-month	5.80	5.31	5.57	5.44	5.47	5.46	5.46	5.46	5.46	5.47	5.48	5.45
Certificates of deposit, secondary market ^{3,10}												
17 1-month	5.87	5.35	5.54	5.56	5.57	5.57	5.56	5.57	5.56	5.56	5.56	5.56
18 3-month	5.92	5.39	5.62	5.59	5.60	5.59	5.58	5.60	5.59	5.58	5.58	5.57
19 6-month	5.98	5.47	5.73	5.67	5.65	5.65	5.61	5.65	5.64	5.61	5.61	5.58
20 Eurodollar deposits, 3-month ^{3,11}	5.93	5.38	5.61	5.57	5.57	5.57	5.56	5.56	5.57	5.56	5.56	5.55
U.S. Treasury bills, secondary market ^{3,5}												
21 3-month	5.49	5.01	5.06	5.00	4.98	4.96	4.90	4.95	4.93	4.89	4.92	4.89
22 6-month	5.56	5.08	5.18	5.14	5.12	5.03	4.95	5.01	5.00	4.94	4.97	4.91
23 1-year	5.60	5.22	5.32	5.16	5.13	5.08	4.94	5.09	5.04	4.97	4.97	4.85
Auction average ^{3,5,12}												
24 3-month	5.51	5.02	5.07	5.03	4.99	4.96	4.94	4.92	4.98	4.94	4.91	4.92
25 6-month	5.59	5.09	5.18	5.15	5.12	5.03	4.97	5.02	5.03	4.94	4.95	4.94
26 1-year	5.69	5.23	5.36	5.15	5.13	5.10	5.00	n.a.	n.a.	n.a.	5.00	n.a.
U.S. TREASURY NOTES AND BONDS												
Constant maturities ¹³												
27 1-year	5.94	5.52	5.63	5.44	5.41	5.36	5.21	5.37	5.31	5.23	5.24	5.10
28 2-year	6.15	5.84	5.99	5.59	5.52	5.46	5.27	5.48	5.40	5.34	5.32	5.09
29 3-year	6.25	5.99	6.10	5.61	5.52	5.47	5.24	5.48	5.39	5.31	5.29	5.05
30 5-year	6.38	6.18	6.22	5.63	5.52	5.46	5.27	5.51	5.43	5.36	5.32	5.07
31 7-year	6.50	6.34	6.33	5.72	5.56	5.52	5.36	5.56	5.48	5.43	5.39	5.19
32 10-year	6.57	6.44	6.35	5.65	5.50	5.46	5.34	5.50	5.43	5.40	5.39	5.20
33 20-year	6.95	6.83	6.69	6.01	5.80	5.78	5.66	5.83	5.74	5.70	5.68	5.57
34 30-year	6.88	6.71	6.61	5.93	5.70	5.68	5.54	5.73	5.66	5.60	5.53	5.42
35 Composite												
More than 10 years (long-term)	6.93	6.80	6.67	5.99	5.78	5.76	5.64	5.81	5.72	5.68	5.65	5.54
STATE AND LOCAL NOTES AND BONDS												
Moody's series ¹⁴												
36 Aaa	5.80	5.52	5.32	5.04	4.97	5.00	n.a.	5.03	5.03	5.01	5.08	4.92
37 Baa	6.10	5.79	5.50	5.25	5.12	5.15	n.a.	5.15	5.17	5.17	5.11	5.13
38 Bond Buyer series ¹⁵	5.95	5.76	5.52	5.20	5.12	5.14	5.10	5.16	5.16	5.11	5.09	5.03
CORPORATE BONDS												
39 Seasoned issues, all industries ¹⁶	7.83	7.66	7.54	6.98	6.83	6.84	6.83	6.89	6.84	6.82	6.82	6.84
Rating group												
40 Aaa	7.59	7.37	7.27	6.69	6.53	6.55	6.52	6.60	6.54	6.52	6.52	6.52
41 Aa	7.72	7.55	7.48	6.91	6.78	6.78	6.77	6.82	6.78	6.77	6.77	6.78
42 A	7.83	7.69	7.54	7.03	6.88	6.89	6.89	6.93	6.89	6.88	6.88	6.91
43 Baa	8.20	8.05	7.87	7.30	7.13	7.15	7.14	7.20	7.15	7.14	7.14	7.15
44 A-rated, recently offered utility bonds ¹⁷	7.86	7.77	7.71	7.16	6.98	6.93	7.02	7.04	6.98	7.05	6.97	7.08
MEMO												
Dividend-price ratio ¹⁸												
45 Common stocks	2.56	2.19	1.77	1.45	1.45	1.39	1.48	1.43	1.49	1.49	1.47	1.48

1. The daily effective federal funds rate is a weighted average of rates on trades through New York brokers.

2. Weekly figures are averages of seven 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 for bank interest.

4. Rate for the Federal Reserve Bank of New York.

5. Quoted on a discount basis.

6. An average of offering rates on commercial paper for firms whose bond rating is AA or the equivalent.

7. Series ended August 29, 1997.

8. An average of offering rates on paper directly placed by finance companies.

9. Representative closing yields for acceptances of the highest-rated money center banks.

10. An average of dealer offering rates on nationally traded certificates of deposit.

11. Bid rates for Eurodollar deposits collected around 9:30 a.m. Eastern time. Data are for indication purposes only.

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. Department of the Treasury.

14. General obligation bonds based on Thursday figures; Moody's Investors Service.

15. State and local government general obligation bonds maturing in twenty years are used in compiling this index. The twenty-bond index has a rating roughly equivalent to Moody's A1 rating. Based on Thursday figures.

16. Daily figures from Moody's Investors Service. Based on yields to maturity on selected long-term bonds.

17. Compilation of the Federal Reserve. This series is an estimate of the yield on recently offered, A-rated utility bonds with a thirty-year maturity and five years of call protection. Weekly data are based on Friday quotations.

18. Standard & Poor's corporate series. Common stock ratio is based on the 500 stocks in the price index.

NOTE. Some of the data in this table also appear in the Board's H.15 (519) weekly and G.13 (415) monthly statistical releases. For ordering address, see inside front cover.

1.36 STOCK MARKET Selected Statistics

Indicator	1995	1996	1997	1997	1998							
				Dec	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.
Prices and trading volume (averages of daily figures) ¹												
<i>Common stock prices (indexes)</i>												
1 New York Stock Exchange (Dec. 31, 1965 = 50)	291.18	357.98	456.99	504.66	504.13	532.15	560.70	578.05	574.46	569.76	586.39	539.16
2 Industrial	367.40	453.57	574.97	623.57	624.61	660.91	693.13	711.89	712.39	731.01	718.54	665.66
3 Transportation	270.14	327.30	415.08	461.04	458.49	485.73	508.06	523.73	505.02	492.98	503.89	441.36
4 Utility	110.64	126.36	143.87	165.74	146.25	170.96	191.67	207.32	198.25	188.26	189.95	186.24
5 Finance	238.48	303.94	424.84	490.30	479.81	508.97	539.47	563.07	551.28	548.57	579.67	511.22
6 Standard & Poor's Corporation (1941-43 = 10) ²	541.72	670.49	873.43	962.37	963.36	1,023.74	1,076.83	1,112.20	1,108.42	1,108.39	1,156.58	1,074.62
7 American Stock Exchange (Aug. 31, 1973 = 50) ³	498.13	570.86	628.34	667.89	665.72	685.73	722.37	742.33	735.02	704.59	724.83	655.67
<i>Volume of trading (thousands of shares)</i>												
8 New York Stock Exchange	345,729	409,740	523,254	541,134	632,895	610,958	619,366	647,110	569,239	605,576	639,744	712,710
9 American Stock Exchange	20,387	22,567	n.a.	27,624	28,199	26,808	28,943	29,544	27,004	25,447	26,473	32,721
Customer financing (millions of dollars, end-of-period balances)												
10 Margin credit at broker-dealers ⁴	76,680	97,400	126,090	126,090	127,790	135,590	140,340	140,240	143,600	147,700	154,370	147,800
<i>Free credit balances at brokers⁵</i>												
11 Margin accounts ⁶	16,250	22,540	31,410	31,410	29,480	27,450	27,430	28,160	26,200	29,840	31,820	38,480
12 Cash accounts	34,340	40,430	52,160	52,160	48,620	48,640	51,340	51,050	47,770	51,205	53,780	53,930
Margin requirements (percent of market value and effective date) ⁷												
	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. Daily data on prices are available upon request to the Board of Governors. For ordering address, see inside front cover.

2. In July 1976 a financial group, composed of banks and insurance companies, was added to the group of stocks on which the index is based. The index is now based on 400 industrial stocks (formerly 425), 20 transportation (formerly 15 rail), 40 public utility (formerly 60), and 40 financial.

3. On July 5, 1983, the American Stock Exchange rebased its index, effectively cutting previous readings in half.

4. Since July 1983, under the revised Regulation T, margin credit at broker-dealers has included credit extended against stocks, convertible bonds, stocks acquired through the 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.

5. Free credit balances are amounts in accounts with no unfulfilled commitments to brokers and are subject to withdrawal by customers on demand.

6. Series initiated in June 1984.

7. Margin requirements, stated in regulations adopted by the Board of Governors pursuant to the Securities Exchange Act of 1934, limit the amount of credit that can be used to purchase and carry "margin securities" (as defined in the regulations) when such credit is collateralized by securities. Margin requirements on securities 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.

1.38 FEDERAL FISCAL AND FINANCING OPERATIONS

Millions of dollars

Type of account or operation	Fiscal year			Calendar year					
	1995	1996	1997	1998					
				Mar.	Apr.	May	June	July	Aug.
<i>U.S. budget¹</i>									
1 Receipts, total	1,351,830	1,453,062	1,579,292	117,930	261,002	95,278	187,860	119,723	111,741
2 On-budget	1,000,751	1,085,570	1,187,302	80,647	216,988	61,790	144,973	87,820	79,135
3 Off-budget	351,079	367,492	391,990	37,283	44,014	33,488	42,887	31,903	32,606
4 Outlays, total	1,515,729	1,560,512	1,601,235	131,743	136,400	134,057	136,754	143,807	122,907
5 On-budget	1,227,065	1,259,608	1,290,609	101,967	108,569	102,381	125,606	115,714	92,555
6 Off-budget	288,664	300,904	310,626	29,775	27,830	31,676	11,148	28,094	30,352
7 Surplus or deficit (—), total	–163,899	–107,450	–21,943	–13,813	124,603	–38,779	51,106	–24,084	–11,166
8 On-budget	–226,314	–174,038	–103,307	–21,320	108,419	–40,591	19,367	–27,894	–13,420
9 Off-budget	62,415	66,588	81,364	7,508	16,184	1,812	31,739	3,809	2,254
<i>Source of financing (total)</i>									
10 Borrowing from the public	171,288	129,712	38,171	20,137	–60,587	–8,597	–12,618	–16,370	33,989
11 Operating cash (decrease, or increase (—))	–2,007	–6,276	604	–11,352	–60,398	51,899	–36,144	36,210	–362
12 Other	–5,382	–15,986	–16,832	5,028	–3,618	–4,523	–2,344	4,244	–22,461
<i>MEMO</i>									
13 Treasury operating balance (level, end of period)	37,949	44,225	43,621	27,632	88,030	36,131	72,275	36,065	36,427
14 Federal Reserve Banks	8,620	7,700	7,692	5,490	28,014	5,693	18,140	4,648	6,704
15 Tax and loan accounts	29,329	36,525	35,930	22,141	60,016	30,438	54,135	31,417	29,722

1. Since 1990, off-budget items have been the social security trust funds (federal old-age survivors insurance and federal disability insurance) and the U.S. Postal Service.

2. Includes special drawing rights (SDRs); reserve position on the U.S. quota in the International Monetary Fund (IMF); loans to the IMF; other cash and monetary assets; accrued interest payable to the public; allocations of SDRs; deposit funds; miscellaneous liability (including checks outstanding) and asset accounts; seigniorage; increment on gold;

net gain or loss for U.S. currency valuation adjustment; net gain or loss for IMF loan-valuation adjustment; and profit on sale of gold.

SOURCE: Monthly totals: U.S. Department of the Treasury, *Monthly Treasury Statement of Receipts and Outlays of the U.S. Government*; fiscal year totals: U.S. Office of Management and Budget, *Budget of the U.S. Government*.

1.39 U.S. BUDGET RECEIPTS AND OUTLAYS¹

Millions of dollars

Source or type	Fiscal year		Calendar year						
	1996	1997	1996	1997		1998	1998		
			H2	H1	H2	H1	June	July	Aug.
RECEIPTS									
1 All sources	1,453,062	1,579,292	707,552	845,527	773,812	922,632	187,860	119,723	111,741
2 Individual income taxes, net	656,417	737,466	323,884	400,436	354,072	447,514	81,587	58,969	55,300
3 Withheld	533,080	580,207	279,988	292,252	306,865	316,309	48,501	57,486	51,881
4 Nonwithheld	212,168	250,753	53,491	191,050	58,069	219,136	35,135	4,001	4,944
5 Refunds	88,897	93,560	9,604	82,926	10,869	87,989	2,060	2,520	1,525
Corporation income taxes									
6 Gross receipts	189,055	204,493	95,364	106,451	104,659	109,353	41,098	5,808	2,952
7 Refunds	17,231	22,198	10,053	9,635	10,135	14,220	1,313	1,736	1,484
8 Social insurance taxes and contributions, net	509,414	539,371	240,326	288,251	260,795	312,713	55,468	43,817	45,806
9 Employment taxes and contributions ²	476,361	506,751	227,777	268,357	247,794	293,520	54,807	41,130	41,973
10 Unemployment insurance	28,584	28,202	10,302	17,709	10,724	17,080	292	2,301	3,502
11 Other net receipts ³	4,469	4,418	2,245	2,184	2,280	2,112	369	385	331
12 Excise taxes	54,014	56,924	27,016	28,084	31,132	29,922	5,370	6,127	3,181
13 Customs deposits	18,670	17,928	9,294	8,619	9,679	8,546	1,568	1,777	1,732
14 Estate and gift taxes	17,189	19,845	8,835	10,477	10,262	12,971	1,775	1,825	1,718
15 Miscellaneous receipts ⁴	25,534	25,465	12,889	12,866	13,348	15,837	2,307	3,135	2,535
OUTLAYS									
16 All types	1,560,512	1,601,235	800,177	797,418	824,370	815,886	136,754	143,807	122,907
17 National defense	265,748	270,473	139,402	132,698	140,873	129,351	22,329	25,865	18,502
18 International affairs	13,496	15,228	8,532	5,740	9,420	4,610	347	815	443
19 General science, space, and technology	16,709	17,174	8,260	8,938	10,040	9,426	1,657	1,711	1,581
20 Energy	2,844	1,483	695	803	411	957	661	122	-113
21 Natural resources and environment	21,614	21,369	10,307	9,628	11,106	10,051	1,964	2,217	1,855
22 Agriculture	9,159	9,032	11,037	1,465	10,590	2,387	140	176	1,656
23 Commerce and housing credit	-10,472	-14,624	-5,899	-7,575	-3,526	-2,483	-20	-1,223	-1,423
24 Transportation	39,565	40,767	21,512	16,847	20,414	16,196	3,127	3,327	3,218
25 Community and regional development	10,685	11,005	5,498	5,678	5,749	4,863	914	917	770
26 Education, training, employment, and social services	52,001	53,008	27,524	25,080	26,851	25,928	4,237	3,645	4,708
27 Health	119,378	123,843	61,595	61,809	63,552	65,053	11,602	11,033	10,704
28 Social security and Medicare	523,901	555,273	269,412	278,863	283,109	286,305	51,569	51,109	44,240
29 Income security	225,989	230,886	107,631	124,034	106,353	125,196	14,554	21,198	14,281
30 Veterans benefits and services	36,985	39,313	21,109	17,697	22,077	19,615	3,355	4,958	1,749
31 Administration of justice	17,548	20,197	9,583	10,670	10,212	11,287	2,241	2,256	2,012
32 General government	11,892	12,768	6,546	6,623	7,302	6,139	2,080	308	579
33 Net interest ⁵	241,090	244,013	122,573	122,655	122,620	122,345	19,407	20,791	21,366
34 Undistributed offsetting receipts ⁶	-37,620	-49,973	-25,142	-24,235	-22,795	-21,340	-3,408	-5,416	-3,221

1. Functional details do not sum to total outlays for calendar year data because revisions to monthly totals have not been distributed among functions. Fiscal year total for receipts and outlays do 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. Federal employee retirement contributions and civil service retirement and disability fund.

4. Deposits of earnings by Federal Reserve Banks and other miscellaneous receipts.

5. Includes interest received by trust funds.

6. Rents and royalties for the outer continental shelf, U.S. government contributions for employee retirement, and certain asset sales.

SOURCE: Fiscal year totals: U.S. Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 1999*; monthly and half-year totals: U.S. Department of the Treasury, *Monthly Treasury Statement of Receipts and Outlays of the U.S. Government*

1.40 FEDERAL DEBT SUBJECT TO STATUTORY LIMITATION

Billions of dollars, end of month

Item	1996			1997				1998	
	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30
1 Federal debt outstanding	5,197	5,260	5,357	5,415	5,410	5,446	5,536	5,573	5,578
2 Public debt securities	5,161	5,225	5,323	5,381	5,376	5,413	5,502	5,542	5,548
3 Held by public	3,739	3,778	3,826	3,874	3,805	3,815	3,847	3,872	3,790
4 Held by agencies	1,422	1,447	1,497	1,507	1,572	1,599	1,656	1,670	1,758
5 Agency securities	36	35	34	34	34	33	34	31	30
6 Held by public	28	27	27	26	26	26	27	26	26
7 Held by agencies	8	8	8	8	7	7	7	5	4
8 Debt subject to statutory limit	5,073	5,137	5,237	5,294	5,290	5,328	5,417	5,457	5,460
9 Public debt securities	5,073	5,137	5,237	5,294	5,290	5,328	5,416	5,456	5,460
10 Other debt ¹	0	0	0	0	0	0	0	0	0
MEMO									
11 Statutory debt limit	5,500	5,500	5,500	5,500	5,500	5,950	5,950	5,950	5,950

1. Consists of guaranteed debt of U.S. Treasury and other federal agencies, specified participation certificates, notes to international lending organizations, and District of Columbia stadium bonds.

SOURCE: U.S. Department of the Treasury, *Monthly Statement of the Public Debt of the United States and Treasury Bulletin*.

1.41 GROSS PUBLIC DEBT OF U.S. TREASURY Types and Ownership

Billions of dollars, end of period

Type and holder	1994	1995	1996	1997	1997		1998	
					Q3	Q4	Q1	Q2
1 Total gross public debt	4,800.2	4,988.7	5,323.2	5,502.4	5,413.2	5,502.4	5,542.4	5,547.9
<i>By type</i>								
2 Interest-bearing	4,769.2	4,964.4	5,317.2	5,494.9	5,407.5	5,494.9	5,535.3	5,540.2
3 Marketable	3,126.0	3,307.2	3,459.7	3,456.8	3,439.6	3,456.8	3,467.1	3,369.5
4 Bills	733.8	760.7	777.4	715.4	701.9	715.4	720.1	641.1
5 Notes	1,867.0	2,010.3	2,112.3	2,106.1	2,122.2	2,106.1	2,091.9	2,064.6
6 Bonds	510.3	521.2	555.0	587.3	576.2	587.3	598.7	598.7
7 Inflation-indexed notes and bonds ¹	n.a.	n.a.	n.a.	33.0	24.4	33.0	41.5	50.1
8 Nonmarketable ²	1,643.1	1,657.2	1,857.5	2,038.1	1,967.9	2,038.1	2,068.2	2,170.7
9 State and local government series	132.6	104.5	101.3	124.1	111.9	124.1	139.1	155.0
10 Foreign issues ³	42.5	40.8	37.4	36.2	34.9	36.2	35.4	36.0
11 Government	42.5	40.8	47.4	36.2	34.9	36.2	36.4	36.0
12 Public	.0	.0	.0	.0	.0	.0	.0	.0
13 Savings bonds and notes ⁴	177.8	181.9	182.4	181.2	182.7	181.2	181.2	180.7
14 Government account series ⁵	1,259.8	1,299.6	1,505.9	1,666.7	1,608.5	1,666.7	1,681.5	1,769.1
15 Non-interest-bearing	31.0	24.3	6.0	7.5	5.6	7.5	7.2	7.7
<i>By holder⁵</i>								
16 U.S. Treasury and other federal agencies and trust funds	1,257.1	1,304.5	1,497.2	1,655.7	1,598.5	1,655.7	1,670.4	1,757.6
17 Federal Reserve Banks	374.1	391.0	410.9	451.9	436.5	451.9	400.0	458.4
18 Private investors	3,168.0	3,294.9	3,411.2	3,393.4	3,388.9	3,393.4	3,430.7	3,330.6
19 Commercial banks	290.4	278.7	261.8	269.8	261.8	269.8	275.0	275.0
20 Money market funds	67.6	71.5	91.6	75.8	88.9	88.9	84.8	82.9
21 Insurance companies	240.1	241.5	214.1	224.9	222.7	224.9	225.5	228.0
22 Other companies	224.5	228.8	258.5	265.0	266.5	265.0	268.1	267.2
23 State and local treasuries ^{6,7}	541.0	469.6	482.5	493.0	486.6	493.0	494.6	441.0
Individuals								
24 Savings bonds	180.5	185.0	187.0	186.5	186.2	186.5	186.3	186.0
25 Other securities	150.7	162.7	169.6	168.4	168.6	168.4	165.8	165.0
26 Foreign and international ⁸	688.7	862.2	1,135.6	1,278.0	1,266.0	1,278.0	1,288.0	1,247.4
27 Other miscellaneous investors ⁹	784.6	794.9	610.5	418.8	454.5	418.8	442.5	438.0

1. The U.S. Treasury first issued inflation-indexed securities during the first quarter of 1997.

2. Includes (not shown separately) securities issued to the Rural Electrification Administration, depository bonds, retirement plan bonds, and individual retirement bonds.

3. Nonmarketable series denominated in dollars, and series denominated in foreign currency held by foreigners.

4. Held almost entirely by U.S. Treasury and other federal agencies and trust funds.

5. Data for Federal Reserve Banks and U.S. government agencies and trust funds are actual holdings; data for other groups are Treasury estimates.

6. Includes state and local pension funds.

7. In March 1996, in a redefinition of series, fully defeased debt backed by nonmarketable federal securities was removed from "Other miscellaneous investors" and added to "State and local treasuries." The data shown here have been revised accordingly.

8. Consists of investments of foreign balances and international accounts in the United States.

9. 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.

SOURCE: U.S. Treasury Department, data by type of security, *Monthly Statement of the Public Debt of the United States*; data by holder, *Treasury Bulletin*.

1.42 U.S. GOVERNMENT SECURITIES DEALERS Transactions¹

Millions of dollars, daily averages

Item	1998			1998, week ending								
	May	June	July	July 1	July 8	July 15	July 22	July 29	Aug. 5	Aug. 12	Aug. 19	Aug. 26
OUTRIGHT TRANSACTIONS²												
<i>By type of security</i>												
1 U.S. Treasury bills	31,384	30,868	25,889	29,497	25,968	24,542	26,696	25,439	26,401	26,841	28,263	33,499
Coupon securities, by maturity												
2 Five years or less	115,270	111,622	82,094	100,451	66,195	74,522	76,811	90,646	115,476	120,628	116,569	157,479
3 More than five years	75,845	78,005	59,741	69,451	52,599	59,598	61,994	59,517	64,454	72,437	58,072	93,119
4 Inflation-indexed	673	651	1,205	1,163	2,753	1,321	786	638	301	761	585	968
Federal agency												
5 Discount notes	35,571	37,154	35,439	40,923	39,706	34,584	33,072	33,516	37,020	37,479	37,638	34,649
Coupon securities, by maturity												
6 One year or less	1,290	1,746	1,325	1,101	1,430	1,657	1,068	1,431	777	1,302	1,195	1,093
7 More than one year, but less than or equal to five years	2,676	3,196	2,892	2,922	2,449	3,311	2,614	2,355	4,748	4,505	2,948	4,049
8 More than five years	2,903	3,330	2,700	4,632	3,613	2,932	2,078	2,073	2,455	2,468	3,046	5,026
9 Mortgage-backed	62,597	71,310	61,434	59,199	65,684	82,411	44,941	51,617	67,380	95,734	63,047	59,351
<i>By type of counterparty</i>												
With interdealer broker												
10 U.S. Treasury	124,671	122,408	92,782	105,406	78,696	87,603	92,253	98,869	113,694	121,193	112,826	155,714
11 Federal agency	2,034	2,250	1,904	2,323	1,655	1,940	1,718	1,927	2,511	2,752	2,377	3,559
12 Mortgage-backed	20,318	20,149	19,316	15,853	17,603	25,068	13,601	20,851	20,538	26,766	19,705	20,044
With other												
13 U.S. Treasury	98,501	98,737	76,148	95,156	68,819	72,381	74,036	77,371	92,938	99,474	90,663	129,351
14 Federal agency	40,407	43,176	40,451	47,256	45,543	40,544	37,114	37,447	42,489	43,003	42,450	41,257
15 Mortgage-backed	42,279	51,161	42,118	43,346	48,081	57,343	31,340	30,766	46,843	68,967	43,342	39,307
FUTURES TRANSACTIONS³												
<i>By type of deliverable security</i>												
16 U.S. Treasury bills	139	170	65	65	n.a.	n.a.	n.a.	n.a.	n.a.	139	n.a.	50
Coupon securities, by maturity												
17 Five years or less	2,337	2,666	1,764	1,713	1,177	1,673	1,675	1,918	3,023	5,031	3,780	7,777
18 More than five years	13,900	16,057	11,813	13,521	8,315	12,348	12,701	11,539	15,079	12,194	13,845	23,221
19 Inflation-indexed	0	0	0	0	0	0	0	0	0	0	0	0
Federal agency												
20 Discount notes	0	0	0	0	0	0	0	0	0	0	0	0
Coupon securities, by maturity												
21 One year or less	0	0	0	0	0	0	0	0	0	0	0	0
22 More than one year, but less than or equal to five years	0	0	0	0	0	0	0	0	0	0	0	0
23 More than five years	0	0	0	0	0	0	0	0	0	0	0	0
24 Mortgage-backed	0	0	0	0	0	0	0	0	0	0	0	0
OPTIONS TRANSACTIONS⁴												
<i>By type of underlying security</i>												
25 U.S. Treasury bills	0	0	0	0	0	0	0	0	0	0	0	0
Coupon securities, by maturity												
26 Five years or less	2,110	1,627	1,856	1,643	1,706	2,032	1,571	2,362	1,272	1,230	1,701	2,468
27 More than five years	6,263	4,943	5,124	3,384	4,581	4,664	5,493	6,251	4,488	5,613	6,005	9,382
28 Inflation-indexed	109	0	0	0	0	0	0	0	0	0	0	0
Federal agency												
29 Discount notes	0	0	0	0	0	0	0	0	0	0	0	0
Coupon securities, by maturity												
30 One year or less	0	0	0	0	0	0	0	0	0	0	0	0
31 More than one year, but less than or equal to five years	0	0	0	0	0	0	0	0	0	0	0	0
32 More than five years	0	0	0	0	0	0	0	0	0	0	0	n.a.
33 Mortgage-backed	535	768	623	933	519	987	487	386	697	1,110	541	633

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. Monthly averages are based on the number of trading days in the month. Transactions are assumed to be evenly distributed among the trading days of the report week. Immediate, forward, and futures transactions are reported at principal value, which does not include accrued interest; options transactions are reported at the face value of the underlying securities.

Dealers report cumulative transactions for each week ending Wednesday.

2. Outright transactions include immediate and forward transactions. Immediate delivery refers to purchases or sales of securities (other than mortgage-backed federal 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 agency securities include purchases and sales for which delivery is scheduled in thirty business days or less. Stripped securities are reported at market value by maturity of coupon or corpus.

Forward transactions are agreements made in the over-the-counter market that specify delayed delivery. Forward contracts for U.S. Treasury securities and federal agency debt securities are included when the time to delivery is more than five business days. Forward contracts for mortgage-backed agency securities are included when the time to delivery is more than thirty business days.

3. Futures transactions are standardized agreements arranged on an exchange. All futures transactions are included regardless of time to delivery.

4. 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. Treasury and federal agency securities.

NOTE. "n.a." indicates that data are not published because of insufficient activity.

Major changes in the report form filed by primary dealers induced a break in the dealer data series as of the week ending January 28, 1998.

1.43 U.S. GOVERNMENT SECURITIES DEALERS Positions and Financing¹

Millions of dollars

Item	1998			1998, week ending							
	May	June	July	July 1	July 8	July 15	July 22	July 29	Aug. 5	Aug. 12	Aug. 19
Positions²											
NET OUTRIGHT POSITIONS³											
<i>By type of security</i>											
1 U.S. Treasury bills	7,500	2,012	1,766	-2,948	-181	140	3,642	3,491	4,030	2,786	6,322
Coupon securities, by maturity											
2 Five years or less	-25,842	-22,489	-16,440	-26,044	-17,377	-20,895	-14,861	-9,716	-21,834	-26,511	-29,451
3 More than five years	-24,468	-11,405	-17,653	-11,061	-16,843	-22,511	-16,402	-16,303	-15,890	-13,915	-12,806
4 Inflation-indexed	1,968	1,306	2,671	1,486	2,710	3,005	2,597	2,525	2,725	2,603	2,187
Federal agency											
5 Discount notes	16,837	16,758	19,296	16,069	21,408	19,700	18,019	18,857	18,105	18,803	14,783
Coupon securities, by maturity											
6 One year or less	2,715	2,098	2,782	1,766	2,030	3,647	2,869	2,718	2,809	2,692	2,278
7 More than one year, but less than or equal to five years	7,646	7,043	7,435	7,646	8,045	8,432	7,487	5,928	6,793	7,717	6,232
8 More than five years	11,182	10,934	10,759	11,334	11,575	11,349	10,528	9,990	9,054	8,831	10,414
9 Mortgage-backed	56,867	69,961	64,705	64,683	69,649	72,690	62,253	55,226	61,216	71,517	63,422
NET FUTURES POSITIONS⁴											
<i>By type of deliverable security</i>											
10 U.S. Treasury bills	-433	139	596	431	414	423	734	774	809	878	1,172
Coupon securities, by maturity											
11 Five years or less	2,910	-1,530	-4,346	-3,198	-4,351	-4,376	-4,853	-4,385	-2,889	-4,360	-4,629
12 More than five years	-21,492	-32,350	-26,100	-27,233	-24,358	-20,469	-28,337	-29,599	-31,268	-33,884	-33,411
13 Inflation-indexed	0	0	0	0	0	0	0	0	0	0	0
Federal agency											
14 Discount notes	0	0	0	0	0	0	0	0	0	0	0
Coupon securities, by maturity											
15 One year or less	0	0	0	0	0	0	0	0	0	0	0
16 More than one year, but less than or equal to five years	0	0	0	0	0	0	0	0	0	0	0
17 More than five years	0	0	0	0	0	0	0	0	0	0	0
18 Mortgage-backed	0	0	0	0	0	0	0	0	0	0	0
NET OPTIONS POSITIONS											
<i>By type of deliverable security</i>											
19 U.S. Treasury bills	0	0	0	0	0	0	0	0	0	0	0
Coupon securities, by maturity											
20 Five years or less	825	-2,063	-1,050	-2,798	-1,529	-1,453	-986	-119	-577	-645	-627
21 More than five years	7	-343	-3,065	6	-1,642	-2,103	-4,210	-4,648	-3,397	-3,409	-3,859
22 Inflation-indexed	n.a.	0	0	0	0	0	0	0	0	0	0
Federal agency											
23 Discount notes	0	0	0	0	0	0	0	0	0	0	0
Coupon securities, by maturity											
24 One year or less	0	0	0	0	0	0	0	0	0	0	0
25 More than one year, but less than or equal to five years	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
26 More than five years	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
27 Mortgage-backed	660	1,750	2,332	1,983	1,494	2,421	2,517	2,730	3,092	1,696	2,229
Financing⁵											
<i>Reverse repurchase agreements</i>											
28 Overnight and continuing	368,407	341,684	320,143	347,093	329,735	321,018	308,181	316,740	323,805	327,992	337,894
29 Term	793,992	824,391	895,133	831,951	850,019	872,093	905,486	943,636	959,264	1,002,726	702,978
<i>Securities borrowed</i>											
30 Overnight and continuing	216,006	221,331	218,172	221,635	223,880	221,461	216,800	211,719	212,332	218,696	221,834
31 Term	100,113	98,054	95,894	96,362	95,109	94,119	96,114	97,840	97,037	95,627	95,116
<i>Securities received as pledge</i>											
32 Overnight and continuing	3,131	3,043	3,140	3,102	3,603	3,292	2,925	2,856	2,748	2,617	2,983
33 Term	0	0	0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Repurchase agreements</i>											
34 Overnight and continuing	761,206	740,876	720,678	710,472	717,112	722,568	729,819	717,262	711,604	729,503	747,609
35 Term	710,585	744,206	799,633	749,363	753,798	774,758	806,390	854,386	856,968	886,939	606,000
<i>Securities loaned</i>											
36 Overnight and continuing	10,871	11,164	10,999	12,444	10,108	10,267	11,340	11,677	12,389	12,904	13,197
37 Term	2,734	3,625	3,623	4,476	4,709	4,182	2,820	2,695	3,497	4,100	3,773
<i>Securities pledged</i>											
38 Overnight and continuing	49,489	56,175	54,477	59,904	55,420	55,608	54,728	52,932	49,034	47,835	49,230
39 Term	4,961	5,471	6,425	5,888	6,674	6,590	6,420	6,255	5,851	5,853	4,867
<i>Collateralized loans</i>											
40 Total	11,607	11,177	16,787	11,392	14,328	13,528	18,245	20,453	21,562	24,137	21,570

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. Positions for calendar days of the report week are assumed to be constant. Monthly averages are based on the number of calendar days in the month.

2. Securities positions are reported at market value.

3. Net outright positions include immediate and forward positions. 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 that settle on the issue date of offering. Net immediate positions for mortgage-backed agency securities include securities purchased or sold that have been delivered or are scheduled to be delivered in thirty business days or less.

Forward positions reflect agreements made in the over-the-counter market that specify delayed delivery. Forward contracts for U.S. Treasury securities and federal agency debt

securities are included when the time to delivery is more than five business days. Forward contracts for mortgage-backed agency securities are included when the time to delivery is more than thirty business days.

4. Futures positions reflect standardized agreements arranged on an exchange. All futures positions are included regardless of time to delivery.

5. 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 advance notice by either party; term agreements have a fixed maturity of more than one business day. Financing data are reported in terms of actual funds paid or received, including accrued interest.

NOTE: "n.a." indicates that data are not published because of insufficient activity.

Major changes in the report form filed by primary dealers induced a break in the dealer data series as of the week ending January 28, 1998.

A30 Domestic Financial Statistics □ November 1998

1.44 FEDERAL AND FEDERALLY SPONSORED CREDIT AGENCIES Debt Outstanding

Millions of dollars, end of period

Agency	1994	1995	1996	1997	1998				
					Feb.	Mar.	Apr.	May	June
1 Federal and federally sponsored agencies	738,928	844,611	925,823	1,022,609	1,038,348	1,059,043	1,048,661	1,044,575	1,061,253
2 Federal agencies	39,186	37,347	29,380	27,792	27,101	27,227	27,104	26,995	26,817
3 Defense Department ¹	6	6	6	6	6	6	6	6	6
4 Export-Import Bank ^{2,3}	3,455	2,050	1,447	552	549	549	542	542	1,295
5 Federal Housing Administration ⁴	116	97	84	102	79	97	102	108	144
6 Government National Mortgage Association certificates of participation ⁵	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
7 Postal Service ⁶	8,073	5,765	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
8 Tennessee Valley Authority	27,536	29,429	27,853	27,786	27,095	27,221	27,098	26,989	26,811
9 United States Railway Association ⁶	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
10 Federally sponsored agencies ⁷	699,742	807,264	896,443	994,817	1,011,247	1,031,816	1,021,557	1,017,580	1,034,436
11 Federal Home Loan Banks	205,817	243,194	263,404	313,919	312,017	317,967	323,208	322,155	328,514
12 Federal Home Loan Mortgage Corporation	93,279	119,961	156,980	169,200	184,100	193,300	200,800	204,751	200,314
13 Federal National Mortgage Association	257,230	299,174	331,270	369,774	373,574	381,093	395,977	399,489	406,162
14 Farm Credit Banks ⁸	53,175	57,379	60,053	63,517	61,177	62,327	62,799	63,744	64,717
15 Student Loan Marketing Association ⁹	50,335	47,529	44,763	37,717	39,570	36,310	36,256	35,952	33,231
16 Financing Corporation ¹⁰	8,170	8,170	8,170	8,170	8,170	8,170	8,170	8,170	8,170
17 Farm Credit Financial Assistance Corporation ¹¹	1,261	1,261	1,261	1,261	1,261	1,261	1,261	1,261	1,261
18 Resolution Funding Corporation ¹²	29,996	29,996	29,996	29,996	29,996	29,996	29,996	29,996	29,996
MEMO									
19 Federal Financing Bank debt¹³	103,817	78,681	58,172	49,090	47,341	45,487	44,893	44,223	136,892
<i>Lending to federal and federally sponsored agencies</i>									
20 Export-Import Bank ³	3,449	2,044	1,431	552	549	549	542	542	1,295
21 Postal Service ⁶	8,073	5,765	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
22 Student Loan Marketing Association	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
23 Tennessee Valley Authority	3,200	3,200	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
24 United States Railway Association ⁶	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Other lending¹⁴</i>									
25 Farmers Home Administration	33,719	21,015	18,325	13,530	13,160	13,030	12,380	11,955	13,530
26 Rural Electrification Administration	17,392	17,144	16,702	14,898	14,852	14,315	14,203	14,207	14,819
27 Other	37,984	29,513	21,714	20,110	18,780	17,593	17,768	17,519	107,248

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. On-budget since Sept. 30, 1976.

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 year 1969 by the Government National Mortgage Association acting as trustee for the Farmers Home Administration, the Department of Health, Education, and Welfare, the Department of Housing and Urban Development, the Small Business Administration, and the Veterans Administration.

6. Off-budget.

7. Includes outstanding noncontingent liabilities: notes, bonds, and debentures. Includes Federal Agricultural Mortgage Corporation, therefore details do not sum to total. Some data are estimated.

8. Excludes borrowing by the Farm Credit Financial Assistance Corporation, which is shown on line 17.

9. Before late 1982, the association obtained financing through the Federal Financing Bank (FFB). Borrowing excludes that obtained from the FFB, which is shown on line 22.

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. The FFB, which began operations in 1974, is authorized to purchase or sell obligations issued, sold, or guaranteed by other federal agencies. Because FFB incurs debt solely for the purpose of lending to other agencies, its debt is not included in the main portion of the table to avoid double counting.

14. Includes FFB purchases of agency assets and guaranteed loans; the latter are loans guaranteed by numerous agencies, with the amounts guaranteed by any one agency generally being small. The Farmers Home Administration entry consists exclusively of agency assets, whereas the Rural Electrification Administration entry consists of both agency assets and guaranteed loans.

1.45 NEW SECURITY ISSUES Tax-Exempt State and Local Governments

Millions of dollars

Type of issue or issuer, or use	1995	1996	1997	1998							
				Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.
1 All issues, new and refunding¹	145,657	171,222	214,694	16,770	21,306	27,859	20,271	22,862	29,665	22,599	20,344
<i>By type of issue</i>											
2 General obligation	56,980	60,409	69,934	5,608	9,893	9,597	8,154	4,827	10,135	6,515	5,812
3 Revenue	88,677	110,813	134,989	11,162	11,413	18,261	12,117	18,035	19,530	16,084	14,532
<i>By type of issuer</i>											
4 State	14,665	13,651	18,237	1,268	2,420	2,375	3,548	1,146	2,809	1,972	1,483
5 Special district or statutory authority ²	93,500	113,228	134,919	11,794	14,228	19,629	12,504	16,865	18,099	16,244	14,233
6 Municipality, county, or township	37,492	44,343	70,558	3,708	4,658	5,859	4,219	4,851	7,220	5,673	4,628
7 Issues for new capital	102,390	112,298	135,519	9,695	12,538	15,134	12,616	15,281	19,341	15,895	11,258
<i>By use of proceeds</i>											
8 Education	23,964	26,851	31,860	2,338	3,525	4,297	4,080	2,819	4,911	2,733	2,435
9 Transportation	11,890	12,324	13,951	1,521	1,760	771	1,089	1,043	2,962	3,677	1,982
10 Utilities and conservation	9,618	9,791	12,219	598	687	1,866	749	5,971	2,368	795	1,179
11 Social welfare	19,566	24,583	27,794	1,540	2,903	3,104	n.a.	n.a.	n.a.	n.a.	n.a.
12 Industrial aid	6,581	6,287	6,667	448	581	1,236	678	576	563	1,002	709
13 Other purposes	30,771	32,462	35,095	3,251	3,082	3,860	3,255	2,482	5,279	4,674	2,764

1. Par amounts of long-term issues based on date of sale.

2. Includes school districts.

SOURCE: Securities Data Company beginning January 1990; *Investment Dealer's Digest* before then

1.46 NEW SECURITY ISSUES U.S. Corporations

Millions of dollars

Type of issue, offering, or issuer	1995	1996	1997	1997	1998 ^f						
				Dec. ^f	Jan.	Feb.	Mar.	Apr.	May	June	July
1 All issues¹	673,571	n.a.	n.a.	71,592	81,214	75,961	115,694	83,646	84,449	36,277	n.a.
2 Bonds²	572,998	548,922	641,069	63,573	73,798	64,996	97,323	71,929	70,313	19,833	n.a.
<i>By type of offering</i>											
3 Public, domestic	408,707	465,489	537,880	54,443	55,647	50,453	81,778	55,452	56,965	78,280	54,266
4 Private placement, domestic ³	87,492	n.a.	n.a.	7,600	7,600	7,600	7,600	7,600	7,600	7,600	7,600
5 Sold abroad	76,799	83,433	103,188	1,530	10,551	6,943	7,946	8,878	5,748	7,363	6,267
<i>By industry group</i>											
6 Nonfinancial	156,763	119,765	130,116	15,296	28,639	19,733	24,901	24,585	20,456	24,444	24,821
7 Financial	416,235	429,157	510,953	48,276	45,159	45,263	72,422	47,345	49,857	69,705	43,313
8 Stocks²	105,323	122,006	117,880	8,490	7,667	11,182	19,271	12,470	14,700	17,111	9,772
<i>By type of offering</i>											
9 Public	73,223	122,006	117,880	8,490	7,667	11,182	19,271	12,470	14,700	17,111	9,772
10 Private placement ³	32,100	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<i>By industry group</i>											
11 Nonfinancial	52,707	80,460	60,386	3,039	1,761	5,737	10,756	5,551	9,271	10,248	6,390
12 Financial	20,516	41,546	57,494	5,451	5,906	5,445	8,515	6,919	5,429	6,863	3,382

1. Figures represent gross proceeds of issues maturing in more than one year; they are the principal amount or number of units calculated by multiplying by the offering price. Figures exclude secondary offerings, employee stock plans, investment companies other than closed-end, intracorporate transactions, and Yankee bonds. Stock data include ownership securities issued by limited partnerships.

2. Monthly data cover only public offerings.

3. Monthly data are not available.

SOURCE: Beginning July 1993, Securities Data Company and the Board of Governors of the Federal Reserve System.

1.47 OPEN-END INVESTMENT COMPANIES Net Sales and Assets¹

Millions of dollars

Item	1996	1997	1998							
			Jan.	Feb.	Mar.	Apr.	May	June	July ^f	Aug.
1 Sales of own shares ²	934,595	1,190,900	119,488	114,219	128,348	128,828	113,593	122,288	134,801	111,908
2 Redemptions of own shares	702,711	918,728	92,621	81,688	97,248	97,087	84,421	97,899	107,368	118,168
3 Net sales ³	231,885	272,172	26,867	32,532	31,100	31,741	29,172	24,389	27,433	-6,261
4 Assets ⁴	2,624,463	3,409,315	3,459,354	3,675,392	3,843,971	3,909,932	3,882,061	3,986,952	3,957,093	3,477,373
5 Cash ⁵	138,559	174,154	183,648	180,415	174,058	170,045	171,425	199,135	195,966	195,042
6 Other	2,485,904	3,235,161	3,275,706	3,494,977	3,669,913	3,739,887	3,710,636	3,787,817	3,761,127	3,282,331

1. Data include stock, hybrid, and bond mutual funds and exclude money market mutual funds.

2. Excludes reinvestment of net income dividends and capital gains distributions and share issue of conversions from one fund to another in the same group.

3. Excludes sales and redemptions resulting from transfers of shares into or out of money market mutual funds within the same fund family.

4. Market value at end of period, less current liabilities.

5. Includes all U.S. Treasury securities and other short-term debt securities.

SOURCE: Investment Company Institute. Data based on reports of membership, which comprises substantially all open-end investment companies registered with the Securities and Exchange Commission. Data reflect underwritings of newly formed companies after their initial offering of securities.

1.48 CORPORATE PROFITS AND THEIR DISTRIBUTION

Billions of dollars; quarterly data at seasonally adjusted annual rates

Account	1995	1996	1997	1996		1997				1998	
				Q3	Q4	Q1	Q2	Q2	Q4	Q1	Q2 ^f
1 Profits with inventory valuation and capital consumption adjustment	672.4	750.4	817.9	755.4	762.0	794.3	815.5	840.9	820.8	829.2	820.6
2 Profits before taxes	635.6	680.2	734.4	681.9	685.7	712.4	729.8	758.9	736.4	719.1	723.5
3 Profits-tax liability	211.0	226.1	246.1	227.7	224.2	238.8	241.9	254.2	249.3	239.9	241.6
4 Profits after taxes	424.6	454.1	488.3	454.2	461.5	473.6	487.8	504.7	487.1	479.2	481.8
5 Dividends	205.3	261.9	275.1	269.1	273.6	274.1	274.7	275.1	276.4	277.3	278.1
6 Undistributed profits	219.3	192.3	213.2	185.1	187.9	199.5	213.2	229.5	210.6	201.8	203.7
7 Inventory valuation	-22.6	-1.2	6.9	1.2	3.0	8.1	10.3	4.8	4.3	25.3	7.8
8 Capital consumption adjustment	59.4	71.4	76.6	72.3	73.3	73.8	75.5	77.2	80.1	84.9	89.4

SOURCE: U.S. Department of Commerce, *Survey of Current Business*.1.51 DOMESTIC FINANCE COMPANIES Assets and Liabilities¹

Billions of dollars, end of period; not seasonally adjusted

Account	1995	1996	1997	1996	1997					1998	
				Q4	Q1	Q2	Q3	Q4	Q1 ^f	Q2	
ASSETS											
1 Accounts receivable, gross ²	607.0	637.1	663.3	637.1	648.0	651.6	660.5	663.3	667.2	676.0	
2 Consumer	233.0	244.9	256.8	244.9	249.4	255.1	254.5	256.8	251.7	251.3	
3 Business	301.6	309.5	318.5	309.5	315.2	311.7	319.5	318.5	325.9	334.9	
4 Real estate	72.4	82.7	87.9	82.7	83.4	84.8	86.4	87.9	89.6	89.9	
5 LESS: Reserves for unearned income	60.7	55.6	52.7	55.6	51.3	57.2	54.6	52.7	52.1	53.2	
6 Reserves for losses	12.8	13.1	13.0	13.1	12.8	13.3	12.7	13.0	13.1	13.2	
7 Accounts receivable, net	533.5	568.3	597.6	568.3	583.9	581.2	593.1	597.6	601.9	609.6	
8 All other	250.9	290.0	312.4	290.0	289.6	306.8	289.1	312.4	329.7	340.1	
9 Total assets	784.4	858.3	910.0	858.3	873.4	887.9	882.3	910.0	931.6	949.7	
LIABILITIES AND CAPITAL											
10 Bank loans	15.3	19.7	24.1	19.7	18.4	18.8	20.4	24.1	22.0	22.3	
11 Commercial paper	168.6	177.6	201.5	177.6	185.3	193.7	189.6	201.5	211.7	225.9	
Debt											
12 Owed to parent	51.1	60.3	64.7	60.3	61.0	60.0	61.6	64.7	64.6	60.0	
13 Not elsewhere classified	300.0	332.5	328.8	332.5	324.6	345.3	322.8	328.8	338.2	348.7	
14 All other liabilities	163.6	174.7	189.6	174.7	189.2	171.4	190.1	189.6	193.1	188.9	
15 Capital, surplus, and undivided profits	85.9	93.5	101.3	93.5	94.9	98.7	97.9	101.3	102.1	103.9	
16 Total liabilities and capital	784.4	858.3	910.0	858.3	873.4	887.9	882.3	910.0	931.6	949.7	

1. Includes finance company subsidiaries of bank holding companies but not of retailers and banks. Data are amounts carried on the balance sheets of finance companies; securitized pools are not shown, as they are not on the books.

2. Before deduction for unearned income and losses.

1.52 DOMESTIC FINANCE COMPANIES Owned and Managed Receivables¹

Billions of dollars, amounts outstanding

Type of credit		1995	1996	1997	1998					
					Feb.	Mar.	Apr.	May	June	July
		Seasonally adjusted								
1 Total		682.4	761.9 ^f	809.8 ^f	820.2 ^f	819.0 ^f	825.3 ^f	833.0 ^f	831.3 ^f	840.6
2	Consumer	283.1 ¹	307.7 ^f	327.7 ^f	327.7 ^f	328.7 ^f	328.9 ^f	330.2 ^f	332.5 ^f	336.7
3	Real estate	72.4	111.9	121.1	123.7	121.6	121.9	124.2	120.9 ^f	125.2
4	Business	326.8 ^f	342.4 ^f	361.0 ^f	368.8 ^f	368.7 ^f	374.5 ^f	378.6 ^f	377.9 ^f	378.7
		Not seasonally adjusted								
5 Total		689.5	769.7	818.1	819.6	819.7	825.3	832.2	836.0 ^f	835.2
6	Consumer	285.8	310.6	330.9	324.8	325.4	326.7	329.4	335.4 ^f	338.5
7	Motor vehicles loans	81.1	86.7	87.0	84.7	86.8	90.6	89.6	89.9 ^f	91.7
8	Motor vehicle leases	80.8	92.5	96.8	94.7	95.2	95.9	95.9	97.0 ^f	97.3
9	Revolving ²	28.5	32.5	38.6	36.9	36.6	30.4	30.5	29.9 ^f	29.6
10	Other ³	42.6	33.2	34.4	34.1	33.0	33.4	33.4	34.4	35.0
Securitized assets ⁴										
11	Motor vehicle loans	34.8	36.8	44.3	45.3	45.0	42.8	45.7	49.3	50.2
12	Motor vehicle leases	3.5	8.7	10.8	10.6	10.5	10.4	10.8	10.9	10.8
13	Revolving	n.a.	0.0	0.0	0.0	0.0	5.3	5.3	5.3	5.3
14	Other	14.7	20.1	19.0	18.5	18.2	18.1	18.1	18.6	18.5
15	Real estate	72.4	111.9	121.1	123.7	121.6	121.9	124.2	120.9 ^f	125.2
16	One- to four-family	n.a.	52.1	59.0	62.2	61.5	62.4	65.2	62.3 ^f	65.9
17	Other	n.a.	30.5	28.9	29.0	28.1	28.1	28.1	27.5	28.5
Securitized real estate assets ⁴										
18	One- to four-family	n.a.	28.9	33.0	32.3	31.8	31.2	30.7	30.9	30.6
19	Other	n.a.	0.4	0.2	0.2	0.2	0.2	0.2	0.1	0.1
20	Business	331.2	347.2	366.1	371.1	372.7	376.7	378.6	379.7 ^f	371.5
21	Motor vehicles	66.5	67.1	63.5	64.8	67.8	68.2	69.1	68.4	61.1
22	Retail loans	21.8	25.1	25.6	26.4	27.3	28.3	29.3	29.2	29.2
23	Wholesale loans ⁵	36.6	33.0	27.7	28.2	30.2	29.5	29.5	28.2	21.0
24	Leases	8.0	9.0	10.2	10.2	10.2	10.4	10.4	11.0	10.9
25	Equipment	8.0	9.0	10.2	204.7	206.5	207.8	209.3	212.8 ^f	212.8
26	Loans	8.0	9.0	10.2	49.9	50.8	51.2	51.3	52.7 ^f	51.6
27	Leases	8.0	9.0	10.2	154.8	155.7	156.7	158.0	160.2 ^f	161.2
28	Other business receivables ⁶	8.0	9.0	10.2	55.6	51.6	54.0	54.3	53.7	54.5
Securitized assets ⁴										
29	Motor vehicles	8.0	9.0	10.2	31.2	32.1	31.6	31.0	29.1 ^f	26.3
30	Retail loans	8.0	9.0	10.2	2.2	2.0	1.9	1.9	2.3	2.2
31	Wholesale loans	8.0	9.0	10.2	29.0	30.0	29.6	29.2	26.7 ^f	24.1
32	Leases	8.0	9.0	10.2	0.0	0.0	0.0	0.0	0.0	0.0
33	Equipment	8.0	9.0	10.2	10.8	10.5	10.3	10.2	10.5	11.5
34	Loans	8.0	9.0	10.2	4.3	4.2	4.1	4.0	4.1	5.1
35	Leases	8.0	9.0	10.2	6.5	6.3	6.2	6.2	6.4	6.4
36	Other business receivables ⁶	8.0	9.0	10.2	4.0	4.2	4.7	4.7	5.3	5.4

NOTE This table has been revised to incorporate several changes resulting from the benchmarking of finance company receivables to the June 1996 Survey of Finance Companies. In that benchmark survey, and in the monthly surveys that have followed, more detailed breakdowns have been obtained for some components. In addition, previously unavailable data on securitized real estate loans are now included in this table. The new information has resulted in some reclassification of receivables among the three major categories (consumer, real estate, and business) and in discontinuities in some component series between May and June 1996.

¹ Includes finance company subsidiaries of bank holding companies but not of retailers and banks. Data in this table also appear in the Board's G.20 (422) monthly statistical release. For ordering address, see inside front cover.

² Owned receivables are those carried on the balance sheet of the institution. Managed receivables are outstanding balances of pools upon which securities have been issued; these balances are no longer carried on the balance sheets of the loan originator. Data are shown

before deductions for unearned income and losses. Components may not sum to totals because of rounding.

³ Excludes revolving credit reported as held by depository institutions that are subsidiaries of finance companies.

⁴ Includes personal cash loans, mobile home loans, and loans to purchase other types of consumer goods such as appliances, apparel, boats, and recreation vehicles.

⁵ Outstanding balances of pools upon which securities have been issued; these balances are no longer carried on the balance sheets of the loan originator.

⁶ Credit arising from transactions between manufacturers and dealers, that is, floor plan financing.

⁷ Includes loans on commercial accounts receivable, factored commercial accounts, and receivable dealer capital; small loans used primarily for business or farm purposes; and wholesale and lease paper for mobile homes, campers, and travel trailers.

1.53 MORTGAGE MARKETS Mortgages on New Homes

Millions of dollars except as noted

Item	1995	1996	1997	1998						
				Feb.	Mar.	Apr.	May	June	July	Aug.
	Terms and yields in primary and secondary markets									
PRIMARY MARKETS										
Terms ¹										
1 Purchase price (thousands of dollars).....	175.8	182.4	180.1	195.3	191.7	189.5	195.6	193.7	208.7	191.5
2 Amount of loan (thousands of dollars).....	134.5	139.2	140.3	148.5	149.5	147.1	150.2	151.0	160.1	150.4
3 Loan-to-price ratio (percent).....	78.6	78.2	80.4	78.6	81.0	80.4	79.1	81.0	78.7	81.3
4 Maturity (years).....	27.7	27.2	28.2	28.0	28.3	28.4	28.3	28.3	28.5	28.6
5 Fees and charges (percent of loan amount) ²	1.21	1.21	1.02	0.99	0.95	0.87	0.85	0.85	0.90	0.87
Yield (percent per year)										
6 Contract rate ³	7.65	7.56	7.57	7.09	7.03	7.05	7.05	7.03	6.99	6.95
7 Effective rate ^{1,3}	7.85	7.77	7.73	7.24	7.17	7.19	7.18	7.16	7.13	7.09
8 Contract rate (HUD series) ⁴	8.05	8.03	7.76	7.22	7.16	7.20	7.11	7.08	7.05	6.86
SECONDARY MARKETS										
Yield (percent per year)										
9 FHA mortgages (Section 203) ⁵	8.18	8.19	7.89	7.06	7.09	7.37	7.07	7.07	7.05	7.03
10 GNMA securities ⁶	7.57	7.48	7.26	6.63	6.66	6.63	6.63	6.54	6.48	6.42
	Activity in secondary markets									
FEDERAL NATIONAL MORTGAGE ASSOCIATION										
Mortgage holdings (end of period)										
11 Total.....	253,511	287,052	316,678	322,957	327,025	333,571	343,922	349,249	359,827	366,890
12 FHA/VA insured.....	28,762	30,592	31,925	31,650	31,965	32,734	32,771	32,896	33,036	32,929
13 Conventional.....	224,749	256,460	284,753	291,307	295,060	300,837	311,151	316,353	326,791	333,961
14 Mortgage transactions purchased (during period).....	56,598	68,618	70,465	8,630	12,095	14,668	17,423	11,916	17,326	14,316
Mortgage commitments (during period)										
15 Issued ⁷	56,092	65,859	69,965	10,587	14,057	17,556	10,612	16,921	13,217	17,016
16 To sell ⁸	360	130	1,298	0	92	0	0	0	419	233
FEDERAL HOME LOAN MORTGAGE CORPORATION										
Mortgage holdings (end of period) ⁸										
17 Total.....	107,424	137,755	164,421	175,770	185,928	189,471	192,603	196,634	202,582	206,856
18 FHA/VA insured.....	267	220	177	170	166	162	158 ^f	422 ^f	456 ^f	450
19 Conventional.....	107,157	137,535	164,244	175,600	185,762	189,309	192,445 ^f	196,212 ^f	202,126 ^f	206,406
Mortgage transactions (during period)										
20 Purchases.....	98,470	125,103	117,401	13,610	21,011	25,132	23,743	22,394	22,604	21,507
21 Sales.....	85,877	119,702	114,258	12,481	19,085	24,479	23,338	21,133	22,263	20,633
22 Mortgage commitments contracted (during period) ⁹	118,659	128,995	120,089	17,397	23,060	24,468	26,100	20,008	23,528	24,694

1. Weighted averages based on sample surveys of mortgages originated by major institutional lender groups for purchase of newly built homes; compiled by the Federal Housing Finance 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 rate on loans closed for purchase of newly built homes, assuming prepayment at the end of ten years.

4. Average contract rate on new commitments for conventional first mortgages; from U.S. Department of Housing and Urban Development (HUD). Based on transactions on the first day of the subsequent month.

5. Average gross yield on thirty-year, minimum-downpayment first mortgages insured by the Federal Housing Administration (FHA) for immediate delivery in the private secondary market. Based on transactions on first day of subsequent month.

6. Average net yields to investors on fully modified pass-through securities backed by mortgages and guaranteed by the Government National Mortgage Association (GNMA), assuming prepayment in twelve years on pools of thirty-year mortgages insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs.

7. Does not include standby commitments issued, but includes standby commitments converted.

8. Includes participation loans as well as whole loans.

9. Includes conventional and government-underwritten loans. The Federal Home Loan Mortgage Corporation's mortgage commitments and mortgage transactions include activity under mortgage securities swap programs, whereas the corresponding data for FNMA exclude swap activity.

1.54 MORTGAGE DEBT OUTSTANDING¹

Millions of dollars, end of period

Type of holder and property	1994	1995	1996	1997			1998	
				Q2	Q3	Q4	Q1	Q2 ^P
1 All holders	4,393,545^F	4,604,609^F	4,930,487^F	5,062,766^F	5,180,917^F	5,279,333^F	5,380,907^F	5,505,783
<i>By type of property</i>								
2 One- to four-family residences	3,355,868	3,530,400	3,761,560	3,860,763 ^F	3,956,815 ^F	4,029,268 ^F	4,102,830 ^F	4,195,738
3 Multifamily residences	271,823 ^F	281,788 ^F	300,665 ^F	305,963 ^F	308,418 ^F	314,590 ^F	320,237 ^F	326,527
4 Nonfarm, nonresidential	682,883 ^F	707,861 ^F	781,129 ^F	807,361 ^F	825,923 ^F	845,058 ^F	866,414 ^F	890,538
5 Farm	82,971	84,561	87,134	88,680 ^F	89,760 ^F	90,417	91,425 ^F	92,980
<i>By type of holder</i>								
6 Major financial institutions	1,819,806	1,894,420	1,979,114	2,033,599 ^F	2,068,002 ^F	2,086,721 ^F	2,119,279 ^F	2,124,259
7 Commercial banks	1,012,711	1,090,189	1,145,389	1,196,461 ^F	1,227,131 ^F	1,244,108 ^F	1,270,032 ^F	1,280,732
8 One- to four-family	615,861	669,434	698,508	733,694 ^F	752,323 ^F	762,531 ^F	779,927 ^F	784,929
9 Multifamily	39,346	43,837	46,675	49,116 ^F	49,166 ^F	50,642 ^F	51,790 ^F	52,175
10 Nonfarm, nonresidential	334,953	353,088	375,322	387,588 ^F	398,841 ^F	403,957 ^F	410,859 ^F	415,311
11 Farm	22,551	23,830	24,883	26,063 ^F	26,801 ^F	26,978	27,456 ^F	28,316
12 Savings institutions	596,191	596,763	628,335	629,062	631,444	631,822 ^F	637,012 ^F	629,882
13 One- to four-family	477,626	482,353	513,712	516,521	519,564	520,672 ^F	527,036 ^F	520,276
14 Multifamily	64,343	61,987	61,570	60,070	60,348	59,543	59,074 ^F	58,704
15 Nonfarm, nonresidential	53,933	52,135	52,723	52,132	51,187	51,252 ^F	50,532 ^F	50,519
16 Farm	289	288	331	338	346	354	369	383
17 Life insurance companies	210,904	207,468	205,390	208,077	209,426	210,792	212,235	213,645
18 One- to four-family	7,018	7,316	6,772	6,842	7,080	7,186	7,321	7,488
19 Multifamily	23,902	23,435	23,197	23,499	23,615	23,755	23,902	24,038
20 Nonfarm, nonresidential	170,421	167,095	165,399	167,548	168,374	169,377	170,423	171,393
21 Farm	9,563	9,622	10,022	10,188	10,358	10,473	10,589	10,726
22 Federal and related agencies	315,580	306,774	300,935	292,966	291,410	292,581	293,499	294,547
23 Government National Mortgage Association	6	2	2	7	7	8	8	8
24 One- to four-family	6	2	2	7	7	8	8	8
25 Multifamily	0	0	0	0	0	0	0	0
26 Farmers Home Administration ³	41,781	41,791	41,596	41,400	41,332	41,195	40,972	40,921
27 One- to four-family	18,098	17,705	17,303	17,239	17,458	17,253	17,160	17,059
28 Multifamily	11,319	11,617	11,685	11,706	11,713	11,720	11,714	11,722
29 Nonfarm, nonresidential	5,670	6,248	6,841	7,135	7,246	7,370	7,369	7,497
30 Farm	6,694	6,221	5,768	5,321	4,916	4,852	4,729	4,644
31 Federal Housing and Veterans' Administrations	10,964	9,809	6,244	4,200	3,462	3,821	3,694	3,631
32 One- to four-family	4,753	5,180	3,524	2,299	1,437 ^F	1,767 ^F	1,641 ^F	1,610
33 Multifamily	6,211	4,629	2,719	1,900	2,025 ^F	2,054 ^F	2,053 ^F	2,021
34 Resolution Trust Corporation	10,428	1,864	0	0	0	0	0	0
35 One- to four-family	5,200	691	0	0	0	0	0	0
36 Multifamily	2,859	647	0	0	0	0	0	0
37 Nonfarm, nonresidential	2,369	525	0	0	0	0	0	0
38 Farm	0	0	0	0	0	0	0	0
39 Federal Deposit Insurance Corporation	7,821	4,303	2,431	1,816	1,476	724	786	564
40 One- to four-family	1,049	492	365	272	221	109	118	85
41 Multifamily	1,595	428	413	309	251	123	134	96
42 Nonfarm, nonresidential	5,177	3,383	1,653	1,235	1,004	492	534	384
43 Farm	0	0	0	0	0	0	0	0
44 Federal National Mortgage Association	174,312	176,824	174,556	170,386	168,458	167,722	166,670	167,202
45 One- to four-family	158,766	161,665	160,751	157,729	156,363	156,245	155,876	156,769
46 Multifamily	15,546	15,159	13,805	12,657	12,095	11,477	10,794	10,433
47 Federal Land Banks	28,555	28,428	29,602	29,963	30,346	30,657	31,005	31,352
48 One- to four-family	1,671	1,673	1,742	1,763	1,786	1,804	1,824	1,845
49 Farm	26,885	26,755	27,860	28,200	28,560	28,853	29,181	29,507
50 Federal Home Loan Mortgage Corporation	41,712	43,753	46,504	45,194	46,329	48,454	50,364	50,869
51 One- to four-family	38,882	39,901	41,758	40,092	40,953	42,629	44,440	44,597
52 Multifamily	2,830	3,852	4,746	5,102	5,376	5,825	5,924	6,272
53 Mortgage pools or trusts ⁵	1,730,004 ^F	1,863,210 ^F	2,064,882 ^F	2,145,995 ^F	2,202,549 ^F	2,272,999 ^F	2,330,674 ^F	2,442,603
54 Government National Mortgage Association	450,934	472,283	506,340	520,938	526,340	536,810	533,011	537,586
55 One- to four-family	441,198	461,438	494,158	507,618	516,217	523,156	519,152	523,243
56 Multifamily	9,736	10,845	12,182	13,320	13,650	13,654	13,859	14,343
57 Federal Home Loan Mortgage Corporation	490,851	515,051	554,260	567,187	569,920	579,385	583,144	609,791
58 One- to four-family	487,725	512,238	551,513	564,445	567,340	576,846	580,715	607,469
59 Multifamily	3,126	2,813	2,747	2,742	2,580	2,539	2,429	2,322
60 Federal National Mortgage Association	530,343	582,959	650,780	673,931	690,919	709,582	730,832	761,359
61 One- to four-family	520,763	569,724	633,210	654,826	670,677	687,981	708,125	737,631
62 Multifamily	9,580	13,235	17,570	19,105	20,242	21,601	22,707	23,728
63 Farmers Home Administration ³	19	11	3	2	2	2	2	2
64 One- to four-family	3	2	0	0	0	0	0	0
65 Multifamily	0	0	0	0	0	0	0	0
66 Nonfarm, nonresidential	9	5	0	0	0	0	0	0
67 Farm	7	4	3	2	2	2	2	2
68 Private mortgage conduits	257,857 ^F	292,906 ^F	353,499 ^F	383,937 ^F	411,841 ^F	447,219 ^F	483,685 ^F	533,865
69 One- to four-family ⁶	208,500	227,800	261,900	279,450	299,400	318,000	336,824 ^F	364,316
70 Multifamily	11,744 ^F	15,584 ^F	21,967 ^F	24,355 ^F	25,655 ^F	29,264 ^F	33,477 ^F	38,144
71 Nonfarm, nonresidential	37,613 ^F	49,522 ^F	69,633 ^F	80,132 ^F	86,786 ^F	99,955 ^F	113,384 ^F	131,405
72 Farm	0	0	0	0	0	0	0	0
73 Individuals and others ⁷	528,155	540,206	585,556	590,206	618,955 ^F	627,033 ^F	637,455 ^F	644,375
74 One- to four-family	368,749	372,786	376,341	377,966	405,990 ^F	413,082 ^F	422,663 ^F	428,413
75 Multifamily	69,686	73,719	81,389	82,081	81,702 ^F	82,392 ^F	82,379 ^F	82,529
76 Nonfarm, nonresidential	72,738	75,859	109,558	111,591	112,486 ^F	112,655 ^F	113,312 ^F	114,031
77 Farm	16,983	17,841	18,268	18,567	18,777	18,904 ^F	19,100 ^F	19,402

1. Multifamily debt refers to loans on structures of five or more units.

2. Includes loans held by nondeposit trust companies but not loans held by bank trust departments.

3. Includes savings banks and savings and loan associations.

4. FmHA-guaranteed securities sold to the Federal Financing Bank were reallocated from FmHA mortgage pools to FmHA mortgage holdings in 1986:Q4 because of accounting changes by the Farmers Home Administration.

5. Outstanding principal balances of mortgage-backed securities insured or guaranteed by the agency indicated.

6. Includes securitized home equity loans.

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 finance companies.

SOURCE: Based on data from various institutional and government sources. Separation of nonfarm mortgage debt by type of property, if not reported directly, and interpolations and extrapolations, when required for some quarters, are estimated in part by the Federal Reserve. Line 69 from Inside Mortgage Securities and other sources.

1.55 CONSUMER CREDIT¹

Millions of dollars, amounts outstanding, end of period

Holder and type of credit	1995	1996	1997	1998 ^f					
				Feb.	Mar.	Apr.	May	June	July
	Seasonally adjusted								
1 Total	1,095,711 ^f	1,181,913 ^f	1,233,099 ^f	1,239,561	1,246,016	1,249,950	1,251,874	1,260,676	1,265,978
2 Automobile	364,209 ^f	392,321 ^f	413,369 ^f	416,809	419,811	421,378	422,806	425,736	429,175
3 Revolving	443,183 ^f	499,486 ^f	531,140 ^f	535,518	539,674	542,213	541,656	545,920	543,825
4 Other ²	288,319 ^f	290,105 ^f	288,590 ^f	287,234	286,530	286,359	287,412	289,020	292,979
	Not seasonally adjusted								
5 Total	1,122,828	1,211,590	1,264,103	1,233,241	1,234,714	1,239,310	1,240,755	1,253,893	1,259,132
<i>By major holder</i>									
6 Commercial banks	501,963	526,769	512,563	492,549	492,213	500,207	497,389	491,509	491,777
7 Finance companies	152,123	152,391	160,022	155,675	156,480	154,328	153,556	154,275	156,394
8 Credit unions	131,939	144,148	152,362	149,804	149,334	149,119	149,784	149,383	150,444
9 Savings institutions	40,106	44,711	47,172	47,115	47,087	47,500	47,915	48,329	48,744
10 Nonfinancial business ³	85,061	77,745	78,927	72,761	72,754	65,102	65,238	65,278	65,497
11 Pools of securitized assets ⁴	211,636	265,826	313,057	315,337	316,846	323,054	326,873	345,119	346,276
<i>By major type of credit⁵</i>									
12 Automobile	367,069	395,609	416,962	412,177	415,524	416,138	418,425	425,453	430,781
13 Commercial banks	151,437	157,047	155,254	152,747	153,926	151,278	151,677	150,877	153,203
14 Finance companies	81,073	86,690	87,015	84,685	86,834	90,564	89,569	89,948	91,741
15 Pools of securitized assets ⁴	44,635	51,719	64,950	65,957	65,057	63,737	65,988	71,615	72,467
16 Revolving	464,134	522,860	555,858	535,451	534,420	535,976	536,043	540,147	537,559
17 Commercial banks	210,298	228,615	219,826	204,564	201,316	209,171	207,318	200,901	197,646
18 Finance companies	28,460	32,493	38,608	36,851	36,613	30,398	30,495	29,893	29,633
19 Nonfinancial business ³	53,525	44,901	44,966	40,976	41,246	33,487	33,412	33,544	33,807
20 Pools of securitized assets ⁴	147,934	188,712	221,465	223,400	226,226	233,668	235,347	245,635	246,031
21 Other	291,625	293,121	291,283	285,613	284,770	287,196	286,287	288,293	290,792
22 Commercial banks	140,228	141,107	137,483	135,238	136,971	139,758	138,394	139,731	140,928
23 Finance companies	42,590	33,208	34,399	34,139	33,033	33,366	33,492	34,434	35,020
24 Nonfinancial business ³	31,536	32,844	33,961	31,785	31,508	31,615	31,826	31,734	31,690
25 Pools of securitized assets ⁴	19,067	25,395	26,642	25,980	25,563	25,649	25,538	27,869	27,778

1. The Board's series on amounts of credit covers most short- and intermediate-term credit extended to individuals. Data in this table also appear in the Board's G.19 (421) monthly statistical release. For ordering address, see inside front cover.

2. Comprises mobile home loans and all other loans that are not included in automobile or revolving credit, such as loans for education, boats, trailers, or vacations. These loans may be secured or unsecured.

3. Includes retailers and gasoline companies.

4. Outstanding balances of pools upon which securities have been issued; these balances are no longer carried on the balance sheets of the loan originator.

5. Totals include estimates for certain holders for which only consumer credit totals are available.

1.56 TERMS OF CONSUMER CREDIT¹

Percent per year except as noted

Item	1995	1996	1997	1998						
				Jan.	Feb.	Mar.	Apr.	May	June	July
INTEREST RATES										
<i>Commercial banks²</i>										
1 48-month new car	9.57	9.05	9.02	n.a.	8.87	n.a.	n.a.	8.69	n.a.	n.a.
2 24-month personal	13.94	13.54	13.90	n.a.	14.01	n.a.	n.a.	13.76	n.a.	n.a.
Credit card plan										
3 All accounts	15.90	15.63	15.77	n.a.	15.65	n.a.	n.a.	15.67	n.a.	n.a.
4 Accounts assessed interest	15.64	15.50	15.57	n.a.	15.33	n.a.	n.a.	15.62	n.a.	n.a.
<i>Auto finance companies</i>										
5 New car	11.19	9.84	7.12	6.12	6.98	5.94	6.20	6.07	6.02	6.25
6 Used car	14.48	13.53	13.27	12.77	12.87	12.79	12.76	12.73	12.63	12.51
OTHER TERMS ³										
<i>Maturity (months)</i>										
7 New car	54.1	51.6	54.1	52.8	52.6	51.5	50.7	50.8	50.9	51.7
8 Used car	52.2	51.4	51.0	52.2	52.5	52.6	52.9	52.9	54.0	54.1
<i>Loan-to-value ratio</i>										
9 New car	92	91	92	92	92	92	91	93	91	92
10 Used car	99	100	99	98	97	97	98	99	100	100
<i>Amount financed (dollars)</i>										
11 New car	16,210	16,987	18,077	18,944	18,825	18,932	18,922	18,793	18,878	19,084
12 Used car	11,590	12,182	12,281	12,391	12,356	12,431	12,716	12,607	12,698	12,733

1. The Board's series on amounts of credit covers most short- and intermediate-term credit extended to individuals. Data in this table also appear in the Board's G.19 (421) monthly statistical release. For ordering address, see inside front cover.

2. Data are available for only the second month of each quarter.

3. At auto finance companies.

1.57 FUNDS RAISED IN U.S. CREDIT MARKETS¹

Billions of dollars; quarterly data at seasonally adjusted annual rates

Transaction category or sector	1993	1994	1995	1996	1997	1996	1997				1998	
						Q4	Q1	Q2	Q3	Q4	Q1	Q2
Nonfinancial sectors												
1 Total net borrowing by domestic nonfinancial sectors	588.0	572.2	701.6	725.8	768.4	642.2	674.5	614.4	829.6	954.9	919.1	935.0
By sector and instrument												
2 Federal government	256.1	155.9	144.4	145.0	23.1	112.3	64.9	-43.5	30.3	40.8	-31.3	-69.6
3 Treasury securities	248.3	155.7	142.9	146.6	23.2	115.6	66.3	-43.8	31.2	39.0	-28.9	-68.1
4 Budget agency securities and mortgages	7.8	.2	1.5	-1.6	-1	-3.3	-1.4	.2	-9	1.7	-2.4	-1.4
5 Nonfederal	331.9	416.4	557.1	580.8	745.3	530.0	609.6	658.0	799.3	914.2	950.4	1,004.5
By instrument												
6 Commercial paper	10.0	21.4	18.1	-9	13.7	-24.1	7.2	20.3	14.5	12.8	53.9	6.6
7 Municipal securities and loans	74.8	-35.9	-48.2	2.6	71.4	54.8	34.1	59.6	88.9	103.2	116.7	86.1
8 Corporate bonds	75.2	23.3	73.3	72.5	90.7	89.9	79.4	86.1	122.9	74.4	157.2	160.8
9 Bank loans n.e.c.	6.4	75.2	102.3	66.2	107.6	27.8	140.7	118.1	31.6	140.0	56.0	170.1
10 Other loans and advances	-18.9	34.0	67.2	33.8	68.2	3.2	34.2	19.3	79.2	140.1	80.7	34.5
11 Mortgages	123.7	173.4	205.5	318.0	341.1	331.5	251.5	295.1	411.9	405.8	434.3	487.8
12 Home	156.2	178.5	174.5	264.9	267.7	248.4	217.5	210.5	333.6	309.3	330.3	367.9
13 Multifamily residential	-6.8	-1.2	8.1	12.6	11.4	15.3	3.9	12.7	6.5	22.3	19.9	22.5
14 Commercial	-26.7	-6.1	21.2	37.9	58.7	66.1	28.0	67.7	67.5	71.6	80.1	91.1
15 Farm	1.0	2.2	1.6	2.6	3.3	1.6	2.1	4.1	4.3	2.6	4.0	6.2
16 Consumer credit	60.7	124.9	138.9	88.8	52.5	46.8	62.5	59.5	50.3	37.8	51.7	58.6
By borrowing sector												
17 Household	207.8	311.4	349.0	372.8	351.6	306.6	324.7	317.3	368.3	396.2	435.9	476.7
18 Nonfinancial business	57.9	151.3	259.6	214.8	337.6	177.7	268.0	298.2	358.4	425.7	420.2	463.0
19 Corporate	52.1	143.6	232.7	165.5	267.8	108.6	215.2	223.6	287.1	345.1	334.9	363.4
20 Nonfarm noncorporate	3.2	3.3	23.9	44.5	63.5	61.4	47.8	68.6	65.8	71.6	77.4	92.2
21 Farm	2.6	4.4	2.9	4.8	6.4	7.6	4.9	6.0	5.5	9.0	7.9	7.4
22 State and local government	66.2	-46.2	-51.5	-6.8	56.1	45.7	16.9	42.5	72.6	92.3	94.3	64.9
23 Foreign net borrowing in United States	69.8	-14.0	71.1	76.9	56.9	93.6	31.2	61.7	92.5	42.3	68.8	68.5
24 Commercial paper	-9.6	-26.1	13.5	11.3	3.7	4.4	15.5	10.4	-11.6	-7	56.0	-24.8
25 Bonds	82.9	12.2	49.7	55.8	46.7	84.5	15.5	38.7	100.3	32.4	14.3	89.8
26 Bank loans n.e.c. . . . .	.7	1.4	8.5	9.1	8.5	7.8	-7	11.5	7.3	15.7	5.5	7.9
27 Other loans and advances	-4.2	-1.5	-5	.8	-2.0	-3.1	.9	1.2	-3.5	-6.5	-7.0	-4.4
28 Total domestic plus foreign	657.8	558.2	772.7	802.7	825.3	735.8	705.7	676.1	922.2	997.2	987.9	1,003.5
Financial sectors												
29 Total net borrowing by financial sectors	294.4	468.4	456.4	556.2	644.4	674.1	336.5	659.0	594.0	987.9	840.3	1,016.2
By instrument												
30 Federal government-related	165.3	287.5	204.1	231.5	212.8	252.8	105.7	286.2	161.0	298.1	227.3	413.4
31 Government-sponsored enterprise securities	80.6	176.9	105.9	90.4	98.4	123.3	-8.9	198.1	46.4	157.9	142.5	166.4
32 Mortgage pool securities	84.7	115.4	98.2	141.1	114.4	129.6	114.6	88.1	114.6	140.3	84.8	247.0
33 Loans from U.S. government . . . . .	.0	-4.8	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
34 Private	129.1	180.9	252.3	324.7	431.6	421.3	230.9	372.9	433.0	689.8	613.0	602.8
35 Open market paper	-5.5	40.5	42.7	92.2	166.7	162.1	176.6	77.0	168.8	244.2	237.4	134.8
36 Corporate bonds	123.1	121.8	196.7	179.7	208.1	199.0	61.7	231.4	193.4	345.8	316.0	376.8
37 Bank loans n.e.c.	-14.4	-13.7	3.9	16.9	13.6	24.0	6.5	-6.0	23.2	30.7	18.9	7.2
38 Other loans and advances	22.4	22.6	3.4	27.9	35.6	31.2	-20.1	63.0	37.5	61.7	32.7	76.0
39 Mortgages	3.6	9.8	5.6	7.9	7.8	4.9	6.2	7.5	10.1	7.3	8.0	8.0
By borrowing sector												
40 Commercial banking	13.4	20.1	22.5	13.0	46.1	26.9	14.4	76.4	32.5	61.0	83.5	95.9
41 Savings institutions	11.3	12.8	2.6	25.5	19.7	23.0	-16.8	31.9	22.3	41.7	10.6	31.2
42 Credit unions . . . . .	.2	.2	-1	.1	.1	.3	.2	.2	.2	.3	.5	.2
43 Life insurance companies . . . . .	.2	.3	-1	1.1	.2	2.0	.8	.1	.2	-3	.0	-6
44 Government-sponsored enterprises	80.6	172.1	105.9	90.4	98.4	123.3	-8.9	198.1	46.4	157.9	142.5	166.4
45 Federally related mortgage pools	84.7	115.4	98.2	141.1	114.4	129.6	114.6	88.1	114.6	140.3	84.8	247.0
46 Issuers of asset-backed securities (ABSs)	83.6	72.9	141.1	153.6	204.6	157.3	85.8	122.7	224.7	385.0	255.0	363.5
47 Finance companies	-1.4	48.7	50.2	45.9	48.7	38.1	5.6	120.5	8.9	59.6	80.1	101.8
48 Mortgage companies . . . . .	.0	-11.5	4	12.4	-1.3	12.1	-7	-12.2	3.6	4.2	5.2	-5.5
49 Real estate investment trusts (REITs)	3.4	13.7	5.7	11.0	24.8	15.2	15.1	19.8	32.0	32.1	36.3	33.9
50 Brokers and dealers	12.0	.5	-5.0	-2.0	8.1	4.9	-2.9	34.9	-6.9	7.0	-1.0	20.0
51 Funding corporations	6.3	23.1	34.9	64.1	80.7	141.6	129.7	-21.5	115.4	99.2	142.8	-37.6

1.57 FUNDS RAISED IN U.S. CREDIT MARKETS¹—Continued

Transaction category or sector	1993	1994	1995	1996	1997	1996	1997				1998	
						Q4	Q1	Q2	Q3	Q4	Q1	Q2
						All sectors						
52 Total net borrowing, all sectors	952.2	1,026.6	1,229.0	1,358.9	1,469.7	1,409.9	1,042.2	1,335.1	1,516.2	1,985.1	1,828.2	2,019.6
53 Open market paper	-5.1	35.7	74.3	102.6	184.1	142.4	199.3	107.7	171.7	257.7	347.3	116.6
54 U.S. government securities	421.4	448.1	348.5	376.5	235.9	365.1	170.6	242.6	191.3	338.9	196.0	343.8
55 Municipal securities	74.8	-35.9	-48.2	2.6	71.4	54.8	34.1	59.6	88.9	103.2	116.7	86.1
56 Corporate and foreign bonds	281.2	157.3	319.6	308.0	345.5	373.4	156.6	356.1	416.6	452.6	487.5	627.4
57 Bank loans n.e.c.	-7.2	62.9	114.7	92.1	129.7	59.7	146.5	123.6	62.2	186.4	80.4	185.3
58 Other loans and advances	-8	50.3	70.2	62.5	101.8	31.3	15.0	83.4	113.3	195.3	106.4	106.1
59 Mortgages	127.3	183.2	211.1	325.9	348.8	336.4	257.7	302.6	422.0	413.1	442.3	495.8
60 Consumer credit	60.7	124.9	138.9	88.8	52.5	46.8	62.5	59.5	50.3	37.8	51.7	58.6
Funds raised through mutual funds and corporate equities												
61 Total net issues	429.7	125.2	143.9	231.8	191.9	162.3	181.9	183.9	248.6	153.0	218.0	194.2
62 Corporate equities	137.7	24.6	-3.5	-5.8	-73.3	-20.4	-67.7	-66.2	-51.3	-108.0	-103.4	-118.2
63 Nonfinancial corporations	21.3	-44.9	-58.3	-64.2	-114.6	-56.0	-90.4	-100.0	-124.0	-144.1	-138.0	-129.2
64 Foreign shares purchased by U.S. residents	63.4	48.1	50.4	60.0	41.3	42.2	46.6	54.4	64.3	-3	13.6	4.0
65 Financial corporations	53.0	21.4	4.4	-1.6	.1	-6.7	-23.9	-20.6	8.4	36.5	21.0	7.1
66 Mutual fund shares	292.0	100.6	147.4	237.6	265.1	182.8	249.6	250.1	299.9	261.0	321.4	312.4

1. Data in this table also appear in the Board's Z.1 (780) quarterly statistical release, tables F.2 through F.4. For ordering address, see inside front cover.

1.58 SUMMARY OF FINANCIAL TRANSACTIONS¹

Billions of dollars except as noted: quarterly data at seasonally adjusted annual rates

Transaction category or sector	1993	1994	1995	1996	1997	1996		1997				1998	
						Q4	Q1	Q2	Q3	Q4	Q1	Q2	
NET LENDING IN CREDIT MARKETS ²													
1 Total net lending in credit markets	952.2	1,026.6	1,229.0	1,358.9	1,469.7	1,409.9	1,042.2	1,335.1	1,516.2	1,985.1	1,828.2	2,019.6	
2 Domestic nonfederal nonfinancial sectors	41.6	238.7	-93.8	9.5	-88.8	-141.2	-221.7	-50.5	-138.0	55.0	-206.4	378.9	
3 Household	1.0	275.5	1.6	13.8	-106.1	-46.6	-273.5	-48.3	-131.5	28.6	-196.5	297.4	
4 Nonfinancial corporate business	9.1	17.7	-8.8	15.0	14.9	-16.9	78.7	-46.7	31.7	-4.1	-5.5	19.8	
5 Nonfarm noncorporate business	-1.1	6	4.7	4.4	2.7	4.4	2.5	2.7	2.8	2.9	3.0	3.2	
6 State and local governments	32.6	-55.0	-91.4	-23.7	-3	-82.1	-29.5	41.8	-41.0	27.5	-7.4	58.5	
7 Federal government	-18.4	-27.5	-2	-7.7	4.9	-4.3	1.7	5.7	3.3	9.0	15.5	12.8	
8 Rest of the world	129.3	132.3	273.9	414.7	312.1	586.6	330.6	307.0	404.1	206.5	234.9	309.2	
9 Financial sectors	799.7	683.0	1,049.1	942.4	1,241.5	968.8	931.7	1,072.9	1,246.8	1,714.7	1,784.2	1,318.8	
10 Monetary authority	36.2	31.5	12.7	12.3	38.3	6.9	34.4	42.9	22.9	52.9	27.4	7.7	
11 Commercial banking	142.2	163.4	265.9	187.5	324.8	245.4	316.0	290.0	226.2	467.1	293.7	147.8	
12 U.S.-chartered banks	149.6	148.1	186.5	119.6	274.9	152.4	206.1	286.7	220.7	386.2	260.8	143.1	
13 Foreign banking offices in United States	-9.8	11.2	75.4	63.3	40.2	84.1	101.7	-3.6	4.6	58.2	12.0	17.2	
14 Bank holding companies	0	.9	-3	3.9	5.4	10.5	2.2	5.1	-5.0	19.4	15.3	-17.6	
15 Banks in U.S.-affiliated areas	2.4	3.3	4.2	.7	4.2	-1.6	6.1	1.8	5.8	3.2	5.6	5.1	
16 Savings institutions	-23.3	6.7	-7.6	19.9	-4.7	-47.9	-5.3	23.8	-35.3	-2.0	10.1	-11.9	
17 Credit unions	21.7	28.1	16.2	25.5	16.8	25.8	20.5	25.2	13.6	7.7	19.6	24.9	
18 Bank personal trusts and estates	9.5	7.1	-8.3	-7.7	7.6	-2.5	3.4	10.7	7.3	8.8	2.4	3.1	
19 Life insurance companies	100.9	66.7	99.2	72.5	101.0	124.5	88.3	174.4	106.0	35.3	108.9	116.2	
20 Other insurance companies	27.7	24.9	21.5	22.5	25.2	27.7	6.0	28.0	32.0	34.7	23.4	28.1	
21 Private pension funds	49.5	45.5	61.3	48.3	67.6	34.1	55.0	58.5	66.2	90.7	72.6	105.5	
22 State and local government retirement funds	22.7	22.3	27.5	45.9	36.6	38.1	23.2	34.6	79.1	9.5	81.7	72.7	
23 Money market mutual funds	20.4	30.0	86.5	88.8	87.5	81.1	58.2	26.1	121.5	144.2	172.0	200.1	
24 Mutual funds	159.5	-7.1	52.5	48.9	80.9	25.7	63.9	90.0	108.0	61.8	143.6	115.9	
25 Closed-end funds	20.0	-3.7	10.5	2.2	1.2	2.2	2.7	1.3	.3	.4	.6	.2	
26 Government-sponsored enterprises	87.8	117.8	84.7	92.0	95.0	137.1	44.9	119.9	55.8	159.2	166.0	143.4	
27 Federally related mortgage pools	84.7	115.4	98.2	141.1	114.4	129.6	114.6	88.1	114.6	140.3	84.8	247.0	
28 Asset-backed securities issuers (ABSSs)	81.0	65.8	119.3	123.4	166.1	108.2	62.3	107.8	162.2	332.2	195.8	332.4	
29 Finance companies	-20.9	48.3	49.9	18.4	21.9	-3.6	39.8	.9	68.3	-21.4	28.6	27.1	
30 Mortgage companies	0	-24.0	-3.4	8.2	16.4	4.1	-1.3	-24.4	82.9	8.3	10.4	-11.0	
31 Real estate investment trusts (REITs)	6	4.7	2.2	2.0	-2.0	-2.1	-2.1	-2.1	-2.1	-1.7	-2.0	-2.0	
32 Brokers and dealers	14.8	-44.2	90.1	-15.7	13.7	82.7	-14.5	-11.7	15.8	65.3	250.4	-188.6	
33 Funding corporations	-35.3	-16.2	-29.7	6.5	33.4	-48.4	21.5	-10.9	1.7	121.2	94.1	-40.1	
RELATION OF LIABILITIES TO FINANCIAL ASSETS													
34 Net flows through credit markets	952.2	1,026.6	1,229.0	1,358.9	1,469.7	1,409.9	1,042.2	1,335.1	1,516.2	1,985.1	1,828.2	2,019.6	
Other financial sources													
35 Official foreign exchange	8	-5.8	8.8	-6.3	.7	.7	-17.6	.4	2.4	17.5	1.0	8.1	
36 Special drawing rights certificates	0	0	2.2	-5	-5	0	-2.1	0	0	0	0	0	
37 Treasury currency	4	.7	.6	.1	0	-2.4	.4	.2	1.3	-1.9	.3	.2	
38 Foreign deposits	-18.5	52.9	35.3	85.9	107.4	120.1	186.7	23.9	116.1	103.0	-45.3	44.2	
39 Net interbank transactions	50.5	89.8	9.9	-51.6	-45.8	10.2	-78.4	-57.0	-31.5	-16.2	21.2	-22.7	
40 Checkable deposits and currency	117.3	-9.7	-12.7	15.8	41.5	-47.3	81.8	50.6	-38.4	71.9	65.9	110.6	
41 Small time and savings deposits	-70.3	-39.9	96.6	97.2	97.1	91.1	151.5	34.0	47.0	156.0	152.0	46.6	
42 Large time deposits	-23.5	19.6	65.6	114.0	122.5	136.5	56.3	174.7	188.4	70.8	118.5	-30.9	
43 Money market fund shares	20.2	43.3	142.3	145.8	157.6	188.2	157.6	98.9	226.2	147.8	248.0	186.4	
44 Security repurchase agreements	71.3	78.2	110.4	40.0	115.2	72.9	32.7	218.9	111.2	98.1	250.5	-59.6	
45 Corporate equities	137.7	24.6	-3.5	-5.8	-73.3	-20.4	-67.7	-66.2	-51.3	-108.0	-103.4	-118.2	
46 Mutual fund shares	292.0	100.6	147.4	217.6	265.1	182.8	249.6	250.1	299.9	261.0	321.4	312.4	
47 Trade payables	52.2	94.0	100.7	72.3	94.5	110.4	63.4	56.0	121.0	137.7	79.6	63.0	
48 Security credit	61.4	-.1	26.7	52.4	110.1	131.1	110.4	127.5	90.6	111.9	168.8	-110.3	
49 Life insurance reserves	36.0	34.5	44.9	43.6	52.9	66.7	49.8	62.5	62.8	36.6	47.8	38.5	
50 Pension fund reserves	255.6	246.2	233.2	230.8	296.8	281.1	256.6	318.9	326.9	284.8	259.9	265.4	
51 Taxes payable	11.4	2.6	6.2	16.2	15.1	22.1	21.7	12.4	29.6	-3.4	44.1	-7.7	
52 Investment in bank personal trusts	9	17.8	4.0	-8.6	75.0	-4.2	68.8	71.8	80.8	78.4	50.3	57.5	
53 Noncorporate proprietors' equity	25.5	55.6	71.5	47.1	41.1	29.4	50.1	48.0	49.7	16.8	41.0	12.5	
54 Miscellaneous	340.0	252.0	449.4	415.8	586.7	465.4	668.2	527.8	621.6	529.4	868.6	399.6	
55 Total financial sources	2,312.9	2,083.6	2,768.5	2,900.8	3,529.6	3,244.3	3,082.2	3,288.5	3,770.5	3,977.4	4,418.4	3,215.3	
Liabilities not identified as assets (-)													
56 Treasury currency	-2	-2	-5	-9	-6	-3.1	-.3	-5	.7	-2.4	-.2	-.3	
57 Foreign deposits	-5.7	43.0	25.1	59.4	107.4	51.7	176.9	10.6	93.9	148.3	-94.6	60.3	
58 Net interbank liabilities	4.2	-2.7	-3.1	-3.3	-19.8	1.5	30.3	-26.7	-50.0	-32.6	107.2	21.9	
59 Security repurchase agreements	46.4	69.4	22.9	-7	72.6	110.4	-107.3	185.3	23.4	188.9	187.6	-56.3	
60 Taxes payable	15.8	16.6	21.1	20.4	17.7	24.8	19.3	27.6	14.7	9.4	41.2	1.5	
61 Miscellaneous	-170.8	-150.4	-221.3	-122.6	-303.3	-140.4	25.1	-485.0	-137.8	-615.5	-207.6	-256.6	
Flows not included in assets (-)													
62 Federal government checkable deposits	-1.5	-4.8	-6.0	.5	-2.7	-12.4	-4.6	-8.3	10.0	-7.9	7.5	-41.8	
63 Other checkable deposits	-1.3	-2.8	-3.8	-4.0	-3.9	-3.8	-3.3	-4.3	-3.0	-5.0	-4.0	-3.0	
64 Trade credit	-4.0	1.5	-12.5	-31.5	9.7	-9.8	-5.2	-53.8	39.4	58.5	5.9	-3.4	
65 Total identified to sectors as assets	2,429.9	2,114.0	2,946.7	2,983.7	3,652.5	3,225.3	2,951.3	3,643.7	3,779.1	4,235.7	4,375.5	3,493.0	

1. Data in this table also appear in the Board's Z.1 (780) quarterly statistical release, tables F.1 and F.5. For ordering address, see inside front cover.

2. Excludes corporate equities and mutual fund shares.

1.59 SUMMARY OF CREDIT MARKET DEBT OUTSTANDING¹

Billions of dollars, end of period

Transaction category or sector	1994	1995	1996	1997	1996	1997				1998	
					Q4	Q1	Q2	Q3	Q4	Q1	Q2
	Nonfinancial sectors										
1 Total credit market debt owed by domestic nonfinancial sectors	13,014.5	13,716.0	14,441.8	15,208.7	14,441.8	14,608.9	14,727.4	14,931.4	15,208.7	15,439.6	15,634.4
By sector and instrument											
2 Federal government	3,492.3	3,636.7	3,781.8	3,804.9	3,781.8	3,829.8	3,760.6	3,771.2	3,804.9	3,830.4	3,749.0
3 Treasury securities	3,465.6	3,608.5	3,755.1	3,778.3	3,755.1	3,803.5	3,734.3	3,745.1	3,778.3	3,804.5	3,723.4
4 Budget agency securities and mortgages	26.7	28.2	26.6	26.5	26.6	26.3	26.3	26.1	26.5	25.9	25.6
5 Nonfederal	9,522.2	10,079.3	10,660.1	11,403.8	10,660.1	10,779.1	10,966.8	11,160.2	11,403.8	11,609.2	11,885.5
By instrument											
6 Commercial paper	139.2	157.4	156.4	168.6	156.4	168.7	179.3	176.6	168.6	193.1	202.5
7 Municipal securities and loans	1,341.7	1,293.5	1,296.0	1,367.5	1,296.0	1,305.1	1,326.8	1,340.2	1,367.5	1,397.1	1,425.8
8 Corporate bonds	1,253.0	1,326.3	1,398.8	1,489.5	1,398.8	1,418.7	1,440.2	1,470.9	1,489.5	1,528.8	1,569.0
9 Bank loans n.e.c.	759.9	862.1	928.3	1,035.9	928.3	964.5	1,000.2	1,000.1	1,035.9	1,052.0	1,100.6
10 Other loans and advances	669.6	736.9	770.6	838.8	770.6	784.4	788.2	802.8	838.8	864.6	871.9
11 Mortgages	4,374.8	4,580.3	4,898.3	5,239.3	4,898.3	4,951.3	5,027.1	5,142.7	5,239.3	5,338.9	5,461.8
12 Home	3,355.9	3,530.4	3,761.6	4,029.3	3,761.6	3,806.1	3,860.8	3,956.8	4,029.3	4,102.8	4,195.7
13 Multifamily residential	265.6	273.8	290.0	301.4	290.0	291.0	294.2	295.8	301.4	306.4	312.0
14 Commercial	670.3	691.6	759.5	818.3	759.5	766.5	783.5	800.4	818.3	838.3	861.1
15 Farm	83.0	84.6	87.1	90.4	87.1	87.7	88.7	89.8	90.4	91.4	93.0
16 Consumer credit	983.9	1,122.8	1,211.6	1,264.1	1,211.6	1,186.4	1,205.0	1,226.7	1,264.1	1,234.7	1,253.9
By borrowing sector											
17 Household	4,452.8	4,806.8	5,150.9	5,505.2	5,150.9	5,182.8	5,271.2	5,383.0	5,505.2	5,562.4	5,689.3
18 Nonfinancial business	3,947.6	4,202.3	4,445.8	4,779.2	4,445.8	4,527.4	4,609.6	4,681.7	4,779.2	4,902.4	5,028.8
19 Corporate	2,683.6	2,911.4	3,105.7	3,369.2	3,105.7	3,176.8	3,236.8	3,291.1	3,369.2	3,473.9	3,571.8
20 Nonfarm noncorporate	1,121.8	1,145.8	1,190.2	1,253.7	1,190.2	1,202.2	1,219.3	1,235.2	1,253.7	1,273.1	1,296.1
21 Farm	142.2	145.1	149.9	156.3	149.9	148.3	153.4	155.4	156.3	155.4	160.9
22 State and local government	1,121.7	1,070.2	1,063.4	1,119.5	1,063.4	1,069.0	1,086.1	1,095.5	1,119.5	1,144.3	1,167.3
23 Foreign credit market debt held in United States	370.8	441.9	518.8	569.6	518.8	524.3	539.2	557.7	569.6	584.1	602.1
24 Commercial paper	42.7	56.2	67.5	65.1	67.5	69.3	71.3	64.3	65.1	76.7	71.4
25 Bonds	242.3	291.9	347.7	394.4	347.7	351.6	361.2	386.3	394.4	398.0	420.5
26 Bank loans n.e.c.	26.1	34.6	43.7	52.1	43.7	43.5	46.4	48.2	52.1	53.5	55.5
27 Other loans and advances	59.8	59.3	60.0	58.0	60.0	59.9	60.3	58.9	58.0	55.9	54.8
28 Total credit market debt owed by nonfinancial sectors, domestic and foreign	13,385.3	14,158.0	14,960.7	15,778.3	14,960.7	15,133.2	15,266.6	15,489.1	15,778.3	16,023.7	16,236.5
	Financial sectors										
29 Total credit market debt owed by financial sectors	3,822.2	4,281.2	4,837.3	5,448.7	4,837.3	4,916.5	5,085.3	5,205.4	5,448.7	5,653.7	5,912.5
By instrument											
30 Federal government-related	2,172.7	2,376.8	2,608.3	2,821.0	2,608.3	2,634.7	2,706.2	2,746.5	2,821.0	2,877.9	2,981.2
31 Government-sponsored enterprise securities	700.6	806.5	896.9	995.3	896.9	894.7	944.2	955.8	995.3	1,030.9	1,072.5
32 Mortgage pool securities	1,472.1	1,570.3	1,711.4	1,825.8	1,711.4	1,740.0	1,762.1	1,790.7	1,825.8	1,847.0	1,908.7
33 Loans from U.S. government	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
34 Private	1,649.5	1,904.4	2,229.1	2,627.6	2,229.1	2,281.8	2,379.1	2,458.9	2,627.6	2,775.8	2,931.3
35 Open market paper	441.6	486.9	579.1	745.7	579.1	623.0	642.5	684.7	745.7	804.9	838.9
36 Corporate bonds	1,008.8	1,205.4	1,385.1	1,560.1	1,385.1	1,396.5	1,458.1	1,478.2	1,560.1	1,634.9	1,733.5
37 Bank loans n.e.c.	48.9	52.8	69.7	83.3	69.7	70.6	69.2	74.8	83.3	87.3	89.3
38 Other loans and advances	131.6	135.0	162.9	198.5	162.9	157.9	173.7	183.0	198.5	206.6	225.6
39 Mortgages	18.7	24.3	32.2	40.0	32.2	33.8	35.6	38.2	40.0	42.0	44.0
By borrowing sector											
40 Commercial banks	94.5	102.6	113.6	140.6	113.6	115.3	125.7	130.0	140.6	148.7	159.7
41 Bank holding companies	133.6	148.0	150.0	168.6	150.0	151.6	160.5	164.0	168.6	181.2	194.5
42 Savings institutions	112.4	115.0	140.5	160.3	140.5	136.3	144.3	149.8	160.3	162.9	170.7
43 Credit unions	.5	.4	.4	.6	.4	.4	.4	.5	.6	.7	.8
44 Life insurance companies	.6	.5	1.6	1.8	1.6	1.8	1.8	1.9	1.8	1.8	1.6
45 Government-sponsored enterprises	700.6	806.5	896.9	995.3	896.9	894.7	944.2	955.8	995.3	1,030.9	1,072.5
46 Federally related mortgage pools	1,472.1	1,570.3	1,711.4	1,825.8	1,711.4	1,740.0	1,762.1	1,790.7	1,825.8	1,847.0	1,908.7
47 Issuers of asset-backed securities (ABSs)	579.0	720.1	873.8	1,089.4	873.8	889.9	918.4	989.2	1,089.4	1,147.4	1,236.1
48 Brokers and dealers	34.3	29.3	27.3	35.3	27.3	26.6	35.3	33.6	35.3	35.1	40.1
49 Finance companies	433.7	483.9	529.8	554.5	529.8	528.4	557.8	532.7	554.5	571.9	596.9
50 Mortgage companies	18.7	19.1	31.5	30.3	31.5	31.4	28.3	29.2	30.3	31.6	30.2
51 Real estate investment trusts (REITs)	31.1	36.8	47.8	72.6	47.8	51.6	56.6	64.6	72.6	81.7	90.1
52 Funding corporations	211.0	248.6	312.7	373.8	312.7	348.6	350.0	363.4	373.8	412.9	410.7
	All sectors										
53 Total credit market debt, domestic and foreign	17,207.5	18,439.2	19,798.0	21,227.0	19,798.0	20,049.7	20,351.9	20,694.5	21,227.0	21,677.4	22,149.1
54 Open market paper	623.5	700.4	803.0	979.4	803.0	861.1	893.1	925.7	979.4	1,074.8	1,112.7
55 U.S. government securities	5,665.0	6,013.6	6,390.0	6,625.9	6,390.0	6,464.5	6,466.8	6,517.7	6,625.9	6,708.3	6,730.2
56 Municipal securities	1,341.7	1,293.5	1,296.0	1,367.5	1,296.0	1,305.1	1,326.8	1,340.2	1,367.5	1,397.1	1,425.8
57 Corporate and foreign bonds	2,504.0	2,823.6	3,131.7	3,444.1	3,131.7	3,166.8	3,259.5	3,335.4	3,444.1	3,561.8	3,723.0
58 Bank loans n.e.c.	834.9	949.6	1,041.7	1,171.3	1,041.7	1,078.6	1,115.8	1,123.1	1,171.3	1,192.8	1,245.4
59 Other loans and advances	860.9	931.1	993.6	1,095.3	993.6	1,002.3	1,022.1	1,044.8	1,095.3	1,127.1	1,152.4
60 Mortgages	4,393.5	4,604.6	4,930.5	5,279.3	4,930.5	4,985.0	5,062.8	5,180.9	5,279.3	5,380.9	5,505.8
61 Consumer credit	983.9	1,122.8	1,211.6	1,264.1	1,211.6	1,186.4	1,205.0	1,226.7	1,264.1	1,234.7	1,253.9

1. Data in this table also appear in the Board's Z.1 (780) quarterly statistical release, tables L.2 through L.4. For ordering address, see inside front cover.

1.60 SUMMARY OF FINANCIAL ASSETS AND LIABILITIES¹

Billions of dollars except as noted, end of period

Transaction category or sector	1994	1995	1996	1997	1996	1997				1998	
					Q4	Q1	Q2	Q3	Q4	Q1	Q2
CREDIT MARKET DEBT OUTSTANDING ²											
1 Total credit market assets	17,207.5	18,439.2	19,798.0	21,227.0	19,798.0	20,049.7	20,351.9	20,694.5	21,227.0	21,677.4	22,149.1
2 Domestic nonfinancial nonfinancial sectors	3,038.9	2,903.8	2,953.4	2,814.6	2,953.4	2,891.2	2,842.4	2,789.4	2,814.6	2,759.7	2,812.8
3 Household	1,982.2	1,942.6	2,005.9	1,849.7	2,005.9	1,951.7	1,898.6	1,848.1	1,849.7	1,819.1	1,846.8
4 Nonfinancial corporate business	289.2	280.4	286.0	300.9	286.0	286.8	276.9	285.9	300.9	280.0	286.9
5 Nonfarm noncorporate business	37.6	42.3	46.7	49.4	46.7	47.4	48.0	48.7	49.4	50.2	51.0
6 State and local governments	729.9	638.6	614.8	614.5	614.8	605.4	618.9	606.6	614.5	610.5	628.2
7 Federal government	203.4	203.2	195.5	200.4	195.5	195.9	197.3	198.2	200.4	204.3	207.5
8 Rest of the world	1,216.0	1,530.3	1,931.2	2,258.4	1,931.2	2,019.4	2,094.6	2,196.3	2,258.4	2,322.5	2,398.5
9 Financial sectors	12,749.2	13,801.8	14,717.9	15,953.6	14,717.9	14,943.2	15,217.6	15,510.7	15,953.6	16,391.0	16,730.3
10 Monetary authority	368.2	380.8	393.1	431.4	393.1	397.1	412.4	412.7	431.4	433.8	440.3
11 Commercial banking	3,254.3	3,520.1	3,707.7	4,032.5	3,707.7	3,775.7	3,856.8	3,912.9	4,032.5	4,094.1	4,140.1
12 U.S.-chartered banks	2,869.6	3,056.1	3,175.8	3,450.7	3,175.8	3,218.1	3,295.2	3,351.9	3,450.7	3,505.1	3,546.8
13 Foreign banking offices in United States	337.1	412.6	475.8	516.1	475.8	499.5	501.8	501.0	516.1	518.0	525.5
14 Bank holding companies	18.4	18.0	22.0	27.4	22.0	22.5	23.8	22.5	27.4	31.2	26.8
15 Banks in U.S.-affiliated areas	29.2	33.4	34.1	38.3	34.1	35.6	36.1	37.5	38.3	39.7	41.0
16 Savings institutions	920.8	913.3	933.2	928.5	933.2	931.9	937.8	929.0	928.5	931.0	928.1
17 Credit unions	246.8	263.0	288.5	305.3	288.5	291.2	299.9	303.9	305.3	307.5	316.4
18 Bank personal trusts and estates	248.0	239.7	232.0	239.5	232.0	232.8	235.5	237.3	239.5	240.1	240.9
19 Life insurance companies	1,482.6	1,581.8	1,654.3	1,755.2	1,654.3	1,680.2	1,724.1	1,750.4	1,755.2	1,786.3	1,815.6
20 Other insurance companies	446.4	468.7	491.2	515.3	491.2	491.6	498.6	506.6	515.3	521.1	528.2
21 Private pension funds	656.9	718.2	766.5	834.2	766.5	780.3	794.9	811.5	834.2	852.3	878.7
22 State and local government retirement funds	455.8	483.3	529.2	565.8	529.2	531.6	542.7	562.0	565.8	582.5	603.2
23 Money market mutual funds	439.0	545.5	634.3	721.9	634.3	659.0	656.5	678.7	721.9	775.0	815.9
24 Mutual funds	718.8	771.3	820.2	901.1	820.2	838.5	861.3	890.4	901.1	939.3	968.5
25 Closed-end funds	86.0	96.4	98.7	99.8	98.7	99.3	99.7	99.8	99.8	100.0	100.0
26 Government-sponsored enterprises	663.3	748.0	813.6	908.6	813.6	824.3	854.8	868.7	908.6	949.5	985.9
27 Federally related mortgage pools	1,472.1	1,570.3	1,711.4	1,825.8	1,711.4	1,740.0	1,762.1	1,790.7	1,825.8	1,847.0	1,908.7
28 Asset-backed securities issuers (ABSs)	541.7	661.0	784.4	950.5	784.4	794.6	819.4	863.4	950.5	993.7	1,074.6
29 Finance companies	476.2	526.2	544.5	566.4	544.5	552.4	553.1	564.4	566.4	572.0	579.0
30 Mortgage companies	36.5	33.0	41.2	57.6	41.2	40.9	34.8	55.5	57.6	60.2	57.4
31 Real estate investment trusts (REITs)	13.3	15.5	17.5	15.5	17.5	17.0	16.5	15.9	15.5	15.0	14.5
32 Brokers and dealers	93.3	183.4	167.7	181.4	167.7	164.1	161.2	165.1	181.4	244.0	196.9
33 Funding corporations	109.3	82.2	88.7	117.4	88.7	100.6	95.6	91.8	117.4	146.5	137.4
RELATION OF LIABILITIES TO FINANCIAL ASSETS											
34 Total credit market debt	17,207.5	18,439.2	19,798.0	21,227.0	19,798.0	20,049.7	20,351.9	20,694.5	21,227.0	21,677.4	22,149.1
Other liabilities											
35 Official foreign exchange	53.2	63.7	53.7	48.9	53.7	46.3	46.7	46.1	48.9	48.2	50.1
36 Special drawing rights certificates	8.0	10.2	9.7	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2
37 Treasury currency	17.6	18.2	18.3	18.3	18.3	18.4	18.4	18.7	18.3	18.4	18.4
38 Foreign deposits	373.9	418.8	516.1	619.4	516.1	562.8	568.8	597.8	619.4	608.1	619.2
39 Net interbank liabilities	280.1	290.7	240.8	193.3	240.8	210.9	197.1	186.9	193.3	188.4	186.4
40 Checkable deposits and currency	1,242.0	1,229.3	1,245.1	1,286.6	1,245.1	1,220.0	1,265.3	1,234.2	1,286.6	1,259.5	1,321.4
41 Small time and savings deposits	2,183.2	2,279.7	2,377.0	2,474.1	2,377.0	2,427.1	2,432.3	2,438.8	2,474.1	2,524.5	2,532.7
42 Large time deposits	411.2	476.9	590.9	713.4	590.9	606.0	646.7	696.1	713.4	744.0	733.5
43 Money market fund shares	602.9	745.3	891.1	1,048.7	891.1	950.8	952.4	1,005.1	1,048.7	1,130.7	1,153.7
44 Security repurchase agreements	549.5	659.9	699.9	815.1	699.9	713.8	766.7	795.4	815.1	881.4	865.4
45 Mutual fund shares	1,477.3	1,852.8	2,342.4	2,989.4	2,342.4	2,410.6	2,717.5	2,973.6	2,989.4	3,340.2	3,456.0
46 Security credit	279.0	305.7	358.1	468.2	358.1	380.0	414.8	432.2	468.2	505.3	481.0
47 Life insurance reserves	505.3	550.2	593.8	646.7	593.8	606.2	621.9	637.6	646.7	658.7	668.3
48 Pension fund reserves	4,870.5	5,588.7	6,314.7	7,398.2	6,314.7	6,401.5	6,906.7	7,289.8	7,398.2	7,955.8	8,093.9
49 Trade payables	1,140.6	1,241.4	1,313.6	1,408.2	1,313.6	1,297.3	1,317.1	1,347.0	1,408.2	1,395.4	1,416.9
50 Taxes payable	101.4	107.6	123.8	138.8	123.8	137.3	133.5	142.6	138.8	158.6	149.2
51 Investment in bank personal trusts	699.4	803.0	871.7	1,082.8	871.7	888.7	982.9	1,058.9	1,082.8	1,179.3	1,207.2
52 Miscellaneous	5,331.3	5,697.7	5,982.5	6,452.7	5,982.5	6,227.1	6,199.9	6,409.2	6,452.7	6,650.9	6,720.1
53 Total liabilities	37,334.1	40,778.7	44,341.1	49,039.1	44,341.1	45,163.9	46,549.8	48,013.6	49,039.1	50,934.0	51,831.5
Financial assets not included in liabilities (+)											
54 Gold and special drawing rights	21.1	22.1	21.4	21.1	21.4	20.9	21.1	21.0	21.1	21.2	21.0
55 Corporate equities	6,237.9	8,331.3	10,062.4	12,776.0	10,062.4	10,063.5	11,627.0	12,649.4	12,776.0	14,397.6	14,556.1
56 Household equity in noncorporate business	3,422.4	3,649.7	3,868.8	4,188.6	3,868.8	3,963.3	4,053.9	4,119.5	4,188.6	4,188.6	4,165.5
Liabilities not identified as assets (-)											
57 Treasury currency	-5.4	-5.8	-6.7	-7.3	-6.7	-6.8	-6.9	-6.7	-7.3	-7.4	-7.4
58 Foreign deposits	325.4	360.2	431.2	534.5	431.2	475.4	478.0	501.5	534.5	510.8	525.9
59 Net interbank transactions	-6.5	-9.0	-10.6	-32.1	-10.6	-1.6	-8.1	-22.1	-32.1	-2.0	4.7
60 Security repurchase agreements	67.8	90.7	90.0	162.6	90.0	68.1	108.6	124.9	162.6	213.0	193.7
61 Taxes payable	48.8	62.4	76.9	92.0	76.9	74.8	77.1	87.4	92.0	96.5	100.5
62 Miscellaneous	-1,039.5	-1,332.5	-1,749.4	-2,204.8	-1,749.4	-1,628.4	-1,743.9	-1,735.8	-2,204.8	-2,190.0	-2,189.2
Floats not included in assets (-)											
63 Federal government checkable deposits	3.4	3.1	-1.6	-8.1	-1.6	-9.7	-6.8	-7.8	-8.1	-10.4	-16.1
64 Other checkable deposits	38.0	34.2	30.1	26.2	30.1	25.6	27.9	19.5	26.2	21.4	24.2
65 Trade credit	-245.9	-258.4	-289.9	-291.2	-289.9	-344.0	-369.8	-377.8	-291.2	-342.4	-354.9
66 Total identified to sectors as assets	47,829.3	53,836.9	59,723.7	67,753.1	59,723.7	60,558.2	63,695.6	66,220.5	67,753.1	71,251.9	72,292.8

1. Data in this table also appear in the Board's Z.1 (780) quarterly statistical release, tables L.1 and L.5. For ordering address, see inside front cover.

2. Excludes corporate equities and mutual fund shares.

2.10 NONFINANCIAL BUSINESS ACTIVITY Selected Measures

Monthly data seasonally adjusted, and indexes 1992=100, except as noted

Measure	1995	1996	1997	1997	1998							
				Dec.	Jan.	Feb.	Mar.	Apr.	May	June ^f	July ^f	Aug.
1 Industrial production¹	114.5	118.5	124.5	127.9	127.8	127.3	128.0	128.4	128.8^f	127.5	127.0	129.1
<i>Market groupings</i>												
2 Products, total	110.6	113.7	118.5	121.0	121.3	120.6	121.3	121.8	122.2 ^f	121.2	120.4	122.5
3 Final, total	111.3	114.6	119.6	122.2	122.6	121.5	122.6	123.2	123.3 ^f	122.3	121.2	124.0
4 Consumer goods	109.9	111.8	114.4	115.9	116.6	115.1	116.0	116.5	116.7 ^f	115.2	114.1	116.6
5 Equipment	113.8	119.6	128.8	133.4	133.1	133.1	134.3	135.0	135.2 ^f	134.9	133.9	137.1
6 Intermediate	108.3	110.8	115.1	117.4	117.4	117.6	117.3	117.5	118.6	117.8	118.0	117.9
7 Materials	120.8	126.2	134.1	138.9	138.2	138.2	138.7	139.1	139.6	137.5	137.5	139.7
<i>Industry groupings</i>												
8 Manufacturing	116.0	120.2	127.0	130.9	131.1	130.6	130.8	131.6	131.7	129.9	129.5	132.0
9 Capacity utilization, manufacturing (percent) ²	82.8	81.4	81.7	82.3	82.1	81.4	81.2	81.4	81.1	79.7	79.1	80.4
10 Construction contracts ³	122.2	130.8	141.7 ^f	144.0	145.0 ^f	146.0 ^f	141.0 ^f	146.0 ^f	146.0 ^f	142.0	143.0	135.0
11 Nonagricultural employment, total ⁴	114.9	117.2	119.9	121.9	122.3	122.4	122.5	122.8	123.2	123.3	123.4	123.8
12 Goods-producing, total	98.3	99.0	100.3	102.1	102.5	102.6	102.4	102.7	102.5	102.6	101.8	102.2
13 Manufacturing, total	97.5	97.2	97.6	98.9	99.1	99.1	99.1	99.1	99.0	98.9	97.8	98.3
14 Manufacturing, production workers	99.0	98.4	98.9	100.4	100.5	100.6	100.5	100.4	100.1	99.9	98.5	99.1
15 Service-producing	120.2	123.0	126.2	128.2	128.6	128.8	128.9	129.3	129.7	130.0	130.3	130.6
16 Personal income, total	156.1	165.2	174.5	178.2	179.2	180.2	180.9	181.4	182.2	182.7	183.5	184.4
17 Wages and salary disbursements	150.9	159.8	171.2	176.3	177.8	178.9	179.5	180.3	181.5	181.8	182.8	184.2
18 Manufacturing	130.3	135.7	144.7	150.2	150.6	151.0	151.2	151.0	151.5	150.5	149.5	151.3
19 Disposable personal income ⁵	156.4	164.0	171.7	174.7	175.2	176.0	176.7	177.0 ^f	177.5 ^f	177.9	178.6	179.5
20 Retail sales ⁵	151.5	159.6	166.9	169.1	170.8	172.2	172.4	173.7	175.8	176.0	175.0	175.3
<i>Prices⁶</i>												
21 Consumer (1982-84=100)	152.4	156.9	160.5	161.3	161.6	161.9	162.2	162.5	162.8	163.0	163.2	163.4
22 Producer finished goods (1982=100)	127.9	131.3	131.8	131.1	130.3	130.2	130.1	130.4 ^f	130.4	130.6	130.9	130.6

1. Data in this table also appear in the Board's G.17 (419) monthly statistical release. For the ordering address, see the inside front cover. The latest historical revision of the industrial production index and the capacity utilization rates was released in December 1997. The recent annual revision is described in an article in the February 1998 issue of the *Bulletin*. For a description of the aggregation methods for industrial production and capacity utilization, see "Industrial Production and Capacity Utilization: Historical Revision and Recent Developments," *Federal Reserve Bulletin*, vol. 83 (February 1997), pp. 67-92. For details about the construction of individual industrial production series, see "Industrial Production: 1989 Developments and Historical Revision," *Federal Reserve Bulletin*, vol. 76 (April 1990), pp. 187-204.

2. Ratio of index of production to index of capacity. Based on data from the Federal Reserve, DRI McGraw-Hill, U.S. 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 from U.S. Department of Labor, *Employment and Earnings*. Series covers employees only, excluding personnel in the armed forces.

5. Based on data from U.S. Department of Commerce, *Survey of Current Business*.

6. Based on data not seasonally adjusted. Seasonally adjusted data for changes in the price indexes can be obtained from the U.S. Department of Labor, Bureau of Labor Statistics, *Monthly Labor Review*.

NOTE: Basic data (not indexes) for series mentioned in notes 4 and 5, and indexes for series mentioned in notes 3 and 6, can also be found in the *Survey of Current Business*.

Figures for industrial production for the latest month are preliminary, and many figures for the three months preceding the latest month have been revised. See "Recent Developments in Industrial Capacity and Utilization," *Federal Reserve Bulletin*, vol. 76 (June 1990), pp. 411-35. See also "Industrial Production Capacity and Capacity Utilization since 1987," *Federal Reserve Bulletin*, vol. 79 (June 1993), pp. 590-605.

2.11 LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT

Thousands of persons; monthly data seasonally adjusted

Category	1995	1996	1997	1998							
				Jan.	Feb.	Mar.	Apr.	May	June ^f	July ^f	Aug.
HOUSEHOLD SURVEY DATA ¹											
1 Civilian labor force ²	132,304	133,943	126,297	137,493	137,557	137,523	137,242	137,364	137,447	137,296	137,415
2 Nonagricultural industries ³	121,460	123,264	126,159	127,764	127,829	127,862	128,033	128,118	127,867	127,626	127,640
3 Agriculture	3,440	3,443	3,399	3,319	3,335	3,132	3,350	3,335	3,343	3,441	3,529
4 Number	7,404	7,236	6,739	6,409	6,393	6,529	5,859	5,910	6,237	6,230	6,247
5 Rate (percent of civilian labor force)	5.6	5.4	4.9	4.7	4.6	4.7	4.3	4.3	4.5	4.5	4.5
ESTABLISHMENT SURVEY DATA											
6 Nonagricultural payroll employment ⁴	117,191	119,523	122,257	124,640	124,832	124,914	125,234	125,562	125,751	125,819	126,184
7 Manufacturing	18,524	18,457	18,538	18,824	18,822	18,829	18,827	18,805	18,780	18,580	18,675
8 Mining	581	574	573	592	590	587	582	579	578	571	569
9 Contract construction	5,160	5,400	5,627	5,881	5,902	5,860	5,930	5,917	5,946	5,967	5,983
10 Transportation and public utilities	6,132	6,261	6,426	6,473	6,494	6,504	6,513	6,534	6,538	6,556	6,580
11 Trade	27,565	28,108	28,788	29,039	29,052	29,042	29,133	29,238	29,269	29,370	29,397
12 Finance	6,806	6,899	7,053	7,213	7,232	7,258	7,289	7,311	7,333	7,368	7,381
13 Service	33,117	34,377	35,597	36,932	37,020	37,106	37,196	37,350	37,494	37,580	37,715
14 Government	19,305	19,447	19,655	19,686	19,720	19,728	19,764	19,828	19,813	19,827	19,884

1. Beginning January 1994, reflects redesign of current population survey and population controls from the 1990 census.

2. Persons sixteen years of age and older, including Resident Armed Forces. Monthly figures are based on sample data collected during the calendar week that contains the twelfth day; annual data are averages of monthly figures. By definition, seasonality does not exist in population figures.

3. Includes self-employed, unpaid family, and domestic service workers.

4. Includes all full- and part-time employees who worked during, or received pay for, the pay period that includes the twelfth day of the month; excludes proprietors, self-employed persons, household and unpaid family workers, and members of the armed forces. Data are adjusted to the March 1992 benchmark, and only seasonally adjusted data are available at this time.

SOURCE: Based on data from U.S. Department of Labor, *Employment and Earnings*.

2.12 OUTPUT, CAPACITY, AND CAPACITY UTILIZATION¹

Seasonally adjusted

Series	1997		1998		1997		1998		1997		1998		
	Q3	Q4	Q1	Q2 ^r	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2 ^r	
	Output (1992=100)				Capacity (percent of 1992 output)				Capacity utilization rate (percent) ²				
1 Total industry	125.1	127.3	127.7	128.2	151.3	153.0	154.8	156.5	82.7	83.2	82.5	82.0	
2 Manufacturing	127.6	130.1	130.8	131.1	156.3	158.3	160.4	162.4	81.6	82.2	81.6	80.7	
3 Primary processing ³	118.5	119.8	120.2	119.9	138.0	139.2	140.4	141.4	85.8	86.0	85.6	84.8	
4 Advanced processing ⁴	132.1	135.3	136.2	136.7	165.7	168.1	170.7	173.1	79.8	80.4	79.8	79.0	
5 Durable goods	143.7	147.2	148.2	149.2	177.2	180.6	184.1	187.6	81.1	81.5	80.5	79.5	
6 Lumber and products	114.9	114.7	115.7	117.3	140.0	141.3	142.2	142.6	82.1	81.2	81.3	82.3	
7 Primary metals	125.5	127.8	128.2	125.4	137.2	138.5	140.1	141.8	91.5	92.3	91.5	88.4	
8 Iron and steel	122.8	126.5	127.2	123.5	136.6	137.9	139.4	141.3	89.9	91.8	91.3	87.4	
9 Nonferrous	128.8	129.4	129.3	127.6	137.7	138.9	140.6	142.1	93.5	93.2	92.0	89.8	
10 Industrial machinery and equipment	173.9	177.6	181.2	188.5	204.4	210.0	215.8	221.4	85.1	84.6	84.0	85.1	
11 Electrical machinery	236.6	246.0	254.0	257.4	289.1	301.9	315.4	328.6	81.9	81.5	80.5	78.3	
12 Motor vehicles and parts	136.7	144.0	137.2	132.9	184.7	186.7	188.8	190.8	74.0	77.1	72.7	69.7	
13 Aerospace and miscellaneous transportation equipment	95.6	98.6	101.3	101.1	124.1	124.8	125.5	126.3	77.1	79.0	80.7	80.0	
14 Nondurable goods	111.1	112.6	113.1	112.7	135.0	135.7	136.4	137.0	82.3	82.9	82.9	82.2	
15 Textile mill products	110.9	111.5	110.1	109.6	131.7	132.3	132.8	133.2	84.3	84.3	82.9	82.3	
16 Paper and products	114.1	113.5	113.1	112.7	126.0	126.7	127.4	128.1	90.5	89.6	88.8	88.0	
17 Chemicals and products	114.8	117.1	118.0	118.1	146.3	147.5	148.6	149.4	78.5	79.4	79.4	79.0	
18 Plastics materials	130.6	131.4	130.8	131.0	140.0	141.9	143.6	145.0	93.3	92.6	91.1	90.4	
19 Petroleum products	109.5	109.8	113.0	113.5	115.2	115.7	116.2	117.2	95.1	94.9	97.2	96.8	
20 Mining	106.4	105.9	108.4	107.3	118.1	118.2	118.4	118.6	90.1	89.6	91.6	90.4	
21 Utilities	114.0	115.5	110.4	115.3	126.7	127.1	127.4	127.7	90.0	90.9	86.6	90.2	
22 Electric	114.2	115.7	112.1	117.8	125.0	125.4	125.7	126.1	91.4	92.3	89.2	93.5	
	1973	1975	Previous cycle ⁵		Latest cycle ⁶		1997	1998					
	High	Low	High	Low	High	Low	Aug.	Mar.	Apr.	May ^r	June ^r	July	Aug. ^p
	Capacity utilization rate (percent) ²												
1 Total industry	89.2	72.6	87.3	71.1	85.4	78.1	82.8	82.4	82.4	82.4	81.2	80.6	81.7
2 Manufacturing	88.5	70.5	86.9	69.0	85.7	76.6	81.8	81.2	81.4	81.1	79.7	79.1	80.4
3 Primary processing ³	91.2	68.2	88.1	66.2	88.9	77.7	85.8	85.1	85.4	84.9	84.0	83.9	83.9
4 Advanced processing ⁴	87.2	71.8	86.7	70.4	84.2	76.1	80.0	79.5	79.6	79.4	77.8	77.0	78.8
5 Durable goods	89.2	68.9	87.7	63.9	84.6	73.1	81.4	80.2	80.3	80.1	78.2	77.1	79.6
6 Lumber and products	88.7	61.2	87.9	60.8	93.6	75.5	82.5	81.2	81.9	82.3	82.6	81.9	81.7
7 Primary metals	100.2	65.9	94.2	45.1	92.7	73.7	91.4	90.3	90.8	88.6	85.9	85.5	88.2
8 Iron and steel	105.8	66.6	95.8	37.0	95.2	71.8	89.1	90.5	89.9	87.8	84.6	83.7	87.0
9 Nonferrous	90.8	59.8	91.1	60.1	89.3	74.2	94.3	90.3	92.1	89.7	87.6	87.7	89.9
10 Industrial machinery and equipment	96.0	74.3	93.2	64.0	85.4	72.3	86.1	84.4	84.9	85.0	85.5	86.2	84.8
11 Electrical machinery	89.2	64.7	89.4	71.6	84.0	75.0	81.9	79.7	79.4	78.4	77.2	76.9	76.1
12 Motor vehicles and parts	93.4	51.3	95.0	45.5	89.1	55.9	75.2	72.1	72.7	73.5	62.8	54.8	76.4
13 Aerospace and miscellaneous transportation equipment	78.4	67.6	81.9	66.6	87.3	79.2	76.9	80.4	79.9	80.3	79.9	80.5	80.6
14 Nondurable goods	87.8	71.7	87.5	76.4	87.3	80.7	82.2	82.4	82.7	82.4	81.5	81.6	81.4
15 Textile mill products	91.4	60.0	91.2	72.3	90.4	77.7	84.1	81.9	82.1	83.5	81.3	81.6	81.0
16 Paper and products	97.1	69.2	96.1	80.6	93.5	85.0	90.8	88.1	88.5	88.0	87.4	88.8	87.9
17 Chemicals and products	87.6	69.7	84.6	69.9	86.2	79.3	78.3	79.0	79.5	78.9	78.6	78.1	78.1
18 Plastics materials	102.0	50.6	90.9	63.4	97.0	74.8	92.0	89.0	91.8	90.2	89.1	88.8	87.8
19 Petroleum products	96.7	81.1	90.0	66.8	88.5	85.1	95.2	98.6	97.9	96.3	96.3	96.9	96.6
20 Mining	94.3	88.2	96.0	80.3	88.0	87.0	90.0	91.2	90.6	91.4	89.3	89.5	88.8
21 Utilities	96.2	82.9	89.1	75.9	92.6	83.4	89.2	89.6	87.6	90.4	92.8	91.9	92.2
22 Electric	99.0	82.7	88.2	78.9	95.0	87.1	90.5	91.8	90.7	94.3	95.5	94.4	94.9

1. Data in this table also appear in the Board's G-17 (419) monthly statistical release. For the ordering address, see the inside front cover. The latest historical revision of the industrial production index and the capacity utilization rates was released in December 1997. The recent annual revision is described in an article in the February 1998 issue of the *Bulletin*. For a description of the aggregation methods for industrial production and capacity utilization, see "Industrial Production and Capacity Utilization: Historical Revision and Recent Developments," *Federal Reserve Bulletin*, vol. 83 (February 1997), pp. 67-92. For details about the construction of individual industrial production series, see "Industrial Production: 1989 Developments and Historical Revision," *Federal Reserve Bulletin*, vol. 76 (April 1990), pp. 187-204.

2. Capacity utilization is calculated as the ratio of the Federal Reserve's seasonally adjusted index of industrial production to the corresponding index of capacity.

3. Primary processing includes textiles; lumber; paper; industrial chemicals; synthetic materials; fertilizer materials; petroleum products; rubber and plastics; stone, clay, and glass; primary metals; and fabricated metals.

4. Advanced processing includes foods; tobacco; apparel; furniture and fixtures; printing and publishing; chemical products such as drugs and toiletries; agricultural chemicals; leather and products; machinery; transportation equipment; instruments; and miscellaneous manufactures.

5. Monthly highs, 1978-80; monthly lows, 1982.

6. Monthly highs, 1988-89; monthly lows, 1990-91.

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2.13 INDUSTRIAL PRODUCTION Indexes and Gross Value¹

Monthly data seasonally adjusted

Group	1992 pro- por- tion	1997 avg.	1997					1998							
			Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May ¹	June ¹	July	Aug. ^P
Index (1992 = 100)															
MAJOR MARKETS															
1 Total index	100.0	124.5	125.2	125.6	126.5	127.5	127.9	127.8	127.3	128.0	128.4	128.8	127.5	127.0	129.1
2 Products	60.5	118.5	119.2	119.1	120.2	121.2	121.0	121.3	120.6	121.3	121.8	122.2	121.2	120.4	122.5
3 Final products	46.3	119.6	120.5	120.3	121.5	122.5	122.2	122.6	121.5	122.6	123.2	123.3	122.3	121.2	124.0
4 Consumer goods, total	29.1	114.4	114.6	114.5	115.9	116.7	115.9	116.6	115.1	116.0	116.5	116.7	115.2	114.1	116.6
5 Durable consumer goods	6.1	131.3	132.1	131.9	131.4	136.5	134.7	135.6	134.3	135.2	136.3	138.0	130.3	123.8	138.7
6 Automotive products	2.6	129.9	131.6	132.8	131.2	138.4	133.8	132.6	131.0	132.4	134.5	136.7	122.1	106.9	141.3
7 Autos and trucks	1.7	136.5	137.6	140.9	139.7	147.8	142.7	139.9	137.2	137.7	140.2	142.4	117.6	92.5	151.1
8 Autos, consumer .....	.9	115.2	118.6	119.9	115.2	120.3	113.9	116.0	105.7	107.4	108.3	109.3	94.6	76.5	125.6
9 Trucks, consumer .....	.7	159.1	161.2	166.5	168.6	179.8	175.7	168.2	172.7	172.0	176.0	179.4	144.1	111.5	181.5
10 Auto parts and allied goods .....	.9	119.3	121.8	120.1	117.9	123.8	120.1	120.9	121.0	123.7	125.3	127.5	127.1	125.3	127.2
11 Other	3.5	132.3	132.5	131.1	131.5	135.0	135.3	138.0	136.9	137.4	137.8	139.0	136.9	137.7	136.3
12 Appliances, televisions, and air conditioners	1.0	168.6	169.8	166.0	169.4	177.2	178.7	186.4	188.6	192.5	193.8	192.5	189.1	199.7	198.3
13 Carpets and furniture .....	.8	117.0	117.7	116.2	116.5	122.1	116.8	122.5	117.7	116.5	117.1	122.3	118.3	119.5	118.9
14 Miscellaneous home goods	1.6	120.0	119.8	119.4	118.6	119.2	122.1	121.0	120.7	120.8	120.7	120.6	120.2	117.6	115.8
15 Nondurable consumer goods	23.0	110.2	110.3	110.2	112.1	111.8	111.3	112.0	110.4	111.3	111.6	111.5	111.4	111.4	111.3
16 Foods and tobacco	10.3	109.3	108.9	108.6	109.7	110.7	110.0	113.0	111.8	111.3	111.9	112.0	110.0	110.2	110.2
17 Clothing	2.4	95.9	96.0	96.0	96.4	95.1	95.1	95.2	93.5	94.7	94.8	93.3	93.5	93.4	91.6
18 Chemical products	4.5	119.1	119.4	119.4	123.0	121.3	121.8	122.9	121.8	122.2	124.1	123.3	123.2	122.8	123.2
19 Paper products	2.9	109.3	109.8	110.1	111.3	111.7	110.1	110.2	107.8	106.2	106.7	105.8	105.3	106.8	107.1
20 Energy	2.9	111.3	112.8	112.4	116.2	113.9	113.5	107.4	104.6	112.6	110.2	111.6	117.7	116.5	116.1
21 Fuels .....	.8	109.3	111.0	110.8	112.0	106.7	109.3	110.5	110.0	111.3	111.7	111.0	111.9	113.6	113.0
22 Residential utilities	2.1	112.0	113.2	112.8	117.8	117.1	115.1	105.4	101.5	112.8	109.0	111.5	120.2	117.5	117.2
23 Equipment	17.2	128.8	130.9	130.6	131.3	132.8	133.4	133.1	133.1	134.3	135.0	135.2	134.9	133.9	137.1
24 Business equipment	13.2	141.9	144.6	144.4	145.5	147.5	148.6	147.3	146.8	148.7	150.2	150.4	150.9	149.8	154.3
25 Information processing and related	5.4	168.1	171.1	172.9	174.3	174.7	176.0	175.4	178.0	179.7	182.9	184.2	185.9	185.6	187.8
26 Computer and office equipment	1.1	385.6	407.1	414.6	420.3	427.3	440.1	457.1	476.1	499.2	518.2	532.4	553.5	566.2	579.4
27 Industrial	4.0	133.3	135.8	133.8	135.9	136.3	137.8	136.4	134.2	137.4	137.6	136.3	140.1	141.5	140.3
28 Transit	2.5	111.2	113.3	114.2	113.0	119.9	121.2	119.8	117.9	117.8	118.9	120.5	114.3	106.9	127.8
29 Autos and trucks	1.2	119.7	120.3	120.2	117.0	128.2	124.6	121.1	116.4	117.1	119.4	120.1	106.9	88.6	131.7
30 Other	1.3	135.0	137.9	135.1	137.5	137.3	136.2	133.6	132.7	135.2	136.2	134.7	136.3	139.6	129.8
31 Defense and space equipment	3.3	75.2	75.0	74.7	74.7	74.5	74.5	75.7	75.9	75.3	75.1	75.4	75.0	75.1	75.5
32 Oil and gas well drilling .....	.6	149.7	153.2	153.1	149.1	150.0	145.9	154.0	158.9	158.6	150.5	148.1	137.5	132.1	128.1
33 Manufactured homes .....	.2	139.1	139.5	137.2	136.9	138.1	132.4	144.0	148.6	145.4	146.9	148.6	144.1	143.7	144.9
34 Intermediate products, total	14.2	115.1	115.3	115.2	116.3	117.3	117.4	117.4	117.6	117.3	117.5	118.6	117.8	118.0	117.9
35 Construction supplies	5.3	121.8	122.7	120.4	121.3	123.6	123.2	125.2	126.2	124.2	124.7	126.7	126.4	127.0	126.1
36 Business supplies	8.9	111.1	111.0	112.2	113.4	113.5	113.9	112.9	112.6	113.2	113.2	113.7	112.7	112.7	113.1
37 Materials	39.5	134.1	134.9	136.1	136.7	137.7	138.9	138.2	138.2	138.7	139.1	139.6	137.5	137.5	139.7
38 Durable goods materials	20.8	158.2	160.3	161.3	163.2	165.0	166.5	166.2	165.8	166.4	167.6	167.7	164.1	163.6	168.6
39 Durable consumer parts	4.0	139.2	140.3	140.7	141.8	142.3	146.9	138.5	139.3	139.3	141.0	143.2	128.9	126.7	142.2
40 Equipment parts	7.6	221.9	227.6	229.6	233.3	237.9	240.9	245.5	245.7	247.7	249.6	250.3	249.4	250.4	253.1
41 Other	9.2	125.5	126.0	126.6	127.8	128.8	128.3	128.8	127.7	127.8	128.4	127.5	127.0	126.4	128.0
42 Basic metal materials	3.1	120.6	121.8	121.7	122.5	124.9	122.2	125.0	125.4	122.8	122.8	121.4	119.6	119.0	122.6
43 Nondurable goods materials	8.9	113.0	112.3	113.3	113.1	114.4	116.0	114.5	114.8	113.5	113.9	113.2	113.0	113.5	113.0
44 Textile materials	1.1	109.3	108.4	111.4	111.9	111.0	112.5	107.9	108.5	107.6	107.6	107.6	106.7	107.0	106.4
45 Paper materials	1.8	112.6	114.3	112.7	113.4	112.2	113.7	112.3	114.0	111.8	111.9	111.1	112.0	113.0	112.2
46 Chemical materials	3.9	115.2	113.9	115.6	115.0	116.5	119.1	119.2	117.6	116.6	117.2	116.2	115.7	115.7	115.3
47 Other	2.1	110.3	108.6	109.5	109.0	113.7	113.3	109.4	112.5	111.5	111.7	111.6	111.1	112.4	111.9
48 Energy materials	9.7	103.9	103.9	105.5	104.7	103.9	104.2	103.7	103.7	106.0	105.0	107.2	106.0	106.5	106.6
49 Primary energy	6.3	101.7	102.4	102.2	101.7	101.4	100.7	102.8	103.0	104.0	103.3	104.4	103.0	104.2	104.0
50 Converted fuel materials	3.3	108.3	106.8	111.8	110.6	108.6	110.9	105.5	105.0	109.6	108.3	112.6	111.7	111.0	111.6
SPECIAL AGGREGATES															
51 Total excluding autos and trucks	97.1	124.3	125.1	125.4	126.5	127.2	127.7	127.7	127.3	128.0	128.4	128.8	127.9	128.0	128.7
52 Total excluding motor vehicles and parts	95.1	123.8	124.6	124.8	125.9	126.6	127.0	127.3	126.9	127.5	127.9	128.3	127.8	128.1	128.2
53 Total excluding computer and office equipment	98.2	121.9	122.6	122.9	123.8	124.8	125.1	124.9	124.3	124.8	125.2	125.6	124.1	123.6	125.6
54 Consumer goods excluding autos and trucks	27.4	113.2	113.4	113.0	114.6	115.0	114.4	115.4	113.9	114.8	115.2	115.3	115.0	115.0	114.8
55 Consumer goods excluding energy	26.2	114.8	114.9	114.7	115.9	117.0	116.2	117.9	116.5	116.4	117.3	117.3	114.8	113.7	116.7
56 Business equipment excluding autos and trucks	12.0	144.5	147.5	147.3	149.0	149.7	151.5	150.5	150.5	152.6	153.9	154.1	156.3	157.5	156.8
57 Business equipment excluding computer and office equipment	12.1	129.1	131.2	130.8	131.8	133.5	134.4	132.7	131.7	133.0	134.0	133.8	133.8	132.5	136.6
58 Materials excluding energy	29.8	143.7	144.8	145.8	147.0	148.6	150.2	149.4	149.3	149.2	150.1	150.0	147.6	147.4	150.4

2.13 INDUSTRIAL PRODUCTION Indexes and Gross Value¹—Continued

Group	SIC code	1992 proportion	1997 avg.	1997					1998							
				Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr	May ^r	June ^r	July	Aug. ^p
Index (1992 = 100)																
MAJOR INDUSTRIES																
59 Total index		100.0	124.5	125.2	125.6	126.5	127.5	127.9	127.8	127.3	128.0	128.4	128.8	127.5	127.0	129.1
60 Manufacturing		85.4	127.0	127.9	128.0	129.1	130.4	130.9	131.1	130.6	130.8	131.6	131.7	129.9	129.5	132.0
61 Primary processing		26.5	118.1	118.5	118.6	118.9	120.0	120.5	120.6	120.1	119.8	120.5	120.1	119.1	119.2	119.6
62 Advanced processing		58.9	131.4	132.5	132.7	134.1	135.5	136.1	136.4	135.8	136.3	137.2	137.5	135.4	134.6	138.3
63 Durable goods		45.0	142.3	144.3	144.4	145.5	147.7	148.6	148.3	147.8	148.6	149.7	150.2	147.6	146.4	151.9
64 Lumber and products	24	2.0	114.9	115.4	113.3	112.9	117.0	114.4	114.8	116.7	115.6	116.7	117.3	118.0	117.0	116.9
65 Furniture and fixtures	25	1.4	122.5	121.1	122.0	123.0	124.1	124.4	122.5	120.4	123.0	122.3	121.9	122.4	121.6	122.2
66 Stone, clay, and glass products	32	2.1	120.5	120.5	121.2	121.0	122.1	123.4	122.3	121.4	120.7	120.2	120.4	119.2	119.6	120.6
67 Primary metals	33	3.1	124.5	125.5	125.9	127.4	128.9	127.2	129.3	128.1	127.1	128.2	125.5	122.3	122.1	126.6
68 Iron and steel	331,2	1.7	122.8	121.8	124.5	126.4	127.0	126.1	127.9	127.0	126.7	126.4	124.0	120.1	119.3	124.5
69 Raw steel	331PT	1	115.9	116.1	119.2	117.7	120.9	119.2	122.8	123.7	119.5	122.8	122.3	115.9	117.2	123.1
70 Nonferrous	333-6,9	1.4	126.4	129.9	127.7	128.6	131.1	128.5	131.0	129.4	127.5	130.4	127.4	125.0	125.5	129.1
71 Fabricated metal products	34	5.0	122.9	122.8	122.7	124.4	124.7	126.7	125.6	124.3	125.0	125.6	126.4	125.7	124.9	125.1
72 Industrial machinery and equipment	35	8.0	171.4	175.9	173.7	176.5	177.7	178.6	180.3	179.4	183.8	186.3	188.2	190.9	193.9	192.3
73 Computer and office equipment	357	1.8	382.3	403.9	412.0	418.0	425.7	438.3	457.1	476.6	500.5	520.1	535.1	557.0	570.4	584.7
74 Electrical machinery	36	7.3	231.5	236.8	237.5	240.8	247.4	249.9	252.9	254.1	254.9	257.5	257.5	257.2	259.4	260.2
75 Transportation equipment	37	9.5	115.6	117.0	118.8	118.3	121.6	123.4	119.9	118.8	118.7	119.4	120.7	110.8	104.1	124.6
76 Motor vehicles and parts	371	4.9	137.2	138.9	141.2	139.6	145.9	146.6	138.3	136.7	136.6	138.3	140.2	120.2	105.4	147.2
77 Autos and light trucks	371PT	2.6	128.3	129.5	132.3	130.4	137.7	132.5	130.8	126.7	127.4	129.5	131.4	109.4	86.5	141.4
78 Aerospace and miscellaneous transportation equipment	372-6,9	4.6	94.4	95.5	96.8	97.3	97.9	100.6	101.8	101.1	101.0	100.7	101.4	101.1	102.1	102.5
79 Instruments	38	5.4	108.0	109.2	108.9	109.7	109.5	109.0	109.0	109.6	109.9	110.4	110.6	109.6	108.6	109.9
80 Miscellaneous	39	1.3	125.9	126.7	126.1	126.5	126.2	128.5	128.0	128.4	128.5	129.1	127.3	126.8	126.8	125.2
81 Nondurable goods		40.4	111.1	111.0	111.3	112.2	112.6	112.9	113.6	113.0	112.6	113.2	112.9	111.9	112.1	112.0
82 Foods	20	9.4	109.6	108.9	108.6	109.2	110.9	110.9	112.9	112.0	111.4	112.2	112.3	110.3	110.5	110.3
83 Tobacco products	21	1.6	112.7	112.5	112.0	118.8	115.9	110.1	116.9	115.9	114.7	114.0	114.0	113.1	114.2	115.4
84 Textile mill products	22	1.8	109.6	110.7	111.4	111.6	112.5	110.4	111.8	109.6	108.9	109.2	111.2	108.3	108.9	108.1
85 Apparel products	23	2.2	99.6	99.1	99.1	99.3	98.6	99.3	99.3	97.7	98.2	98.3	97.0	97.3	97.3	95.6
86 Paper and products	26	3.6	112.9	114.4	113.7	112.8	113.6	114.1	112.4	114.6	112.4	113.2	112.7	112.1	114.1	113.2
87 Printing and publishing	27	6.7	104.9	104.4	105.1	106.7	107.4	107.1	106.5	105.6	105.0	104.8	104.5	103.1	102.9	103.5
88 Chemicals and products	28	9.9	115.3	114.5	115.6	116.7	116.5	118.2	118.7	117.6	117.7	118.7	118.0	117.6	117.2	117.3
89 Petroleum products	29	1.4	109.4	109.7	110.1	111.2	108.6	109.7	112.3	111.9	114.8	114.4	112.8	113.1	114.2	114.1
90 Rubber and plastic products	30	3.5	126.4	127.9	127.6	127.4	129.6	129.3	129.3	129.4	129.7	131.9	131.5	130.9	131.2	130.7
91 Leather and products	31	.3	73.7	71.2	70.9	72.4	71.0	71.3	69.4	70.8	69.4	67.7	67.3	66.5	66.5	66.2
92 Mining		6.9	106.0	106.3	106.5	105.9	106.1	105.7	108.4	108.8	108.0	107.4	108.4	106.0	106.3	105.7
93 Metal	10	.5	106.9	106.0	105.3	111.1	113.2	103.8	105.3	119.5	105.5	103.0	104.7	105.5	102.6	104.4
94 Coal	12	1.0	109.9	107.7	109.5	109.6	111.2	117.4	116.0	108.4	109.4	110.6	118.2	111.7	114.8	111.2
95 Oil and gas extraction	13	4.8	103.2	104.1	104.3	103.1	102.6	101.7	105.0	105.9	106.5	105.3	104.6	102.1	102.4	101.9
96 Stone and earth minerals	14	.6	118.8	119.9	117.7	116.2	119.2	120.2	124.3	122.6	117.2	120.8	125.6	127.9	127.0	127.3
97 Utilities		7.7	112.5	113.0	115.1	116.9	115.3	114.3	108.7	108.2	114.3	111.8	115.5	118.6	117.6	118.1
98 Electric	491,493PT	6.2	113.1	113.1	115.7	118.1	114.7	114.2	110.2	110.6	115.6	114.2	118.8	120.5	119.2	119.9
99 Gas	492,493PT	1.6	111.0	112.5	112.7	111.9	117.8	115.0	103.0	99.0	109.5	102.4	102.4	111.0	111.4	110.9
SPECIAL AGGREGATES																
100 Manufacturing excluding motor vehicles and parts		80.5	126.4	127.2	127.3	128.4	129.4	130.0	130.7	130.2	130.5	131.2	131.2	130.5	130.9	131.1
101 Manufacturing excluding office and computing machines		83.6	124.1	124.8	124.9	125.9	127.2	127.6	127.8	127.1	127.2	127.9	127.9	126.0	125.5	127.9
Gross value (billions of 1992 dollars, annual rates)																
MAJOR MARKETS																
102 Products, total		2,001.9	2,373.2	2,402.0	2,396.9	2,416.1	2,442.2	2,435.3	2,442.8	2,427.7	2,442.6	2,454.7	2,461.1	2,430.9	2,404.3	2,480.2
103 Final		1,552.1	1,855.8	1,879.3	1,875.6	1,890.6	1,911.0	1,904.9	1,911.9	1,895.0	1,911.5	1,922.9	1,924.5	1,897.1	1,868.6	1,946.8
104 Consumer goods		1,049.6	1,195.5	1,205.2	1,203.3	1,215.9	1,224.1	1,215.7	1,224.6	1,209.6	1,219.2	1,225.3	1,224.8	1,202.2	1,185.2	1,229.4
105 Equipment		502.5	660.0	674.0	672.3	674.5	686.9	689.4	687.3	685.5	692.6	697.9	700.1	695.5	683.9	718.4
106 Intermediate		449.9	518.1	523.7	522.2	526.5	532.3	531.4	532.0	533.3	532.1	533.0	537.4	534.2	535.2	535.2

1. Data in this table also appear in the Board's G.17 (419) monthly statistical release. For the ordering address, see the inside front cover. The latest historical revision of the industrial production index and the capacity utilization rates was released in December 1997. The recent annual revision is described in an article in the February 1998 issue of the *Bulletin*. For a description of the aggregation methods for industrial production and capacity utilization, see "Industrial Production and Capacity Utilization: Historical Revision and Recent Develop-

ments," *Federal Reserve Bulletin*, vol. 83 (February 1997), pp. 67-92. For details about the construction of individual industrial production series, see "Industrial Production: 1989 Developments and Historical Revision," *Federal Reserve Bulletin*, vol. 76, (April 1990), pp. 187-204.

2. Standard industrial classification.

2.14 HOUSING AND CONSTRUCTION

Monthly figures at seasonally adjusted annual rates except as noted

Item	1995	1996	1997	1997			1998							
				Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	
Private residential real estate activity (thousands of units except as noted)														
NEW UNITS														
1 Permits authorized	1,333	1,426	1,442	1,502	1,475	1,467	1,553	1,635	1,569	1,517	1,543	1,517	1,581	
2 One-family	997	1,070	1,056	1,106	1,102	1,094	1,142	1,176	1,136	1,145	1,152	1,128	1,173	
3 Two-family or more	335	356	387	396	373	373	411	459	433	372	391	389	408	
4 Started	1,354	1,477	1,474	1,529	1,523	1,540	1,545	1,616	1,585	1,546	1,538	1,620	1,706	
5 One-family	1,076	1,161	1,134	1,124	1,167	1,130	1,225	1,263	1,239	1,237	1,224	1,269	1,299	
6 Two-family or more	278	316	340	405	356	410	320	353	346	309	314	351	407	
7 Under construction at end of period ¹	776	820	834	853	862	872	888	907	911	911	917	929	939	
8 One-family	554	584	570	574	575	580	593	609	616	619	627	639	643	
9 Two-family or more	222	235	264	279	287	292	295	298	295	292	290	290	296	
10 Completed	1,319	1,405	1,407	1,384	1,432	1,413	1,314	1,461	1,486	1,509	1,458	1,478	1,530	
11 One-family	1,073	1,123	1,122	1,063	1,145	1,094	1,007	1,142	1,130	1,198	1,112	1,166	1,205	
12 Two-family or more	247	283	285	321	287	319	307	319	356	311	346	312	325	
13 Mobile homes shipped	341	361	354	349	352	353	362	377	374	370	374	362	356	
Merchant builder activity in one-family units														
14 Number sold	667	757	803	805	875	805	853	878	836	892 ^f	890	900	886	
15 Number for sale at end of period ¹	374	326	287	284	280	282	281	281	285	286	286	288	288	
Price of units sold (thousands of dollars) ²														
16 Median	133.9	140.0	145.9	141.5	145.0	145.9	148.0	156.0	152.0 ^f	148.0 ^f	151.4	145.8	147.9	
17 Average	158.7	166.4	175.8	172.9	175.4	175.8	178.6	181.6	178.9 ^f	176.7 ^f	183.5	174.2	174.1	
EXISTING UNITS (one-family)														
18 Number sold	3,812	4,087	4,215	4,380	4,390	4,370	4,370	4,770	4,890	4,770	4,830	4,740	4,910	
Price of units sold (thousands of dollars) ²														
19 Median	113.1	118.2	124.1	124.4	124.3	125.9	126.1	124.5	127.1	128.2	130.5	134.0	133.8	
20 Average	139.1	145.5	154.2	154.7	155.0	157.5	156.8	153.9	157.2	159.7	162.3	169.2	168.4	
Value of new construction (millions of dollars) ³														
CONSTRUCTION														
21 Total put in place	538,158	581,813	618,051	626,608	623,068	626,290	633,714	638,180	639,913	645,349	635,428 ^f	647,839 ^f	650,365	
22 Private	408,012	444,743	470,969	477,539	475,340	478,363	487,807	490,896	494,333	499,946	497,269 ^f	502,540 ^f	505,009	
23 Residential	231,191	255,570	265,536	268,623	268,893	273,020	278,956	282,496	286,045	289,587	288,808 ^f	292,251 ^f	296,279	
24 Nonresidential	176,821	189,173	205,433	208,916	206,447	205,343	208,851	208,400	208,288	210,359	208,461 ^f	210,289 ^f	208,730	
25 Industrial buildings	32,535	32,563	31,417	30,870	30,075	29,794	31,055	30,936	31,474	31,391	29,583 ^f	29,680 ^f	28,499	
26 Commercial buildings	68,245	75,722	83,727	83,838	83,601	83,214	85,807	84,152	83,981	86,206	86,569 ^f	88,793 ^f	88,361	
27 Other buildings	27,084	30,637	37,382	38,372	38,341	39,275	37,694	39,151	37,812	39,091	37,572 ^f	36,644 ^f	35,920	
28 Public utilities and other	48,957	50,252	52,906	55,836	54,430	53,060	54,295	54,161	55,021	53,671	54,737 ^f	55,172 ^f	55,950	
29 Public	130,147	137,070	147,082	149,069	147,728	147,927	145,907	147,284	145,580	145,404	138,159 ^f	145,298 ^f	145,357	
30 Military	2,983	2,639	2,625	2,806	2,889	2,342	2,474	2,916	2,818	2,686	2,281 ^f	2,651 ^f	3,329	
31 Highway	38,126	41,326	45,246	43,144	47,416	45,306	46,067	45,561	45,559	46,060	41,989 ^f	44,608 ^f	43,960	
32 Conservation and development	6,371	5,926	5,628	5,148	5,068	6,422	5,281	6,305	5,488	4,980	5,129 ^f	5,950 ^f	5,595	
33 Other	82,667	87,179	93,583	97,971	92,355	93,857	92,085	92,502	91,715	91,678	88,760 ^f	92,089 ^f	92,473	

1. Not at annual rates.

2. Not seasonally adjusted.

3. Recent data on value of new construction may not be strictly comparable with data for 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 Census Bureau in July 1976.

SOURCE: Bureau of the Census 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 19,000 jurisdictions beginning in 1994.

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 (annual rate)				Change from 1 month earlier					Index level, Aug. 1998 ¹
	1997 Aug.	1998 Aug.	1997		1998		1998					
			Sept.	Dec.	Mar.	June	Apr.	May	June	July	Aug.	
CONSUMER PRICES ² (1982-84=100)												
1 All items	2.2	1.6	2.3	1.5	.2	2.5	.2	.3	.1	.2	.2	163.4
2 Food	2.5	2.2	2.8	1.5	1.3	3.0	.1	.6	.1	.2	.2	161.0
3 Energy items .....	.8	-7.7	8.3	-7.7	-21.1	-1.9	-.1	.3	-.7	.0	-1.0	103.8
4 All items less food and energy	2.3	2.5	1.7	2.4	2.4	2.6	.3	.2	.1	.2	.2	173.8
5 Commodities .....	.6	1.1	-.3	.6	.8	1.1	1	.1	.0	.1	.2	142.7
6 Services	3.0	3.1	2.6	3.3	3.0	3.2	.4	.3	.2	.2	.3	191.5
PRODUCER PRICES (1982=100)												
7 Finished goods	-.2	-.8	1.2	-1.2	-3.0	.0	.2 ^f	-.1 ^f	-.1	.2	-.4	130.6
8 Consumer foods	-.3	.1	-1.5	1.5	-1.8	.6	.5 ^f	-.4 ^f	.1	.4	-.4	135.0
9 Consumer energy	-.5	-10.3	6.0	-5.7	-27.0	-3.1	.1	.8	-1.7	.3	-2.3	75.5
10 Other consumer goods .....	.1	2.1	1.7	-.3	3.9	1.4	.3 ^f	-.2 ^f	.3	.3	.0	147.4
11 Capital equipment	-.4	-.7	.6	-2.0	.0	-.9	-.1 ^f	-.1 ^f	.0	.1	-.3	136.7
Intermediate materials												
12 Excluding foods and feeds .....	.1	-1.7	.6	-.6	-4.4	-1.6	.1	-.2	-.3	.0	-.2	123.6
13 Excluding energy .....	.4	-.5	.6	.0	-.9	-1.2	-.1	-.1	-.1	0	-.1	133.5
Crude materials												
14 Foods	-13.8	-7.7	-5.0	4.1	-14.3	-3.0	.2 ^f	-1.0 ^f	.1	-2.8	-1.1	103.0
15 Energy	-4.9	-18.1	21.8	5.4	-53.5	-2.3	4.5 ^f	-1.0 ^f	-3.9	-.6	-5.1	65.3
16 Other	3.0	-10.9	.3	-8.2	-13.6	-5.0	-1.1 ^f	.3 ^f	-.5	-1.8	-2.0	140.3

1. Not seasonally adjusted.

2. Figures for consumer prices are for all urban consumers and reflect a rental-equivalence measure of homeownership.

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics.

2.16 GROSS DOMESTIC PRODUCT AND INCOME

Billions of current dollars except as noted; quarterly data at seasonally adjusted annual rates

Account	1995	1996	1997	1997			1998	
				Q2	Q3	Q4	Q1	Q2 ¹
GROSS DOMESTIC PRODUCT								
1 Total	7,269.6	7,661.6	8,110.9	8,063.4	8,170.8	8,254.5	8,384.2	8,440.6
By source								
2 Personal consumption expenditures	4,953.9	5,215.7	5,493.7	5,438.8	5,540.3	5,593.2	5,676.5	5,773.7
3 Durable goods	611.0	643.3	673.0	659.9	681.2	682.2	705.1	720.1
4 Nondurable goods	1,473.6	1,539.2	1,600.6	1,588.2	1,611.3	1,613.2	1,633.1	1,655.2
5 Services	2,869.2	3,033.2	3,220.1	3,190.7	3,247.9	3,297.8	3,338.2	3,398.4
6 Gross private domestic investment	1,043.2	1,131.9	1,256.0	1,259.9	1,265.7	1,292.0	1,366.6	1,345.0
7 Fixed investment	1,012.5	1,099.8	1,188.6	1,176.4	1,211.1	1,220.1	1,271.1	1,305.8
8 Nonresidential	727.7	787.9	860.7	850.5	882.3	882.8	921.3	941.9
9 Structures	201.3	216.9	240.2	234.3	243.8	246.4	245.0	245.4
10 Producers' durable equipment	526.4	571.0	620.5	616.2	638.5	636.4	676.3	696.6
11 Residential structures	284.8	311.8	327.9	325.9	328.8	337.4	349.8	363.8
12 Change in business inventories	30.7	32.1	67.4	83.5	54.6	71.9	95.5	39.2
13 Nonfarm	40.1	24.5	63.1	77.2	47.3	66.9	90.5	31.5
14 Net exports of goods and services	-83.9	-91.2	-93.4	-86.8	-94.7	-98.8	-123.7	-159.3
15 Exports	819.4	873.8	965.4	961.1	981.7	988.6	973.3	949.6
16 Imports	903.3	965.0	1,058.8	1,047.9	1,076.4	1,087.4	1,097.1	1,108.9
17 Government consumption expenditures and gross investment	1,356.4	1,405.2	1,454.6	1,451.5	1,459.5	1,468.1	1,464.9	1,481.2
18 Federal	509.1	518.4	520.2	522.9	521.0	520.1	511.6	520.7
19 State and local	847.3	886.8	934.4	928.6	938.5	947.9	953.3	960.4
By major type of product								
20 Final sales, total	7,238.9	7,629.5	8,043.5	7,979.9	8,116.2	8,182.6	8,288.7	8,401.3
21 Goods	2,644.9	2,780.3	2,911.2	2,883.6	2,944.3	2,948.7	3,005.8	3,025.3
22 Durable	1,143.4	1,228.8	1,310.1	1,293.6	1,337.1	1,334.3	1,376.9	1,380.8
23 Nondurable	1,501.5	1,551.6	1,601.0	1,589.9	1,607.2	1,614.4	1,628.8	1,644.4
24 Services	3,974.9	4,179.5	4,414.1	4,386.9	4,448.0	4,501.2	4,538.4	4,619.5
25 Structures	619.1	669.7	718.3	709.4	723.9	732.7	744.6	756.6
26 Change in business inventories	30.7	32.1	67.4	83.5	54.6	71.9	95.5	39.2
27 Durable goods	32.4	20.8	33.6	48.8	19.9	34.0	49.9	4.5
28 Nondurable goods	-1.7	11.4	33.8	34.6	34.7	37.9	45.6	34.7
MEMO								
29 Total GDP in chained 1992 dollars	6,761.7	6,994.8	7,269.8	7,236.5	7,311.2	7,364.6	7,464.7	7,498.6
NATIONAL INCOME								
30 Total	5,923.7	6,256.0	6,646.5	6,604.5	6,704.8	6,767.9	6,875.0	6,945.5
31 Compensation of employees	4,208.9	4,409.0	4,687.2	4,649.2	4,715.5	4,798.0	4,882.8	4,945.2
32 Wages and salaries	3,441.9	3,640.4	3,893.6	3,859.2	3,919.3	3,993.6	4,065.9	4,121.6
33 Government and government enterprises	622.7	640.9	664.2	661.6	666.7	671.4	679.5	685.8
34 Other	2,819.2	2,999.5	3,229.4	3,197.6	3,252.6	3,322.2	3,386.4	3,435.8
35 Supplement to wages and salaries	767.0	768.6	793.7	790.0	796.2	804.4	816.8	823.5
36 Employer contributions for social insurance	365.3	381.7	400.7	398.4	402.7	407.4	414.1	417.9
37 Other labor income	401.6	387.0	392.9	391.5	393.6	397.0	402.8	405.7
38 Proprietors' income ¹	488.1	527.7	551.2	549.9	556.5	558.0	564.2	571.7
39 Business and professional ¹	465.6	488.8	515.8	512.1	520.2	526.6	536.8	544.0
40 Farm ¹	22.4	38.9	35.5	37.8	36.3	31.4	27.4	27.7
41 Rental income of persons ²	133.7	150.2	158.2	158.0	158.6	158.8	158.3	161.0
42 Corporate profits ³	672.4	750.4	817.9	815.5	840.9	820.8	829.2	820.6
43 Profits before tax ³	635.6	680.2	734.4	729.8	758.9	736.4	719.1	723.5
44 Inventory valuation adjustment	-22.6	-1.2	6.9	10.3	4.8	4.3	25.3	7.8
45 Capital consumption adjustment	59.4	71.4	76.6	75.5	77.2	80.1	84.9	89.4
46 Net interest	420.6	418.6	432.0	431.8	433.3	432.4	440.5	447.1

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: U.S. Department of Commerce, *Survey of Current Business*.

2.17 PERSONAL INCOME AND SAVING

Billions of current dollars except as noted; quarterly data at seasonally adjusted annual rates

Account	1995	1996	1997	1997			1998	
				Q2	Q3	Q4	Q1	Q2 ^r
PERSONAL INCOME AND SAVING								
1 Total personal income	6,072.1	6,425.2	6,784.0	6,743.6	6,820.9	6,904.9	7,003.9	7,081.9
2 Wage and salary disbursements	3,428.5	3,631.1	3,889.8	3,855.5	3,915.5	3,989.9	4,061.9	4,117.6
3 Commodity-producing industries	863.9	909.0	975.0	965.4	979.4	1,003.7	1,019.0	1,023.2
4 Manufacturing	647.9	674.6	719.5	712.0	722.3	741.3	750.4	750.8
5 Distributive industries	782.9	823.3	879.8	870.2	886.3	904.5	918.9	932.2
6 Service industries	1,158.9	1,257.9	1,370.8	1,358.3	1,383.2	1,410.2	1,444.5	1,476.4
7 Government and government enterprises	622.7	640.9	664.2	661.6	666.7	671.4	679.5	685.8
8 Other labor income	401.6	387.0	392.9	391.5	393.6	397.0	402.8	405.7
9 Proprietors' income ¹	488.1	527.7	551.2	549.9	556.5	558.0	564.2	571.7
10 Business and professional ¹	465.6	488.8	515.8	512.1	520.2	526.6	536.8	544.0
11 Farm ¹	22.4	38.9	35.5	37.8	36.3	31.4	27.4	27.7
12 Rental income of persons ²	133.7	150.2	158.2	158.0	158.6	158.8	158.3	161.0
13 Dividends	192.8	248.2	260.3	259.9	260.4	261.3	261.6	262.1
14 Personal interest income	704.9	719.4	747.3	745.7	750.5	753.0	757.0	763.0
15 Transfer payments	1,015.9	1,068.0	1,110.4	1,106.8	1,114.0	1,120.5	1,139.0	1,145.8
16 Old-age survivors, disability, and health insurance benefits	507.8	538.0	565.9	563.9	568.3	572.2	581.6	585.0
17 LESS: Personal contributions for social insurance	293.6	306.3	326.2	323.7	328.2	333.6	340.9	345.1
18 EQUALS: Personal income	6,072.1	6,425.2	6,784.0	6,743.6	6,820.9	6,904.9	7,003.9	7,081.9
19 LESS: Personal tax and nontax payments	795.0	890.5	989.0	975.8	999.0	1,025.5	1,066.8	1,092.9
20 EQUALS: Disposable personal income	5,277.0	5,534.7	5,795.1	5,767.9	5,821.8	5,879.4	5,937.1	5,988.9
21 LESS: Personal outlays	5,097.2	5,376.2	5,674.1	5,616.0	5,723.3	5,781.2	5,864.0	5,963.3
22 EQUALS: Personal saving	179.8	158.5	121.0	151.9	98.5	98.2	73.0	25.6
MEMO								
Per capita (chained 1992 dollars)								
23 Gross domestic product	25,690.5	26,335.7	27,136.2	27,052.3	27,260.4	27,398.2	27,718.8	27,783.0
24 Personal consumption expenditures	17,498.4	17,893.0	18,340.9	18,215.6	18,445.2	18,530.5	18,771.1	19,007.8
25 Disposable personal income	18,640.0	18,989.0	19,349.0	19,315.0	19,385.0	19,478.0	19,632.0	19,719.0
26 Saving rate (percent)	3.4	2.9	2.1	2.6	1.7	1.7	1.2	.4
GROSS SAVING								
27 Gross saving	1,187.4	1,274.5	1,406.3	1,416.3	1,427.0	1,428.0	1,482.5	1,448.5
28 Gross private saving	1,106.2	1,114.5	1,141.6	1,169.5	1,139.0	1,131.6	1,130.1	1,079.0
29 Personal saving	179.8	158.5	121.0	151.9	98.5	98.2	73.0	25.6
30 Undistributed corporate profits ¹	256.1	262.4	296.7	299.0	311.5	295.0	312.0	300.9
31 Corporate inventory valuation adjustment	-22.6	-1.2	6.9	10.3	4.8	4.3	25.3	7.8
Capital consumption allowances								
32 Corporate	431.1	452.0	477.3	473.7	480.8	487.7	492.5	497.8
33 Noncorporate	225.9	232.3	242.8	241.3	244.4	247.0	248.6	250.7
34 Gross government saving	81.2	160.0	264.7	246.9	288.0	296.4	352.4	369.4
35 Federal	-103.7	-39.6	49.5	36.1	70.0	72.3	128.7	143.9
36 Consumption of fixed capital	70.7	70.6	70.6	70.9	70.3	70.2	69.9	69.5
37 Current surplus or deficit (-), national accounts	-174.4	-110.3	-21.1	-34.8	-3	2.2	58.8	74.4
38 State and local	184.8	199.7	215.2	210.7	218.0	224.1	223.7	225.6
39 Consumption of fixed capital	73.2	77.1	81.1	80.6	81.4	82.7	83.5	84.3
40 Current surplus or deficit (-), national accounts	111.7	122.6	134.1	130.1	136.6	141.4	140.2	141.3
41 Gross investment	1,160.9	1,242.3	1,350.5	1,368.6	1,361.9	1,360.7	1,428.4	1,362.7
42 Gross private domestic investment	1,043.2	1,131.9	1,256.0	1,259.9	1,265.7	1,292.0	1,366.6	1,345.0
43 Gross government investment	218.4	229.7	235.4	232.6	237.3	236.5	237.4	232.5
44 Net foreign investment	-100.6	-119.2	-140.9	-123.9	-141.0	-167.8	-175.6	-214.8
45 Statistical discrepancy	-26.5	-32.2	-55.8	-47.7	-65.1	-67.3	-54.1	-85.7

1. With inventory valuation and capital consumption adjustments.
 2. With capital consumption adjustment.

SOURCE: U.S. Department of Commerce, *Survey of Current Business*

3.10 U.S. INTERNATIONAL TRANSACTIONS Summary

Millions of dollars; quarterly data seasonally adjusted except as noted¹

Item credits or debits	1995	1996	1997	1997			1998	
				Q2	Q3	Q4	Q1	Q2 ^p
1 Balance on current account	-115,254	-134,915	-155,215	-35,090	-38,094	-45,043	-46,735	-56,525
2 Merchandise trade balance	-173,729	-191,337	-197,954	-49,096	-49,296	-49,839	-55,698	-64,831
3 Merchandise exports	575,845	611,983	679,325	169,240	172,302	174,284	171,469	164,666
4 Merchandise imports	-749,574	-803,320	-877,279	-218,336	-221,598	-224,123	-227,167	-229,497
5 Military transactions, net	4,769	4,684	6,781	2,191	1,945	1,103	1,527	1,036
6 Other service transactions, net	69,069	78,079	80,967	20,390	20,246	20,277	19,164	19,842
7 Investment income, net	19,275	14,236	-5,318	460	-1,544	-4,247	-2,248	-3,238
8 U.S. government grants	-11,170	-15,023	-12,090	-2,274	-2,362	-5,213	-2,266	-2,060
9 U.S. government pensions and other transfers	-3,433	-4,442	-4,193	-1,055	-1,056	-1,069	-1,126	-1,130
10 Private remittances and other transfers	-20,035	-21,112	-23,408	-5,706	-6,027	-6,055	-6,088	-6,144
11 Change in U.S. government assets other than official reserve assets, net (increase, -)	-589	-708	174	-269	436	29	-388	-496
12 Change in U.S. official reserve assets (increase, -)	-9,742	6,668	-1,010	-236	-730	-4,524	-444	-1,945
13 Gold	0	0	0	0	0	0	0	0
14 Special drawing rights (SDRs)	-808	370	-350	-133	-139	-150	-182	72
15 Reserve position in International Monetary Fund	-2,466	-1,280	-3,575	54	-463	-4,221	-85	-1,031
16 Foreign currencies	-6,468	7,578	2,915	-157	-128	-153	-177	-986
17 Change in U.S. private assets abroad (increase, -)	-317,122	-374,761	-477,666	-86,101	-123,023	-118,946	-44,816	-95,049
18 Bank-reported claims ²	-75,108	-91,555	-147,439	-26,625	-29,577	-27,539	3,074	-24,979
19 Nonbank-reported claims	-45,286	-86,333	-120,403	-9,825	-24,791	-47,907	-6,596	...
20 U.S. purchases of foreign securities, net	-100,074	-115,801	-87,981	-23,263	-41,167	-8,030	-6,973	-23,446
21 U.S. direct investments abroad, net	-96,654	-81,072	-121,843	-26,388	-27,488	-35,470	-34,321	-40,261
22 Change in foreign official assets in United States (increase, +)	109,768	127,344	15,817	-5,411	21,258	-26,979	11,324	-10,483
23 U.S. Treasury securities	68,977	115,671	-7,270	-11,689	6,686	-24,578	11,336	-20,317
24 Other U.S. government obligations	3,735	5,008	4,334	827	2,667	86	2,610	254
25 Other U.S. government liabilities ³	-217	-362	-2,521	-523	-1,167	-244	-1,059	-422
26 Other U.S. liabilities reported by U.S. banks ⁴	34,008	5,704	21,928	5,043	12,439	-3,250	-607	9,170
27 Other foreign official assets ⁵	3,265	1,323	-654	931	633	1,007	-956	832
28 Change in foreign private assets in United States (increase, +)	355,681	436,013	717,624	155,184	160,180	247,470	84,205	173,908
29 U.S. bank-reported liabilities ³	30,176	16,478	148,059	28,067	12,606	89,643	-50,497	40,888
30 U.S. nonbank-reported liabilities	59,637	39,404	107,779	5,274	26,275	47,390	32,707	...
31 Foreign private purchases of U.S. Treasury securities, net	99,548	154,996	146,710	42,614	35,432	35,301	-1,701	25,715
32 Foreign purchases of other U.S. securities, net	96,367	130,151	196,845	54,258	60,327	36,783	77,019	69,531
33 Foreign direct investments in United States, net	57,653	77,622	93,449	20,149	18,964	28,453	25,931	22,036
34 Allocation of special drawing rights	0	0	0	0	0	0	0	0
35 Discrepancy	-22,742	-59,641	-99,724	-28,077	-20,027	-52,007	-3,146	-9,410
36 Due to seasonal adjustment	...	...	...	685	-10,018	3,528	6,217	1,562
37 Before seasonal adjustment	-22,742	-59,641	-99,724	-28,762	-10,009	-55,535	-9,363	-10,972
MEMO								
Changes in official assets								
38 U.S. official reserve assets (increase, -)	-9,742	6,668	-1,010	-236	-730	-4,524	-444	-1,945
39 Foreign official assets in United States, excluding line 25 (increase, +)	109,985	127,706	18,338	-4,888	22,425	-26,735	12,383	-10,061
40 Change in Organization of Petroleum Exporting Countries official assets in United States (part of line 22)	4,239	14,911	10,822	1,970 ^f	3,031 ^f	-1,282 ^f	-968	-350

1. Seasonal factors are not calculated for lines 12-16, 18-20, 22-34, and 38-40.

2. Data are on an international accounts basis. The data differ from the Census basis data, shown in table 3.11, for reasons of coverage and timing. Military exports are excluded from merchandise trade data and are included in line 5.

3. Reporting banks include all types of depository institutions as well as some brokers and dealers.

4. Associated primarily 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.

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*.

3.11 U.S. FOREIGN TRADE¹

Millions of dollars; monthly data seasonally adjusted

Item	1995	1996	1997	1998						
				Jan.	Feb.	Mar.	Apr.	May	June	July ^P
1 Goods and services, balance	-101,857	-111,040	-113,684	-9,935	-11,720	-13,208	-14,274	-15,536	-13,639	-13,923
2 Merchandise	-173,560	-191,170	-198,975	-17,075	-18,120	-20,503	-21,335	-22,578	-20,530	-20,943
3 Services	71,703	80,130	85,291	7,140	6,400	7,295	7,061	7,042	6,891	7,020
4 Goods and services, exports	794,610	848,833	931,370	79,571	77,684	79,148	77,219	76,586	76,375	75,415
5 Merchandise	575,871	612,069	678,150	57,902	56,350	57,217	55,335	54,719	54,767	53,601
6 Services	218,739	236,764	253,220	21,669	21,334	21,931	21,884	21,867	21,608	21,814
7 Goods and services, imports	-896,467	-959,873	-1,045,054	-89,506	-89,404	-92,356	-91,493	-92,122	-90,014	-89,338
8 Merchandise	-749,431	-803,239	-877,125	-74,977	-74,470	-77,720	-76,670	-77,297	-75,297	-74,544
9 Services	-147,036	-156,634	-167,929	-14,529	-14,934	-14,636	-14,823	-14,825	-14,717	-14,794

1. Data show monthly values consistent with quarterly figures in the U.S. balance of payments accounts.

SOURCE: *FT900*, U.S. Department of Commerce, Bureau of the Census and Bureau of Economic Analysis.

3.12 U.S. RESERVE ASSETS

Millions of dollars, end of period

Asset	1995	1996	1997	1998							
				Jan.	Feb.	Mar.	Apr.	May	June	July	Aug. ^P
1 Total	85,832	75,090	69,954	70,003	70,632	69,354	70,328	70,723	71,161	72,264	73,544
2 Gold stock, including Exchange Stabilization Fund ¹	11,050	11,049	11,050	11,046	11,050	11,050	11,048	11,049	11,047	11,046	11,046
3 Special drawing rights ^{2,3}	11,037	10,312	10,027	9,998	10,217	10,108	10,188	10,296	10,001	9,586	9,891
4 Reserve position in International Monetary Fund ²	14,649	15,435	18,071	18,039	18,135	17,976	18,218	18,957	18,945	20,780	21,161
5 Foreign currencies ⁴	49,096	38,294	30,809	30,920	31,230	30,220	30,874	30,421	31,168	30,852	31,446

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, line 3. Gold stock is valued at \$42.22 per fine troy ounce.

2. Special drawing rights (SDRs) are valued according to a technique adopted by the International Monetary Fund (IMF) in July 1974. Values are based on a weighted average of exchange rates for the currencies of member countries. From July 1974 through December 1980, sixteen currencies were used; since January 1981, five currencies have been used. U.S.

SDR holdings and reserve positions in the IMF also have been valued on this basis since July 1974.

3. Includes allocations of SDRs by the International Monetary Fund on Jan. 1 of the year indicated, as follows: 1970—\$867 million; 1971—\$717 million; 1972—\$710 million; 1979—\$1,139 million; 1980—\$1,152 million; 1981—\$1,093 million; plus net transactions in SDRs.

4. Valued at current market exchange rates.

3.13 FOREIGN OFFICIAL ASSETS HELD AT FEDERAL RESERVE BANKS¹

Millions of dollars, end of period

Asset	1995	1996	1997	1998							
				Jan.	Feb.	Mar.	Apr.	May	June	July	Aug. ^P
1 Deposits	386	167	457	215	243	167	162	156	200	161	161
Held in custody											
2 U.S. Treasury securities ²	522,170	638,049	620,885	625,219	621,956	630,602	622,220	622,557	616,569	613,893	588,337
3 Earmarked gold ³	11,702	11,197	10,763	10,709	10,705	10,664	10,651	10,641	10,617	10,586	10,510

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, in each case measured at face (not market) value.

3. Held in foreign and international accounts and valued at \$42.22 per fine troy ounce; not included in the gold stock of the United States.

3.15 SELECTED U.S. LIABILITIES TO FOREIGN OFFICIAL INSTITUTIONS

Millions of dollars, end of period

Item	1996	1997	1998						
			Jan.	Feb	Mar.	Apr.	May	June	July ^P
1 Total ¹	758,624	778,538	780,587	780,393	790,921	788,310	786,184 ^f	781,067	773,692
By type									
2 Liabilities reported by banks in the United States ²	113,098	135,326	140,931	139,739	134,719	144,929	142,658 ^f	144,097	140,650
3 U.S. Treasury bills and certificates ³	198,921	148,301	145,609	144,324	153,335	138,418	137,652	134,324	131,139
4 U.S. Treasury bonds and notes									
5 Marketable	379,497	423,456	422,267	423,509	429,642	430,804	431,702	428,216	428,680
6 Nonmarketable ⁴	5,968	5,994	6,033	6,069	6,110	6,149	6,189	6,229	6,269
7 U.S. securities other than U.S. Treasury securities ⁵	61,140	65,461	65,747	66,752	67,115	68,010	67,983	68,201	66,954
By area									
8 Europe ¹	257,915	263,103	261,680	261,133	259,053	268,848	269,178	264,637	268,719
9 Canada	21,295	18,749	18,339	19,065	20,280	20,254	20,122	19,396	19,963
10 Latin America and Caribbean	80,623	97,616	96,997	99,381	98,028	101,191	101,792	100,829	100,801
11 Asia	385,484	382,423	387,204	385,378	397,283	382,027	379,188 ^f	378,154	367,747
12 Africa	7,379	10,118	10,213	10,518	11,440	11,281	10,574	11,552	11,900
13 Other countries	5,926	6,527	6,152	4,916	4,835	4,707	5,328	6,497	4,560

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 and Treasury bills issued to official institutions of foreign countries.

4. Excludes notes issued to foreign official nonreserve agencies. Includes current value of zero-coupon Treasury bond issues to foreign governments as follows: Mexico, beginning March 1988, 20-year maturity issue and beginning March 1990, 30-year maturity issue;

Venezuela, beginning December 1990, 30-year maturity issue; Argentina, beginning April 1993, 30-year maturity issue.

5. Debt securities of U.S. government corporations and federally sponsored agencies, and U.S. corporate stocks and bonds.

SOURCE: Based on U.S. Department of the Treasury data and on data reported to the department by banks (including Federal Reserve Banks) and securities dealers in the United States, and on the 1989 benchmark survey of foreign portfolio investment in the United States.

3.16 LIABILITIES TO, AND CLAIMS ON, FOREIGNERS Reported by Banks in the United States¹

Payable in Foreign Currencies

Millions of dollars, end of period

Item	1994	1995	1996	1997		1998	
				Sept.	Dec.	Mar. ^f	June
1 Banks' liabilities	89,258	109,713	103,383	120,105	117,524	100,342	90,119
2 Banks' claims	60,711	74,016	66,018	91,158	83,038	81,977	68,095
3 Deposits	19,661	22,696	22,467	32,154	28,661	27,934	27,213
4 Other claims	41,050	51,320	43,551	59,004	54,377	54,043	40,882
5 Claims of banks' domestic customers ²	10,878	6,145	10,978	10,090	8,191	7,926	7,354

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.

3.17 LIABILITIES TO FOREIGNERS Reported by Banks in the United States¹
Payable in U.S. dollars
Millions of dollars, end of period

Item	1995	1996	1997	1998						
				Jan.	Feb.	Mar.	Apr.	May	June	July ^P
BY HOLDER AND TYPE OF LIABILITY										
1 Total, all foreigners	1,099,549	1,162,148	1,283,686 ^r	1,267,286 ^r	1,283,675 ^r	1,255,075	1,270,626 ^r	1,260,273 ^r	1,286,746	1,305,433
2 Banks' own liabilities	753,461	758,998	883,639 ^r	867,220 ^r	879,686 ^r	843,906	861,727 ^r	852,052	884,747	897,675
3 Demand deposits	24,448	27,034	32,104	29,716	29,691	32,588	32,107	31,201	36,247	32,017
4 Time deposits ²	192,558	186,910	198,470	187,617	183,285	183,109	185,948	185,160	186,724	187,800
5 Other ³	140,165	143,510	168,013 ^r	185,049	189,527	188,425	204,294 ^r	192,167 ^r	183,451	192,273
6 Own foreign offices ⁴	396,290	401,544	485,052 ^r	464,838 ^r	477,183 ^r	439,784	439,378	443,524 ^r	478,325	485,585
7 Banks' custodial liabilities ⁵	346,088	403,150	400,047 ^r	400,066 ^r	403,989 ^r	411,169	408,899	408,221 ^r	401,999	407,758
8 U.S. Treasury bills and certificates ⁶	197,355	236,874	193,239	184,881	186,564	191,571	174,256	173,873	167,997	163,085
9 Other negotiable and readily transferable instruments ⁷	52,200	72,011	93,641 ^r	96,982 ^r	99,402 ^r	96,364	111,398	107,797	112,527	116,864
10 Other	96,533	94,265	113,167	118,203	118,023	123,234	123,245	126,551 ^r	121,475	127,809
11 Nonmonetary international and regional organizations ⁸	11,039	13,972	11,690 ^r	11,240	16,184	15,246	14,894 ^r	14,186	14,079	13,715
12 Banks' own liabilities	10,347	13,355	11,486 ^r	11,048	15,855	14,925	14,478 ^r	13,559	13,441	11,622
13 Demand deposits	21	29	16	175	74	98	365	229	226	47
14 Time deposits ²	4,656	5,784	5,466	5,023	5,316	5,957	6,646	7,029	6,784	5,969
15 Other ³	5,670	7,542	6,004 ^r	5,850	10,465	8,870	7,467 ^r	6,301	6,431	5,606
16 Banks' custodial liabilities ⁵	692	617	204	192	329	321	416	627	638	2,093
17 U.S. Treasury bills and certificates ⁶	350	352	69	85	149	247	344	359	338	349
18 Other negotiable and readily transferable instruments ⁷	341	265	133	107	180	72	72	268	298	1,744
19 Other	1	0	2	0	0	2	0	0	2	0
20 Official institutions ⁹	275,928	312,019	283,627	286,540	284,063	288,054	283,347	280,310 ^r	278,421	271,789
21 Banks' own liabilities	83,447	79,406	101,910	111,027	109,959	104,006	105,731	104,358	102,256	100,583
22 Demand deposits	2,098	1,511	2,314	1,682	1,910	2,051	2,532	2,052	2,582	3,559
23 Time deposits ²	30,717	33,336	41,420	38,726	37,242	40,265	38,865	36,060	36,068	36,367
24 Other ³	50,632	44,559	58,176	70,619	70,807	61,690	64,334	66,246	63,606	60,657
25 Banks' custodial liabilities ⁵	192,481	232,613	181,717	175,513	174,104	184,048	177,616	175,952 ^r	176,165	171,206
26 U.S. Treasury bills and certificates ⁶	168,534	198,921	148,301	145,609	144,324	153,335	138,418	137,652	134,324	131,139
27 Other negotiable and readily transferable instruments ⁷	23,603	33,266	33,211	29,614	29,643	30,183	38,745	38,010	41,178	39,759
28 Other	344	426	205	290	137	530	453	290 ^r	663	308
29 Banks ¹⁰	691,412	694,835	816,064 ^r	794,728 ^r	799,943 ^r	763,349	776,269	782,828 ^r	807,952	825,824
30 Banks' own liabilities	567,834	562,898	642,324 ^r	620,490 ^r	623,213 ^r	585,083	596,509	601,967	633,006	645,870
31 Unaffiliated foreign banks	171,544	161,354	157,272	155,652	146,030	145,299	157,131	158,443 ^r	154,681	160,285
32 Demand deposits	11,758	13,692	17,527	15,974	16,084	18,350	17,152	16,111	20,773	15,097
33 Time deposits ²	103,471	89,765	83,433	79,051	75,255	70,060	72,703	74,018	75,230	78,316
34 Other ³	56,315	57,897	56,312	60,627	54,691	56,889	67,276	68,314 ^r	58,678	66,872
35 Own foreign offices ⁴	396,290	401,544	485,052 ^r	464,838 ^r	477,183 ^r	439,784	439,378	443,524 ^r	478,325	485,585
36 Banks' custodial liabilities ⁵	123,578	131,937	173,740	174,238	176,730	178,266	179,760	180,861 ^r	174,946	179,954
37 U.S. Treasury bills and certificates ⁶	15,872	23,106	31,915	27,607	30,620	28,499	26,650	26,920	24,109	21,690
38 Other negotiable and readily transferable instruments ⁷	13,035	17,027	35,333	35,266	35,107	34,962	37,942	38,186	38,077	39,133
39 Other	94,671	91,804	106,492	111,365	111,003	114,805	115,168	115,755 ^r	112,760	119,131
40 Other foreigners	121,170	141,322	172,305 ^r	174,778 ^r	183,485 ^r	188,426	196,116	182,949	186,294	194,105
41 Banks' own liabilities	91,833	103,339	127,919	124,655	130,659	139,892	145,009	132,168	136,044	139,600
42 Demand deposits	10,571	11,802	12,247	11,885	11,623	12,089	12,058	12,809	12,666	13,314
43 Time deposits ²	53,714	58,025	68,151	64,817	65,472	66,827	67,734	68,053	68,642	67,148
44 Other ³	27,548	33,512	47,521	47,953	53,564	60,976	65,217	51,306	54,736	59,138
45 Banks' custodial liabilities ⁵	29,337	37,983	44,386 ^r	50,123 ^r	52,826 ^r	48,534	51,107	50,781	50,250	54,505
46 U.S. Treasury bills and certificates ⁶	12,599	14,495	12,954	11,580	11,471	9,490	8,844	8,942	9,226	9,907
47 Other negotiable and readily transferable instruments ⁷	15,221	21,453	24,964 ^r	31,995 ^r	34,472 ^r	31,147	34,639	31,333	32,974	36,228
48 Other	1,517	2,035	6,468	6,548	6,883	7,897	7,624	10,506	8,050	8,370
MEMO										
49 Negotiable time certificates of deposit in custody for foreigners	9,103	14,573	16,083 ^r	17,075 ^r	20,823 ^r	22,416	22,503	23,440	21,229	22,897

1. Reporting banks include all types of depository institutions as well as some brokers and dealers. Excludes bonds and notes of maturities longer than one year.

2. Excludes negotiable time certificates of deposit, which are included in "Other negotiable and readily transferable instruments."

3. Includes borrowing under repurchase agreements.

4. For U.S. banks, includes amounts owed to own foreign branches and foreign subsidiaries consolidated in quarterly Consolidated Reports of Condition filed with bank regulatory agencies. For agencies, branches, and majority-owned subsidiaries of foreign banks, consists principally of amounts owed to the head office or parent foreign bank, and to foreign branches, agencies, or wholly owned subsidiaries of the 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 for foreign customers.

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, the Inter-American Development Bank, and the Asian Development Bank. Excludes "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."

3.17 LIABILITIES TO FOREIGNERS Reported by Banks in the United States¹—Continued

Item	1995	1996	1997	1998						
				Jan.	Feb.	Mar.	Apr.	May	June	July ^P
AREA										
50 Total, all foreigners	1,099,549	1,162,148	1,283,686 ^F	1,267,286 ^F	1,283,675 ^F	1,255,075	1,270,626 ^F	1,260,273 ^F	1,286,746	1,305,433
51 Foreign countries	1,088,510	1,148,176	1,271,996 ^F	1,256,046 ^F	1,267,491 ^F	1,239,829	1,255,732	1,246,087 ^F	1,272,667	1,291,718
52 Europe	362,819	376,590	420,438 ^F	401,641 ^F	420,018 ^F	390,750	406,391	405,348	401,090	432,085
53 Austria	3,537	5,128	2,717	2,787	2,774	2,375	2,957	3,012	2,268	2,603
54 Belgium and Luxembourg	24,792	24,084	41,007	39,018	38,178	33,244	38,530	35,518	35,454	33,880
55 Denmark	2,921	2,565	1,514	1,625	1,215	1,094	2,588	1,443	1,989	2,013
56 Finland	2,831	1,958	2,246	2,177	2,136	1,549	1,768	1,365	1,438	1,211
57 France	39,218	35,078	46,607	44,773	44,990	44,027	48,468	47,869	46,161	47,037
58 Germany	24,035	24,660	23,737	21,988	23,290	20,971	24,895	26,452	25,470	23,729
59 Greece	2,014	1,835	1,552 ^F	1,713 ^F	1,695 ^F	2,020	2,383	2,610	2,429	2,784
60 Italy	10,868	10,946	11,378	9,854	9,804	9,631	10,600	11,127	11,510	11,113
61 Netherlands	13,745	11,110	7,385	6,287	7,043	8,208	8,051	7,265	6,845	7,082
62 Norway	1,394	1,288	317	955	845	346	514	774	607	1,179
63 Portugal	2,761	3,562	2,262	1,515	1,437	1,426	2,279	2,160	2,334	2,823
64 Russia	7,948	7,623	7,968	5,573	6,118	6,466	5,381	3,952	4,654	6,398
65 Spain	10,011	17,707	18,989	19,413	20,137	16,315	18,071	15,520	11,650	12,080
66 Sweden	3,246	1,623	1,628	1,415	2,055	1,967	1,785	2,197	3,148	2,198
67 Switzerland	43,625	44,538	39,172	37,340	37,157	35,463	32,341	33,893	37,887	43,660
68 Turkey	4,124	6,738	4,054	3,659	4,047	4,154	4,340	4,467	4,875	5,351
69 United Kingdom	139,183	153,420	181,904	176,457	191,181	174,198	172,829	178,185	176,892	198,164
70 Yugoslavia ¹¹	177	206	239	292	244	236	246	270	234	322
71 Other Europe and other former U.S.S.R. ¹²	26,389	22,521	25,762	24,800	25,672	27,060	28,365	27,269	25,245	28,458
72 Canada	30,468	38,920	28,341	29,035	29,470	27,121	27,398	26,021	28,862	29,525
73 Latin America and Caribbean	440,213	467,529	536,365	532,828 ^F	533,907 ^F	529,446	552,896	550,714	567,974	563,618
74 Argentina	12,235	13,877	20,199	19,215	18,278	18,835	17,766	16,938	18,503	21,011
75 Bahamas	94,991	88,895	112,217	117,673 ^F	110,900 ^F	109,041	112,510	114,222	116,410	115,398
76 Bermuda	4,897	5,527	6,911	6,279	8,283	8,273	6,657	7,142	7,769	7,216
77 Brazil	23,797	27,701	31,037	31,857	33,026	34,017	36,777	38,463	35,345	34,291
78 British West Indies	239,083	251,465	276,389	268,034	273,464	261,542	273,565	277,929 ^F	295,110	289,486
79 Chile	2,826	2,915	4,072	4,514	4,450	3,975	4,330	4,230	4,349	4,981
80 Colombia	3,659	3,256	3,652	3,584	3,908 ^F	4,200	4,212	4,383	4,799	4,023
81 Cuba	8	21	66	63	58	55	57	59	63	63
82 Ecuador	1,314	1,767	2,078	1,877 ^F	1,998 ^F	1,814	1,737	1,783	1,606	1,756
83 Guatemala	1,276	1,282	1,494	1,492	1,382	1,438	1,478	1,353	1,363	1,273
84 Jamaica	481	628	450	449	437	431	449	438	522	519
85 Mexico	24,560	31,240	33,972	33,230	33,611	35,708	37,623	37,682	38,046	38,556
86 Netherlands Antilles	4,673	6,099	5,085	5,777	5,417	11,351	17,569	7,447	6,861	8,937
87 Panama	4,264	4,099	4,241	3,921	4,087	3,958	4,211	4,106	3,723	3,597
88 Peru	974	834	893	876	912	878	878	964	925	984
89 Uruguay	1,836	1,890	2,382	2,201	2,247	2,228	2,097	1,991	1,982	2,097
90 Venezuela	11,808	17,363	21,601	22,340 ^F	21,891 ^F	21,474	20,696	21,600	20,442	19,492
91 Other	7,531	8,670	9,626	9,446	9,558	10,228	10,284	9,984 ^F	10,156	9,938
92 Asia	240,595	249,083	269,299 ^F	274,770	267,957	275,173	251,423	244,779 ^F	254,422	247,968
93 China	33,750	30,438	18,252	20,153	18,575	20,701	20,122	20,209	21,558	18,919
94 Mainland	11,714	15,995	11,760	12,936	12,942	13,619	13,776	12,648	11,619	11,333
95 Taiwan	20,197	18,789	17,722	18,002	17,797	17,825	19,762	18,106	19,720	15,825
96 Hong Kong	3,373	3,930	4,567	5,331	5,265	5,586	4,813	4,882	4,821	4,679
97 India	2,708	2,298	3,554	2,909	2,989	4,015	4,266	3,197	3,860	3,950
98 Indonesia	4,041	6,051	6,281	7,190	7,197	7,589	7,348	6,251	6,095	5,969
99 Japan	109,193	117,316	143,401	138,686	140,426	137,700	113,283	111,623	118,669	123,145
100 Korea (South)	5,749	5,949	13,060 ^F	12,171	12,530	11,233	13,711	14,010 ^F	13,269	12,733
101 Philippines	3,092	3,378	3,250	2,530	2,872	3,009	2,870	2,802	3,418	2,609
102 Thailand	12,279	10,912	6,501	5,858	4,676	9,073	7,928	8,876	7,148	6,780
103 Middle Eastern oil-exporting countries ¹³	15,582	16,285	14,959	16,059	15,952	16,217	17,095	15,296	13,825	13,907
104 Other	18,917	17,742	25,992	32,945	26,736	28,606	26,449	26,879	30,420	28,119
105 Africa	7,641	8,116	10,347	10,291	9,670	11,385	11,160	10,965	10,732	10,785
106 Egypt	2,136	2,012	1,663	1,949	1,670	1,449	1,236	1,460	1,523	1,319
107 Morocco	104	112	138	131	73	88	131	115	84	74
108 South Africa	739	458	2,158	1,685	1,825	2,547	2,556	2,465	2,642	2,446
109 Zaire	10	10	10	7	4	10	3	5	5	7
110 Oil-exporting countries ¹⁴	1,797	2,626	3,060	3,470	3,479	4,275	4,332	4,079	3,552	3,893
111 Other	2,855	2,898	3,318	3,049	2,619	3,016	2,902	2,841	2,926	3,046
112 Other	6,774	7,938	7,206	7,481	6,469	5,954	6,464	8,260	9,587	7,737
113 Australia	5,647	6,479	6,304	6,385	5,466	4,989	5,450	7,416	8,510	6,490
114 Other	1,127	1,459	902	1,096	1,003	965	1,014	844	1,077	1,247
115 Nonmonetary international and regional organizations	11,039	13,972	11,690 ^F	11,240	16,184	15,246	14,894 ^F	14,186	14,079	13,715
116 International ¹⁵	9,300	12,099	10,517 ^F	10,016	14,591	14,331	13,431 ^F	12,509	12,548	10,654
117 Latin American regional ¹⁶	893	1,339	424	975	1,217	536	762	830	670	717
118 Other regional ¹⁷	846	534	749	249	376	379	701	847	861	2,344

11. Since December 1992, has excluded Bosnia, Croatia, and Slovenia.

12. Includes the Bank for International Settlements. Since December 1992, has included all parts of the former U.S.S.R. (except Russia), and Bosnia, Croatia, and Slovenia.

13. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).

14. Comprises Algeria, Gabon, Libya, and Nigeria.

15. Principally the International Bank for Reconstruction and Development. Excludes "holdings of dollars" of the International Monetary Fund.

16. Principally the Inter-American Development Bank.

17. Asian, African, Middle Eastern, and European regional organizations, except the Bank for International Settlements, which is included in "Other Europe."

3.18 BANKS' OWN CLAIMS ON FOREIGNERS Reported by Banks in the United States¹
Payable in U.S. Dollars
Millions of dollars, end of period

Area or country	1995	1996	1997	1998						
				Jan.	Feb.	Mar.	Apr.	May ²	June	July ³
1 Total, all foreigners	532,444	599,925	708,272 ⁴	703,190	703,988 ⁵	687,648 ⁶	700,035 ⁶	703,532	727,916	740,719
2 Foreign countries	530,513	597,321	705,809 ⁴	700,273	701,233 ⁵	684,700 ⁶	696,742 ⁶	701,140	725,001	737,050
3 Europe	132,150	165,769	199,880	204,763	212,307	205,528	207,154	208,567	223,277	230,904
4 Austria	565	1,662	1,354	1,917	1,934	1,566	1,827	2,130	1,259	1,892
5 Belgium and Luxembourg	7,624	6,727	6,641	5,714	6,021	6,148	5,482	6,115	7,782	8,464
6 Denmark	403	492	980	1,531	907	895	968	1,286	1,198	933
7 Finland	1,055	971	1,233	1,492	1,554	1,686	1,018	931	1,146	1,258
8 France	15,033	15,246	16,239	21,474	18,963	18,206	17,383	16,276	15,474	14,158
9 Germany	9,263	8,472	12,676	10,849	10,752	13,047	16,931	15,301	15,751	11,312
10 Greece	469	568	402	504	504	503	442	428	364	475
11 Italy	5,370	6,457	6,230	6,655	5,974	6,601	6,938	6,533	6,435	6,189
12 Netherlands	5,346	7,117	6,141	5,384	5,447	6,618	5,851	3,980	5,763	5,703
13 Norway	665	808	555	989	1,296	850	662	736	680	553
14 Portugal	888	418	777	655	533	589	935	1,496	888	1,170
15 Russia	660	1,669	1,248	1,297	1,143	1,115	1,133	1,117	1,057	1,345
16 Spain	2,166	3,211	2,942	6,926	6,255	5,778	7,458	6,218	5,560	6,344
17 Sweden	2,080	1,739	1,854	1,736	2,184	2,798	2,975	3,181	3,069	4,543
18 Switzerland	7,474	19,798	28,846	28,515	29,006	31,306	25,069	29,317	34,970	49,359
19 Turkey	803	1,109	1,558	1,675	1,914	2,324	2,386	2,414	2,414	2,757
20 United Kingdom	67,784	85,234	103,143	99,302	110,357	97,588	101,772	102,889	109,755	104,755
21 Yugoslavia ²	147	115	52	53	53	61	59	19	53	57
22 Other Europe and other former U.S.S.R. ³	4,355	3,956	7,009	8,122	7,749	8,259	7,927	8,228	9,659	9,637
23 Canada	20,874	26,436	27,176	25,155	24,872	29,827	25,785	24,961	32,703	36,007
24 Latin America and Caribbean	256,944	274,153	343,820	345,787	345,643	338,909	354,302	361,082	365,820	359,559
25 Argentina	6,439	7,400	8,924	9,076	9,402	8,726	8,540	8,207	8,502	8,406
26 Bahamas	58,818	71,871	89,379	90,823	84,982	77,585	82,711	78,083	77,700	78,876
27 Bermuda	5,741	4,129	8,782	9,385	8,917	8,997	9,462	8,890	9,347	10,517
28 Brazil	13,297	17,259	21,696	22,541	23,987	25,283	26,033	25,354	24,552	24,202
29 British West Indies	124,037	105,510	145,471	145,935	149,520	147,910	159,649	168,124	176,825	166,461
30 Chile	4,864	5,136	7,913	7,910	8,249	8,171	8,444	8,482	8,497	8,436
31 Colombia	4,550	6,247	6,945	6,733	6,729	6,783	6,772	7,208	7,102	6,913
32 Cuba	0	0	0	0	0	0	0	0	0	0
33 Ecuador	825	1,031	1,311	1,398	1,398	1,476	1,522	1,498	1,430	1,649
34 Guatemala	457	620	886	863	868	904	955	955	932	911
35 Jamaica	323	345	424	410	401	364	373	385	320	360
36 Mexico	18,024	18,425	19,518	20,515	21,107	20,680	20,913	21,215	20,393	20,059
37 Netherlands Antilles	9,229	25,209	17,838	16,026	15,594	17,618	14,073	17,352	14,294	16,278
38 Panama	3,008	2,786	4,364	4,074	4,232	4,108	4,422	4,393	4,233	4,328
39 Peru	1,829	2,720	3,491	3,413	3,550	3,538	3,644	3,792	3,965	3,989
40 Uruguay	466	589	629	588	594	920	773	807	959	1,155
41 Venezuela	1,661	1,702	2,129	2,257	2,334	2,169	2,194	2,381	2,495	2,435
42 Other	3,376	3,174	4,120	3,848	3,779	3,677	3,822	3,956	4,274	4,584
43 Asia	115,336	122,478	125,063 ⁴	114,457	109,045 ⁵	101,353 ⁶	99,183 ⁶	96,813	94,772	100,162
44 China										
45 Mainland	1,023	1,401	1,579	2,534	1,988	2,762	2,921	2,934	1,989	1,579
46 Taiwan	1,713	1,894	921	847	820	740	939	723	835	695
47 Hong Kong	12,821	12,802	13,990	14,569	13,520	12,628	10,162	12,884	12,871	11,045
48 India	1,846	1,946	2,200	2,299	2,172	1,927	1,807	1,913	1,972	1,822
49 Indonesia	1,696	1,762	2,634	2,361	2,270 ⁵	2,291 ⁶	2,210 ⁶	2,099	2,066	1,976
50 Israel	739	633	768	946	987	812	874	893	954	1,116
51 Japan	61,468	59,967	59,540	52,904	51,891	46,660	44,970	42,071	43,010	45,566
52 Korea (South)	13,975	18,901	18,162 ⁴	14,450	12,812	11,520	10,852	11,936	11,001	12,863
53 Philippines	1,318	1,697	1,689	1,794	1,645	1,813	1,561	1,614	1,541	1,243
54 Thailand	2,612	2,679	2,259	2,164	2,138	2,144	1,971	1,906	1,889	1,820
55 Middle Eastern oil-exporting countries ⁴	9,639	10,424	10,790	9,133	9,101	8,921	11,028	9,338	8,448	11,207
56 Other	6,486	8,372	10,531	10,456	9,701	9,135	9,888	8,502	8,196	9,230
57 Africa	2,742	2,776	3,530	3,580	3,403	3,567	3,337	3,693	2,484	3,497
58 Egypt	210	247	247	279	304	289	294	281	283	294
59 Morocco	514	524	511	498	514	518	483	490	430	471
60 South Africa	465	584	805	694	573	559	490	859	653	630
61 Zaire	1	0	0	0	0	0	0	0	0	0
62 Oil-exporting countries ⁵	552	420	1,212	1,324	1,219	1,364	1,194	1,078	308	1,331
63 Other	1,000	1,001	755	785	793	837	876	985	810	771
64 Other	2,467	5,709	6,340	6,531	5,963	5,516	6,981	6,024	5,945	6,921
65 Australia	1,622	4,577	5,299	5,419	5,139	5,011	6,513	5,704	5,439	6,067
66 Other	845	1,132	1,041	1,112	824	505	468	320	506	854
66 Nonmonetary international and regional organizations ⁶	1,931	2,604	2,463	2,917	2,755	2,948	3,293	2,392	2,915	3,669

1. Reporting banks include all types of depository institutions as well as some brokers and dealers.

2. Since December 1992, has excluded Bosnia, Croatia, and Slovenia.

3. Includes the Bank for International Settlements. Since December 1992, has included all parts of the former U.S.S.R. (except Russia), and Bosnia, Croatia, and Slovenia.

4. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).

5. Comprises Algeria, Gabon, Libya, and Nigeria.

6. Excludes the Bank for International Settlements, which is included in "Other Europe."

3.19 BANKS' OWN AND DOMESTIC CUSTOMERS' CLAIMS ON FOREIGNERS Reported by Banks in the United States¹
 Payable in U.S. Dollars
 Millions of dollars, end of period

Type of claim	1995	1996	1997	1998						
				Jan.	Feb.	Mar. ^f	Apr. ^f	May ^f	June	July ^p
1 Total	655,211	743,919	852,899^f			842,461	...		881,154	...
2 Banks' claims	532,444	599,925	708,272 ^f	703,190	703,988 ^f	687,648	700,035	703,532	727,916	740,719
3 Foreign public borrowers	22,518	22,216	20,660	30,195	27,041	28,232	32,465	28,986	27,739	34,816
4 Own foreign offices ²	307,427	341,574	431,685	415,708	421,733	402,387	409,955	415,175	435,286	446,657
5 Unaffiliated foreign banks	101,595	113,682	109,224	111,015	106,600	107,794	104,622	105,501	107,544	101,878
6 Deposits	37,771	33,826	31,042	30,840 ^f	26,559	25,657	24,324	21,282	22,843	23,283
7 Other	63,824	79,856	78,182	80,175 ^f	80,041	82,137	80,298	84,219	84,701	78,595
8 All other foreigners ...	100,904	122,453	146,703 ^f	146,272	148,614 ^f	149,235	152,993	153,870	157,347	157,368
9 Claims of banks' domestic customers ³	122,767	143,994	144,627	...	...	154,813	...	...	153,238	...
10 Deposits	58,519	77,657	73,110	...	...	85,406	...	...	86,408	...
11 Negotiable and readily transferable instruments ⁴	44,161	51,207	53,967	...	...	51,594	...	...	52,133	...
12 Outstanding collections and other claims	20,087	15,130	17,550	...	...	17,813	...	...	14,697	...
MEMO										
13 Customer liability on acceptances	8,410	10,388	9,624	...	...	7,496	...	...	6,595	...
14 Dollar deposits in banks abroad, reported by nonbanking business enterprises in the United States ⁵	30,717	39,661	34,046	35,842 ^f	36,741 ^f	31,958	31,633	32,172	25,287	30,067

1. For banks' claims, data are monthly; for claims of banks' domestic customers, data are for quarter ending with month indicated.

Reporting banks include all types of depository institution as well as some brokers and dealers.

2. For U.S. banks, includes amounts due from own foreign branches and foreign subsidiaries consolidated in quarterly Consolidated Reports of Condition filed with bank regulatory agencies. For agencies, branches, and majority-owned subsidiaries of foreign banks, consists

principally of amounts due from the head office or parent foreign bank, and from foreign branches, agencies, or wholly owned subsidiaries of the head office or parent foreign bank.

3. Assets held by reporting banks in the accounts of their domestic customers.

4. Principally negotiable time certificates of deposit, bankers acceptances, and commercial paper.

5. Includes demand and time deposits and negotiable and nonnegotiable certificates of deposit denominated in U.S. dollars issued by banks abroad.

3.20 BANKS' OWN CLAIMS ON UNAFFILIATED FOREIGNERS Reported by Banks in the United States¹
 Payable in U.S. Dollars
 Millions of dollars, end of period

Maturity, by borrower and area ²	1994	1995	1996	1997		1998	
				Sept.	Dec.	Mar.	June ^p
1 Total	202,282	224,932	258,106	281,000	276,597^f	285,518	286,905
<i>By borrower</i>							
2 Maturity of one year or less	170,411	178,857	211,859	217,981	205,859	214,822	206,813
3 Foreign public borrowers	15,435	14,995	15,411	20,123	12,069 ^f	16,952	16,497
4 All other foreigners	154,976	163,862	196,448	197,858	193,790 ^f	197,870	190,316
5 Maturity of more than one year	31,871	46,075	46,247	63,019	70,738 ^f	70,696	80,092
6 Foreign public borrowers	7,838	7,522	6,790	8,752	8,525	11,310	10,625
7 All other foreigners	24,033	38,553	39,457	54,267	62,213 ^f	59,386	69,467
<i>By area</i>							
8 Maturity of one year or less							
9 Europe	56,381	55,622	55,690	69,204	58,294	69,245	70,724
10 Canada	6,690	6,751	8,339	8,460	9,917	9,304	8,516
11 Latin America and Caribbean	59,583	72,504	103,254	99,929	97,277	101,013	98,912
12 Asia	40,567	40,296	38,078	34,650	33,972	28,748	23,076
13 Africa	1,379	1,295	1,316	2,157	2,211	2,228	1,117
14 All other ³	5,811	2,389	5,182	3,581	4,188	4,284	4,468
15 Maturity of more than one year							
16 Europe	4,358	4,995	6,965	11,202	13,240	15,118	15,337
17 Canada	3,505	2,751	2,645	3,842	2,512	2,752	2,573
18 Latin America and Caribbean	15,717	27,681	24,943	34,988	42,069	39,337	47,463
19 Asia	5,323	7,941	9,392	10,393	10,198 ^f	10,731	12,053
20 Africa	1,583	1,421	1,361	1,236	1,236	1,254	1,259
21 All other ³	1,385	1,286	941	1,358	1,483	1,504	1,407

1. Reporting banks include all types of depository institutions as well as some brokers and dealers.

2. Maturity is time remaining until maturity.

3. Includes nonmonetary international and regional organizations.

3.21 CLAIMS ON FOREIGN COUNTRIES Held by U.S. and Foreign Offices of U.S. Banks¹

Billions of dollars, end of period

Area or country	1994	1995	1996			1997				1998	
			June	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.	June ⁹
1 Total	499.5	551.9	612.8	586.2	645.3	647.5	678.8	711.0	725.9	726.1	739.0
2 G-10 countries and Switzerland	191.2	206.0	226.9	220.0	228.3	231.4	250.0	247.7	242.8	244.3	267.3
3 Belgium and Luxembourg	7.2	13.6	11.4	11.3	11.7	14.1	9.4	11.4	11.0	11.2	13.1
4 France	19.1	19.4	18.0	17.4	16.6	19.7	17.9	20.2	15.4	15.6	20.5
5 Germany	24.7	27.3	31.4	33.9	29.8	32.1	34.1	34.7	28.6	25.5	28.7
6 Italy	11.8	11.5	14.9	15.2	16.0	14.4	20.2	19.3	15.5	19.7	19.5
7 Netherlands	3.6	3.7	4.7	5.9	4.0	4.5	6.4	7.2	6.2	7.3	8.3
8 Sweden	2.7	2.7	2.7	3.0	2.6	3.4	3.6	4.1	3.3	4.8	3.1
9 Switzerland	5.1	6.7	6.3	6.3	5.3	6.0	5.4	4.8	7.2	5.6	6.9
10 United Kingdom	85.8	82.4	101.6	90.5	104.7	99.2	110.6	108.3	113.4	115.3	127.2
11 Canada	10.0	10.3	12.2	14.8	14.0	16.3	15.7	15.1	13.7	13.5	16.5
12 Japan	21.1	28.5	23.6	21.7	23.7	21.7	26.8	22.6	28.6	25.8	23.7
13 Other industrialized countries	45.7	50.2	55.5	62.1	65.7	66.4	71.7	73.8	64.5	74.3	72.0
14 Austria	1.1	.9	1.2	1.0	1.1	1.9	1.5	1.7	1.5	1.7	1.9
15 Denmark	1.3	2.6	3.3	1.7	1.5	1.7	2.8	3.7	2.4	2.0	2.1
16 Finland	.9	.8	.6	.6	.8	.7	1.4	1.9	1.3	1.5	1.4
17 Greece	4.5	5.7	5.6	6.1	6.7	6.3	6.1	6.2	5.1	6.1	5.8
18 Norway	2.0	3.2	2.3	3.0	8.0	5.3	4.7	4.6	3.6	4.0	3.4
19 Portugal	1.2	1.3	1.6	1.4	.9	1.0	1.1	1.4	.9	.7	1.3
20 Spain	13.6	11.6	13.6	16.1	13.2	14.4	15.4	13.9	11.7	16.5	15.1
21 Turkey	1.6	1.9	2.3	2.8	2.7	2.8	3.4	4.4	4.5	4.9	6.5
22 Other Western Europe	3.2	4.7	3.4	4.8	4.7	6.3	5.5	6.1	8.2	9.9	9.6
23 South Africa	1.0	1.2	2.0	1.7	2.0	1.9	1.9	1.9	2.2	3.7	5.0
24 Australia	15.4	16.4	19.6	22.8	24.0	24.4	27.8	28.1	23.1	23.2	20.0
25 OPEC ²	24.1	22.1	20.1	19.2	19.7	21.8	22.3	22.9	26.0	25.7	25.3
26 Ecuador	.5	.7	.9	.9	1.1	1.1	.9	1.2	1.3	1.3	1.2
27 Venezuela	3.7	2.7	2.3	2.3	2.4	1.9	2.1	2.2	2.5	3.3	3.2
28 Indonesia	3.8	4.8	4.9	5.4	5.2	4.9	5.6	6.5	6.7	5.5	5.1
29 Middle East countries	15.3	13.3	11.5	10.2	10.7	13.2	12.5	11.8	14.4	14.3	15.5
30 African countries	.9	.6	.5	.4	.4	.7	1.2	1.1	1.2	1.4	.3
31 Non-OPEC developing countries	96.0	112.6	126.5	124.4	130.3	128.1	140.6	137.0	138.7	145.8	144.3
<i>Latin America</i>											
32 Argentina	11.2	12.9	14.1	15.0	14.3	14.3	16.4	17.1	18.4	19.3	20.2
33 Brazil	8.4	13.7	21.7	17.8	20.7	22.0	27.3	26.1	28.6	32.4	29.9
34 Chile	6.1	6.8	6.7	6.6	7.0	6.8	7.6	8.0	8.7	9.0	9.1
35 Colombia	2.6	2.9	2.8	3.1	4.1	3.7	3.3	3.4	3.4	3.3	3.6
36 Mexico	18.4	17.3	15.4	16.3	16.2	17.2	16.6	16.4	17.4	17.7	17.9
37 Peru	.5	.8	1.2	1.3	1.6	1.6	1.4	1.8	2.0	2.1	2.2
38 Other	2.7	2.8	3.0	3.0	3.3	3.4	3.4	3.6	4.1	4.0	4.4
<i>Asia</i>											
39 China											
40 Mainland	1.1	1.8	2.9	2.6	2.5	2.7	3.6	4.3	3.2	4.2	3.9
41 Taiwan	9.2	9.4	9.8	10.4	10.3	10.5	10.6	9.7	9.0	11.7	11.3
42 India	4.2	4.4	4.2	3.8	4.3	4.9	5.3	4.9	4.9	5.0	4.9
43 Israel	.4	.5	.6	.5	.5	.6	.8	1.0	.7	.7	.9
44 Korea (South)	16.2	19.1	21.7	21.9	21.5	14.6	16.3	16.2	15.6	14.6	14.5
45 Malaysia	3.1	4.4	5.3	5.5	6.0	6.5	6.4	5.6	5.1	4.5	4.7
46 Philippines	3.3	4.1	4.7	5.4	5.8	6.0	7.0	5.7	5.7	5.0	5.4
47 Thailand	2.1	4.9	5.4	4.8	5.7	6.8	7.3	6.2	5.4	5.5	4.9
48 Other Asia	4.7	4.5	4.8	4.1	4.1	4.3	4.7	4.5	4.3	4.2	3.7
<i>Africa</i>											
49 Egypt	.3	.4	.5	.6	.7	.9	1.1	.9	.9	1.0	1.5
50 Morocco	.6	.7	.8	.7	.7	.6	.7	.7	.6	.6	.6
51 Zaire	.0	.0	.0	.0	.1	.0	.0	.0	.0	.0	.0
52 Other Africa ³	.8	.9	.8	1.0	.9	.9	.9	.9	.8	1.1	.8
53 Eastern Europe	2.7	4.2	5.1	5.3	6.9	8.9	7.1	9.8	9.1	9.9	10.9
54 Russia ⁴	.8	1.0	1.0	1.8	3.7	3.5	4.2	5.1	5.1	5.3	6.8
55 Other	1.9	3.2	4.1	3.5	3.2	5.4	2.9	4.7	4.0	4.6	4.1
56 Offshore banking centers	72.9	99.2	106.1	105.2	134.7	131.3	129.6	138.9	145.7	129.3	123.6
57 Bahamas	10.2	11.0	17.3	14.2	20.3	20.9	16.1	19.8	29.9	29.2	22.8
58 Bermuda	8.4	6.3	4.1	4.0	4.5	6.7	7.9	9.8	9.8	9.0	9.2
59 Cayman Islands and other British West Indies	21.4	32.4	26.1	32.0	37.2	32.8	35.1	45.7	43.4	24.9	34.0
60 Netherlands Antilles	1.6	10.3	13.2	11.7	26.1	19.9	15.8	21.7	14.6	14.0	10.6
61 Panama ⁵	1.3	1.4	1.7	1.7	2.0	2.0	2.6	2.1	3.1	3.2	3.3
62 Lebanon	.1	.1	.1	.1	.1	.1	.1	.1	.1	.1	.1
63 Hong Kong, China	20.0	25.0	27.6	26.0	27.9	30.8	35.2	27.2	32.2	33.8	30.0
64 Singapore	10.1	13.1	15.9	15.5	16.7	17.9	16.7	12.7	12.7	15.0	13.5
65 Other ⁶	.1	.1	.1	.1	.1	.1	.3	.1	.1	.1	.2
66 Miscellaneous and unallocated ⁷	66.9	57.6	72.7	50.0	59.6	59.6	57.6	80.8	99.1	96.7	95.6

1. The banking offices covered by these data include U.S. offices and foreign branches of U.S. banks, including U.S. banks that are subsidiaries of foreign banks. Offices not covered include U.S. agencies and branches of foreign banks. Beginning March 1994, the data include large foreign subsidiaries of U.S. banks. The data also include other types of U.S. depository institutions as well as some types of brokers and dealers. To eliminate 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.

These data are on a gross claims basis and do not necessarily reflect the ultimate country risk or exposure of U.S. banks. More complete data on the country risk exposure of U.S. banks are available in the quarterly Country Exposure Lending Survey published by the Federal Financial Institutions Examination Council.

2. 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).

3. Excludes Liberia. Beginning March 1994 includes Namibia.

4. As of December 1992, excludes other republics of the former Soviet Union.

5. Includes Canal Zone.

6. Foreign branch claims only.

7. Includes New Zealand, Liberia, and international and regional organizations.

3.22 LIABILITIES TO UNAFFILIATED FOREIGNERS Reported by Nonbanking Business Enterprises in the United States

Millions of dollars, end of period

Type of liability, and area or country	1994	1995	1996	1996	1997				1998
				Dec.	Mar.	June	Sept.	Dec.	Mar.
1 Total	54,309	46,448	54,798	54,798	58,667	56,501 ^r	55,891 ^r	59,618 ^r	56,741
2 Payable in dollars	38,298	33,903	38,956	38,956	39,861	38,651	39,746	41,888	42,237
3 Payable in foreign currencies	16,011	12,545	15,842	15,842	18,806	17,850 ^r	16,145 ^r	17,730 ^r	14,504
By type									
4 Financial liabilities	32,954	24,241	26,065	26,065	29,633	28,263 ^r	26,461 ^r	29,113 ^r	26,751
5 Payable in dollars	18,818	12,903	11,327	11,327	11,847	11,442	11,487	12,975	13,547
6 Payable in foreign currencies	14,136	11,338	14,738	14,738	17,786	16,821 ^r	14,974 ^r	16,138 ^r	13,204
7 Commercial liabilities	21,355	22,207	28,733	28,733	29,034	28,238	29,430	30,505	29,990
8 Trade payables	10,005	11,013	12,720	12,720	11,432	11,040	10,885	10,904	10,107
9 Advance receipts and other liabilities	11,350	11,194	16,013	16,013	17,602	17,198	18,545	19,601	19,883
10 Payable in dollars	19,480	21,000	27,629	27,629	28,014	27,209	28,259	28,913	28,690
11 Payable in foreign currencies	1,875	1,207	1,104	1,104	1,020	1,029	1,171	1,592	1,300
By area or country									
Financial liabilities									
12 Europe	21,703	15,622	16,195	16,195	20,081	18,530	18,019	19,238 ^r	19,008
13 Belgium and Luxembourg	495	369	632	632	769	238	89	186	127
14 France	1,727	999	1,091	1,091	1,205	1,280	1,334	1,684	1,795
15 Germany	1,961	1,974	1,834	1,834	1,589	1,765	1,730	2,018	2,578
16 Netherlands	532	466	556	556	507	466	507	494	472
17 Switzerland	688	895	699	699	694	591	645	776	345
18 United Kingdom	15,543	10,138	10,177	10,177	13,863	12,968	12,165	12,318 ^r	11,846
19 Canada	629	632	1,401	1,401	602	1,616 ^r	651 ^r	2,392 ^r	1,045
20 Latin America and Caribbean	2,034	1,783	1,668	1,668	1,876	1,285	1,067	1,386	965
21 Bahamas	101	59	236	236	293	124	10	141	17
22 Bermuda	80	147	50	50	27	55	64	229	86
23 Brazil	207	57	78	78	75	97	52	143	91
24 British West Indies	998	866	1,030	1,030	965	775	669	604	517
25 Mexico	0	12	17	17	16	15	76	26	21
26 Venezuela	5	2	1	1	1	1	1	1	1
27 Asia	8,403	5,988	6,423	6,423	6,370	6,248	6,239	5,394	5,024
28 Japan	7,314	5,436	5,869	5,869	5,794	5,668	5,725	5,085	4,767
29 Middle Eastern oil-exporting countries ¹	35	27	25	25	72	39	23	32	23
30 Africa	135	150	38	38	29	29	33	60	33
31 Oil-exporting countries ²	123	122	0	0	0	0	0	0	0
32 All other ³	50	66	340	340	675	555	452	643	676
Commercial liabilities									
33 Europe	6,773	7,700	9,767	9,767	9,524	8,683	9,343	10,228	9,951
34 Belgium and Luxembourg	241	331	479	479	639	736	703	666	565
35 France	728	481	680	680	679	708	782	764	840
36 Germany	604	767	1,002	1,002	1,043	845	945	1,274	1,068
37 Netherlands	722	500	766	766	551	288	452	439	443
38 Switzerland	327	413	624	624	480	429	400	375	407
39 United Kingdom	2,444	3,568	4,303	4,303	4,158	3,818	3,829	4,086	4,041
40 Canada	1,037	1,040	1,090	1,090	1,068	1,136	1,150	1,175	1,347
41 Latin America and Caribbean	1,857	1,740	2,574	2,574	2,562	2,500	2,224	2,176	2,051
42 Bahamas	19	1	63	63	43	33	38	16	27
43 Bermuda	345	205	297	297	479	397	180	203	174
44 Brazil	161	98	196	196	200	225	233	220	249
45 British West Indies	23	56	14	14	14	26	23	12	5
46 Mexico	574	416	665	665	633	594	562	565	520
47 Venezuela	276	221	328	328	318	304	322	261	219
48 Asia	10,741	10,421	13,422	13,422	13,915	13,875	14,628	14,966	14,672
49 Japan	4,555	3,315	4,614	4,614	4,465	4,430	4,553	4,500	4,372
50 Middle Eastern oil-exporting countries ¹	1,576	1,912	2,168	2,168	2,495	2,420	2,984	3,111	3,138
51 Africa	428	619	1,040	1,040	1,037	941	929	874	833
52 Oil-exporting countries ²	256	254	532	532	479	423	504	408	376
53 Other ³	519	687	840	840	928	1,103	1,156	1,086	1,136

1. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).

2. Comprises Algeria, Gabon, Libya, and Nigeria.

3. Includes nonmonetary international and regional organizations.

3.23 CLAIMS ON UNAFFILIATED FOREIGNERS Reported by Nonbanking Business Enterprises in the United States

Millions of dollars, end of period

Type of claim, and area or country	1994	1995	1996	1996	1997				1998
				Dec.	Mar.	June	Sept.	Dec.	Mar.
1 Total	57,888	52,509	63,642	63,642	68,102	68,266	70,760	70,077	72,837
2 Payable in dollars	53,805	48,711	58,630	58,630	62,126	62,082	64,144	62,173	65,359
3 Payable in foreign currencies	4,083	3,798	5,012	5,012	5,976	6,184	6,616	7,904	7,478
<i>By type</i>									
4 Financial claims	33,897	27,398	35,268	35,268	40,547	40,717	42,059	38,908	42,134
5 Deposits	18,507	15,133	21,404	21,404	22,150	24,308 ^f	24,125 ^f	23,139	21,030
6 Payable in dollars	18,026	14,654	20,631	20,631	20,499	22,817 ^f	22,566 ^f	21,290	19,322
7 Payable in foreign currencies	481	479	773	773	1,651	1,491	1,559	1,849	1,708
8 Other financial claims	15,390	12,265	13,864	13,864	18,397	16,409 ^g	17,934 ^f	15,769	21,104
9 Payable in dollars	14,306	10,976	12,069	12,069	15,381	13,152 ^f	14,621 ^f	11,576	16,814
10 Payable in foreign currencies	1,084	1,289	1,795	1,795	3,016	3,257	3,313	4,193	4,290
11 Commercial claims	23,991	25,111	28,374	28,374	27,555	27,549	28,701	31,169	30,703
12 Trade receivables	21,158	22,998	25,751	25,751	24,801	24,858	25,110	27,536	26,888
13 Advance payments and other claims	2,833	2,113	2,623	2,623	2,754	2,691	3,591	3,633	3,815
14 Payable in dollars	21,473	23,081	25,930	25,930	26,246	26,113	26,957	29,307	29,223
15 Payable in foreign currencies	2,518	2,030	2,444	2,444	1,309	1,436	1,744	1,862	1,480
<i>By area or country</i>									
<i>Financial claims</i>									
16 Europe	7,936	7,609	9,282	9,282	13,076	12,904	15,862	16,948	16,020
17 Belgium and Luxembourg	86	193	185	185	119	203	360	406	378
18 France	800	803	694	694	760	680	1,112	1,015	902
19 Germany	540	436	276	276	324	281	352	427	393
20 Netherlands	429	517	493	493	567	519	764	677	911
21 Switzerland	523	498	474	474	570	447	448	434	401
22 United Kingdom	4,649	4,303	6,119	6,119	9,837	9,814	11,254	12,286	11,122
23 Canada	3,581	2,851	3,445	3,445	4,917	6,422	4,279	3,313	4,688
24 Latin America and Caribbean	19,536	14,500	19,577	19,577	19,742	18,725	19,176	15,543	18,207
25 Bahamas	2,424	1,965	1,452	1,452	1,894	2,064	2,442	2,459	1,316
26 Bermuda	27	81	140	140	157	188	190	108	66
27 Brazil	520	830	1,468	1,468	1,404	1,617	1,501	1,313	1,408
28 British West Indies	15,228	10,393	15,182	15,182	15,176	13,553	12,957	10,311	13,551
29 Mexico	723	554	457	457	517	497	508	537	967
30 Venezuela	35	32	31	31	22	21	15	36	47
31 Asia	1,871	1,579	2,221	2,221	2,068	1,934	2,015	2,133	2,174
32 Japan	953	871	1,035	1,035	831	766	999	823	791
33 Middle Eastern oil-exporting countries ¹	141	3	22	22	12	20	15	11	9
34 Africa	373	276	174	174	182	179	174	319	325
35 Oil-exporting countries ²	0	5	14	14	14	15	16	15	16
36 All other ³	600	583	569	569	562	553	553	652	720
<i>Commercial claims</i>									
37 Europe	9,540	9,824	10,443	10,443	9,863	9,603	10,486	12,120	12,854
38 Belgium and Luxembourg	213	231	226	226	364	327	331	328	232
39 France	1,881	1,830	1,644	1,644	1,514	1,377	1,642	1,796	1,939
40 Germany	1,027	1,070	1,337	1,337	1,364	1,229	1,395	1,614	1,670
41 Netherlands	311	452	562	562	582	613	573	597	534
42 Switzerland	557	520	642	642	418	389	381	554	476
43 United Kingdom	2,556	2,656	2,946	2,946	2,626	2,836	2,904	3,660	4,828
44 Canada	1,988	1,951	2,165	2,165	2,381	2,464	2,649	2,660	2,882
45 Latin America and Caribbean	4,117	4,364	5,276	5,276	5,067	5,241	5,028	5,750	5,481
46 Bahamas	9	30	35	35	40	29	22	27	13
47 Bermuda	234	272	275	275	159	197	128	244	238
48 Brazil	612	898	1,303	1,303	1,216	1,136	1,101	1,162	1,128
49 British West Indies	83	79	190	190	127	98	98	109	88
50 Mexico	1,243	993	1,128	1,128	1,102	1,140	1,219	1,392	1,302
51 Venezuela	348	285	357	357	330	451	418	576	441
52 Asia	6,982	7,312	8,376	8,376	8,348	8,460	8,576	8,713	7,638
53 Japan	2,655	1,870	2,003	2,003	2,065	2,079	2,048	1,976	1,713
54 Middle Eastern oil-exporting countries ¹	708	974	971	971	1,078	1,014	987	1,107	987
55 Africa	454	654	746	746	718	618	764	680	613
56 Oil-exporting countries ²	67	87	166	166	100	81	207	119	122
57 Other ³	910	1,006	1,368	1,368	1,178	1,163	1,198	1,246	1,235

1. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).

2. Comprises Algeria, Gabon, Libya, and Nigeria.

3. Includes nonmonetary international and regional organizations.

3.24 FOREIGN TRANSACTIONS IN SECURITIES

Millions of dollars

Transaction, and area or country	1996	1997 ^f	1998	1998						
			Jan. – July	Jan. ^f	Feb. ^f	Mar. ^f	Apr. ^f	May ^f	June	July ^p
			U.S. corporate securities							
STOCKS										
1 Foreign purchases	590,714	1,097,958	906,034	100,282	106,988	136,184	134,177	129,528	146,113	152,762
2 Foreign sales	578,203	1,028,361	859,226	93,156	97,501	122,769	130,628	121,355	143,579	150,238
3 Net purchases, or sales (–)	12,511	69,597	46,808	7,126	9,487	13,415	3,549	8,173	2,534	2,524
4 Foreign countries	12,585	69,754	47,134	7,178	9,477	13,419	3,570	8,193	2,559	2,738
5 Europe	5,367	62,688	57,086	7,487	9,088	11,144	5,511	10,670	6,204	6,982
6 France	–2,402	6,641	4,206	1,467	–40	1,480	–260	650	710	199
7 Germany	1,104	9,059	7,751	546	768	627	1,453	1,834	1,020	1,503
8 Netherlands	1,415	3,831	4,130	613	140	557	161	564	830	1,265
9 Switzerland	2,715	7,848	9,562	683	1,132	1,956	974	2,234	1,491	1,092
10 United Kingdom	4,478	22,478	16,207	2,818	4,576	3,402	595	2,968	695	1,153
11 Canada	2,226	–1,406	–2,643	–254	–461	566	55	–506	–1,600	–443
12 Latin America and Caribbean	5,816	5,203	3,081	2,645	2,183	2,110	–3,689	–1,333	1,798	–633
13 Middle East ¹	–1,600	383	–343	–164	–273	–170	346	–234	286	–134
14 Other Asia	918	2,072	–9,735	–2,686	–944	–202	1,563	–611	–3,950	–2,905
15 Japan	–372	4,787	–3,700	–1,112	–667	–1,422	555	–208	–540	–306
16 Africa	–85	472	744	34	13	83	128	275	206	5
17 Other countries	–57	342	–1,056	116	–129	–112	–344	–68	–385	–134
18 Nonmonetary international and regional organizations	–74	–157	–326	–52	10	–4	–21	–20	–25	–214
BONDS ²										
19 Foreign purchases	393,953	610,116	483,123	57,548	67,420	70,079	76,452	65,495	74,088	72,041
20 Foreign sales	268,487	475,958	364,768	44,394	49,991	50,208	52,225	52,584	53,158	62,208
21 Net purchases, or sales (–)	125,466	134,158	118,355	13,154	17,429	19,871	24,227	12,911	20,930	9,833
22 Foreign countries	125,295	133,595	117,905	13,122	17,360	19,732	24,097	12,853	20,831	9,910
23 Europe	77,570	71,631	70,730	5,425	8,253	12,669	19,024	5,555	12,117	7,687
24 France	4,460	3,300	2,207	74	272	727	33	–17	667	451
25 Germany	4,439	2,742	3,665	289	419	249	1,727	–133	302	812
26 Netherlands	2,107	3,576	1,637	–433	199	364	523	532	344	108
27 Switzerland	1,170	187	3,586	760	266	358	772	794	404	232
28 United Kingdom	60,509	54,134	51,515	4,172	6,194	9,833	14,346	4,585	8,696	3,689
29 Canada	4,486	6,264	4,161	1,409	114	400	363	628	607	640
30 Latin America and Caribbean	17,737	34,733	33,042	5,339	5,514	4,835	2,256	6,703	6,368	2,027
31 Middle East ¹	1,679	2,155	1,931	78	820	522	69	109	162	171
32 Other Asia	23,762	16,996	6,729	485	2,428	1,166	2,078	–106	1,266	–588
33 Japan	14,173	9,357	4,050	–958	886	742	2,904	460	527	–511
34 Africa	624	1,005	154	142	36	–72	45	–31	82	–48
35 Other countries	–563	811	1,158	244	195	212	262	–5	229	21
36 Nonmonetary international and regional organizations	171	563	450	32	69	139	130	58	99	–77
Foreign securities										
37 Stocks, net purchases, or sales (–)	–59,268	–40,942	–6,999	88	–1,209	–1,689	–137	–3,393	2,529	–3,188
38 Foreign purchases	450,365	756,015	545,979	63,632	68,832	81,360	80,736	80,941	88,443	82,035
39 Foreign sales	509,633	796,957	552,978	63,544	70,041	83,049	80,873	84,334	85,223	85,223
40 Bonds, net purchases, or sales (–)	–51,369	–48,171	–31,959	–99	–5,003	–4,559	–12,158	–1,882	–11,334	3,076
41 Foreign purchases	1,114,035	1,451,704	828,211	100,712	100,043	128,396	118,296	110,403	151,474	118,887
42 Foreign sales	1,165,404	1,499,875	860,170	100,811	105,046	132,955	130,454	112,285	162,808	115,811
43 Net purchases, or sales (–), of stocks and bonds	–110,637	–89,113	–38,958	–11	–6,212	–6,248	–12,295	–5,275	–8,805	–112
44 Foreign countries	–109,766	–88,921	–38,906	78	–6,170	–6,220	–12,331	–5,443	–8,779	–41
45 Europe	–57,139	–29,874	–10,792	–4,069	–2,587	2,898	–1,457	–2,035	–6,218	2,676
46 Canada	–7,685	–3,085	588	1,030	742	–1,783	–475	–1,335	214	2,195
47 Latin America and Caribbean	–11,507	–25,258	–12,608	875	527	618	–6,108	–1,092	–2,555	–4,873
48 Asia	–27,831	–25,123	–14,259	2,289	–4,800	–7,902	–3,520	–779	517	–64
49 Japan	–5,887	–10,001	–7,511	2,961	–3,584	–7,118	1,265	–681	–38	–316
50 Africa	–1,517	–3,293	–1,080	–99	–146	–152	–302	–79	–33	–269
51 Other countries	–4,087	–2,288	–755	52	94	101	–469	–123	–704	294
52 Nonmonetary international and regional organizations	–871	–192	–52	–89	–42	–28	36	168	–26	–71

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.

3.25 MARKETABLE U.S. TREASURY BONDS AND NOTES Foreign Transactions¹

Millions of dollars; net purchases, or sales (–) during period

Area or country	1996	1997	1998	1998						
			Jan. – July	Jan.	Feb.	Mar.	Apr.	May	June	July ^P
1 Total estimated	232,241	184,171	37,171	5,512	9,959 ^r	–4,091	6,078	21,267	1,688	–3,242
2 Foreign countries	234,083	183,688	36,378	4,990	10,093 ^r	–5,287	6,769	21,116	1,992	–3,295
3 Europe	118,781	144,921	26,405	18,215	6,798	–857	6,530	788	714	–5,783
4 Belgium and Luxembourg	1,429	3,427	972	304	252	704	–165	176	–513	214
5 Germany	17,980	22,471	–163	–1,085	1,096	1,897	–829	–143	–1,181	82
6 Netherlands	–582	1,746	–1,185	403	–792	–1,733	130	341	731	–265
7 Sweden	2,242	–465	608	82	–430	400	–202	184	335	239
8 Switzerland	328	6,028	2,039	2,419	1,690	170	–483	44	–974	–827
9 United Kingdom	65,658	98,253	10,040	11,879	5,875	–3,705	5,785	–2,720	–1,426	–5,648
10 Other Europe and former U.S.S.R.	31,726	13,461	14,094	4,213	–893	1,410	2,294	2,906	3,742	422
11 Canada	2,331	–811	345	–1	266	–517	1,457	–223	–66	–571
12 Latin America and Caribbean	20,785	–2,554	5,724	–3,619	2,125 ^r	–8,383	–7,981	20,033	2,593	956
13 Venezuela	–69	655	793	4	99 ^r	–128	14	–339	693	450
14 Other Latin America and Caribbean	8,439	–549	9,522	1,711	2,949	–11	–632	–335	3,528	2,312
15 Netherlands Antilles	12,415	–2,660	–4,591	–5,334	–923	–8,244	–7,363	20,707	–1,628	–1,806
16 Asia	89,735	39,567	5,919	–8,757	1,348	3,522	7,966	1,455	–1,153	1,538
17 Japan	41,366	20,360	327	–6,484	764	–168	6,301	1,582	–2,442	774
18 Africa	1,083	1,524	404	–43	176	154	–18	13	145	–23
19 Other	1,368	1,041	–2,419	–805	–620	794	–1,185	–950	–241	588
20 Nonmonetary international and regional organizations	–1,842	483	793	522	–134	1,196	–691	151	–304	53
21 International	–1,390	621	445	–223	900	–715	136	–226	47	47
22 Latin American regional	–779	170	200	32	–29	10	–4	–1	0	192
MEMO										
23 Foreign countries	234,083	183,688	36,378	4,990	10,093 ^r	–5,287	6,769	21,116	1,992	–3,295
24 Official institutions	85,807	43,959	5,224	–1,189	1,242	6,133	1,162	898	–3,486 ^r	464
25 Other foreign	148,276	139,729	31,154	6,179	8,851 ^r	–11,420	5,607	20,218	5,478 ^r	–3,759
Oil-exporting countries										
26 Middle East ²	10,232	7,636	–4,062	–2,411	409	1,325	–380	951	–1,388	–2,568
27 Africa ³	1	–12	1	1	0	0	0	0	0	0

1. Official and private transactions in marketable U.S. Treasury securities having an original maturity of more than one year. Data are based on monthly transactions reports. Excludes nonmarketable U.S. Treasury bonds and notes held by official institutions of foreign countries.

2. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).

3. Comprises Algeria, Gabon, Libya, and Nigeria.

3.26 DISCOUNT RATES OF FOREIGN CENTRAL BANKS¹

Percent per year, averages of daily figures

Country	Rate on Sept. 30, 1998		Country	Rate on Sept. 30, 1998	
	Percent	Month effective		Percent	Month effective
Austria	2.5	Apr. 1996	Germany	2.5	Apr. 1996
Belgium	2.75	Oct. 1997	Italy	5.0	Apr. 1998
Canada	5.75	Sept. 1998	Japan	.5	Sept. 1995
Denmark	4.25	Sept. 1998	Netherlands	2.5	Apr. 1996
France ²	3.3	Oct. 1997	Switzerland	1.0	Sept. 1996

1. Rates shown are mainly those at which the central bank either discounts or makes advances against eligible commercial paper or government securities for 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 that the central bank transacts the largest proportion of its credit operations.

2. Since February 1981, the rate has been that at which the Bank of France discounts Treasury bills for seven to ten days.

3.27 FOREIGN SHORT-TERM INTEREST RATES¹

Percent per year, averages of daily figures

Type or country	1995	1996	1997	1998						
				Mar.	Apr.	May	June	July	Aug.	Sept.
1 Eurodollars	5.93	5.38	5.61	5.56	5.56	5.57	5.57	5.57	5.56	5.39
2 United Kingdom	6.63	5.99	6.81	7.47	7.41	7.37	7.61	7.67	7.61	7.35
3 Canada	7.14	4.49	3.59	4.93	4.94	5.09	5.10	5.10	5.35	5.66
4 Germany	4.43	3.21	3.24	3.44	3.56	3.55	3.49	3.46	3.42	3.40
5 Switzerland	2.94	1.92	1.58	1.06	1.39	1.52	1.81	1.98	1.68	1.43
6 Netherlands	4.30	2.91	3.25	3.42	3.52	3.53	3.51	3.46	3.43 ^r	3.33
7 France	6.43	3.81	3.35	3.45	3.50	3.50	3.47	3.44	3.44	3.43
8 Italy	10.43	8.79	6.86	5.59	5.09	4.98	4.99	4.75	4.78	4.86
9 Belgium	4.73	3.19	3.40	3.61	3.69	3.67	3.62	3.59	3.48	3.42
10 Japan	1.20	.58	.58	.74	.66	.56	.57	.67	.69	.45

1. Rates are for three-month interbank loans, with the following exceptions: Canada, finance company paper; Belgium, three-month Treasury bills; and Japan, CD rate.

3.28 FOREIGN EXCHANGE RATES AND INDEXES OF THE FOREIGN EXCHANGE VALUE OF THE U.S. DOLLAR¹

Currency units per dollar except as noted

Item	1995	1996	1997	1998					
				Apr.	May	June	July	Aug.	Sept.
	Exchange Rates								
COUNTRY/CURRENCY UNIT									
1 Australia/dollar ²	74.07	78.28	74.37	65.23	63.12	60.46	61.80	58.88	58.89
2 Austria/schilling	10.076	10.589	12.206	12.760	12.491	12.615	12.650	12.574	11.955
3 Belgium/franc	29.47	30.97	35.81	37.42	36.62	36.98	37.07	36.85	35.05
4 Brazil/real	0.9162	1.0051	1.0779	1.1409	1.1475	1.1543	1.1614	1.1717	1.1805
5 Canada/dollar	1.3725	1.3638	1.3849	1.4298	1.4452	1.4655	1.4869	1.5346	1.5218
6 China, P.R./yuan	8.3700	8.3389	8.3193	8.3058	8.3084	8.3100	8.3100	8.3100	8.3055
7 Denmark/krone	5.5999	5.8003	6.6092	6.9174	6.7662	6.8294	6.8499	6.8067	6.4717
8 Finland/markka	4.3763	4.5948	5.1956	5.5053	5.3966	5.4503	5.4653	5.4340	5.1734
9 France/franc	4.9864	5.1158	5.8393	6.0782	5.9528	6.0118	6.0280	5.9912	5.6969
10 Germany/deutsche mark	1.4321	1.5049	1.7348	1.8132	1.7753	1.7928	1.7976	1.7869	1.6990
11 Greece/drachma	231.68	240.82	273.28	315.82	307.22	304.24	299.35	301.21	292.47
12 Hong Kong/dollar	7.7357	7.7345	7.7431	7.7497	7.7490	7.7471	7.7483	7.7494	7.7480
13 India/rupee	32.42	35.51	36.36	39.70	40.47	42.37	42.61	42.84	42.58
14 Ireland/pound ²	160.35	159.95	151.63	138.94	141.74	140.51	139.88	140.37	147.24
15 Italy/lira	1,629.45	1,542.76	1,703.81	1,791.24	1,750.79	1,766.32	1,772.42	1,763.01	1,678.92
16 Japan/yen	93.96	108.78	121.06	131.75	134.90	140.33	140.79	144.68	134.48
17 Malaysia/ringgit	2.5073	2.5154	2.8173	3.7376	3.8204	4.0006	4.1591	4.2036	3.8050
18 Mexico/peso	6.447	7.600	7.918	8.502	8.585	8.920	8.899	9.371	10.219
19 Netherlands/guilder	1.6044	1.6863	1.9525	2.0422	2.0005	2.0208	2.0267	2.0148	1.9169
20 New Zealand/dollar ²	65.63	68.77	66.25	55.34	53.88	51.23	51.85	50.11	50.44
21 Norway/krone	6.3355	6.4594	7.0857	7.5315	7.4539	7.5785	7.6246	7.7248	7.5564
22 Portugal/escudo	149.88	154.28	175.44	185.81	181.87	183.58	183.93	182.99	174.19
23 Singapore/dollar	1.4171	1.4100	1.4857	1.6007	1.6374	1.6941	1.7085	1.7571	1.7226
24 South Africa/rand	3.6284	4.3011	4.6072	5.0459	5.0927	5.3910	6.2285	6.3198	6.0966
25 South Korea/won	772.69	805.00	950.77	1,391.55	1,399.05	1,397.77	1,295.76	1,314.29	1,375.54
26 Spain/peseta	124.64	126.68	146.53	153.99	150.81	152.18	152.58	151.72	144.33
27 Sri Lanka/rupee	51.047	55.289	59.026	62.903	64.261	65.150	65.908	66.642	66.260
28 Sweden/krona	7.1406	6.7082	7.6446	7.8238	7.7026	7.9174	7.9942	8.1282	7.8816
29 Switzerland/franc	1.1812	1.2361	1.4514	1.5051	1.4790	1.4949	1.5136	1.4933	1.4000
30 Taiwan/dollar	26.496	27.468	28.775	33.016	33.466	34.553	34.387	34.731	34.646
31 Thailand/baht	24.921	25.359	31.072	39.654	39.198	42.332	41.300	41.720	40.402
32 United Kingdom/pound ²	157.85	156.07	163.76	167.23	163.82	165.04	164.37	163.42	168.23
33 Venezuela/bolivar	174.85	417.19	488.39	531.26	537.26	543.82	558.47	571.88	583.85
	Indexes ³								
NOMINAL									
34 G-10 (March 1973=100) ⁴	84.25	87.34	96.38 ¹	100.30	99.61	100.90	101.38	101.80	97.17
35 Broad (January 1997=100) ⁵	92.53	97.41	104.47	114.13	115.16	117.87	118.17	120.14	118.85
36 Major currency (March 1973=100) ⁶	81.40	85.22	91.85	96.41	96.88	98.68	99.31	100.96	96.99
37 Other important trading partner (January 1997=100) ⁷	92.55	98.26	104.67	120.53	122.28	125.97	125.64	127.77	131.38
REAL									
38 Broad (March 1973=100) ⁵	85.87	87.85	92.55	99.08	99.82	102.13	102.52	102.86	101.58
39 Major currency (March 1973=100) ⁶	80.78	85.83	93.20	98.06	98.40	100.41	101.41	103.17	99.26
40 Other important trading partner (March 1973=100) ⁷	101.32	98.33	99.48	108.96	110.34	113.29	112.82	111.13	113.59

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) monthly statistical release. For ordering address, see inside front cover.

2. Value in U.S. cents.

3. For more information on the indexes of the foreign exchange value of the dollar, see *Federal Reserve Bulletin*, vol. 84 (October 1998), pp. 811-818.

4. Weighted average of the foreign exchange value of the U.S. dollar against the currencies of the other G-10 countries. The weight for each of the ten countries is the 1972-76 average world trade of that country divided by the average world trade of all ten countries combined. Series revised as of August 1978 (see *Federal Reserve Bulletin*, vol. 64 (August 1978), p. 700).

5. Weighted average of the foreign exchange value of the U.S. dollar against the currencies of a broad group of U.S. trading partners. The weight for each currency is computed as an

average of U.S. bilateral import shares from and export shares to the issuing country and of a measure of the importance to U.S. exporters of that country's trade in third country markets.

6. Weighted average of the foreign exchange value of the U.S. dollar against a subset of broad index currencies that circulate widely outside the country of issue. The weight for each currency is its broad index weight scaled so that the weights of the subset of currencies in the index sum to one.

7. Weighted average of the foreign exchange value of the U.S. dollar against a subset of broad index currencies that do not circulate widely outside the country of issue. The weight for each currency is its broad index weight scaled so that the weights of the subset of currencies in the index sum to one.

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4.20 DOMESTIC AND FOREIGN OFFICES Insured Commercial Bank Assets and Liabilities Consolidated Report of Condition, June 30, 1998

Millions of dollars except as noted

Item	Total	Domestic total	Banks with foreign offices ¹		Banks with domestic offices only ²	
			Total	Domestic	Over 100	Under 100
1 Total assets³	5,145,464	4,419,405	3,452,551	2,726,492	1,407,026	285,887
2 Cash and balances due from depository institutions	330,213	245,194	247,600	162,580	68,247	14,366
3 Cash items in process of collection, unposted debits, and currency and coin	↑	↑	120,646	117,949	36,487	↑
4 Cash items in process of collection and unposted debits	↑	↑	n.a.	93,151	24,541	↑
5 Currency and coin	↑	↑	n.a.	24,799	11,946	↑
6 Balances due from depository institutions in the United States	n.a.	n.a.	33,593	21,373	20,781	n.a.
7 Balances due from banks in foreign countries and foreign central banks	↑	↑	77,341	7,534	2,696	↑
8 Balances due from Federal Reserve Banks	↑	↑	16,020	15,725	8,283	↑
MEMO						
9 Non-interest-bearing balances due from commercial banks in the United States (included in balances due from depository institutions in the United States)	↓	32,678	n.a.	11,910	15,309	5,459
10 Total securities, held-to-maturity (amortized cost) and available-for-sale (fair value)	882,082	↑	482,043	↑	324,676	75,363
11 U.S. Treasury securities	145,891	↑	75,571	↑	55,197	15,123
12 U.S. government agency and corporation obligations (excludes mortgage-backed securities)	155,143	↑	43,897	↑	81,746	29,500
13 Issued by U.S. government agencies	5,509	↑	2,521	↑	2,150	838
14 Issued by U.S. government-sponsored agencies	149,634	↑	41,377	↑	79,596	28,662
15 Securities issued by states and political subdivisions in the United States	79,871	↑	22,832	↑	43,398	13,642
16 General obligations	59,207	↑	16,154	↑	33,156	9,897
17 Revenue obligations	19,901	↑	6,162	↑	10,043	3,696
18 Industrial development and similar obligations	763	↑	515	↑	199	48
19 Mortgage-backed securities (MBS)	389,133	↑	249,897	↑	124,734	14,502
20 Pass-through securities	249,472	n.a.	165,972	n.a.	74,152	9,348
21 Guaranteed by GNMA	71,969	↑	47,173	↑	21,707	3,089
22 Issued by FNMA and FHLMC	175,734	↑	117,534	↑	51,975	6,224
23 Privately issued	1,769	↑	1,265	↑	469	34
24 Other mortgage-backed securities (includes CMOs, REMICs, and stripped MBS)	139,661	↑	83,925	↑	50,583	5,154
25 Issued or guaranteed by FNMA, FHLMC or GNMA	107,144	↑	61,439	↑	40,827	4,878
26 Collateralized by MBS issued or guaranteed by FNMA, FHLMC, or GNMA	2,471	↑	856	↑	1,475	140
27 All other mortgage-backed securities	30,047	↑	21,630	↑	8,281	136
28 Other debt securities	83,767	↑	72,141	↑	10,327	1,299
29 Other domestic debt securities	n.a.	↑	23,134	↑	10,135	n.a.
30 Foreign debt securities	n.a.	↑	49,008	↑	192	n.a.
31 Equity securities	28,276	↑	17,704	↑	9,275	1,297
32 Investments in mutual funds and other equity securities with readily determinable fair value	8,913	↑	6,054	↑	2,476	383
33 All other equity securities	19,364	↑	11,651	↑	6,799	914
34 Federal funds sold and securities purchased under agreements to resell	269,564	188,966	201,563	120,965	52,256	15,744
35 Total loans and lease-financing receivables, gross	3,073,881	2,775,509	2,000,644	1,702,272	901,506	171,732
36 LESS: Unearned income on loans	3,886	3,092	1,666	872	1,617	603
37 Total loans and leases (net of unearned income)	3,069,995	2,772,417	1,998,978	1,701,400	899,888	171,129
38 LESS: Allowance for loan and lease losses	55,986	n.a.	35,869	n.a.	17,662	2,455
39 LESS: Allocated transfer risk reserves	12	n.a.	12	n.a.	0	0
40 EQUALS: Total loans and leases, net	3,013,997	n.a.	1,963,097	n.a.	882,226	168,673
<i>Total loans and leases, gross, by category</i>						
41 Loans secured by real estate	1,275,455	1,246,383	703,881	674,809	475,641	95,932
42 Construction and land development	↑	94,883	↑	46,200	41,475	7,207
43 Farmland	↑	28,316	↑	4,087	12,719	11,510
44 One- to four-family residential properties	↑	735,235	↑	436,227	249,974	49,034
45 Revolving, open-end loans, extended under lines of credit	n.a.	97,138	n.a.	67,701	27,051	2,406
46 All other loans	↑	638,097	↑	368,526	222,944	46,628
47 Multifamily (five or more) residential properties	↑	42,056	↑	22,323	17,668	2,066
48 Nonfarm nonresidential properties	↑	345,893	↑	165,972	153,805	26,116
49 Loans to depository institutions	100,431	72,299	95,844	67,713	4,492	94
50 Commercial banks in the United States	n.a.	n.a.	48,518	47,465	4,203	n.a.
51 Other depository institutions in the United States	n.a.	n.a.	13,810	13,752	41	n.a.
52 Banks in foreign countries	n.a.	n.a.	33,517	6,496	247	n.a.
53 Loans to finance agricultural production and other loans to farmers	46,903	46,150	10,173	9,419	17,332	19,398
54 Commercial and industrial loans	845,481	681,582	662,588	498,690	153,815	29,078
55 U.S. addressees (domicile)	n.a.	n.a.	522,382	492,114	153,106	n.a.
56 Non-U.S. addressees (domicile)	n.a.	n.a.	140,206	6,576	710	n.a.
57 Acceptances of other banks	1,538	749	1,397	608	111	30
58 U.S. banks	n.a.	n.a.	348	346	n.a.	n.a.
59 Foreign banks	n.a.	n.a.	1,050	262	n.a.	n.a.
60 Loans to individuals for household, family, and other personal expenditures (includes purchased paper)	541,599	504,126	291,629	254,157	225,081	24,888
61 Credit cards and related plans	215,988	n.a.	106,636	n.a.	107,919	1,433
62 Other (includes single payment and installment)	325,611	n.a.	184,993	n.a.	117,162	23,455
63 Obligations (other than securities) of states and political subdivisions in the United States (includes nonrated industrial development obligations)	17,800	17,795	10,545	10,540	6,440	814
64 All other loans	135,921	101,048	126,816	91,943	8,238	867
65 Loans to foreign governments and official institutions	n.a.	n.a.	7,580	746	19	n.a.
66 Other loans	n.a.	n.a.	119,236	91,197	8,219	n.a.
67 Loans for purchasing and carrying securities	n.a.	n.a.	n.a.	22,962	1,654	n.a.
68 All other loans (excludes consumer loans)	n.a.	n.a.	n.a.	68,235	6,565	n.a.
69 Lease-financing receivables	108,754	105,377	97,769	94,392	10,356	630
70 Assets held in trading accounts	300,800	↑	299,270	↑	1,491	1
71 Premises and fixed assets (including capitalized leases)	68,087	↑	41,134	↑	21,560	5,393
72 Other real estate owned	4,042	n.a.	2,348	n.a.	1,337	356
73 Investments in unconsolidated subsidiaries and associated companies	6,163	↓	5,706	↓	412	45
74 Customers' liability on acceptances outstanding	13,576	↓	13,332	↓	238	7
75 Net due from own foreign offices, Edge Act and agreement subsidiaries, and IBFs	n.a.	44,935	n.a.	44,935	n.a.	n.a.
76 Intangible assets	75,991	n.a.	57,725	n.a.	17,385	881
77 All other assets	180,948	n.a.	138,733	n.a.	37,196	5,020

4.20 DOMESTIC AND FOREIGN OFFICES Insured Commercial Bank Assets and Liabilities—Continued

Consolidated Report of Condition, June 30, 1998

Millions of dollars except as noted

Item	Total	Domestic total	Banks with foreign offices ¹		Banks with domestic offices only ²	
			Total	Domestic	Over 100	Under 100
78 Total liabilities, limited-life preferred stock, and equity capital	5,145,464	n.a.	3,452,551	n.a.	1,407,026	285,887
79 Total liabilities	4,702,532	3,976,473	3,180,241	2,454,182	1,267,369	254,922
80 Total deposits	3,482,874	2,934,013	2,193,039	1,644,179	1,045,163	244,672
81 Individuals, partnerships, and corporations	3,094,299	2,725,427	1,904,957	1,536,085	968,050	221,292
82 U.S. government	n.a.	4,838	n.a.	3,891	761	186
83 States and political subdivisions in the United States	n.a.	129,346	n.a.	52,560	57,477	19,309
84 Commercial banks in the United States	69,205	37,241	60,017	28,053	8,322	867
85 Other depository institutions in the United States	n.a.	10,460	n.a.	5,676	3,450	1,333
86 Foreign banks, governments, and official institutions	147,749	10,148	147,290	9,689	444	16
87 Banks	n.a.	n.a.	102,351	7,831	415	n.a.
88 Governments and official institutions	n.a.	n.a.	44,939	1,858	28	n.a.
89 Certified and official checks	17,572	16,554	9,242	8,224	6,660	1,670
90 Total transaction accounts	↑	737,746	↑	419,529	248,343	69,874
91 Individuals, partnerships, and corporations	↑	636,420	↑	358,586	217,049	60,785
92 U.S. government	↑	1,607	↑	1,057	446	104
93 States and political subdivisions in the United States	↑	41,956	↑	17,770	17,282	6,904
94 Commercial banks in the United States	↑	28,339	↑	22,409	5,622	308
95 Other depository institutions in the United States	↑	3,577	↑	2,596	888	93
96 Foreign banks, governments, and official institutions	↑	9,295	↑	8,887	397	10
97 Banks	↑	n.a.	↑	7,420	392	n.a.
98 Governments and official institutions	↑	n.a.	↑	1,467	5	n.a.
99 Certified and official checks	↑	16,554	↑	8,224	6,660	1,670
100 Demand deposits (included in total transaction accounts)	↑	577,786	↑	372,778	168,644	36,365
101 Individuals, partnerships, and corporations	↑	501,671	↑	319,313	149,467	32,891
102 U.S. government	↑	1,493	↑	1,013	393	87
103 States and political subdivisions in the United States	↑	16,889	↑	10,340	5,231	1,318
104 Commercial banks in the United States	n.a.	28,333	n.a.	22,409	5,620	304
105 Other depository institutions in the United States	↑	3,560	↑	2,594	876	90
106 Foreign banks, governments, and official institutions	↑	9,287	↑	8,885	397	5
107 Banks	↑	n.a.	↑	7,420	392	n.a.
108 Governments and official institutions	↑	n.a.	↑	1,465	5	n.a.
109 Certified and official checks	↑	16,554	↑	8,224	6,660	1,670
110 Total nontransaction accounts	↑	2,196,268	↑	1,224,650	796,819	174,798
111 Individuals, partnerships, and corporations	↑	2,089,007	↑	1,177,498	751,001	160,507
112 U.S. government	↑	3,231	↑	2,834	315	82
113 States and political subdivisions in the United States	↑	87,390	↑	34,791	40,194	12,405
114 Commercial banks in the United States	↑	8,902	↑	5,644	2,700	558
115 Other depository institutions in the United States	↑	6,883	↑	3,081	2,562	1,240
116 Foreign banks, governments, and official institutions	↑	854	↑	802	47	5
117 Banks	↑	n.a.	↑	411	23	n.a.
118 Governments and official institutions	↑	n.a.	↑	391	23	n.a.
119 Federal funds purchased and securities sold under agreements to repurchase	386,568	339,409	307,760	260,601	76,160	2,648
120 Demand notes issued to the U.S. Treasury	46,894	46,894	42,050	42,050	4,659	186
121 Trading liabilities	206,813	n.a.	206,813	n.a.	77	1
122 Other borrowed money	365,765	324,579	248,808	207,623	112,207	4,749
123 Banks' liability on acceptances executed and outstanding	13,738	10,348	13,494	10,104	238	7
124 Notes and debentures subordinated to deposits	67,077	n.a.	62,081	n.a.	4,968	28
125 Net due to own foreign offices, Edge Act and agreement subsidiaries, and IBFs	n.a.	102,079	n.a.	102,079	n.a.	n.a.
126 All other liabilities	132,725	n.a.	106,196	n.a.	23,898	2,632
127 Total equity capital	442,932	n.a.	272,310	n.a.	139,657	30,965
MEMO						
128 Trading assets at large banks ³	300,532	103,384	299,172	102,024	1,360	↑
129 U.S. Treasury securities (domestic offices)	↑	12,611	↑	12,536	74	↑
130 U.S. government agency corporation obligations	↑	2,511	↑	2,159	352	↑
131 Securities issued by states and political subdivisions in the United States	↑	1,489	↑	1,405	84	↑
132 Mortgage-backed securities	n.a.	9,601	n.a.	9,005	596	n.a.
133 Other debt securities	↓	8,427	↓	8,184	244	↓
134 Other trading assets	↓	14,477	↓	14,473	4	↓
135 Trading assets in foreign banks	197,148	0	197,148	0	0	↓
136 Revaluation gains on interest rate, foreign exchange rate, and other commodity and equity contracts	54,267	54,267	54,262	54,262	5	↓
137 Total individual retirement (IRA) and Keogh plan accounts	↑	150,945	↑	78,262	59,505	13,178
138 Total brokered deposits	↑	57,732	↑	35,370	20,836	1,526
139 Fully insured brokered deposits	↑	46,016	↑	25,726	18,848	1,443
140 Issued in denominations of less than \$100,000	↑	9,350	↑	4,524	3,709	1,117
141 Issued in denominations of \$100,000, or in denominations greater than \$100,000 and participated out by the broker in shares of \$100,000 or less	↑	36,666	↑	21,201	15,139	326
142 Money market deposit accounts (MMDAs)	n.a.	702,790	n.a.	484,679	192,723	25,387
143 Other savings deposits (excluding MMDAs)	↑	360,544	↑	194,373	141,918	24,253
144 Total time deposits of less than \$100,000	↑	741,218	↑	325,665	322,444	93,109
145 Total time deposits of \$100,000 or more	↑	391,715	↑	219,932	139,734	32,049
146 All negotiable order of withdrawal (NOW) accounts	↓	157,254	↓	46,232	78,289	32,732
147 Number of banks	8,966	8,966	162	n.a.	2,940	5,864

NOTE: Table 4.20 has been revised; it now includes data that was previously reported in table 4.22, which has been discontinued.

The notation "n.a." indicates the lesser detail available from banks that don't have foreign offices, the inapplicability of certain items to banks that have only domestic offices or the absence of detail on a fully consolidated basis for banks that have foreign offices.

1. All transactions between domestic and foreign offices of a bank are reported in "net due from" and "net due to" lines. All other lines represent transactions with parties other than the domestic and foreign offices of each bank. Because these intraoffice transactions are nullified by consolidation, total assets and total liabilities for the entire bank may not equal the sum of assets and liabilities respectively of the domestic and foreign offices.

Foreign offices include branches in foreign countries, Puerto Rico, and U.S. territories and possessions; subsidiaries in foreign countries; all offices of Edge Act and agreement corporations wherever located; and IBFs.

2. "Over 100" refers to banks whose assets, on June 30 of the preceding calendar year, were \$100 million or more. (These banks file the FFIEC 032 or FFIEC 033 Call Report.) "Under 100" refers to banks whose assets, on June 30 of the preceding calendar year, were less than \$100 million. (These banks file the FFIEC 034 Call Report.)

3. Because the domestic portion of allowances for loan and lease losses and allocated transfer risk reserves are not reported for banks with foreign offices, the components of total assets (domestic) do not sum to the actual total (domestic).

4. Components of "Trading assets at large banks" are reported only by banks with either total assets of \$1 billion or more or with \$2 billion or more in the par/notional amount of their off-balance-sheet derivative contracts.

4.23 TERMS OF LENDING AT COMMERCIAL BANKS Survey of Loans Made, August 3-7, 1998

A. Commercial and industrial loans made by all commercial banks¹

Item	Weighted-average effective loan rate (percent) ²	Amount of loans (millions of dollars)	Average loan size (thousands of dollars)	Weighted-average maturity ³	Amount of loans (percent)				Most common base pricing rate ⁴
				Days	Secured by collateral	Callable	Subject to prepayment penalty	Made under commitment	
LOAN RISK ⁵									
1 All commercial and industrial loans	7.14	137,640	781	353	38.4	15.2	28.7	73.7	Foreign
2 Minimal risk	6.32	7,161	849	207	48.1	5.1	56.1	81.5	Foreign
3 Low risk	6.71	31,454	1,889	194	24.1	12.8	36.8	79.2	Foreign
4 Moderate risk	7.03	46,643	680	398	39.4	19.2	24.6	79.5	Foreign
5 Other	7.59	35,911	874	405	44.8	13.3	31.4	63.6	Fed funds
By maturity/repricing interval ⁶									
6 Zero interval	8.40	19,705	285	561	52.3	11.2	5.6	68.8	Prime
7 Minimal risk	7.99	206	131	471	37.4	33.6	10.5	77.6	Prime
8 Low risk	7.56	2,700	598	383	45.4	10.2	5.4	92.8	Prime
9 Moderate risk	8.34	7,302	220	577	62.8	16.4	8.7	91.2	Prime
10 Other	9.17	4,112	167	638	65.6	12.1	7.0	87.7	Prime
11 Daily	6.81	62,544	1,641	128	38.0	18.8	30.3	64.5	Fed funds
12 Minimal risk	6.06	4,010	7,324	86	60.0	2.2	54.7	92.7	Foreign
13 Low risk	6.71	19,441	7,095	52	23.5	13.1	40.1	73.3	Fed funds
14 Moderate risk	6.50	16,648	1,287	161	38.9	29.6	16.5	66.4	Fed funds
15 Other	7.26	16,591	2,867	83	44.1	15.5	36.4	36.2	Fed funds
16 2 to 30 days	6.82	24,353	1,380	344	25.7	12.6	34.9	83.8	Foreign
17 Minimal risk	6.25	1,616	1,212	209	15.2	4.5	63.9	76.9	Foreign
18 Low risk	6.36	4,200	2,006	298	11.2	13.7	27.0	83.5	Foreign
19 Moderate risk	6.81	9,726	1,549	227	21.7	14.5	34.0	81.9	Foreign
20 Other	7.30	5,598	1,212	713	41.2	9.6	36.2	81.3	Foreign
21 31 to 365 days	7.10	26,447	806	472	35.5	10.4	39.1	90.7	Foreign
22 Minimal risk	7.06	885	222	198	59.1	10.6	58.4	52.1	Fed funds
23 Low risk	6.44	4,571	857	388	25.5	10.6	50.3	92.2	Foreign
24 Moderate risk	6.92	10,855	1,098	474	32.2	10.4	42.6	94.4	Foreign
25 Other	7.59	8,892	2,324	525	38.1	11.3	31.9	90.4	Foreign
				Months					
26 More than 365 days	7.92	3,586	230	63	63.5	8.6	17.9	61.1	Prime
27 Minimal risk	6.77	436	504	41	41.9	8.9	57.2	57.3	Other
28 Low risk	7.13	434	243	60	24.5	14.2	40.9	78.7	Other
29 Moderate risk	8.19	1,805	347	67	83.9	5.4	6.5	46.7	Prime
30 Other	8.74	496	356	83	37.6	4.8	18.3	86.7	Prime
				Weighted-average risk rating ⁵					
				Weighted-average maturity/repricing interval ⁶					
				Days					
SIZE OF LOAN (thousands of dollars)									
31 1-99	9.59	2,930	3.2	156	83.8	29.6	5.5	77.4	Prime
32 100-999	8.60	11,496	3.2	123	68.8	22.1	14.7	87.0	Prime
33 1,000-9,999	7.36	37,075	3.1	76	40.3	14.5	27.5	81.0	Foreign
34 10,000 or more	6.76	86,138	2.9	40	31.9	14.0	32.0	68.7	Fed funds
									Average size (thousands of dollars)
BASE RATE OF LOAN ⁴									
35 Prime ⁷	8.97	22,495	3.2	129	67.6	20.8	5.6	79.4	194
36 Fed funds	6.64	37,436	3.3	14	36.3	18.6	23.5	39.5	10,093
37 Other domestic	6.35	17,066	2.7	20	12.2	33.3	31.6	80.7	2,707
38 Foreign	6.80	39,434	2.9	51	39.9	7.0	49.3	93.5	3,544
39 Other	7.31	21,209	2.6	112	29.1	4.8	22.2	85.9	545

Footnotes appear at end of table.

4.23 TERMS OF LENDING AT COMMERCIAL BANKS Survey of Loans Made, August 3-7, 1998

B. Commercial and industrial loans made by domestic banks¹

Item	Weighted-average effective loan rate (percent) ²	Amount of loans (millions of dollars)	Average loan size (thousands of dollars)	Weighted-average maturity ³	Amount of loans (percent)				Most common base pricing rate ⁴
				Days	Secured by collateral	Callable	Subject to prepayment penalty	Made under commitment	
LOAN RISK ⁵									
1 All commercial and industrial loans	7.27	78,182	470	525	39.4	19.6	11.5	74.3	Prime Other Domestic Prime Prime
2 Minimal risk	6.34	4,213	508	346	25.6	8.7	37.5	78.9	
3 Low risk	6.49	14,187	978	338	28.5	26.6	14.4	75.1	
4 Moderate risk	7.24	30,261	467	560	42.0	18.6	11.1	77.7	
5 Other	7.93	14,625	389	762	49.5	20.6	7.4	77.6	
By maturity/repricing interval ⁶									
6 Zero interval	8.37	19,031	281	550	51.8	11.0	5.1	67.9	Prime
7 Minimal risk	7.98	205	131	471	37.1	33.8	10.5	77.4	Prime
8 Low risk	7.54	2,666	604	376	45.3	10.3	5.4	92.8	Prime
9 Moderate risk	8.34	6,972	215	566	62.5	16.0	8.1	90.8	Prime
10 Other	9.07	3,805	159	618	65.8	12.6	6.2	87.4	Prime
11 Daily	6.69	26,009	737	267	33.5	37.5	8.2	63.3	Domestic
12 Minimal risk	6.18	1,917	3,826	178	28.6	4.7	14.8	89.0	Other
13 Low risk	6.12	6,508	3,589	150	32.1	39.0	18.3	59.5	Domestic
14 Moderate risk	6.70	9,016	748	318	34.3	37.5	5.8	54.6	Domestic
15 Other	6.97	3,751	755	300	26.3	53.7	2.4	44.8	Fed funds
16 2 to 30 days	6.77	15,865	998	355	27.2	8.6	21.0	88.7	Other
17 Minimal risk	5.99	1,381	1,052	245	8.6	5.3	64.8	73.0	Domestic
18 Low risk	6.17	2,840	1,675	391	10.3	15.6	8.6	83.8	Foreign
19 Moderate risk	6.85	5,798	1,044	297	26.3	5.0	16.8	91.4	Other
20 Other	7.53	2,747	680	702	49.2	4.5	12.7	85.4	Other
21 31 to 365 days	7.21	13,228	450	690	39.0	10.2	16.4	90.7	Foreign
22 Minimal risk	7.22	266	68	512	54.5	35.2	48.5	72.9	Other
23 Low risk	6.69	1,797	376	475	16.4	22.0	22.9	91.8	Other
24 Moderate risk	6.89	6,400	757	614	32.2	9.2	18.7	91.9	Foreign
25 Other	7.88	3,684	1,485	951	54.7	6.0	9.9	92.4	Foreign
				Months					Prime Other Other Prime Prime Prime
26 More than 365 days	7.94	3,323	217	63	67.2	8.2	12.2	58.7	
27 Minimal risk	6.77	436	504	41	41.9	8.9	57.2	57.3	
28 Low risk	7.17	285	173	53	37.3	21.6	10.1	67.6	
29 Moderate risk	8.18	1,772	341	67	83.6	3.6	4.7	45.7	
30 Other	8.80	416	324	85	43.1	4.7	8.9	89.1	
				Weighted-average risk rating ⁵					Average size (thousands of dollars)
				Weighted-average maturity/repricing interval ⁶					
				Days					
SIZE OF LOAN (thousands of dollars)									
31 1-99	9.62	2,865	3.2	157	84.6	29.5	5.2	77.1	Prime
32 100-999	8.74	10,018	3.2	129	71.9	21.9	10.4	86.0	Prime
33 1,000-9,999	7.58	24,137	3.0	90	46.4	13.7	13.8	79.7	Prime
34 10,000 or more	6.56	41,162	2.7	66	24.3	21.7	10.9	68.1	Domestic
BASE RATE OF LOAN ⁴									
35 Prime ⁷	8.91	20,484	3.2	132	68.8	17.3	4.9	77.6	181
36 Fed funds	6.15	9,765	2.9	9	34.9	64.6	2.2	29.0	7,138
37 Other domestic	6.36	14,352	2.6	23	14.2	24.1	21.4	77.4	2,398
38 Foreign	7.02	16,878	3.0	73	32.3	6.4	15.7	86.0	2,554
39 Other	6.93	16,703	2.7	138	35.0	5.9	13.1	82.4	431

Footnotes appear at end of table.

4.23 TERMS OF LENDING AT COMMERCIAL BANKS Survey of Loans Made, August 3-7, 1998

C. Commercial and industrial loans made by large domestic banks¹

Item	Weighted-average effective loan rate (percent) ²	Amount of loans (millions of dollars)	Average loan size (thousands of dollars)	Weighted-average maturity ³	Amount of loans (percent)				Most common base pricing rate ⁴	
				Days	Secured by collateral	Callable	Subject to prepayment penalty	Made under commitment		
LOAN RISK ⁵										
1 All commercial and industrial loans	7.07	65,973	952	467	34.3	19.9	10.8	72.8	Prime Other Domestic Foreign Foreign	
2 Minimal risk	6.08	3,471	3,935	294	16.2	4.3	42.5	86.5		
3 Low risk	6.30	12,260	2,953	315	25.5	27.7	16.1	73.3		
4 Moderate risk	7.06	26,156	975	533	37.7	18.3	11.1	77.4		
5 Other	7.68	12,267	568	536	43.3	22.5	4.7	76.9		
By maturity/repricing interval ⁶										
6 Zero interval	8.22	14,779	483	544	44.2	9.5	4.5	63.3	Prime	
7 Minimal risk	8.22	101	359	1111	29.5	58.1	20.1	97.9	Prime	
8 Low risk	7.30	1,808	1,043	419	36.0	9.5	6.0	91.9	Other	
9 Moderate risk	8.11	5,187	403	613	55.6	14.7	8.9	95.8	Prime	
10 Other	8.94	2,794	205	512	55.9	14.0	2.4	88.2	Prime	
11 Daily	6.59	24,457	981	249	31.7	38.3	8.2	61.5	Domestic	
12 Minimal risk	6.06	1,823	7,311	94	25.8	4.7	14.5	92.0	Other	
13 Low risk	6.08	6,409	6,141	138	31.8	39.4	18.6	59.0	Domestic	
14 Moderate risk	6.63	8,357	998	321	33.3	38.7	5.2	51.4	Domestic	
15 Other	6.88	3,587	980	286	24.0	55.5	2.0	42.4	Fed funds	
16 2 to 30 days	6.59	13,261	2,158	305	21.1	8.7	17.5	88.8	Other	
17 Minimal risk	5.94	1,176	9,627	234	1.0	.0	71.3	73.7	Domestic	
18 Low risk	6.10	2,576	5,005	397	8.3	16.7	9.5	83.6	Domestic	
19 Moderate risk	6.75	5,388	2,633	303	24.4	3.5	16.2	92.0	Other	
20 Other	7.22	2,338	975	295	42.6	4.2	9.0	88.7	Other	
21 31 to 365 days	7.03	11,035	2,625	687	36.4	7.5	16.0	93.0	Foreign	
22 Minimal risk	6.03	111	853	844	36.4	.4	92.7	98.9	Foreign	
23 Low risk	6.34	1,320	2,221	567	13.2	16.5	30.5	95.0	Foreign	
24 Moderate risk	6.78	5,669	2,976	642	29.0	7.7	18.2	93.0	Foreign	
25 Other	7.74	3,217	2,996	777	52.7	4.7	5.8	94.7	Foreign	
				Months					Prime Other Other Prime Prime	
26 More than 365 days	7.70	2,043	1,123	51	60.5	4.4	18.2	58.8		
27 Minimal risk	5.97	256	3,884	52	2.8	*	97.1	95.8		
28 Low risk	6.50	68	498	45	23.0	2.4	15.4	94.0		
29 Moderate risk	7.98	1,396	1,640	51	79.4	2.6	5.3	42.4		
30 Other	8.78	209	460	56	35.8	8.3	16.0	98.2		
				Weighted-average risk rating ⁵					Average size (thousands of dollars)	
				Weighted-average maturity/repricing interval ⁶						
				Days						
SIZE OF LOAN (thousands of dollars)										
31 1-99	9.40	1,206	3.4	45	82.8	36.8	6.2	91.4	Prime	
32 100-999	8.62	6,564	3.3	60	67.6	19.9	10.6	90.6	Prime	
33 1,000-9,999	7.49	19,424	3.0	60	42.5	13.8	13.6	78.3	Prime	
34 10,000 or more	6.52	38,779	2.8	68	23.1	22.5	9.6	66.4	Domestic	
BASE RATE OF LOAN ⁴										
35 Prime ⁷	8.82	15,019	3.2	128	65.1	16.3	4.4	75.7	275	
36 Fed funds	6.14	9,394	2.9	6	35.1	65.8	1.2	26.3	9,183	
37 Other domestic	6.24	13,568	2.6	16	10.0	25.1	22.8	78.9	5,318	
38 Foreign	6.94	14,501	3.0	49	32.1	5.3	13.7	84.5	2,984	
39 Other	6.74	13,491	2.8	101	26.3	3.3	10.8	83.1	2,180	

Footnotes appear at end of table.

4.23 TERMS OF LENDING AT COMMERCIAL BANKS Survey of Loans Made, August 3-7, 1998

D. Commercial and industrial loans made by small domestic banks¹

Item	Weighted-average effective loan rate (percent) ²	Amount of loans (millions of dollars)	Average loan size (thousands of dollars)	Weighted-average maturity ³	Amount of loans (percent)				Most common base pricing rate ⁴
				Days	Secured by collateral	Callable	Subject to prepayment penalty	Made under commitment	
LOAN RISK ⁵									
1 All commercial and industrial loans	8.33	12,209	126	817	67.0	17.6	15.2	82.7	Prime
2 Minimal risk	7.53	741	100	632	69.3	29.7	14.1	43.4	Other
3 Low risk	7.75	1,927	186	465	47.0	19.0	3.3	86.5	Prime
4 Moderate risk	8.39	4,105	108	738	69.8	20.1	11.5	80.1	Prime
5 Other	9.21	2,358	148	1784	82.1	10.6	21.4	81.3	Prime
By maturity/repricing interval ⁶									
6 Zero interval	8.88	4,252	114	575	78.5	16.1	7.2	84.0	Prime
7 Minimal risk	7.75	104	81	158	44.4	10.2	1.2	57.5	Other
8 Low risk	8.04	857	320	288	65.0	11.9	4.1	94.8	Prime
9 Moderate risk	9.00	1,785	91	418	82.4	19.7	5.8	76.2	Prime
10 Other	9.44	1,011	98	893	93.1	8.7	16.5	85.4	Prime
11 Daily	8.32	1,552	150	471	62.0	25.8	8.4	91.7	Prime
12 Minimal risk	8.42	93	371	1982	83.3	5.3	21.1	31.4	Prime
13 Low risk	8.57	100	130	693	48.1	15.3	*	92.1	Prime
14 Moderate risk	7.58	659	179	289	47.3	22.4	13.8	94.5	Prime
15 Other	8.86	165	126	446	76.1	16.3	11.5	96.0	Prime
16 2 to 30 days	7.69	2,604	267	616	58.3	8.0	38.2	88.1	Foreign
17 Minimal risk	6.29	206	173	357	51.8	35.4	27.4	68.9	Domestic
18 Low risk	6.85	264	224	331	29.4	4.8	.2	85.8	Foreign
19 Moderate risk	8.13	410	117	201	51.3	23.9	24.2	83.4	Foreign
20 Other	9.34	409	249	2971	87.1	6.0	34.2	66.5	Foreign
21 31 to 365 days	8.10	2,193	87	704	52.2	23.8	18.0	79.2	Foreign
22 Minimal risk	8.06	155	41	275	67.4	60.1	17.0	54.4	Other
23 Low risk	7.68	477	114	225	25.2	37.2	1.8	82.7	Other
24 Moderate risk	7.67	731	112	392	56.9	20.9	23.0	82.6	Foreign
25 Other	8.86	466	331	2187	68.6	14.6	37.6	76.8	Foreign
				Months					
26 More than 365 days	8.31	1,280	95	82	78.0	14.3	2.5	58.4	
27 Minimal risk	7.90	180	225	24	97.6	21.6	.3	2.4	
28 Low risk	7.38	217	143	56	41.8	27.5	8.4	59.3	
29 Moderate risk	8.90	375	87	130	99.1	7.4	2.4	57.8	
30 Other	8.83	207	249	114	50.5	1.2	1.7	79.9	Foreign
				Weighted-average risk rating ⁵	Weighted-average maturity/repricing interval ⁶				
				Days					
SIZE OF LOAN (thousands of dollars)									
31 1-99	9.78	1,659	3.0	238	85.8	24.2	4.5	66.7	Prime
32 100-999	8.95	3,454	3.0	261	79.9	25.7	10.0	77.2	Prime
33 1,000-9,999	7.98	4,714	3.0	215	62.5	13.5	14.5	85.6	Prime
34 10,000 or more	7.11	2,383	2.5	39	43.9	9.4	31.7	95.9	Other
									Average size (thousands of dollars)
BASE RATE OF LOAN ⁴									
35 Prime ⁷	9.17	5,464	3.0	144	78.7	20.0	6.3	82.8	93
36 Fed funds	6.42	371	2.8	67	29.6	32.7	28.1	98.6	1,075
37 Other domestic	8.45	785	3.1	147	87.0	9.1	.2	50.1	229
38 Foreign	7.50	2,377	3.1	217	33.0	13.2	28.4	95.1	1,359
39 Other	7.71	3,212	2.5	301	71.6	17.0	22.9	79.4	99

Footnotes appear at end of table.

4.23 TERMS OF LENDING AT COMMERCIAL BANKS Survey of Loans Made, August 3-7, 1998

E. Commercial and industrial loans made by U.S. branches and agencies of foreign banks¹

Item	Weighted-average effective loan rate (percent) ²	Amount of loans (millions of dollars)	Average loan size (thousands of dollars)	Weighted-average maturity ³	Amount of loans (percent)				Most common base pricing rate ⁴
				Days	Secured by collateral	Callable	Subject to prepayment penalty	Made under commitment	
LOAN RISK ⁵									
1 All commercial and industrial loans	6.96	59,458	5,930	157	37.0	9.4	51.0	73.0	Fed funds
2 Minimal risk	6.31	2,948	20,126	15	80.2	.0	82.7	85.3	Foreign
3 Low risk	6.88	17,268	8,064	96	20.6	1.5	55.3	82.6	Foreign
4 Moderate risk	6.63	16,381	4,359	134	34.6	20.3	49.4	82.6	Fed funds
5 Other	7.37	21,286	6,010	205	41.6	8.4	48.0	54.1	Fed funds
By maturity/repricing interval ⁶									
6 Zero interval	9.35	674	444	874	65.5	16.4	19.4	95.2	Prime
7 Minimal risk	*	*	*	*	*	*	*	*	*
8 Low risk	8.93	34	338	975	48.5	7.1	5.2	90.6	Prime
9 Moderate risk	8.39	330	460	878	69.6	26.7	22.5	99.9	Prime
10 Other	10.44	307	446	860	62.7	6.2	17.7	90.7	Prime
11 Daily	6.90	36,535	12,999	58	41.3	5.8	45.7	65.4	Fed funds
12 Minimal risk	*	*	*	*	*	*	*	*	*
13 Low risk	7.02	12,933	13,953	18	19.2	.1	51.1	80.2	Fed funds
14 Moderate risk	6.27	7,632	8,683	29	44.2	20.2	29.2	80.3	Fed funds
15 Other	7.34	12,839	15,683	53	49.3	4.3	46.4	33.7	Fed funds
16 2 to 30 days	6.91	8,487	4,866	324	22.8	19.7	59.7	74.8	Foreign
17 Minimal risk	*	*	*	*	*	*	*	*	*
18 Low risk	6.74	1,359	3,412	107	13.1	9.9	65.5	82.9	Foreign
19 Moderate risk	6.75	3,929	5,435	128	15.1	28.5	59.3	68.0	Fed funds
20 Other	7.08	2,851	4,900	723	33.5	14.6	58.9	77.3	Foreign
21 31 to 365 days	6.99	13,220	3,832	254	31.9	10.7	61.8	90.8	Foreign
22 Minimal risk	6.99	620	8,231	61	61.1	*	62.6	43.3	Fed funds
23 Low risk	6.28	2,774	5,041	333	31.4	3.2	68.1	92.4	Foreign
24 Moderate risk	6.98	4,455	3,126	273	32.2	12.1	76.9	98.1	Foreign
25 Other	7.39	5,208	3,870	225	26.4	15.0	47.5	89.0	Foreign
				Months					
26 More than 365 days	7.69	263	1,067	66	15.6	14.5	90.0	92.2	Fed funds
27 Minimal risk	*	*	*	*	*	*	*	*	*
28 Low risk	7.05	149	1,133	73	*	*	100.0	100.0	Fed funds
29 Moderate risk	*	*	*	*	*	*	*	*	*
30 Other	8.41	80	750	74	8.9	5.3	67.3	74.4	Prime
				Weighted-average risk rating ⁵					
				Weighted-average maturity/repricing interval ⁶					
				Days					
SIZE OF LOAN (thousands of dollars)									
31 1-99	8.23	65	3.0	91	48.0	33.7	19.3	92.0	Prime
32 100-999	7.66	1,478	3.2	83	47.9	23.6	43.2	93.7	Foreign
33 1,000-9,999	6.94	12,938	3.2	49	28.9	15.8	52.8	83.4	Foreign
34 10,000 or more	6.94	44,977	3.0	16	38.9	7.1	50.7	69.3	Fed funds
									Average size (thousands of dollars)
BASE RATE OF LOAN ⁴									
35 Prime ⁷	9.61	2,011	3.5	99	56.4	56.3	12.3	98.1	741
36 Fed funds	6.82	27,671	3.5	16	36.9	2.4	31.0	43.2	11,820
37 Other domestic	6.28	2,713	2.9	5	1.1	77.2	80.3	98.1	8,469
38 Foreign	6.64	22,556	2.8	35	45.7	7.4	74.4	99.2	4,991
39 Other	8.71	4,506	2.0	14	7.1	.9	55.9	98.7	33,929

Footnotes appear at end of table.

NOTE. The Survey of Terms of Business Lending collects data on gross loan extensions made during the first full business week in the mid-month of each quarter. The authorized panel size for the survey is 348 domestically chartered commercial banks and fifty U.S. branches and agencies of foreign banks. The sample data are used to estimate the terms of loans extended during that week at all domestic commercial banks and all U.S. branches and agencies of foreign banks. Note that the terms on loans extended during the survey week may differ from those extended during other weeks of the quarter. The estimates reported here are not intended to measure the average terms on all business loans in bank portfolios.

1. As of December 31, 1996, assets of most of the large banks were at least \$7.0 billion. Median total assets for all insured banks were roughly \$62 million. Assets at all U.S. branches and agencies averaged 1.3 billion.

2. Effective (compounded) annual interest rates are calculated from the stated rate and other terms of the loans and weighted by loan amount. The standard error of the loan rate for all commercial and industrial loans in the current survey (line 1, column 1) is 0.11 percentage points. The chances are about two out of three that the average rate shown would differ by less than this amount from the average rate that would be found by a complete survey of the universe of all banks.

3. Average maturities are weighted by loan amount and exclude loans with no stated maturities.

4. The most common base pricing rate is that used to price the largest dollar volume of loans. Base pricing rates include the prime rate (sometimes referred to as a bank's "base" or "reference" rate); the federal funds rate; domestic money market rates other than the prime rate and the federal funds rate; foreign money market rates; and other base rates not included in the foregoing classifications.

5. A complete description of these risk categories is available from the Banking and Money Market Statistics Section, Mail Stop 81, Board of Governors of the Federal Reserve System, Washington, DC 20551. The category "Moderate risk" includes the average loan, under average economic conditions, at the typical lender. The category "Other" includes loans rated "acceptable" as well as special mention or classified loans. The weighted-average risk ratings published for loans in rows 31-39 are calculated by assigning a value of "1" to minimal risk loans; "2" to low risk loans; "3" to moderate risk loans, "4" to acceptable risk loans; and "5" to special mention and classified loans. These values are weighted by loan amount and exclude loans with no risk rating. Some of the loans in lines 1, 6, 11, 16, 21, 26, and 31-39 are not rated for risk.

6. The maturity/repricing interval measures the period from the date the loan is made until it first may reprice or it matures. For floating-rate loans that are subject to repricing at any time—such as many prime-based loans—the maturity/repricing interval is zero. For floating-rate loans that have a scheduled repricing interval, the maturity/repricing interval measures the number of days between the date the loan is made and the date on which it is next scheduled to reprice. For loans having rates that remain fixed until the loan matures (fixed-rate loans), the maturity/repricing interval measures the number of days between the date the loan is made and the date on which it matures. Loans that reprice daily mature or reprice on the business day after they are made. Owing to weekends and holidays, such loans may have maturity/repricing intervals in excess of one day; such loans are not included in the "2 to 30 day" category.

7. For the current survey, the average reported prime rate, weighted by the amount of loans priced relative to a prime base rate, was 8.52 percent for all banks; 8.50 percent for large domestic banks, 8.60 percent for small domestic banks; and 8.50 percent for U.S. branches and agencies of foreign banks.

4.30 ASSETS AND LIABILITIES of U.S. Branches and Agencies of Foreign Banks, June 30, 1998¹

Millions of dollars except as noted

Item	All states ²		New York		California		Illinois	
	Total including IBFs ³	IBFs only ³	Total including IBFs	IBFs only	Total including IBFs	IBFs only	Total including IBFs	IBFs only
1 Total assets⁴	930,972	229,961	731,184	193,995	45,690	10,847	58,015	7,480
2 Claims on nonrelated parties	774,667	101,661	602,628	86,632	42,282	3,692	57,422	2,188
3 Cash and balances due from depository institutions	78,862	43,543	73,715	41,910	864	267	1,307	557
4 Cash items in process of collection and unposted debits	3,986	0	3,863	0	11	0	33	0
5 Currency and coin (U.S. and foreign)	21	n.a.	15	n.a.	1	n.a.	1	n.a.
6 Balances with depository institutions in United States	47,542	20,122	43,863	19,292	622	110	1,008	358
7 U.S. branches and agencies of other foreign banks (including IBFs)	43,026	19,385	40,124	18,564	364	105	698	358
8 Other depository institutions in United States (including IBFs)	4,516	737	3,738	728	258	5	310	0
9 Balances with banks in foreign countries and with foreign central banks	25,944	23,421	24,717	22,618	202	157	251	199
10 Foreign branches of U.S. banks	1,026	864	981	823	0	0	28	28
11 Banks in home country and home-country central banks	4,950	4,472	4,853	4,396	14	14	50	50
12 All other banks in foreign countries and foreign central banks	19,969	18,085	18,883	17,399	188	143	173	121
13 Balances with Federal Reserve Banks	1,368	n.a.	1,257	n.a.	28	n.a.	14	n.a.
14 Total securities and loans	480,693	49,049	352,610	36,917	39,398	3,308	41,848	887
15 Total securities, book value	116,839	6,145	110,349	5,307	1,640	591	3,667	207
16 U.S. Treasury	26,266	n.a.	24,736	n.a.	94	n.a.	847	n.a.
17 Obligations of U.S. government agencies and corporations	44,301	n.a.	43,951	n.a.	142	n.a.	25	n.a.
18 Other bonds, notes, debentures, and corporate stock (including state and local securities)	46,272	6,145	41,662	5,307	1,405	591	2,795	207
19 Securities of foreign governmental units	14,753	3,226	14,131	2,968	372	141	181	103
20 All Other	31,519	2,919	27,531	2,340	1,033	450	2,614	104
21 Federal funds sold and securities purchased under agreements to resell	77,800	7,036	67,384	6,040	619	36	7,423	707
22 U.S. branches and agencies of other foreign banks	14,175	3,571	12,990	3,442	399	36	247	55
23 Commercial banks in United States	6,271	84	5,703	84	105	0	12	0
24 Other	57,354	3,381	48,691	2,514	115	0	7,164	652
25 Total loans, gross	364,111	42,935	242,437	31,636	37,792	2,719	38,190	681
26 LESS: Unearned income on loans	257	31	175	26	34	1	9	1
27 EQUALS: Loans, net	363,854	42,903	242,262	31,610	37,758	2,717	38,181	680
<i>Total loans, gross, by category</i>								
28 Real estate loans	21,948	138	14,191	72	4,855	65	915	0
29 Loans to depository institutions	34,129	22,660	20,908	14,454	2,322	1,868	874	497
30 Commercial banks in United States (including IBFs)	8,334	4,048	5,496	2,425	1,549	1,145	162	119
31 U.S. branches and agencies of other foreign banks	6,292	3,778	3,985	2,172	1,390	1,145	143	109
32 Other commercial banks in United States	2,042	271	1,511	253	159	0	19	10
33 Other depository institutions in United States (including IBFs)	59	0	35	0	0	0	0	0
34 Banks in foreign countries	25,736	18,612	15,377	12,029	773	723	712	378
35 Foreign branches of U.S. banks	1,360	762	1,249	666	0	0	0	0
36 Other banks in foreign countries	24,376	17,850	14,127	11,363	773	723	712	378
37 Loans to other financial institutions	58,356	1,863	44,706	1,707	1,969	0	5,892	13
38 Commercial and industrial loans	224,183	15,775	141,367	13,083	27,896	747	28,726	169
39 U.S. addressees (domicile)	184,823	123	112,492	121	25,590	2	26,597	0
40 Non-U.S. addressees (domicile)	39,361	15,651	28,875	12,961	2,306	745	2,130	169
41 Acceptances of other banks	407	33	160	33	12	0	132	0
42 U.S. banks	21	0	9	0	4	0	0	0
43 Foreign banks	386	33	151	33	8	0	132	0
44 Loans to foreign governments and official institutions (including foreign central banks)	3,675	2,333	2,964	2,183	244	38	79	3
45 Loans for purchasing or carrying securities (secured and unsecured)	13,513	10	12,326	10	288	0	54	0
46 All other loans	7,121	123	5,490	93	206	0	1,068	0
47 Lease financing receivables (net of unearned income)	778	0	326	0	0	0	450	0
48 U.S. addressees (domicile)	778	0	326	0	0	0	450	0
49 Non-U.S. addressees (domicile)	0	0	0	0	0	0	0	0
50 Trading assets	103,451	276	80,929	276	71	0	5,296	0
51 All other assets	33,862	1,757	27,990	1,488	1,329	81	1,549	38
52 Customers' liabilities on acceptances outstanding	3,679	n.a.	2,670	n.a.	679	n.a.	210	n.a.
53 U.S. addressees (domicile)	2,024	n.a.	1,362	n.a.	558	n.a.	95	n.a.
54 Non-U.S. addressees (domicile)	1,655	n.a.	1,308	n.a.	120	n.a.	116	n.a.
55 Other assets including other claims on nonrelated parties	30,183	1,757	25,320	1,488	651	81	1,339	38
56 Net due from related depository institutions ⁵	156,305	128,300	128,556	107,363	3,408	7,156	593	5,292
57 Net due from head office and other related depository institutions ⁵	156,305	n.a.	128,556	n.a.	3,408	n.a.	593	n.a.
58 Net due from establishing entity, head office, and other related depository institutions ⁵	n.a.	128,300	n.a.	107,363	n.a.	7,156	n.a.	5,292
59 Total liabilities⁴	930,972	229,961	731,184	193,995	45,690	10,847	58,015	7,480
60 Liabilities to nonrelated parties	773,030	206,680	640,562	174,600	20,573	10,457	40,553	7,291

Footnotes appear at end of table.

4.30 ASSETS AND LIABILITIES of U.S. Branches and Agencies of Foreign Banks, June 30, 1998¹—Continued

Millions of dollars except as noted

Item	All states ²		New York		California		Illinois	
	Total excluding IBFs ³	IBFs only ³	Total excluding IBFs	IBFs only	Total excluding IBFs	IBFs only	Total excluding IBFs	IBFs only
61 Total deposits and credit balances	294,678	156,321	247,719	138,921	5,191	1,913	14,432	4,423
62 Individuals, partnerships, and corporations	212,536	12,825	173,067	7,346	4,713	491	11,300	220
63 U.S. addressees (domicile)	196,144	349	163,782	246	2,513	0	10,726	104
64 Non-U.S. addressees (domicile)	16,391	12,476	9,285	7,101	2,200	491	574	116
65 Commercial banks in United States (including IBFs)	52,984	22,894	47,488	22,009	376	283	2,179	334
66 U.S. branches and agencies of other foreign banks	20,541	20,469	17,053	19,727	211	248	1,215	334
67 Other commercial banks in United States	32,443	2,425	30,435	2,281	165	35	964	0
68 Banks in foreign countries	8,948	84,256	8,366	78,172	75	328	159	2,094
69 Foreign branches of U.S. banks	2,217	2,972	2,077	2,681	60	5	77	246
70 Other banks in foreign countries	6,732	81,284	6,289	75,490	15	323	82	1,849
71 Foreign governments and official institutions (including foreign central banks)	7,261	36,245	6,193	31,309	4	797	752	1,773
72 All other deposits and credit balances	12,727	101	12,412	85	18	14	40	2
73 Certified and official checks	222	↑	193	↑	5	↑	3	↑
74 Transaction accounts and credit balances (excluding IBFs)	11,176	↑	8,905	↑	343	↑	429	↑
75 Individuals, partnerships, and corporations	8,478	↑	6,636	↑	315	↑	422	↑
76 U.S. addressees (domicile)	6,232	↑	5,331	↑	147	↑	420	↑
77 Non-U.S. addressees (domicile)	2,246	↑	1,304	↑	167	↑	2	↑
78 Commercial banks in United States (including IBFs)	847	↑	843	↑	0	↑	0	↑
79 U.S. branches and agencies of other foreign banks	796	↑	794	↑	0	↑	0	↑
80 Other commercial banks in United States	51	↑	49	↑	0	↑	0	↑
81 Banks in foreign countries	1,026	↑	694	↑	15	↑	2	↑
82 Foreign branches of U.S. banks	4	↑	1	↑	0	↑	0	↑
83 Other banks in foreign countries	1,022	↑	693	↑	15	↑	2	↑
84 Foreign governments and official institutions (including foreign central banks)	412	↑	367	↑	1	↑	2	↑
85 All other deposits and credit balances	191	↑	173	↑	7	↑	1	↑
86 Certified and official checks	222	↑	193	↑	5	↑	3	↑
87 Demand deposits (included in transaction accounts and credit balances)	10,563	↑	8,581	↑	222	↑	428	↑
88 Individuals, partnerships, and corporations	7,938	↑	6,377	↑	197	↑	420	↑
89 U.S. addressees (domicile)	6,014	↑	5,153	↑	118	↑	418	↑
90 Non-U.S. addressees (domicile)	1,924	↑	1,224	↑	79	↑	2	↑
91 Commercial banks in United States (including IBFs)	838	n.a.	833	n.a.	0	n.a.	0	n.a.
92 U.S. branches and agencies of other foreign banks	791	n.a.	788	n.a.	0	n.a.	0	n.a.
93 Other commercial banks in United States	47	n.a.	44	n.a.	0	n.a.	0	n.a.
94 Banks in foreign countries	994	n.a.	664	n.a.	15	n.a.	2	n.a.
95 Foreign branches of U.S. banks	4	n.a.	1	n.a.	0	n.a.	0	n.a.
96 Other banks in foreign countries	990	n.a.	663	n.a.	15	n.a.	2	n.a.
97 Foreign governments and official institutions (including foreign central banks)	403	n.a.	360	n.a.	1	n.a.	2	n.a.
98 All other deposits and credit balances	169	n.a.	154	n.a.	4	n.a.	1	n.a.
99 Certified and official checks	222	n.a.	193	n.a.	5	n.a.	3	n.a.
100 Nontransaction accounts (including MMDAs, excluding IBFs)	283,502	↑	238,814	↑	4,848	↑	14,003	↑
101 Individuals, partnerships, and corporations	204,058	↑	166,432	↑	4,398	↑	10,878	↑
102 U.S. addressees (domicile)	189,912	↑	158,451	↑	2,365	↑	10,306	↑
103 Non-U.S. addressees (domicile)	14,146	↑	7,981	↑	2,033	↑	572	↑
104 Commercial banks in United States (including IBFs)	52,137	↑	46,645	↑	376	↑	2,178	↑
105 U.S. branches and agencies of other foreign banks	19,745	↑	16,260	↑	211	↑	1,215	↑
106 Other commercial banks in United States	32,392	↑	30,386	↑	165	↑	964	↑
107 Banks in foreign countries	7,922	↑	7,672	↑	60	↑	157	↑
108 Foreign branches of U.S. banks	2,212	↑	2,075	↑	60	↑	77	↑
109 Other banks in foreign countries	5,709	↑	5,596	↑	0	↑	80	↑
110 Foreign governments and official institutions (including foreign central banks)	6,849	↑	5,825	↑	3	↑	750	↑
111 All other deposits and credit balances	12,536	↑	12,240	↑	12	↑	39	↑
112 IBF deposit liabilities	↑	156,321	↑	138,921	↑	1,913	↑	4,423
113 Individuals, partnerships, and corporations	↑	12,825	↑	7,346	↑	491	↑	220
114 U.S. addressees (domicile)	↑	349	↑	246	↑	0	↑	104
115 Non-U.S. addressees (domicile)	↑	12,476	↑	7,101	↑	491	↑	116
116 Commercial banks in United States (including IBFs)	↑	22,894	↑	22,009	↑	283	↑	334
117 U.S. branches and agencies of other foreign banks	↑	20,469	↑	19,727	↑	248	↑	334
118 Other commercial banks in United States	n.a.	2,425	n.a.	2,281	n.a.	35	n.a.	0
119 Banks in foreign countries	↑	84,256	↑	78,172	↑	328	↑	2,094
120 Foreign branches of U.S. banks	↑	2,972	↑	2,681	↑	5	↑	246
121 Other banks in foreign countries	↑	81,284	↑	75,490	↑	323	↑	1,849
122 Foreign governments and official institutions (including foreign central banks)	↑	36,245	↑	31,309	↑	797	↑	1,773
123 All other deposits and credit balances	↑	101	↑	85	↑	14	↑	2

Footnotes appear at end of table.

4.30 ASSETS AND LIABILITIES of U.S. Branches and Agencies of Foreign Banks, June 30, 1998¹—Continued

Millions of dollars except as noted

Item	All states ²		New York		California		Illinois	
	Total including IBFs ³	IBFs only ³	Total including IBFs	IBFs only	Total including IBFs	IBFs only	Total including IBFs	IBFs only
124 Federal funds purchased and securities sold under agreements to repurchase	141,980	13,559	126,202	10,758	2,084	554	5,655	1,036
125 U.S. branches and agencies of other foreign banks	13,290	2,597	9,574	1,890	926	171	913	235
126 Other commercial banks in United States	15,520	464	10,783	349	547	73	669	42
127 Other	113,171	10,498	105,845	8,519	611	311	4,073	759
128 Other borrowed money	87,475	34,616	61,383	22,956	10,209	7,911	7,913	1,783
129 Owed to nonrelated commercial banks in United States (including IBFs)	14,872	6,232	10,691	3,616	2,559	1,924	594	167
130 Owed to U.S. offices of nonrelated U.S. banks	6,434	802	5,533	560	531	160	114	32
131 Owed to U.S. branches and agencies of nonrelated foreign banks	8,438	5,430	5,158	3,056	2,027	1,764	480	135
132 Owed to nonrelated banks in foreign countries	25,157	22,788	16,236	14,398	5,987	5,844	1,555	1,490
133 Owed to foreign branches of nonrelated U.S. banks	1,664	1,474	1,100	1,010	345	343	121	121
134 Owed to foreign offices of nonrelated foreign banks	23,492	21,314	15,135	13,388	5,642	5,501	1,435	1,369
135 Owed to others	47,446	5,596	34,457	4,942	1,664	143	5,764	126
136 All other liabilities	92,577	2,184	66,337	1,964	1,176	79	8,130	50
137 Branch or agency liability on acceptances executed and outstanding	3,829	n.a.	2,790	n.a.	679	n.a.	211	n.a.
138 Trading liabilities	65,136	116	43,867	116	59	0	6,591	0
139 Other liabilities to nonrelated parties	23,612	2,068	19,679	1,848	438	79	1,328	50
140 Net due to related depository institutions ⁵	157,942	23,280	90,622	19,395	25,117	390	17,462	189
141 Net due to head office and other related depository institutions ⁵	157,942	n.a.	90,622	n.a.	25,117	n.a.	17,462	n.a.
142 Net due to establishing entity, head office, and other related depository institutions ⁵	n.a.	23,280	n.a.	19,395	n.a.	390	n.a.	189
MEMO								
143 Non-interest-bearing balances with commercial banks in United States	1,257	0	1,039	0	46	0	76	0
144 Holding of own acceptances included in commercial and industrial loans	3,671	↑	2,346	↑	839	↑	396	↑
145 Commercial and industrial loans with remaining maturity of one year or less (excluding those in nonaccrual status)	n.a.	↑	n.a.	↑	n.a.	↑	n.a.	↑
146 Predetermined interest rates	126,355	n.a.	75,386	n.a.	16,071	n.a.	20,314	n.a.
147 Floating interest rates	77,152	↓	45,700	↓	8,125	↓	16,647	↓
148 Commercial and industrial loans with remaining maturity of more than one year (excluding those in nonaccrual status)	49,204	↓	29,686	↓	7,946	↓	3,667	↓
149 Predetermined interest rates	96,223	↓	64,511	↓	11,763	↓	8,366	↓
150 Floating interest rates	22,618	↓	16,271	↓	2,601	↓	2,248	↓
	73,605	↓	48,239	↓	9,162	↓	6,117	↓

Footnotes appear at end of table.

4.30 ASSETS AND LIABILITIES OF U.S. Branches and Agencies of Foreign Banks, June 30, 1998¹—Continued

Millions of dollars except as noted

Item	All states ²		New York		California		Illinois	
	Total excluding IBFs ³	IBFs only ³	Total excluding IBFs	IBFs only	Total excluding IBFs	IBFs only	Total excluding IBFs	IBFs only
151 Components of total nontransaction accounts, included in total deposits and credit balances (excluding IBFs)	281,506	n.a.	238,151	n.a.	4,731	n.a.	12,899	n.a.
152 Time deposits of \$100,000 or more	271,985	n.a.	230,247	n.a.	4,592	n.a.	12,445	n.a.
153 Time CDs in denominations of \$100,000 or more with remaining maturity of more than 12 months	9,521	n.a.	7,904	n.a.	139	n.a.	453	n.a.
	All states ²		New York		California		Illinois	
	Total including IBFs	IBFs only	Total including IBFs	IBFs only	Total including IBFs	IBFs only	Total including IBFs	IBFs only
154 Immediately available funds with a maturity greater than one day included in other borrowed money	36,182	n.a.	26,150	n.a.	5,969	n.a.	2,587	n.a.
155 Number of reports filed ⁶	449	0	226	0	96	0	36	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." The 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 monthly 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). Since December 31, 1985, data for IBFs have been 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 have been 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 owed to related banking institutions in the United States and in foreign countries (see note 5). On the former monthly branch and agency report, available through the G.11 monthly statistical release, *gross* balances were included in total assets and total liabilities. Therefore, total asset and total liability figures in this table are not comparable to those in the G.11 tables.

5. Related depository institutions includes the foreign head office and other U.S. and foreign branches and agencies of a bank, a 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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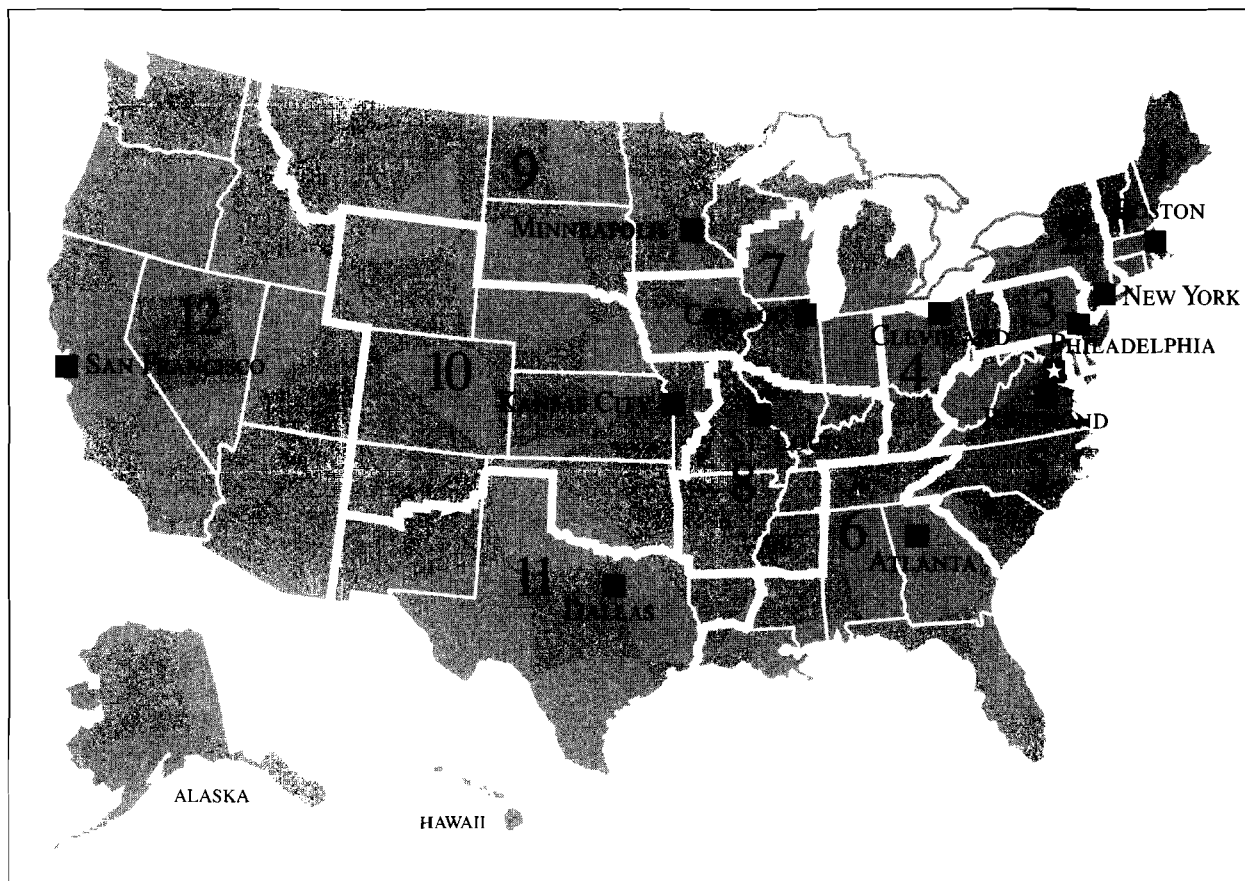
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- Federal Reserve Branch city
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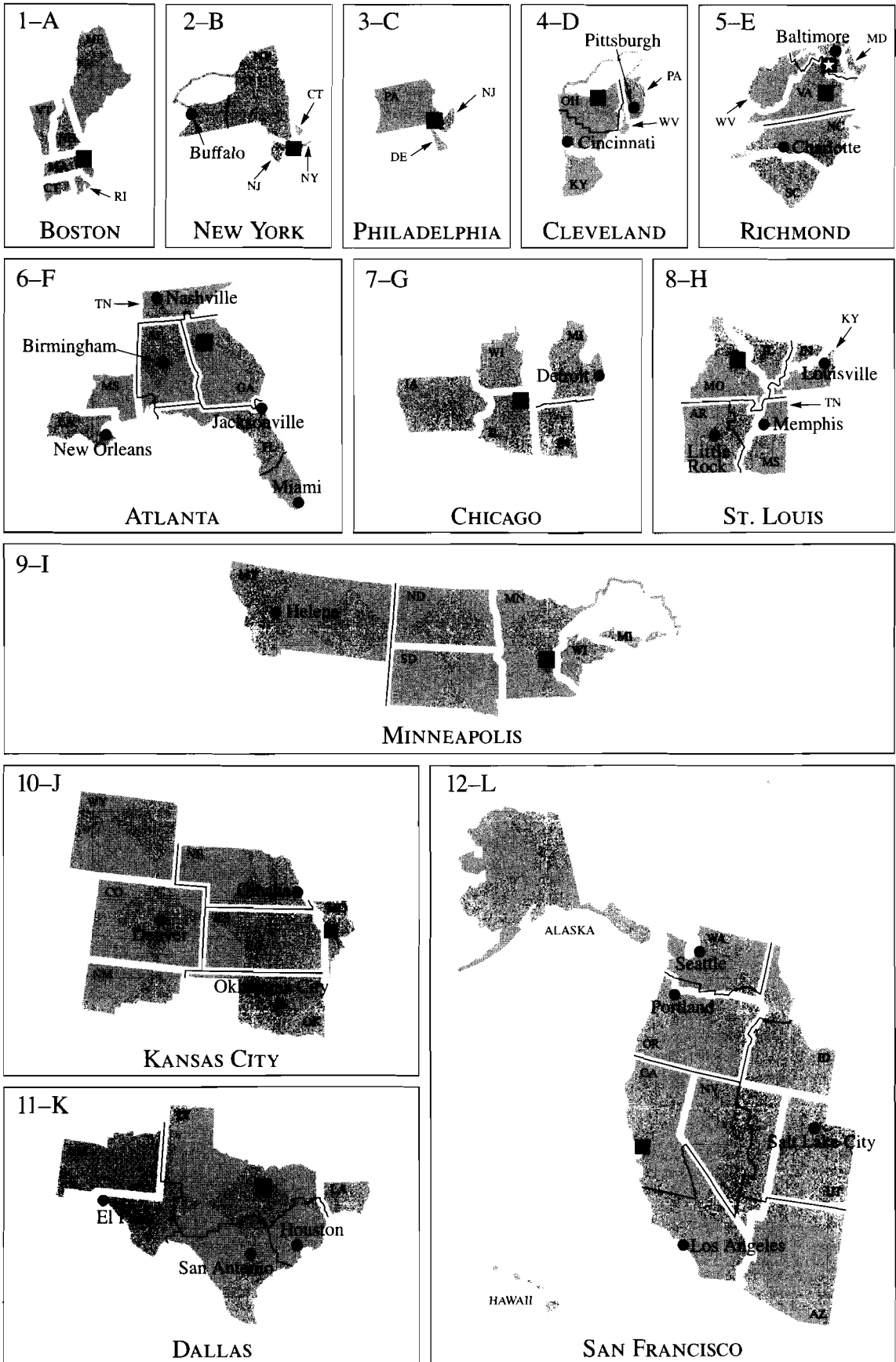
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