61st Annual Report 1974

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

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Letter of Transmittal

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM
Washington, July 16, 1975

THE SPEAKER OF
THE HOUSE OF REPRESENTATIVES.

Pursuant to the requirements of Section 10 of the Federal Reserve Act, as amended, I have the honor to submit the Sixty-First Annual Report of the Board of Governors of the Federal Reserve System.

This report covers operations of the Board during the calendar year 1974.

Yours respectfully,

Arthur F. Burns, *Chairman*

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Contents

Part 1—Monetary Policy and the U.S. Economy in 1974

3 INTRODUCTION

12 DEMANDS FOR GOODS AND SERVICES
15 Consumer purchases
18 Residential construction
19 Business fixed investment
21 Inventory investment
23 Exports and imports of goods and services
24 Federal Government
25 State and local governments

27 EMPLOYMENT, WAGES, AND LABOR COSTS

33 PRICE DEVELOPMENTS
33 Sources of inflation
36 Price movements

39 MONETARY POLICY AND FINANCIAL MARKETS
45 Money and credit aggregates
47 Bank reserves
49 Aggregate flows of funds

57 INTERNATIONAL DEVELOPMENTS
59 U.S. international transactions
64 International financial scene

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Part 2—Records, Operations, and Organization

71 RECORD OF POLICY ACTIONS—BOARD OF GOVERNORS

119 RECORD OF POLICY ACTIONS—FEDERAL OPEN MARKET COMMITEE

228 FEDERAL RESERVE OPERATIONS IN FOREIGN CURRENCIES

230 VOLUNTARY FOREIGN CREDIT RESTRAINT PROGRAM

232 LEGISLATION ENACTED
232 Depositary institutions amendments
233 Federal Trade Commission Improvements Act
234 Internal Revenue Code amendments
234 Obligations of bank holding companies
234 Commodity Futures Trading Commission Act
235 International Development Association Act amendments
235 Second Liberty Bond Act amendment
235 Freedom of Information Act amendments
236 Real Estate Settlement Procedures Act
236 Housing and Community Development Act
236 Congressional Budget and Impoundment Control Act
237 Defense Production Act amendments
237 Emergency Home Purchase Assistance Act
237 Other

238 LEGISLATIVE RECOMMENDATIONS
238 Banking supervision and regulation
243 Monetary policy
244 Consumer affairs and public service

246 LITIGATION
246 Bank holding companies—Antitrust action
246 —Review of Board actions
255 Other litigation involving challenges to Board procedures and regulations

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259 BANK SUPERVISION AND REGULATION BY THE FEDERAL RESERVE SYSTEM
259 Bank holding companies
260 Examination of member banks
262 Federal Reserve membership
263 Bank mergers
264 Foreign branches of member banks
266 Foreign banking and financing corporations
266 Actions under delegation of authority
267 Bank Examination Schools

268 TRUTH IN LENDING
268 Administrative functions
273 Compliance
276 Recommendations

278 FEDERAL RESERVE BANKS
278 Payments mechanism developments
279 Examination
280 Earnings and expenses
281 Holdings of loans and securities
282 Volume of operations
282 Loan guarantees for defense production
283 Foreign and international accounts
283 Federal Reserve bank premises

284 BOARD OF GOVERNORS
284 Completion of Martin Building
284 Income and expenses

STATISTICAL TABLES
290 1. Detailed statement of condition of all Federal Reserve Banks combined, Dec. 31, 1974
292 2. Statement of condition of each Federal Reserve Bank, Dec. 31, 1974 and 1973
296 3. Federal Reserve Bank holdings of U.S. Government and Federal agency securities, Dec. 31, 1972–74
297 4. Federal Reserve Bank holdings of special short-term Treasury certificates purchased directly from the United States, 1969–74
298 5. Open market transactions of the Federal Reserve System during 1974

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STATISTICAL TABLES—Continued

299 6. Bank premises of Federal Reserve Banks and branches, Dec. 31, 1974
300 7. Earnings and expenses of Federal Reserve Banks during 1974
302 8. Earnings and expenses of Federal Reserve Banks, 1914–74
304 9. Volume of operations in principal departments of Federal Reserve Banks, 1971–74
304 10. Number and salaries of officers and employees of Federal Reserve Banks, Dec. 31, 1974
305 11. Federal Reserve Bank interest rates, Dec. 31, 1974
306 12. Member bank reserve requirements
308 13. Maximum interest rates payable on time and savings deposits
309 14. Margin requirements
310 15. Fees and rates under Regulation V on loans guaranteed pursuant to Defense Production Act of 1950, Dec. 31, 1974
311 16. Principal assets and liabilities, and number of commercial and mutual savings banks, by class of bank, Dec. 31, 1974 and 1973
312 17. Member bank reserves, Federal Reserve Bank credit, and related items—end of year 1918–74 and end of month 1974
316 18. Changes in number of banking offices in the United States during 1974
318 19. Number of par and nonpar banking offices, by Federal Reserve district, Dec. 31, 1974
318 20. Number of par and nonpar banking offices, by State and other area, Dec. 31, 1974
320 21. Description of each merger, consolidation, acquisition of assets or assumption of liabilities approved by the Board of Governors during 1974

343 MAP OF FEDERAL RESERVE SYSTEM—DISTRICTS

FEDERAL RESERVE DIRECTORIES AND MEETINGS

346 Board of Governors of the Federal Reserve System
348 Federal Open Market Committee
349 Federal Advisory Council
352 Federal Reserve Banks and branches

376 INDEX

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Part 1

Monetary Policy and the U.S. Economy in 1974

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Introduction

The performance of the U.S. economy during 1974 proved extremely disappointing. The persisting problem of inflation that had plagued the Nation since 1965 worsened appreciably; the general price level—as measured by the implicit deflator for gross national product —rose by more than 10 per cent, the largest increase since 1947. Equally disconcerting, if not more so, were the substantial declines that occurred in real output, in productivity, and late in the year in employment. By year-end the rate of unemployment had risen to more than 7 per cent of the civilian labor force, and the economy was in the midst of a general cyclical downturn in business activity.

The character of the forces that led to this unsatisfactory state of affairs presented a profound dilemma for economic policy. Widespread agreement exists that the United States must come to grips with inflation if seriously adverse consequences for the structure of financial, economic, and social institutions are to be avoided. The task of moderating inflation in 1974 fell largely to general monetary and fiscal policies; direct controls over wages and prices were eliminated in the spring, after having had only temporary success in moderating the increase in the average price level—and that at the cost of increasing distortions in the allocation of resources.

The effect on prices of a restriction of aggregate demand through monetary and fiscal policy generally lags behind the response of real output. However, the price response is likely to be elicited sooner when the proximate source of inflationary pressures is an excess of aggregate demand relative to aggregate supply and when expectations of further price increases have not become entrenched and pervasive. In 1974, unfortunately, neither of these conditions obtained.

The year 1974 opened with inflation proceeding at an annual rate of about 8 to 9 per cent. Expectations were widespread that the pace of price advance would continue unabated, or worsen. Real GNP had begun to decline in the first quarter—reflecting largely the effects of the oil embargo—and the gap between actual and potential real output widened over the course of the year. The rate of increase in

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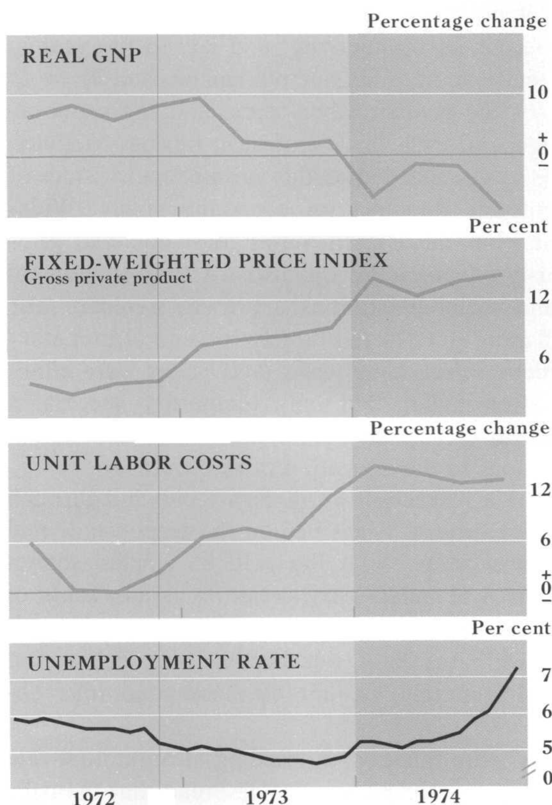
the general price level, meanwhile, rose to the 12 to 14 per cent range in the first quarter and remained there through most of the year. Signs of moderation in the pace of inflation did not begin to appear until the closing months of 1974, after steep declines in real activity had occurred both here and abroad.

INDICATORS OF ECONOMIC PERFORMANCE



NOTE.—Changes for real GNP (based on data expressed in 1958 dollars) are at annual rates. Dept. of Commerce data.

Fixed-weighted price index: Change from preceding quarter compounded at annual rates based on seasonally adjusted data from Dept. of Commerce.

Unit labor costs are for all persons in the private nonfarm economy; percentage change from previous quarter compounded at annual rates.

Unemployment rate: Monthly data, seasonally adjusted, from Dept. of Labor.

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What accounted for this stepped-up rate of inflation in the face of a growing gap between real aggregate demand and the productive capacity of the economy? Three factors deserve particular attention.

First, rising costs of petroleum and other energy products had a substantial influence on the over-all level of prices. At the retail level, prices of gasoline and motor oil in December 1974 were about 20 per cent higher than a year earlier, while costs of fuel oil and coal were 32 per cent higher. At wholesale, prices of fuel, power, and related products rose approximately 50 per cent in the 12 months ended in December 1974. Moreover, rising prices of energy and petrochemical products used as inputs in industry were an important factor driving up the costs of producing other manufactured goods. For example, prices of chemicals and allied products rose about 50 per cent at wholesale in the year ended in December 1974, and rubber and plastic products were up about 28 per cent over the same period.

Second, relaxation and ultimate termination of wage and price controls in April 1974 led to a bulge in prices of the sort that has occurred in other countries when direct controls have been removed. As noted earlier, controls had had only temporary success in moderating the pace of inflation; in early 1974, and indeed throughout 1973, the influence of the controls program had been waning. Nonetheless, some 2½ years of controls had given rise to serious distortions in relative prices and had also compressed profit margins in some industries. For many individual products, therefore, a substantial adjustment in prices was to be expected. The adjustments were particularly noticeable for finished goods—perhaps because price controls had been more effective in holding down the prices of those commodities. For example, wholesale prices of producers' finished goods had risen at an annual rate of around 5 per cent during the latter half of 1973; in 1974, however, the annual rate of increase jumped to 13 per cent in the first quarter, to 27 per cent in the second, and to 32 per cent in the third.

Third, shortages of many industrial materials, component parts, machinery, industrial equipment, and other commodities continued to plague the business community through the summer of 1974, despite the slowdown in general business activity. Excess demand in particular markets is not an uncommon condition, even when some

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slack exists in product markets generally. Nevertheless, the acute severity of shortages in 1974 was quite unusual in view of the sluggishness of consumer spending and the decline in residential construction that had been in process since early 1973.

The reasons for these shortages cannot be dealt with at any length here. Growth in export demands—reflecting the worldwide boom in economic activity during 1972 and 1973 and the devaluation of the dollar in international markets—was certainly a factor; so also was the relatively slow expansion earlier of productive capacity in major materials industries. But expectations of price increases and fears of continuing shortages were themselves a part of the problem, because they led to speculative buying of inventories to "jump the gun" on price increases, to hoarding of critical materials and supplies, and to ordering from several sources in the expectation that deliveries would be long delayed, if made at all.

While these three factors help to account for the step-up in the rate of price advance in 1974, they alone do not explain fully the severity of the inflation during the year. Underlying these special factors was an inflationary process that had begun much earlier and had become deeply embedded in the structure of wages, costs, and prices. The rate of increase in compensation per manhour, for example, had risen to around 8 per cent by the end of 1973, some 5 or more percentage points above the long-term rate of improvement in productivity. By the end of 1973, therefore, unit labor costs were already rising very rapidly and were putting substantial upward pressure on prices. Moreover, the rate of advance in unit costs accelerated in 1974—as productivity declined sharply and the rate of increase in compensation per manhour rose still further.

Unwinding from an inflation as pervasive as that which gripped the economy in 1974 takes time. Economic policy in 1974 did not endeavor to end the inflation at once, but it did seek to create conditions in which the process of unwinding would begin. To appreciate the accomplishments of fiscal and monetary policies in this regard, account must be taken of the significance of inflation for the movements of fiscal and monetary variables.

For example, total Federal expenditures as measured in the national income accounts (NIA) rose about 16 per cent from the latter half of 1973 to the latter half of 1974. This is a relatively large

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percentage increase by historical standards, but in large part it reflected rising prices. Federal receipts rose an estimated 13 per cent over the same period. The NIA deficit increased from an annual rate of about $2 billion in the second half of 1973 to an estimated $9 billion in the second half of 1974—a very modest increase given the steady slowing of activity over this period.

Despite this deepening of the deficit, the Federal budget may well have become more restrictive over the course of 1974. This interpretation is suggested by movements in the high-employment budget, in which receipts and expenditures are estimated as if economic activity had remained strong, in order to eliminate the effects on the budget of changes in the pace of the economy. According to Federal Reserve staff estimates, the high-employment budget was in surplus to the extent of around $5 billion in the second half of 1973, and the surplus increased to around $24 billion in the second half of 1974.

Most of this increase in the high-employment surplus occurred because of the effects of rising prices on Federal tax receipts. Inflation pushed many individuals into higher marginal tax brackets—even though their real income may have either remained unchanged or declined. Many corporations, furthermore, incurred increased tax liabilities in 1974 on what were in a sense fictitious profits—profits derived from the first-in, first-out method of inventory accounting, which fails to make allowance for replacement at higher prices of goods sold or used up in production. Thus, the inflation, by raising effective tax rates, significantly reduced the increase in disposable incomes of individuals and after-tax profits of businesses, and thereby contributed to a slowing of aggregate demand.

Monetary policy also contributed importantly to the moderation of aggregate demand in 1974. Federal Reserve policy had begun to move toward restraint in late 1972 and early 1973, but some relaxation of policy was needed during the winter of 1973–74, in an effort to compensate for some of the adverse effects of the oil embargo on economic activity. As a result of the reduction in private credit demands and the relaxation of monetary policy, interest rate levels by February of 1974 had fallen considerably below their pre-oil-embargo peaks, and growth rates of the principal monetary aggregates were appreciably above their lows of 1973.

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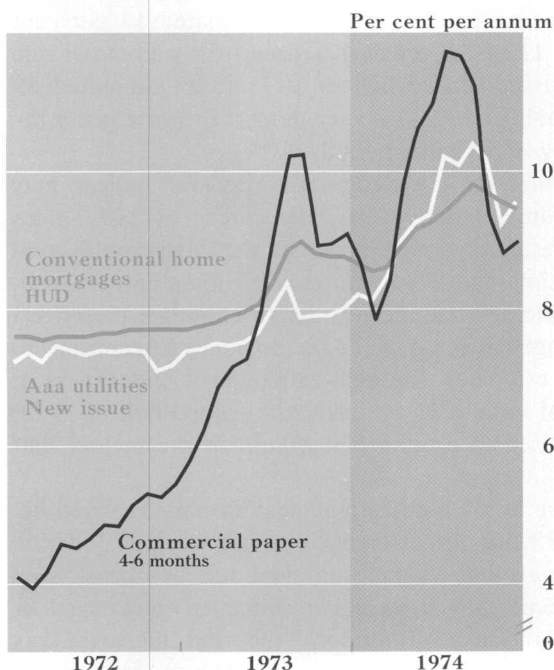
SELECTED INTEREST RATES



NOTE.—Monthly averages except for conventional mortgages (based on quotations for one day each month). Yields: prime commercial paper, dealer offering rates; conventional mortgages, rates on first mortgages in primary markets, unweighted and rounded to nearest 5 basis points, from Dept. of Housing and Urban Development; Aaa utility bonds, weighted averages of new publicly offered bonds rated Aaa, Aa, and A by Moody's Investors Service and adjusted to an Aaa basis.

When the threat to the economy from the oil embargo had passed, the Federal Reserve began again to exert pressure on bank reserves—chiefly through open market operations—to slow the rapid rate of expansion in money and bank credit. The Federal Reserve persisted in applying monetary restraint until late in the summer of 1974. At that time growth rates of the money stock and of bank credit were relatively sluggish, and signs of an impending cyclical downturn were multiplying. Monetary policy, therefore, began to move toward ease over the closing months of the year.

The amounts by which growth rates of the major monetary aggregates were reduced in 1974 were not unusually large. For example,

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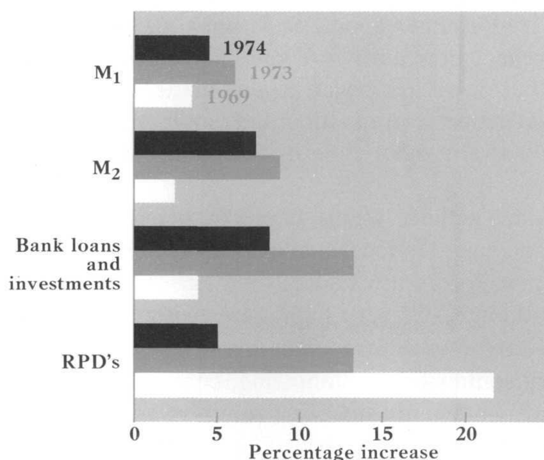
total member bank reserves rose nearly as much in 1974 (7.1 per cent) as they had in 1973 (7.8 per cent). The narrowly defined money stock—M_1, which consists of currency and demand deposits—increased by 4.7 per cent in 1974, compared with 6.1 per cent in 1973. The growth rate of M_2, which includes also consumer-type time and savings deposits at commercial banks, declined from 8.8 per cent in 1973 to 7.4 per cent in 1974. The increase in total loans and investments of commercial banks did show a more appreciable moderation—from 13.5 per cent in 1973 to around 8.3 per cent in 1974. Nevertheless, as the following chart shows, the growth rates for the monetary aggregates in 1974 were well above those recorded in 1969, a prior year in which monetary policy had been quite restrictive.

In interpreting changes in these monetary variables, however, account must be taken of the effects of inflation on demands for money and credit. In 1969 the general price level was rising at a rate of around 5 per cent; in 1974, the figure was more than twice that amount. Thus, growth rates of the major monetary and credit

CHANGES IN MONETARY AGGREGATES



NOTE.—M_1 is currency plus private demand deposits. M_2 is M_1 plus commercial bank time and savings deposits other than large-denomination certificates of deposit (CD's). Loans and investments are adjusted to exclude domestic commercial interbank loans. RPD's are reserves available to support private nonbank deposits. Changes are calculated from December to December.

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aggregates were actually very low in 1974 relative to demands for money and credit. In these circumstances the usual signs of severe financial restraint began to develop: Interest rates rose to unprecedented levels; stock prices plummeted; the mortgage market came under severe pressure; and the availability of loanable funds to other borrowers was curtailed.

Monetary and fiscal restraints worked jointly to moderate aggregate demand in 1974, but the volume of spending in the private sector was curbed also by several other factors. Prominent among these was the sharp rise in the price of imported oil, which transferred a substantial amount of purchasing power from U.S. consumers and businesses to the oil-exporting nations. Rising prices also resulted in transfers of real income among various economic sectors within the United States—although the effects of such transfers on aggregate expenditures are problematical—and they led to a sharp decline in the real value of financial asset holdings, which must have exerted a substantial, depressing effect on current spending and on spending plans.

All of these dampening effects on aggregate demand in 1974, moreover, occurred at a time when the economic expansion was losing momentum, and when imbalances were beginning to develop between inventories and sales and between production of capital goods and production of consumer goods. Such imbalances are often the precursors of a cyclical downturn in economic activity, as they were in 1974. When that downturn began to cumulate in the fourth quarter of the year, the decline in production and employment proved to be about as steep as at any other time in the period since World War II.

Weakness in economic activity seems likely to persist well into 1975—judging by the adverse tendencies evident in recent economic data. However, corrective forces are under way: Excess inventories in the auto industry—though still very high—are being worked off; businesses are making strenuous efforts to cut costs; residential building permits have shown some signs of stabilizing; conditions in financial markets have eased significantly since last summer; and the freeze in the mortgage market has begun to thaw. Fiscal actions to bolster purchasing power are under active consideration, and they are likely to be stimulating consumer and business spending before too long.

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The tasks for economic stabilization policy in 1975 are indeed formidable. Clearly, a prime requisite is to cushion the forces of recession and to enhance the chances for an early and vigorous recovery in real economic activity. But great care must be taken to avoid releasing a new wave of inflationary forces.

These two objectives are not necessarily inconsistent. The special factors giving rise to a stepped-up pace of inflation in 1974 are now largely behind us, and the rate of increase in prices has begun to moderate in recent months in response to growing slack in labor and product markets. In this environment, temporary fiscal and monetary stimulants could be expected to have their principal effects in 1975 on real output and employment, and not on prices. But fiscal and monetary policies must not be permitted to depart too much, or too long, from the posture needed over the longer term to ensure an eventual return to price stability. □

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Demands for Goods and Services

In 1974 the economic expansion that had been under way since late 1971 came to a halt. For the year as a whole, GNP in current dollars increased about 8 per cent, but this rise was more than accounted for by higher prices; real GNP declined by more than 2 per cent compared with a 6 per cent increase in 1973.

The sources of the recessionary trend that developed during the year were diverse. Early in the year the weakening of economic activity appeared to be selective, affecting mainly energy-intensive and related activities. As the year progressed, however, reduced demands became the dominant factor. By autumn the weakness in purchases and in industrial production began to spread to nearly all sectors of the economy. Employment dropped sharply in November and December, and by the year-end unemployment had risen to 7.2 per cent. Employment fell further in January 1975, and the unemployment rate rose to 8.2 per cent.

A major factor accounting for the dampening of demands in 1974

Table 1: GROSS NATIONAL PRODUCT

Type of measure	1972	1973	1974	1974[1]			
				Q1	Q2	Q3	Q4
	In billions of dollars						
Current dollars	1,158	1,295	1,397	1,359	1,384	1,416	1,430
1958 dollars	793	839	821	831	827	823	804
	Percentage change from preceding period (at annual rate)						
Current dollars	9.8	11.8	7.9	4.5	7.6	9.7	4.0
1958 dollars	6.2	5.9	−2.2	−7.0	−1.6	−1.9	−9.1
Implicit deflator	3.4	5.6	10.3	12.3	9.4	11.9	14.4

[1] Quarterly data are seasonally adjusted annual rates.

NOTE.—Dept. of Commerce data.

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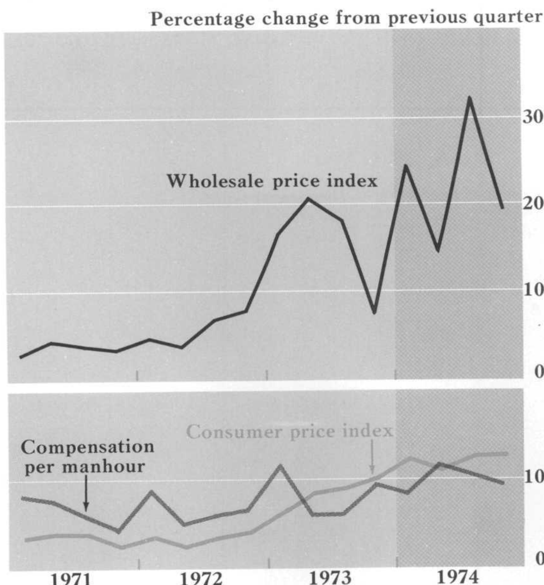
was the severe and pervasive rise in prices—the worst inflation since the period immediately following World War II. Consumer prices in December were 12 per cent above a year earlier. Wholesale prices had risen even more than that, and for industrial commodities the increase was more than 25 per cent. However, by year-end there were indications of some abatement in price pressures, with prices of sensitive industrial commodities down sharply and slower rates of increase in wholesale and consumer prices.

The reduction in total output early in 1974 was associated largely with the effects of the oil embargo. Most adversely affected were sales of large-size cars, but recreational and other activities closely related to the use of fuels were also hard hit. However, output of materials and business equipment remained close to record levels. Shortages of many products continued to be widely reported.

After the embargo ended in April, demands that had been

PRICES AND COMPENSATION



NOTE.—Changes based on quarterly data at seasonally adjusted annual rates. Compensation per manhour is for private nonfarm economy. Dept. of Labor data.

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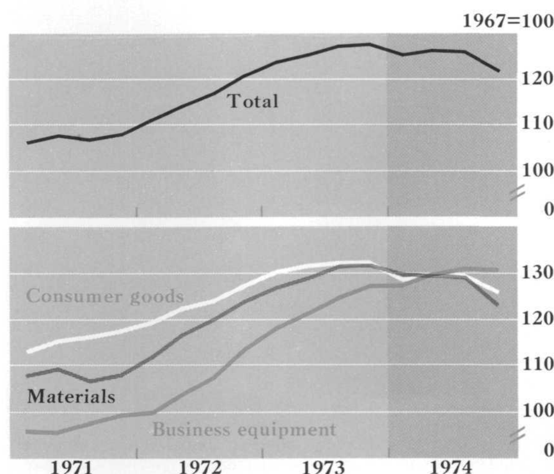
depressed by the scarcity of oil showed signs of recovery; at the same time output of business equipment and materials continued at high levels. Nevertheless aggregate demand remained weak, and the economy as a whole never resumed its upward momentum. As time went on, shortages became less acute, delivery times were shortened considerably, and pressures on capacity eased.

All major sectors of private final demand weakened appreciably in the final quarter of the year and the drop in real GNP—9.1 per cent at an annual rate—was the largest since before World War II. With real incomes continuing to fall, real personal consumption expenditures for goods dropped sharply further—paced by a plunge in sales of 1975-model automobiles. Outlays for residential construction continued to deteriorate, and housing starts fell to an 8-year low. Around midyear, many firms began to cut back on their capital spending plans, and by the fourth quarter outlays for business fixed investment were down sharply in real terms.

The intensification of recessionary forces brought with it a marked change in business inventory policies. Inventories had been rising relative to final sales in real terms since early 1973. Even so, businessmen did not move quickly to trim excessive stocks. In the last

INDUSTRIAL PRODUCTION



NOTE.—Federal Reserve indexes, seasonally adjusted.

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quarter, however, as final demands declined and the supply situation improved, they made strenuous efforts to reduce stocks by cutting production. Nevertheless, there was a sharp, involuntary build-up of inventories, which resulted in further cutbacks in output and employment.

Through the summer, employment had continued to rise moderately, even though output drifted downward. The labor market was slow to adjust to sluggish demand conditions during this period, apparently in part because of the inability of businesses to perceive the developing decline in economic activity in the face of continuing shortages of materials and of the steady increases in prices.

By the final quarter of the year, however, pervasive weaknesses in demand were unmistakable, and extremely rapid adjustments occurred in the labor market. Large layoffs began in the automobile industry and quickly spread to other industries, and employment fell by a record 1.1 million in the final 2 months of the year. Unemployment rose among all labor market groups, and the rate reached 7.2 per cent by year-end. Nevertheless, output fell even more sharply than employment, and productivity continued to decline; this suggested the probability of further reductions in employment in early 1975.

CONSUMER PURCHASES

A dominant factor in the dampening of over-all economic growth in 1974 was the weakness in consumer spending. Acceleration in prices caused a significant drop in the real purchasing power of wages and in the real value of financial assets, which in conjunction with the rise in unemployment led to a severe loss of consumer confidence. Real consumer spending deteriorated very rapidly in the fourth quarter, and for the year consumer purchases of goods and services declined 2 per cent in real terms compared with an increase of close to 5 per cent in 1973.

In late 1973 and early 1974, new car sales were sharply reduced because of the gasoline shortage. After the oil embargo was lifted, more fuel became available, but at much higher prices, and with auto prices also higher than in 1973, sales improved only moderately. Sales of 1974 models were boosted during the summer mainly because of manufacturers' announcements of sharply higher prices for the upcoming 1975 models. But the increase proved to be

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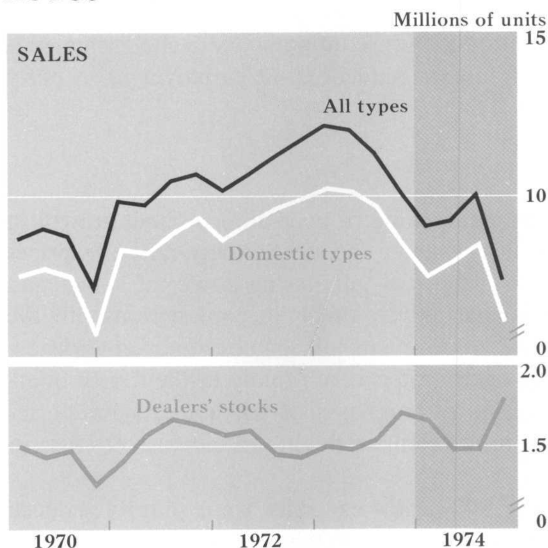
short-lived; in the fourth quarter total auto sales plunged by 29 per cent to a 7.4 million annual rate and sales of domestic models dropped to a 6 million annual rate. This was the lowest sales rate in 14 years except for the strike-induced decline in 1970. Sales in early 1975 remained weak and further cutbacks of production and employment were instituted. However, the introduction of price rebates in late January helped to provide some support for sagging automobile sales.

Real outlays for other durable goods, such as furniture and appliances, also weakened in 1974 but the decline was less than for autos. Similarly, spending in real terms for nondurable goods such as food, clothing, and gasoline was reduced. In contrast, although expenditures for services slowed, they continued to increase at a faster pace than the rise in prices.

AUTOS



NOTE.—Sales, quarterly data at annual rates, seasonally adjusted by Federal Reserve; domestic types include sales in the United States of cars produced in Canada. Dealers' stocks, seasonally adjusted, for domestic-type cars only. Sales from Ward's *Automotive Reports*; dealers' stocks from Motor Vehicles Manufacturers Association.

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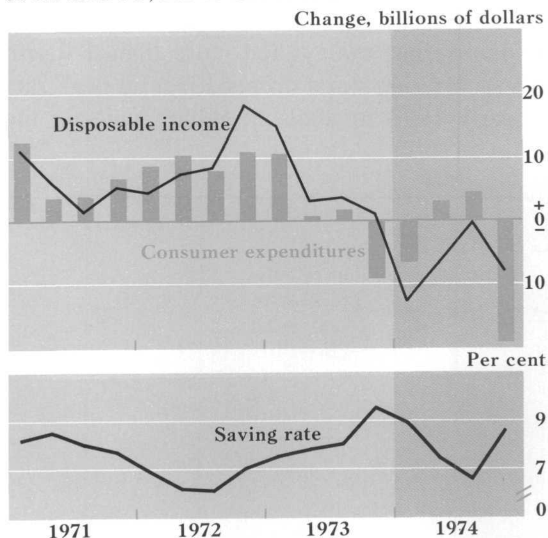
Curtailment of real consumption was largely the consequence of a large and rapid decline in real disposable income. From the fourth quarter of 1973 to the fourth quarter of 1974 this decline amounted to 4.2 per cent and was more than three times as severe as the loss during the 1958 recession—up to then the largest erosion in real income since the period immediately following World War II. Reductions in real disposable income were not caused solely by the failure of wages to keep pace with inflation; an increase in the social security tax base and the impact of the progressive income tax levied on inflated nominal incomes also reduced real income after taxes in 1974.

The adverse effect on consumer attitudes of sharply declining real income and of rising unemployment was underscored by consumer surveys during the year. By the fourth quarter consumers' appraisals

DISPOSABLE INCOME, SPENDING, AND SAVING



NOTE.—Expenditures and income are in terms of 1958 dollars; changes from preceding quarter are based on quarterly data at seasonally adjusted annual rates. Saving rate is personal saving as a percentage of disposable personal income. Dept. of Commerce data.

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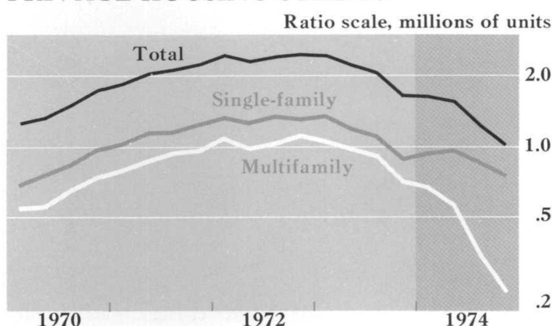
of their financial condition and of the outlook for the economy were more pessimistic than in any previous survey. While a fairly high proportion of the respondents had indicated earlier in the year that it was probably a good time to buy because of anticipated price increases, by year-end many consumers held the view that it was necessary to curtail spending because prices had become too high.

In each of the first three quarters of 1974 consumers lowered their saving rate from the high rates associated with the oil embargo of late 1973. The rate increased again in late 1974 when consumers sharply reduced their outlays for goods—in part in an attempt to maintain liquidity as unemployment worsened, inflation remained acute, and uncertainty about the future increased. Early in 1975 the administration began to take action to provide tax relief for both consumers and business, which, if enacted, could increase confidence and provide some stimulus to consumer spending.

RESIDENTIAL CONSTRUCTION

The extremely sharp decline in private residential construction activity, which had begun in 1973, continued to depress final demands during 1974. In real terms, outlays fell more than a fourth from the 1973 total. Private housing starts dropped from a peak rate of 2.4 million units in early 1973 to about 1 million units in the

PRIVATE HOUSING STARTS



NOTE.—Quarterly averages based on monthly figures at seasonally adjusted annual rates. Dept. of Commerce data.

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fourth quarter of 1974—the steepest decline in the post-World-War-II period.

Record mortgage rates and curtailment of credit availability were major depressants in the housing market. In addition, the increasing costs of new homes, as well as the unusually large stocks of unsold units still held by builders, constrained single-family starts in 1974. Federal Government programs aimed at providing additional mortgage financing, generally at rates below those prevailing in the market, were expanded considerably from the low level of 1973, and these programs helped to cushion the decline in starts.

Much of the slump in housing starts in 1974 was in multifamily units. This reflected higher costs of land, labor, and materials, as well as the fact that many rental units—including those still under construction—continued to overhang the market. Financial factors also played a major role in reducing starts of condominiums and other multifamily units during the year. Builders in recent years had depended rather heavily on the real estate investment trusts for construction financing, but the financial difficulties experienced by these intermediaries in 1974 helped to cause a sharp decline in the availability of funds for construction and development purposes; under these conditions, pressures on costs of such mortgage credit continued.

Prospects for housing activity improved toward the end of 1974, as deposit flows to mortgage lending institutions increased—due to declines in market rates of interest—and mortgage markets eased. The likely extent of a recovery in housing, however, remains clouded by the exceptionally large inventory of units still under construction and the depressed levels of consumer confidence.

BUSINESS FIXED INVESTMENT

Business capital spending slowed and then declined during 1974, marking the end of the investment boom that had provided expansive support for economic activity since early 1972. Although current-dollar investment outlays rose by about 9 per cent during 1974, prices of capital goods increased by almost 10 per cent; thus real outlays were off fractionally. In contrast to the pattern of the previous 2 years, spending for business construction was stronger than spending for equipment, reflecting in part the severe decline in business purchases of motor vehicles.

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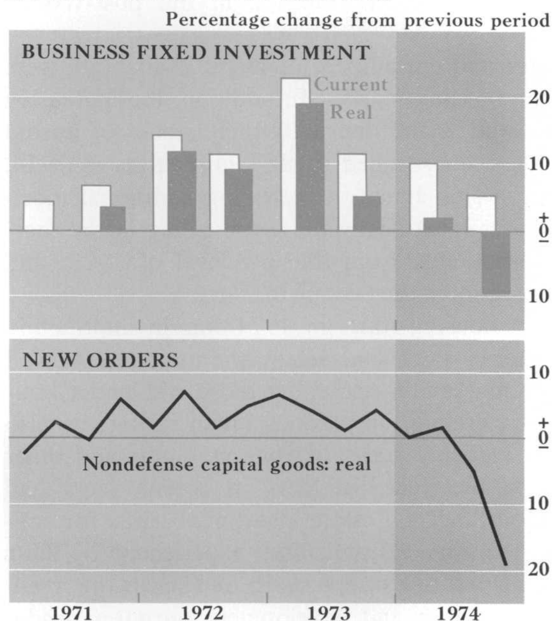
INVESTMENT AND ORDERS



NOTE.—Changes in investment based on Dept. of Commerce data at seasonally adjusted annual rates. Orders based on quarterly averages of seasonally adjusted monthly data from Dept. of Commerce; deflation by Federal Reserve.

The downturn in real capital expenditures came late in 1974 and reflected a variety of factors—the falling off in consumer and housing demands, the sharp increase in the cost of capital equipment following the lifting of price controls, the cumulative impact of tightened financial markets, and the weakened cash-flow position experienced by many business firms. Shortages, which had played a part in holding down capital expenditures early in 1974, became less of a problem as demand weakened; and as use of capacity eased, the need for expansion of productive facilities became less urgent.

Capital outlays of most manufacturing industries remained strong in 1974, supported to some extent by sustained worldwide demands for materials during most of the year. Producers of capital goods, nonferrous metals, paper, and chemicals increased their plant and equipment expenditures substantially for the second year in a row. Sharp gains were also recorded by petroleum and iron and steel pro-

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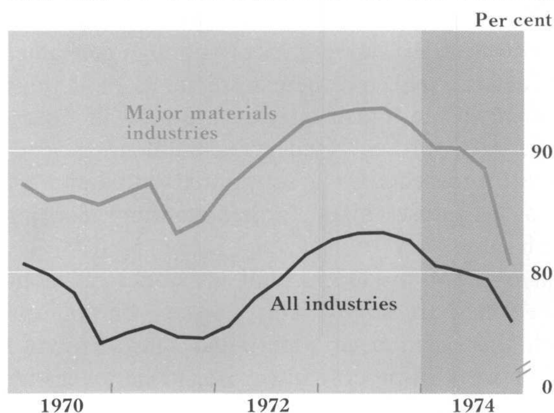
CAPACITY UTILIZATION IN MANUFACTURING



NOTE.—Utilization is average output, seasonally adjusted, as a percentage of potential capacity. Federal Reserve data.

ducers. In sectors other than manufacturing, however, signs of a downturn in real spending were evident fairly early in the year. The energy crisis had a pronounced impact on outlays in the already depressed commercial sector. Also, public utilities curtailed their plant expansion programs as projections for long-term growth were scaled down and as their financial positions deteriorated because of increased fuel prices, higher interest costs, delays in obtaining authority for higher rates, and a slowing in demands for power.

At the year-end, surveys of anticipated plant and equipment expenditures suggested that there would be a significant decline in real capital expenditures in 1975, with only industries in the materials-producing sector showing any significant year-over-year increases. Pointing in the same over-all direction was the marked decline in real new orders for nondefense capital goods and in contracts for nonresidential structures. Early enactment of the administration's proposal for increasing the investment tax credit, however, could bolster prospects for capital spending by the latter half of 1975.

INVENTORY INVESTMENT

Realization that an extensive adjustment was under way throughout the economy caused businessmen to modify their inventory policies

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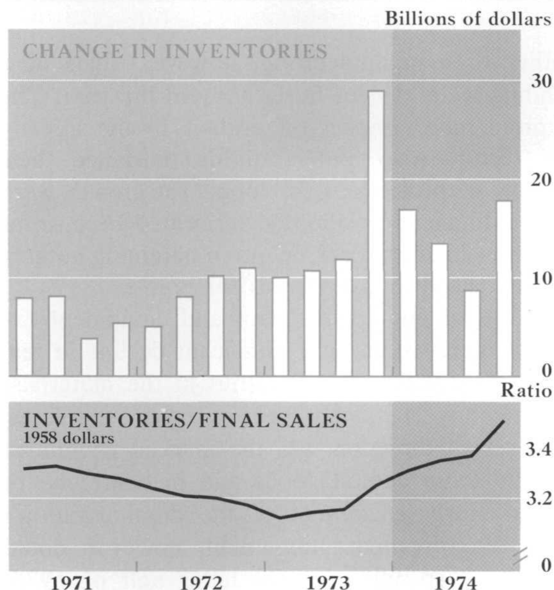
during the second half of 1974. The stock of inventories relative to real final sales rose rather sharply until the summer when firms began to make vigorous efforts to trim excessive stocks. Although consumer and business demands deteriorated and there were sharp reductions in output and employment in the fourth quarter, the ratio of inventories to final sales rose even further—evidencing unintended accumulation. Thus, there are prospects for a substantial liquidation of stocks early in 1975, as businesses make further attempts to bring inventories into line with sales.

During the first half of 1974 producers built up stocks of goods that had previously been in short supply. This was true particularly for materials, of which there had been widespread shortages since mid-1973. But stocks of work-in-process also rose, in part because

BUSINESS INVENTORIES AND SALES



NOTE.—Inventory change (NIA), Dept. of Commerce quarterly data at seasonally adjusted annual rates.

Inventories/final sales, based on Dept. of Commerce seasonally adjusted data for end-of-quarter book value of business inventories (estimated from inventory-change series) and total GNP final sales expressed at monthly rates. Ratio calculated by Federal Reserve.

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of remaining production bottlenecks and also because sales expectations were still relatively optimistic. Late in the year, stocks of materials rose sharply further, as did those of finished goods. The accumulation of finished goods was involuntary for the most part and was especially pronounced in the automobile industry where dealer stocks reached record highs despite sharp cutbacks in production.

EXPORTS AND IMPORTS OF GOODS AND SERVICES

After having shifted from a deficit to a surplus in 1973, the U.S. balance on goods and services moved back into deficit in 1974. Much of this change was due to merchandise trade developments, but an important part was also attributable to service-account transactions. In the first half of 1974 the merchandise trade deficit totaled $3½ billion at an annual rate. Most of the weakening in the first-half balance reflected the dramatic increase in the price of imported oil, particularly beginning in the second quarter after the Arab embargo on oil shipments to the United States was lifted. In the second half the trade deficit rose to about $8 billion at an annual rate. Although the average price of imported oil leveled off at about $11.60 per barrel, the value of oil imports rose as the volume increased. Meanwhile, both the value and the volume of agricultural exports declined. Average prices of these exports rose, particularly in the fourth quarter, but the volume of shipments was reduced because of disappointing harvests.

For the year the value of merchandise imports rose by nearly 50 per cent, and the value of exports by about 40 per cent. In real terms, however, imports declined somewhat while the volume of exports increased by nearly 8 per cent. Some of these changes are due to developments in agricultural and oil commodities, but 75 per cent of all U.S. trade is in nonagricultural and nonfuel commodities. The net of these transactions for the latter two groupings had a positive effect on the over-all trade balance; that is, such transactions showed a steady improvement during the year.

The volume of U.S. nonagricultural exports remained strong throughout the first half even though foreign economic activity weakened somewhat; in the second half there were sharper reductions in economic activity abroad, and the volume of U.S. nonagricultural exports began to decline. Weakening U.S. economic activity through-

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out the year resulted in a decreasing volume of nonfuel imports beginning in the second quarter. Prices of both nonfuel imports and nonagricultural exports increased by about 25 per cent during the year.

The surplus in the balance on services increased in 1974 as a result of sharply improved investment income, especially for the foreign affiliates of U.S. oil firms. Partially offsetting this increase were higher U.S. interest payments to foreigners as interest rates in this country rose steeply.

FEDERAL GOVERNMENT

During periods of decline in economic activity, it is expected that reduced incomes will tend to slow the growth in Federal receipts and that the Federal deficit will increase, thereby partially cushioning the effect of reductions in spendable incomes. But this did not occur during the first three quarters of 1974. Instead, a large growth in nominal incomes, generated mainly by a high rate of inflation, resulted in a sharp increase in Federal revenues. In the face of continuing curbs on expenditures, the Federal budget thus tended to become somewhat more restrictive. However, a $7.6 billion deficit was recorded, on an NIA basis, for all of 1974—a little more than the deficit of almost $6 billion for 1973. The NIA deficit was quite small through the first three quarters of the year, but during the final quarter it increased sharply, sparked by higher unemployment benefits and a moderation in the growth of tax receipts—each a result of the deepening recession—as well as an increase in Federal pay scales.

Federal purchases of goods and services rose by almost 10 per cent in 1974, substantially above the 1.6 per cent gain in 1973. In real terms, however, total Federal purchases were down for the year. Defense spending, after having decreased slightly in 1973, rose moderately, but in real terms it declined for the second consecutive year. Real nondefense purchases, however, are estimated to have increased sharply in 1974.

Federal transfer payments continued to grow much faster than purchases of goods and services, reflecting in part a rapid rise in unemployment benefits. The two-step, 11 per cent increase in social security benefits and the Federal takeover of welfare for the aged, blind, and disabled also added to the growth in transfer payments.

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Table 2: CHANGES IN MAJOR COMPONENTS OF GROSS NATIONAL PRODUCT

In billions of dollars

Item	1972	1973	1974	1974[1] Q1	Q2	Q3	Q4
GNP	**103.1**	**136.9**	**101.8**	**14.8**	**25.0**	**32.5**	**11.7**
Personal consumption expenditures	**61.9**	**76.2**	**71.8**	**16.7**	**28.5**	**32.2**	**−4.5**
Durable goods	14.5	11.9	−2.5	−.4	5.6	6.6	−14.6
Nondurable goods	21.3	38.3	42.2	12.3	11.4	13.2	2.5
Services	26.1	26.0	32.2	5.0	11.4	12.4	7.6
Saving rate (level in per cent)	*6.6*	*8.2*	*7.8*	*8.9*	*7.4*	*6.6*	*8.5*
Fixed investment	**23.4**	**23.2**	**1.6**	**−1.9**	**4.7**	**−1.2**	**−3.9**
Residential structures	11.2	3.2	−11.2	−5.2	.4	−2.6	−5.7
Nonresidential	12.2	20.0	12.8	3.3	4.2	1.5	1.8
Inventory change	**2.2**	**6.9**	**−2.0**	**−12.0**	**−3.4**	**−4.8**	**5.7**
Net exports of goods and services	**−5.8**	**9.9**	**−1.9**	**2.0**	**−12.8**	**−1.6**	**4.3**
Exports	7.0	28.0	39.0	17.6	7.3	5.1	.7
Imports	12.8	18.0	41.1	15.6	20.1	6.7	−3.5
Govt. purchases of goods and services	**21.5**	**20.7**	**32.4**	**9.9**	**8.1**	**7.9**	**10.1**
Federal	7.3	1.7	9.8	3.1	2.8	2.9	5.6
Defense	3.6	−.4	4.2	.5	.8	1.8	5.1
Other	3.6	2.1	5.7	2.6	2.0	1.1	.5
State and local	14.2	19.0	22.6	6.9	5.3	5.0	4.5

[1] Derived from quarterly totals at seasonally adjusted annual rates.
NOTE.—Dept. of Commerce data.

Federal receipts grew by $33 billion in 1974, exceeding the previous record rise of $31 billion in 1973. Personal income tax receipts increased 15 per cent—partly because of inflation; and contributions for social insurance rose by 12 per cent, reflecting in part a further increase in the taxable wage base.

Corporate profits tax accruals grew by 12 per cent, slightly less than in 1973; a sizable number of firms appear to have shifted during the year to the last-in, first-out method of inventory accounting.

STATE AND LOCAL GOVERNMENTS

State and local government purchases of goods and services rose by 13 per cent in 1974, a bit more rapidly than in 1973. In real terms, however, the year-over-year increase was only about 3 per cent, and by the final quarter real purchases were at about the same level as they had been in the fourth quarter of 1973. Higher payments for employee compensation accounted for a large part of the current-

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dollar increase, and construction outlays—boosted in part by Federal revenue-sharing funds—also showed a noticeable gain over 1973. The rise in average earnings of State and local government employees was off slightly from the 7 per cent increase in 1973. Employment was moderately above 1973, but very little of the increase was the result of Federally funded public employment programs.

Slackened growth in receipts reinforced the negative impact of very stringent credit conditions on the fiscal position of States and localities during 1974. For the State and local sector as a whole there was a surplus of about $2 billion—down from the $9 billion surplus in 1973. The small over-all surplus in 1974 resulted entirely from continued net accumulations of savings in State and local retirement funds, which were largely offset by deficits in other activities. In 1973 Federal revenue-sharing funds had resulted in a significant accumulation of financial assets and a reduction in the amount of long-term borrowing. State and local governments in 1974 used their revenue-sharing funds largely to increase outlays for construction and to reduce tax burdens. □

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Employment, Wages, and Labor Costs

The demand for workers weakened during 1974, particularly in the latter months of the year. Although real output declined throughout the year, total employment and the labor force continued to advance moderately through the summer, and unemployment remained close to 5.2 per cent. In the fall, when general demand and output slumped, the unemployment rate began to climb rapidly; and by early 1975 it had reached a 34-year high of 8.2 per cent. Layoffs were widespread, affecting experienced workers as well as other groups in the labor force.

Most of the growth in the labor force in 1974 occurred in the late spring and summer as increasing numbers of adult women entered the labor market. Some of this growth reflected the availability of jobs—for employment was still increasing—and some the need to help maintain real family income in the face of sharply rising prices. However, labor force growth came to a halt late in the year when employment fell sharply. With jobs scarce, many unemployed workers became discouraged and left the labor market, and the number of new entrants also declined.

While total employment rose slowly and unevenly during the first three quarters of 1974, employment in goods-producing industries remained weak throughout the year. Manufacturing employment, which had shown a vigorous expansion in 1973 before slowing late in the year, declined by about 165,000 in the first 9 months of 1974. Meanwhile, total nonfarm payroll employment rose by 900,000, significantly less than in the same period of 1973 but a large gain for a period when real GNP was declining. Growth in employment was confined to service-producing industries. State and local government employment also expanded through the summer at a somewhat faster rate than in the preceding year, and Federal Government employment edged up modestly for the first time since 1970.

In the autumn factory jobs began to decline rapidly, especially in the auto and auto-related industries and in the heavy machinery,

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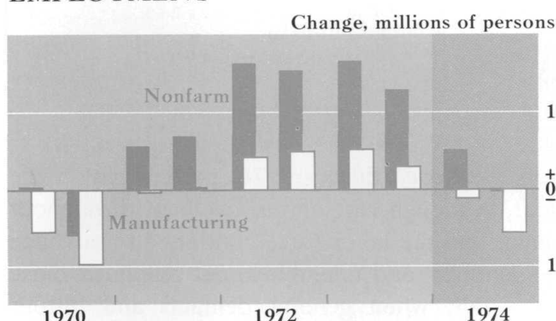
EMPLOYMENT



NOTE.—Payroll employment, seasonally adjusted data from Dept. of Labor. Change is from preceding half-year.

textile, and apparel industries; at the year-end manufacturing employment was nearly 1.2 million below a year earlier. The factory workweek also declined significantly as overtime work was curtailed and many workers went on part-time schedules. Labor demand in the construction industry was weak, reflecting the depressed conditions of the housing market. Demand for workers in nonmanufacturing sectors also softened considerably, and total payroll employment fell by more than a million in the late fall.

The unemployment rate rose from 4.8 per cent at the end of 1973 to an average of about 5.2 per cent during the first half of 1974, largely because of job cuts in specific sectors directly affected by the energy crisis. In contrast, the rapid rise in unemployment in the fall of 1974 affected all categories of workers, particularly experienced workers in manufacturing industries. By December the unemployment rate for adult men had increased to 5.1 per cent from 3.0 per cent the previous year; women and teenagers had also experienced substantial increases in unemployment. Employment of minority groups declined over the year, and their unemployment rate—at 12.8 per cent at the end of 1974—remained double that of white workers, who had also experienced sharp increases in joblessness.

The increase in unemployment was one of the most rapid of the postwar era, and much of the rise was accounted for by experienced, full-time workers who had lost their jobs. In contrast, the

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impact of layoffs of teenagers was moderated to some extent by their withdrawal from the labor force—a typical cyclical phenomenon. Adult women, however, have experienced a relatively larger increase in unemployment than in earlier cycles, probably because they had stronger labor force attachment than previously.

Table 3: LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT

Item or category	1971	1972 [1]	1973 [1]	1974
	Change during year, thousands of persons			
Total labor force	1,191	1,568	2,543	1,844
Civilian labor force	1,544	1,830	2,687	1,917
Total civilian employment	1,350	2,305	3,041	148
	Monthly average rate in Q4, per cent			
Unemployment rates—Total	5.9	5.3	4.7	6.5
Men, 20 years and over	4.3	3.6	3.0	4.7
Women, 20 years and over	5.7	5.2	4.7	6.5
Teenagers, 16–19 years	16.9	15.5	14.3	17.5
White	5.4	4.7	4.2	5.9
Negro and other	10.1	9.9	8.6	11.8
Blue collar	7.3	5.8	5.2	8.3
White collar	3.4	3.3	2.8	3.7
Heads of household	3.6	3.0	2.8	4.0
Full-time workers	5.6	4.7	4.3	6.2

[1] Data on changes from 1971 to 1973 are adjusted to allow for the introduction of new estimates for the population.

NOTE.—Basic data from Dept. of Labor.

Wage increases accelerated sharply in 1974, mainly because workers were attempting to offset losses in purchasing power, but also because of a heavy collective bargaining schedule and the termination of wage controls on April 30. However, late in the year some moderation in wage increases seemed to be developing in many industries, probably reflecting the deterioration in the demand for labor. For all of 1974 the average hourly earnings index—the best available measure of wage rates—grew by more than 9 per cent compared with a 6.5 per cent increase in 1973; the increase in 1974 was led by larger-than-average gains in manufacturing and construction.

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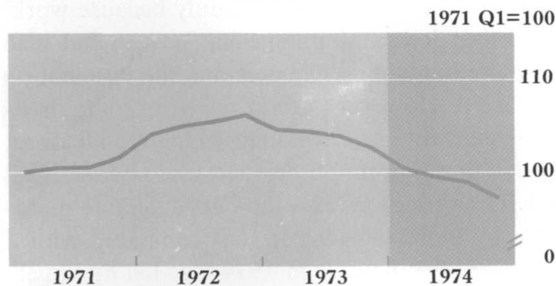
The continued erosion of purchasing power in 1974 was apparent in all measures of real income. Average real spendable earnings of a production worker with three dependents—the most widely used measure of take-home pay—continued to decline, and the reduction was the largest for any postwar year. At the year-end such earnings were more than 9 per cent below the peak in the fall of 1972. As a result, an increasing number of workers involved in contract negotiations demanded, and received, cost-of-living escalator clauses, which tied future wage increases to future price increases. In 1974 about 5.5 million workers were covered by collective bargaining contracts that included escalator clauses; this number, the highest on record, was about 600,000 more than in 1973.

The collective bargaining schedule in 1974 was heavy, and it included major contract settlements in the steel, aluminum, can and container, telephone, and mining industries. In their efforts to offset rapid price inflation, union bargainers obtained first-year pay raises of 11 per cent, up sharply from 6 per cent in 1973. Although wage catch-up pressures are likely to continue, the combination of slack labor markets and a relatively light collective bargaining schedule in 1975 may result in the moderation of wage pressures—especially if inflation slows.

Reflecting large increases in wages and fringe benefits, hourly compensation in the private nonfarm economy accelerated from the already rapid pace of 1973 to about a 9.5 per cent increase during

REAL WEEKLY EARNINGS



NOTE.—Index based on earnings in terms of 1967 dollars for worker with 3 dependents. Seasonally adjusted data from Dept. of Labor.

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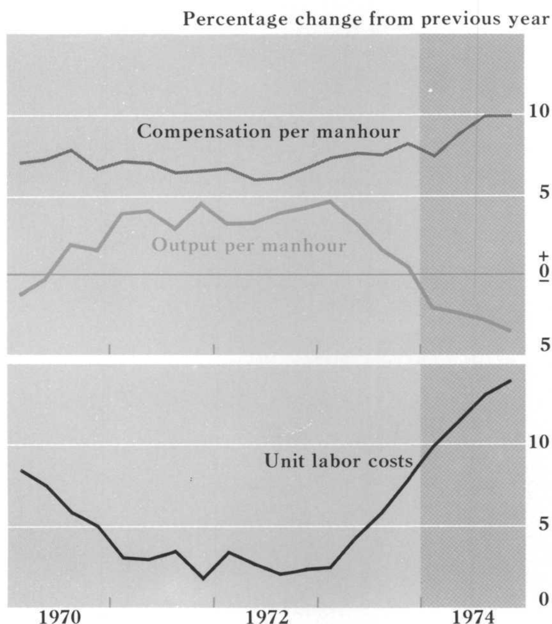
1974 although some slowing was evident in the final quarter of the year. Productivity declined throughout the year in one of the most pronounced and prolonged downturns of the postwar era. Nonfarm output per manhour had begun to drop after early 1973, and it has declined for seven consecutive quarters; between the final quarters of 1973 and 1974 nonfarm productivity was off a total of 3.6 per cent.

It is possible that data problems may have led to some overstatement of the erosion in productivity. Nevertheless, the unusually weak productivity performance in 1974 is consistent with the hesitancy on the part of businessmen to make cost-cutting adjustments in employment in the face of rising prices and profits at a time when the initial softening of demands was quite selective.

PRODUCTIVITY AND COSTS



NOTE.—Annual rates of change from corresponding quarter a year earlier for the private nonfarm economy; based on seasonally adjusted data from Dept. of Labor.

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Although manufacturing productivity was not so weak as productivity in the nonfarm economy as a whole, there was little growth in the factory sector during 1974. Due to the combination of declines in productivity and of increases in hourly compensation, unit labor costs for the private nonfarm economy in the fourth quarter were about 14 per cent above their year-earlier levels. This too was a record increase for the postwar period. Rising unit labor costs tended increasingly to exert upward pressure on prices. □

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Price Developments

Inflationary pressures in the economy have been persistent since the mid-1960's, but they have become much more intense in the past few years. In 1974 the impact was particularly acute as prices continued to climb at an accelerated rate, operating through a number of channels to dampen demands for goods and services.

The increase in prices during 1974 exceeded to a significant degree the 9 per cent rise in wages, and the purchasing power of wage earners continued to drop. Revenues from the very large increase in the price of oil accrued largely to foreign producers—thereby reducing spending in this country; only a relatively small portion of this revenue was reflected in the increased sales of U.S. exports. Furthermore, the progressive feature of the personal income tax, combined with rising nominal incomes, served to reduce real incomes during the year. On a per-household basis real disposable income began to decline about mid-1973, and since then it has fallen more than in any comparable period since that immediately following World War II. Moreover, the real value of the financial assets held by consumers has been depressed by a falling stock market.

As a consequence, there was a substantial, adverse reaction to rising prices among most income groups during 1974, and consumption expenditures weakened considerably. Purchases of autos, mobile homes, and other consumer durable goods fell sharply, as higher and higher prices for essentials forced families to allocate a larger proportion of their budgets to food, fuels, and housing.

The business sector was also adversely affected by inflation. Corporate profits before taxes in 1974 were higher than in 1973 because of enormous inventory gains. However, since replacement of inventory stocks had to be made at inflated prices, the true corporate financial position was much less favorable than suggested by before-tax profits data. This probably had a significant impact on the realization of investment plans.

SOURCES OF INFLATION

The current inflation had its roots in a number of volatile and at times unanticipated developments, some originating in this country

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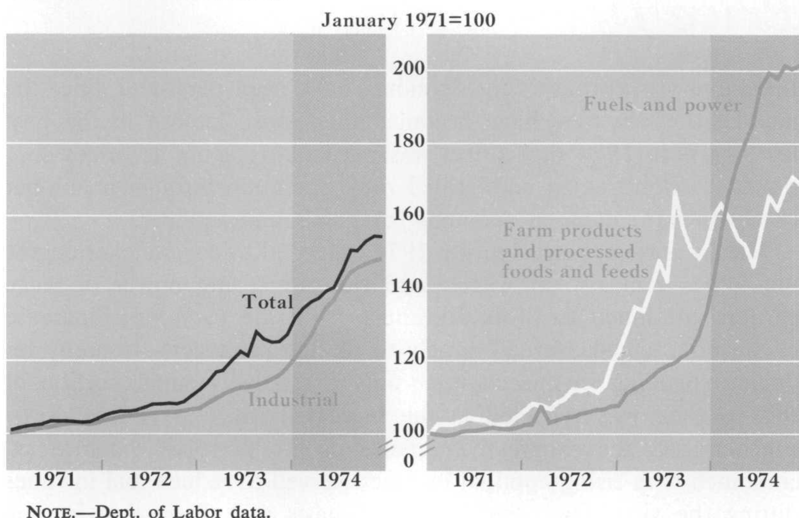
WHOLESALE PRICES



NOTE.—Dept. of Labor data.

and some abroad. World demands for U.S. farm products continued to be strong during 1974. Furthermore, with disappointing harvests in the United States, stocks of both food grains and feeds continued to be low, and prices remained at high levels. Food grains and feeds occupy a strategic position in food production, and their advanced prices have had far-reaching repercussions on prices of meat and other foods in this country.

More important in 1974, however, was the impact of the extraordinary increase in the price of fuel, which extended well beyond the rise in oil and gasoline prices—contributing substantially to the ongoing inflation and exerting a major influence in ending the 1971-73 economic expansion. By the summer of 1974 the price of imported crude oil had more than tripled from its pre-embargo level, and prices of domestically produced oil had risen sharply too. Since imports of crude and refined oil account for more than one-third of domestic consumption, the average cost of crude in U.S. markets more than doubled, and price increases for refined products exceeded 80 per cent. Prices of coal also soared, and natural gas and electric rates climbed by about a third during the year.

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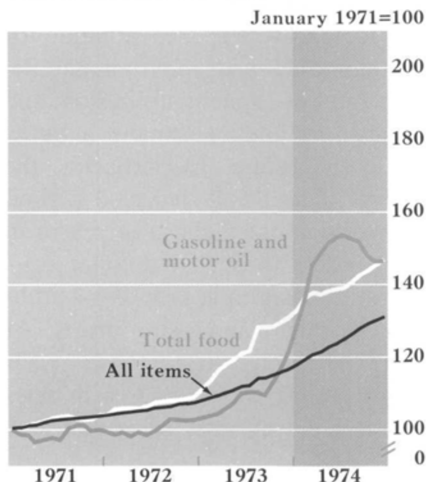
CONSUMER PRICES



High levels of international demand also helped to fan inflationary trends in the U.S. economy well into 1974. Foreign demands on U.S. suppliers—particularly for food, basic materials, and business equipment—remained exceptionally strong. These pressures arose from a number of factors, including the boom in industrial activity in the major industrialized nations, the continued impact of the dollar devaluations, and the effects of U.S. wage and price controls, each of which made U.S. products more attractive on the world market.

The phaseout of price and wage controls by the spring of 1974 was also a factor. Wholesale prices of major industrial commodities surged—particularly for metals, chemicals, producers' equipment, and some consumer goods. Metals contributed about as much to the rise in wholesale prices in 1974 as any other major commodity group. Wholesale prices of many consumer nonfood items, such as furniture, apparel, and household appliances, also moved up at a brisk pace, in part a response to the higher post-controls costs of materials.

Inflation was also intensified in 1974 by the exceptionally sharp jump in unit labor costs, which was noted earlier. In 1972 and 1973

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such costs had risen by 2.7 and 5 per cent, respectively, but during 1974 the rate of increase was at a record 11.6 per cent.

The combination of these diverse factors—the special situation for fuels and food, continuing strong domestic and international demands, the removal of controls, high rates of capacity utilization, and accelerating labor costs—led businessmen and consumers alike to expect widespread price increases in the future. In particular, the higher rate of inventory accumulation undoubtedly reflected a good deal of hedge buying in anticipation of continued sharp increases in prices. Similarly, growth of unfilled orders through late summer—some of which may have been the result of multiple ordering—probably reflected efforts to circumvent shortages and rising prices. At times during the year consumers also attempted to purchase in advance of price increases. A striking example was the surge in sales of 1974-model cars after the announcement of large price increases for the 1975 models.

Inflation gathered momentum during 1974 in part because of these heightened price expectations. But late in the year, as demand weakened on a broad front and uncertainty increased, the inflationary expectations of businessmen probably became a less dominant force and rising costs a relatively more important one in sustaining the increases in prices. Consumer attitudes also shifted, and as noted above, by the end of the year many thought it was a bad time to buy because prices were too high.

PRICE MOVEMENTS

Inflation in 1974, as reflected by broad measures such as the implicit GNP deflator, the consumer price index, and the wholesale price index, increased substantially faster than in 1973—indeed faster than in any other year since early in the postwar period. By the end of 1974, the implicit deflator for GNP had risen 12 per cent from the end of 1973 compared with 7 per cent during the previous 12-month period. The consumer price index also showed a 12 per cent increase in 1974, compared with a rise of less than 9 per cent in 1973. Nonfood commodities led the advance in consumer prices, but prices of services also accelerated significantly. Wholesale prices rose even more rapidly—21 per cent during 1974 compared with 15 per cent during the previous year.

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Following the run-up of oil prices that began in the autumn of 1973, accelerating prices for industrial materials paced the rate of inflation. Wholesale prices of fuel and power rose at an annual rate of about 70 per cent from September 1973 to midyear 1974 but then slowed to about a 10 per cent rate by the fourth quarter. Higher fuel prices had a substantial impact on prices of other materials, which had been compounded by very large post-price-control adjustments and intense international demand pressures earlier in 1974. By September prices of steel mill products and nonferrous metals were more than 40 per cent above a year earlier. Prices of other materials rose sharply too—especially paper and paper products, and most chemicals. By the year-end, however, there were signs of considerable moderation in the materials component of the wholesale price index. This was in sharp contrast to the extremely rapid rates of gain that had been registered in the first three quarters.

The extraordinary increases in materials prices, as well as post-controls adjustments, led to sharp advances in prices of finished goods. Prices for producers' machinery and equipment accelerated during the year, influenced also by strong foreign demand; the annual rate of gain in such prices rose from 6 per cent in the fourth quarter of 1973 to more than 30 per cent during the third quarter of 1974. In the fourth quarter these price increases also began to slow.

Although food prices were not so important a factor in inflation in 1974 as they had been in 1973, advances continued at high rates during the year. Because the U.S. harvest of feed crops was disappointing and stocks were never rebuilt from depleted levels, prices of grains and feeds continued high during most of the year. Dramatic rises in sugar and sugar-based products as well as in fats and oils contributed disproportionately to the advance in food prices at retail; prices of sugar and sweets more than doubled during the year. However, late in the year prices of sugar and oils declined at the wholesale level. By the second quarter the farm–retail spread had increased to about one-fourth above its year-earlier level, and it continued high throughout the year, contributing also to the advanced levels reached by retail food prices despite declines at the farm level for livestock and other products.

Fuels led the advance in consumer prices of nonfood commodities in the early months of 1974. Although fuel prices peaked about mid-

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year, accelerated advances for other goods led to sharp rates of rise in consumer prices in the third quarter. Prices of nonfood items at retail were up about 13 per cent in 1974; in addition to fuel, large increases were recorded for household durable goods, paper products, and a wide variety of other goods. Service costs also rose faster after the lifting of controls, and particularly large increases were registered for gas and electricity and for medical and household services.

In the last quarter of 1974 levels of economic activity fell and the impact of post-controls adjustments and rising materials costs tapered off. Prices of several industrial materials had actually declined since the spring—notably textiles, metal scrap, and copper, as well as lumber and hides, which were well below their 1973 highs. The rise in wholesale prices of industrial commodities was at an 8 per cent annual rate in the final 3 months of the year, down from the average annual rate of rise of about 30 per cent in the earlier three quarters; the gain in consumer prices slowed to a 10 per cent rate in the fourth quarter, compared with the 13 per cent average posted over the first 9 months of the year.

Table 4: PRICE CHANGES

In per cent

Group	Dec. 1971– Dec. 1972	Dec. 1972– Dec. 1973	Dec. 1973– Dec. 1974	1974 (seasonally adjusted compounded annual rates)			
				Dec.– Mar.	Mar.– June	June– Sept.	Sept.– Dec.
Wholesale prices, total	6.5	15.4	20.9	24.5	12.2	35.2	13.4
Industrial commodities	3.6	10.7	25.6	32.3	35.7	28.3	8.2
Farm products	18.7	36.1	−1.9	6.2	−48.0	56.6	7.4
Processed foods and feeds	11.6	20.3	20.9	13.1	−12.0	60.2	33.7
Consumer prices, total	3.4	8.8	12.2	14.2	10.3	14.2	10.1
Foods	4.7	20.1	12.2	19.4	3.1	12.3	14.6
Commodities less foods	·2.5	5.0	13.2	16.0	13.7	16.2	7.3
Services	3.6	6.2	11.3	9.2	11.0	13.9	10.9

NOTE.—Based on data from Dept. of Labor. Services are not seasonally adjusted.

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Monetary Policy and Financial Markets

Policy choices confronting the Federal Reserve were especially difficult in 1974. The need to slow the rapid advance in prices remained urgent. But as recession emerged, so too did questions as to how soon and how much the policy of strong resistance to inflation should be modified. Efforts by the System to restrain credit expansion—and thereby inflationary pressures—were also complicated in late spring when the interaction of tight money and rapid price advances excited fears in market circles of a general liquidity squeeze. To dampen these market apprehensions, Chairman Burns announced the System's readiness to serve, if needed, as a lender of last resort to nonbanking firms as well as to banks. This helped to calm concerns in financial markets regarding the possibility of serious financial instability, even though no widespread reliance on System emergency credit actually materialized.

In seeking a workable trade-off among the year's changing—and sometimes conflicting—requirements, the System's policy targets and the mix of instruments used to implement them had to be modified at several points along the way. During the early part of the year, when the economy was still being depressed by the Middle East oil embargo, the System continued the posture of lessened monetary restraint that had been initiated in late 1973 when dislocations from the embargo began. Implementation of this less restrictive approach led to continuation for a time of the declines in short-term interest rates that had begun in late 1973. The Federal funds rate, for example—which is watched closely in financial circles as a bellwether of System policy intentions—dropped from around 9⅞ per cent at the turn of the year to about 8⅝ per cent in mid-February.

By late February, however, it was becoming evident that all of the monetary aggregates were again expanding at rapid rates. Therefore—once a lifting of the oil embargo had been assured—the System moved to counter this accelerating growth of the aggregates. In the months that followed, the combination of increased monetary

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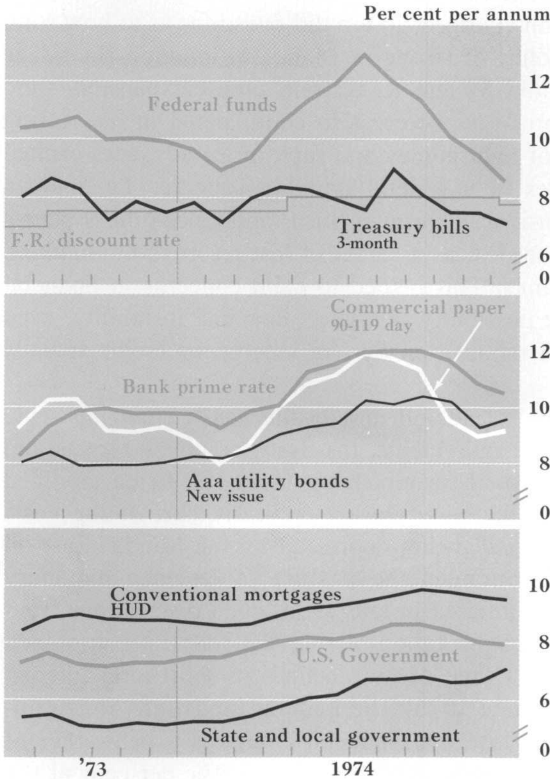
restraint, continuing rapid inflation, and ballooning business credit demands produced a sharp, general tightening of credit markets. Interest rates rose well above earlier historical highs—in the case of the Federal funds rate, to a peak of around 13½ per cent shortly

INTEREST RATES



NOTE.—Monthly averages except for home mortgages (based on quotations for one day each month), F.R. discount rate, and prime rate (predominant rate quoted by commercial banks to large businesses). Yields: U.S. Treasury bills, market yields on 3-month issues; commercial paper, dealer offering rates; conventional mortgages, yields on first mortgages in primary markets unweighted and rounded to nearest 5 basis points, from Dept. of Housing and Urban Development; Aaa utility bonds (Federal Reserve series), averages of new, publicly offered bonds rated Aaa, Aa, and A by Moody's Investors Service and adjusted to an Aaa basis; U.S. Govt. bonds, market yields adjusted to a 20-year constant maturity by U.S. Treasury; State and local govt. bonds (20 issues, mixed quality), *Bond Buyer*.

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after midyear. With the whole complex of short-term rates moving rapidly higher, the Federal Reserve discount rate was raised in late April from 7½ to 8 per cent.

The general tightening of credit was accentuated during the spring and summer by a shift of lenders to more conservative loan policies. This process was triggered by the publicized difficulties (and eventual failure) of the Franklin National Bank in the United States and the failure of two smaller banks in Germany—one of which was a major factor in foreign exchange markets. All of these failures resulted from loose management practices that led to heavy trading losses on foreign exchange. At about the same time a major electric utility company in this country announced that it was forgoing its quarterly dividend payment for the first time in history and was selling two partly completed electric generating plants because it could not borrow the funds needed to complete them.

There was widespread concern in financial circles that such evidence of financial difficulty at a few firms might represent the tip of the iceberg, presaging additional business failures in future months. Lenders responded to this anxiety by tightening their credit standards. In the squeeze that followed, many lesser-rated borrowers found their access to securities markets partially or completely curtailed, and they were forced to fall back on standby credit lines at banks. Since banks experiencing these unexpected loan demands were also finding it necessary to pay sharply higher costs for money market funds, they increased their own loan rates to cover the added costs. In the process the rate on prime business loans at major banks was pushed to a peak of 12 per cent early in July, well above the year's low of 8¾ per cent reached in late February. For borrowers with quality ratings of less than prime, interest charges on bank loans—to the extent that credit was available to such borrowers—rose in some cases to levels as much as 4 percentage points above the prime rate.

The severe problems being created for some firms by tighter and more costly credit, as well as the possible implications of this tightness for future economic activity, were strongly reflected in the performance of the stock market. While stock prices had posted moderate net advances early in the year when interest rates were still declining, they turned down as interest rates began to rise again, and then fell dramatically during the spring and summer period of maxi-

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mum financial strain. From its midwinter high to its early fall low, the composite stock index of the New York Stock Exchange dropped 39 per cent—and at the low was nearly 50 per cent below the record high reached in early 1973.

As typically happens in periods of general monetary restraint, the credit squeeze on some types of firms was greater than on others. However, special financing problems that resulted from the very rapid inflation made the squeeze more pervasive in mid-1974 than in some earlier periods of tight money. The types of institutions most affected included some—such as the nonbank thrift institutions—that are typically disadvantaged in periods of general monetary restraint because of their inability to compete effectively for funds against high yields on market securities; others—such as the relatively new real estate investment trusts (REIT's)—that had been less involved in short-term financing during earlier periods of tight money; and still others—such as bank holding companies and electric utilities—that were beset with special problems that had not been present in the earlier periods.

The fears of a liquidity crisis that had developed in financial circles during late spring and early summer were substantially dissipated as the summer progressed. Although statistical indicators were still flashing mixed signals on the state of the economy, the prospects for renewed economic expansion appeared to be dimming, and credit demands—particularly from businesses—were receding from their earlier patterns of rapid growth. At the same time expansion in the full complex of money and credit aggregates turned sluggish, reflecting with a lag the steep advances in interest rates and the adjustments in institutional lending policies that had developed earlier in the year. Average growth in the narrowly defined money stock, for example, slowed to an annual rate of 1.6 per cent from the month of June to the month of September. Expansion of the money stock as more broadly defined also slowed very sharply as growth in time and savings deposits at banks and other thrift institutions dropped abruptly.

The Federal Reserve reacted to these changes by shifting to a somewhat more accommodative open market policy. This adjustment was quickly reflected in a sharp, general decline in short-term interest

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rates, as illustrated by the Federal funds rate, which fell more than 200 basis points between early July and mid-September. In September the Board of Governors removed the 3 per cent marginal reserve requirement from large time deposits and comparable nondeposit bank liabilities whose maturities exceeded 4 months—thus providing a modest supplement to the reserves made available through open market operations.

The marked third-quarter drop in the complex of short-term market interest rates began to be reflected in some general pick-up of growth in the monetary aggregates during the fourth quarter, when sizable net inflows of savings were resumed following a short period of substantial disintermediation during the summer. The improvement was most pronounced at nonbank thrift institutions. Late in the fourth quarter, however, the unexpectedly sharp deterioration in economic activity tended to slow demands for money and credit and thus to offset some of the stimulus to growth in the aggregates stemming from earlier declines in interest rates. This was especially evident in the narrowly defined money stock, which grew at an annual rate of only 2 per cent during December and then declined in January 1975.

To help counter this weakness, the System made use of all of its major policy instruments: open market operations, to expand the supply of nonborrowed reserves available to banks; reductions in reserve requirements, to increase the credit-expansion potential of the existing supply of reserves; and cuts in the discount rate, to reduce the cost of reserves borrowed from the System. Cuts in the discount rate were made in three stages: a ¼ percentage point reduction, to 7¾ per cent, effective December 9; a ½ percentage point reduction, to 7¼ per cent, effective January 6, 1975; and a ½ percentage point reduction to 6¾ per cent, effective February 7, 1975.

The reductions in reserve requirements were also made in three stages. One, already noted, reduced the marginal reserve requirement on longer-dated bank obligations in late September. The second, in late November, was applied to selected categories of both time and demand deposits; it released about $700 million of reserves to the banking system 2 weeks later. The third lowered the structure of graduated requirements applicable to demand deposits, beginning in

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the week of January 30, 1975; it released about $1.1 billion of reserves 2 weeks later.[1]

The weaker credit demands that developed as a consequence of the recession, together with the more expansive course of monetary policy, triggered further sharp declines in short-term interest rates over the fourth quarter. By year-end the Federal funds rate had dropped to 8 per cent, and by early February 1975 it was close to 6¼ per cent. Long-term rates—which had continued to rise on balance during the third quarter despite the large general decline in short-term rates—also turned down in the fourth quarter. However, large current and prospective borrowings by businesses in capital markets and the prospect of unprecedented deficit financing by the Federal Government in the months ahead limited the extent of these declines. Moreover, yields on State and local government securities reached their yearly highs during December when serious questions developed regarding the ability of certain key municipal borrowers to continue to service their large and growing debt burdens.

By early 1975 the widespread concerns of the preceding summer about the possibilities of a full-scale liquidity crisis had dissipated. But the unexpectedly sharp deterioration in over-all economic activity posed broad questions about credit quality and encouraged institutional lenders to continue maintaining relatively conservative loan policies despite the general easing of money market conditions. Although interest rates had declined substantially further after the turn of the year, the unprecedented volume of Federal deficit financing that loomed ahead was raising some questions in market circles about the likely course of interest rates over the somewhat longer run.

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[1] The November action included a reduction of ½ percentage point in the requirement on that portion of net demand deposits in excess of $400 million, the elimination of the remaining marginal reserve requirement on large-denomination time deposits, and a restructuring of the basic requirement on time deposits. The reserve requirement on all time deposits with original maturity of at least 180 days and on the first $5 million of shorter-maturity time deposits was set at 3 per cent; the requirement for the remainder of shorter-maturity deposits was set at 6 per cent. The lower reserve requirement on longer-term deposits was intended to provide an incentive for banks to improve their liquidity by lengthening the maturities of their liabilities.

The January 1975 action included a reduction of 1 percentage point on that portion of net demand deposits in excess of $400 million, and a reduction of ½ percentage point on that portion of such deposits under $400 million.

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MONEY AND CREDIT AGGREGATES

The various measures of money and credit growth continued to exhibit occasional periods of erratic movement in 1974. This was particularly true of the narrowly defined money stock at key points in the year. As a result, although the Federal Open Market Committee continued to place important emphasis on the behavior of M_1 as a target of monetary policy, the performance of M_1—particularly in the short run—had to be carefully evaluated in relation to growth patterns of other major aggregates as well as to changes in interest rates.

For 1974 as a whole, the key measures of money experienced slower growth rates than in 1973, whereas the adjusted credit proxy continued to expand at about its 1973 pace. However, these annual averages mask rather substantial quarter-to-quarter changes in growth patterns, particularly for M_1 and the adjusted credit proxy. In addition, the annual growth rate shown for M_1 included rather different patterns of change for its two components—demand deposits and currency in circulation. Whereas expansion in demand deposits slowed to only 3 per cent for the year, currency expanded by an unusual 10 per cent as the continuing rapid inflation created growing public needs for cash to pay for consumer outlays.

The quarterly growth rates for the aggregates shown in Table 5 identify significant patterns of change within the year. In the first quarter, for example, the relatively rapid growth rates of M_2 and M_3 mirrored inflows of savings to banks and other depositary intermediaries that were being encouraged by the further over-all decline in short-term market rates. First-quarter growth in M_1, on the other hand, reflected the combination of contraction at an annual rate of nearly 3 per cent in January followed by growth in February and March at an annual rate of roughly 9.5 per cent. The January contraction was attributable chiefly to a sharp reduction in foreign demand balances at the start of the year from the extraordinarily high levels reached at the end of 1973.

The dramatic increase in bank credit during the second quarter—when growth in the bank credit proxy rose to more than a 20 per cent annual rate—was attributable chiefly to three factors. Over-all business needs for funds were exceptionally large; high interest rates

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Table 5: GROWTH IN MONETARY AGGREGATES

In per cent

Period	Measures of money			Adjusted credit proxy
	M_1	M_2	M_3	
1972	8.7	11.1	13.1	11.3
1973	6.1	8.8	8.7	10.4
1974	4.7	7.4	6.7	10.2
1974—Q1	5.5	9.3	8.8	8.2
Q2	7.0	7.9	6.6	20.4
Q3	1.6	4.5	4.0	6.6
Q4	4.6	7.0	6.9	4.3

M_1 = Currency held outside the Treasury, F.R. Banks, and the vaults of all commercial banks, plus demand deposits other than interbank and U.S. Government.

M_2 = M_1 plus time deposits at commercial banks other than large negotiable certificates of deposit at weekly reporting banks.

M_3 = M_2 plus deposits of mutual savings banks and savings capital of savings and loan associations.

Adjusted credit proxy = Total member bank deposits subject to reserves, plus Euro-dollar borrowings, loans sold to bank-related institutions, and other nondeposit items.

NOTE.—Incorporates revisions in money stock and related measures based on benchmark data for nonmember banks derived from Reports of Condition through October 1974, as well as revisions in seasonal adjustment factors. Seasonally adjusted quarterly rates of growth derived from daily-average data for last month of the quarter relative to those for last month of preceding quarter, annualized.

were discouraging bond financing; and as the quarter progressed, investors in commercial paper and corporate securities tended to back away from obligations of borrowers with less than top quality ratings. To accommodate this upsurge in demands for bank credit, banks themselves were forced to bid aggressively for funds through expanded sales of large CD's and increased borrowing from nondeposit sources. As a result, the outstanding volume of large CD's grew nearly $13.5 billion over the quarter, contributing substantially to the upward pressure on short-term rates. In contrast to the credit proxy, growth of M_2 and M_3 slowed during the second quarter as the attractiveness of yields on competing market securities increased relative to maximum rates payable on thrift accounts.

While growth of M_1 continued to show considerable variation from month to month, it expanded rapidly over the second quarter, as Table 5 shows. Both the variability and the rapid growth were significantly influenced by the ebb and flow of foreign deposits. This reflected temporary accumulations of demand deposits resulting from the transfer of greatly expanded payments to oil producers. Because

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some producing countries had not yet perfected procedures for making timely investment of the expanding proceeds from oil sales, a significant part of these proceeds were accumulated for brief periods in demand balances, causing growth rates for M_1 to show noticeable short-run changes. As the year progressed and the processing of oil funds became more routine, the erratic impact of foreign transactions on the money stock became less significant.

Growth in all of the key money and credit aggregates slowed substantially in the third quarter. This change was attributable both to the lagged impact of earlier, steep advances in interest rates and to the developing weakness of the economy. With loan demands falling off, banks were able to cut back significantly on both their sales of large CD's and their acquisitions of nondeposit funds, so growth in the adjusted credit proxy dropped abruptly. At the same time, high interest rates on market securities were cutting deeply into flows of funds to thrift accounts at banks and other intermediaries. Thus, for both M_2 and M_3 growth was also appreciably slower.

During October and November further declines in short-term interest rates from their early summer highs tended to encourage more rapid growth of both M_1 and M_2. In the two succeeding months, however, this pattern of expansion was substantially modified, as the marked general deterioration in over-all economic activity tended to offset much of the stimulus to money demands arising from further declines in interest rates. The failure of the adjusted credit proxy to expand with other aggregates during the fourth quarter was attributable in part to the general weakening of demands for bank credit as economic activity slowed. In addition, however, many borrowers were adjusting their debt structures and were turning to new capital market financing in lieu of bank borrowing.

BANK RESERVES

Total reserves of commercial banks grew almost as rapidly in 1974 as in 1973, and nonborrowed reserves grew significantly faster, as Table 6 shows. Much of the growth in nonborrowed reserves occurred in the fourth quarter, however, when member bank borrowing dropped off sharply. Patterns of change in total reserves also varied considerably from quarter to quarter, as did those of the money and credit aggregates they supported.

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Table 6: GROWTH IN BANK RESERVES

Item	1973	1974	1974 Q1	1974 Q2	1974 Q3	1974 Q4
	Annual rate, in per cent					
Total reserves	7.8	7.1	1.3	20.1	8.2	4.1
Nonborrowed reserves	7.2	9.1	1.2	.8	5.6	34.4
Reserves available to support private nonbank deposits (RPD's)	9.3	7.2	5.7	19.1	9.1	.7
	In millions of dollars					
Memoranda:						
Total change in RPD's [1]	2,706	2,896	467	1,578	793	58
By type of deposit:						
Required reserves for—						
Private demand deposits [1]	527	406	19	110	3	274
Time deposits other than large negotiable CD's [1]	883	790	193	208	245	144
Large negotiable CD's and nondeposit sources of funds [1]	1,272	1,751	428	1,197	548	−422
Excess reserves	25	−51	−173	64	−4	62

[1] Figures have been adjusted for changes in reserve requirements.

Growth of total reserves was particularly dramatic in the second quarter when heavy demands for bank credit were being financed by expanded sales of large-denomination CD's and when System concerns about possible general malfunctioning of credit markets were greatest. Nonborrowed reserves showed very little growth in the second quarter, however, because a sizable part of the over-all increase in demand for total reserves during this period was being met by the large emergency credits advanced by the Federal Reserve to the Franklin National Bank. Franklin was forced to borrow heavily starting in May—substantially raising the average level of total borrowing from the System; this reduced the need for provision of reserves through open market operations.

While growth of total reserves was less dramatic in the third quarter than in the second, it remained above the average for the year, with general growth in business demands for bank funds still sizable. By the fourth quarter, however, reduced demands by businesses for short-term funds, together with the continuing more cautious approach of banks to lending, were reflected in a commensurate reduction in bank needs for reserves. Consequently, the growth in total bank reserves slowed somewhat further.

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Early in the fourth quarter nonborrowed reserves showed a sharp spurt when the Franklin National Bank was closed through regulatory action. As a part of this action, Franklin's large outstanding debt to the Federal Reserve was transferred through agreement of the regulatory agencies to a form that was reflected in the banking statistics as nonborrowed reserves. Over the rest of the quarter, however, and in early 1975, nonborrowed reserves continued to grow rapidly. Much of this expansion reflected System provision of reserves needed to offset heavy reserve drains arising from member bank repayment of borrowings at the Reserve Banks. Reduced member bank borrowing was encouraged by the sharp reductions in private money market rates to levels at or below the System discount rate. In late January and early February member bank borrowing at the Federal Reserve averaged only a little over $100 million, most of which was attributable to emergency lending by banks that were experiencing difficulties acquiring funds from private sources.

AGGREGATE FLOWS OF FUNDS

The nonfinancial sectors of the economy raised an estimated $176 billion in credit and equity markets during 1974, or about $12 billion less than they had raised in 1973. Since GNP increased 8 per cent from 1973, there was a large decline in the ratio of funds raised to GNP. Although declines in this ratio have marked other periods of credit stringency, the extent of the drop in 1974 can be viewed as a measure of the tautness that characterized financial markets during most of the year.

In addition to the shrinkage in total credit flows during 1974, there were marked changes in the structure of funds provided relative to 1973. Most notably, private domestic financial institutions accounted for an appreciably smaller share of total funds placed in credit and equity markets than in 1973—62 per cent versus 72 per cent—and of total funds supplied to nonfinancial sectors—65 per cent versus 75 per cent. Foreigners, on the other hand, supplied a substantially larger volume of funds, primarily to the Government securities market, as a sizable portion of the receipts from oil exports were invested in the United States.

Households also accounted for a larger proportion of funds supplied in credit and equity markets during 1974—11 per cent versus

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Table 7: FUNDS RAISED IN CREDIT AND EQUITY MARKETS BY NONFINANCIAL SECTORS

In billions of dollars

Sector, or type of instrument	1973	1974	1974[1]			
			Q1	Q2	Q3	Q4
Total funds raised	**187.4**	**175.7**	**174.5**	**207.2**	**174.7**	**146.4**
By sector:						
U.S. Government[2]	9.7	13.0	11.3	1.4	18.2	21.0
Other	*177.6*	*162.7*	*163.3*	*205.8*	*156.4*	*125.5*
Nonfinancial business	85.1	88.9	91.5	111.0	87.0	66.0
State and local government	12.3	15.8	14.3	17.7	14.4	16.9
Households	72.8	42.5	42.3	52.6	47.4	27.8
Foreign	7.5	15.5	15.3	24.5	7.6	14.7
By type of instrument:						
U.S. Government securities	9.7	13.0	11.3	1.4	18.2	21.0
Corporate and foreign bonds	10.2	20.9	19.6	20.7	18.2	25.1
Corporate equities	7.2	3.3	6.3	4.5	−.4	2.8
State and local government debt[3]	13.7	17.0	15.6	20.0	15.1	17.0
Mortgages	*73.2*	*55.0*	*56.5*	*69.3*	*47.4*	*46.9*
Residential	51.7	38.8	38.7	47.5	35.3	34.0
Other	21.4	16.1	17.9	21.7	12.1	12.9
Bank loans n.e.c.	38.6	29.9	36.4	47.8	21.3	14.1
Open market paper	1.8	14.9	12.2	18.6	21.2	7.7
Consumer credit	22.9	9.6	8.2	17.2	15.8	−2.6
Other loans	10.0	12.1	8.4	7.8	17.7	14.4

[1] Quarterly data are at seasonally adjusted annual rates.
[2] Public debt securities and budget agency securities.
[3] Includes both long- and short-term borrowing.
SOURCE.—Federal Reserve flow of funds accounts.

9 per cent in 1973. This reflected the continued allocation of a sizable share of the increase in their financial assets to market instruments as opposed to deposits and currency. Of their 1974 net gain in financial assets, households placed 18 per cent directly in stocks and credit market instruments, roughly the same as in 1973. In contrast, during 1970, 1971, and 1972—when rate relationships did not encourage disintermediation—direct investments in market securities had been negligible or even negative.

There were also significant changes in the sectoral breakdown of funds used. The weakness in sales of consumer durable goods and the rising ratio of household indebtedness to income were reflected in a marked decline in consumer credit flows. And reduced deposit growth at thrift institutions contributed—along with rising building costs and peak mortgage rates—to a shrinkage in flows of residential mortgage credit. As a result, aggregate flows of funds to households

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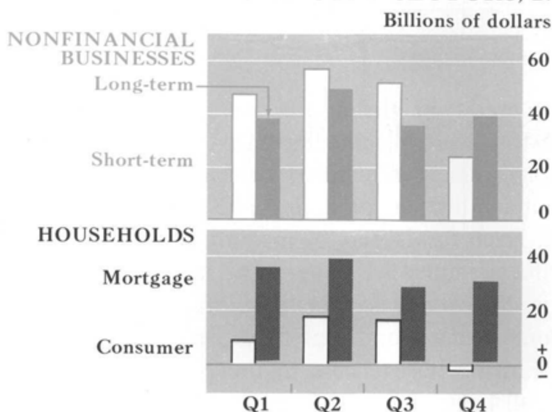
fell sharply, whereas funds raised by other nonfinancial sectors—especially businesses and foreigners—rose substantially.

As pronounced as the year-to-year changes in the composition of fund flows were, they were not nearly so dramatic as the shifts that occurred within 1974. Abrupt changes in economic conditions—and in some instances, the adjustments in monetary policy made in response to those changes—caused remarkable shifts in the level and composition of financial flows from quarter to quarter.

Early in the year when the oil embargo was depressing both economic activity and interest rates, businesses were encouraged to expand their borrowing in long-term markets. Firms that had postponed such financing in 1973 were particularly active. As a result, corporate and foreign bond sales—net of redemptions—which had been running at an annual rate of $10.5 billion in the fourth quarter of 1973, rose to a $19.6 billion rate in the first quarter of 1974.

Declines in market interest rates early in the year also helped to sustain the improved flows to nonbank thrift institutions that had developed in late 1973. This stimulated an increase in commitments to make future residential mortgage loans and accounted in part for the upswing in such loans during the second quarter.

BORROWING BY SELECTED SECTORS, 1974



NOTE.—Short-term is bank loans and other loans. Long-term is corporate bonds and mortgages. Flow of funds data.

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Demands for credit intensified over the second quarter, particularly in short-term markets, as the slide in economic activity slowed temporarily and rapid inflation augmented business needs for inventory financing. Commercial banks were the focus of much of this increase in credit demands.

Table 8: FUNDS SUPPLIED IN CREDIT AND EQUITY MARKETS

In billions of dollars

Sector supplying	1973	1974	1974[1]			
			Q1	Q2	Q3	Q4
All sectors	**239.4**	**216.7**	**208.4**	**254.3**	**242.3**	**161.8**
All sectors to nonfinancial sectors	187.4	175.7	174.5	207.2	174.7	146.4
U.S. Government and sponsored credit agencies	23.3	29.9	15.2	30.2	39.0	35.3
Less funds raised by sponsored credit agencies	19.6	21.6	9.3	24.3	33.9	19.2
Federal Reserve System	9.2	6.2	−.9	13.1	10.7	1.7
Foreign sources	3.5	13.2	5.9	17.4	6.4	23.1
Private financial intermediaries	*172.3*	*134.3*	*152.9*	*174.7*	*114.1*	*95.5*
Commercial banks	86.7	61.8	78.7	96.8	41.4	30.3
Thrift institutions	35.4	27.8	43.9	27.1	17.2	23.2
Insurance and pension funds	37.0	40.3	30.8	43.5	40.8	46.3
Other	13.1	4.3	−.4	7.3	15.0	−4.3
Less funds raised by private financial intermediaries	32.4	19.4	24.6	22.8	33.7	−3.9
Private domestic nonfinancial investors	*31.1*	*33.1*	*35.4*	*18.9*	*72.0*	*6.1*
Households	21.5	22.8	12.0	16.8	54.6	8.0
Nonfinancial businesses	9.2	6.4	16.8	9.4	10.9	−11.6
State and local governments	.4	3.9	6.7	−7.4	6.5	9.8
MEMO: Net change in deposits and currency held by private domestic nonfinancial sectors	88.8	77.9	97.3	109.0	29.0	76.2

[1] Quarterly data are seasonally adjusted annual rates.

SOURCE.—Federal Reserve flow of funds accounts.

Demands for bank credit in the spring were also augmented because financial investors were placing increased emphasis on the creditworthiness of borrowers. Lower-rated companies often found that they had to pay a much higher rate than prime issuers in order to sell commercial paper. Even for issuers of medium-grade paper, the premium over the prime commercial paper rate rose from roughly ½ percentage point in the winter to 1½ percentage points in the early summer. And some firms found that they could not sell commercial paper at all. Firms whose access to the paper market was thus restricted had to fall back on lines of credit at banks.

Bank loans to foreigners also expanded at a faster rate in the second quarter. But so too did deposits of foreigners, since com-

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mercial banks were serving as intermediaries for enlarged oil payments to foreigners.

The steep, general rise in short-term interest rates resulting from the spring and early-summer accumulation of pressures on banks was not reflected in the market for short-term U.S. Treasury securities where yields showed little net change during the first half of the year. In this period the supply of Treasury bills available to the public was reduced substantially by heavy buying on the part of both foreign central banks (partly with dollars obtained in foreign exchange market intervention) and the Federal Reserve (through open market purchases to supply reserves). As a result, rate spreads between Treasury bills and private instruments of similar maturity widened to almost 4 percentage points.

This rate spread had important repercussions on credit flows. First, funds of foreign central banks, which previously had been placed almost entirely in Treasury bills and other Government obligations, were placed to some extent in bankers' acceptances, which at that time were still being guaranteed by the Federal Reserve. Supplies of acceptances available for purchase grew very rapidly in the second and third quarters, when credit demands of foreigners were being diverted to U.S. sources by the credit and balance of payments policies of foreign governments. Second, the higher rates available on private instruments encouraged the growth of mutual funds that invest in liquid assets; these institutions pooled the funds of smaller investors and purchased diversified portfolios of large CD's, commercial paper, and other short-term assets.

The rise in private short-term rates from late winter to midsummer was accompanied by an increase in long-term rates, but as typically occurs in periods of sharp, general advances in rates, the yield curve took on a pronounced downward slope. As long-term rates and the cost of equity capital in the stock market moved upward, many companies put off long-term financing—favoring bank loans or commercial paper. Some firms, however, had no real option but to proceed with bond or stock financing—especially in the public utility industry where long-term funds were required for fixed investment expenditures. Thus, despite the high costs of capital, the volume of long-term financing was maintained through the second quarter.

Even in the third quarter, when yields on new top-quality corporate bonds reached record levels above 10 per cent, the aggregate volume

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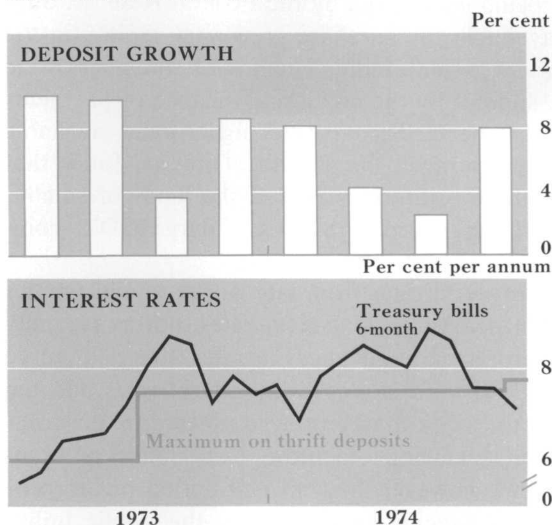
of new offerings remained large for a summer period. The sale of a sizable volume of floating-rate notes—primarily by bank holding companies—accounted for much of this sustained volume. These securities proved very attractive to small investors because of the high initial rates and the option of redemption on specified dates.

The combination of high market yields and the availability of attractive new types of financial instruments cut deeply into the supply of funds flowing to thrift institutions during the second and third quarters. The summer attrition was also augmented because the Treasury, at congressional insistence, restored the low, $1,000-minimum denomination on high-coupon note issues that it offered in the August refinancing. Even though the Federal home loan banks made advances to savings and loan associations totaling $5.7 billion

THRIFT INSTITUTIONS' GROWTH, AND INTEREST RATES



NOTE.—Net flows are quarterly changes, at seasonally adjusted annual rates, in consumer-type time and savings accounts at commercial banks, in total deposits at mutual savings banks, and in savings capital at savings and loan associations.

Interest rates: Monthly data. Rate on Treasury bills is average of yields at weekly auctions. Thrift institutions, highest rates payable on consumer-type deposits at mutual savings banks and savings and loan associations for longest certificates (2 years through June 1973, 4 years through Dec. 22, 1974, and 6 years beginning Dec. 23, 1974).

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during the second and third quarters and other Federally sponsored agencies provided funds to the mortgage market, residential mortgage rates rose nearly as much as bond rates, reaching 10 per cent in the fall, and loan commitments fell sharply. Although subsequent declines in market rates brought a resumption of net deposit inflows, the smaller backlog of loan commitments and the reduction of demands for mortgage loans associated with the deterioration of the economy resulted in a slowing of mortgage debt formation over the second half of the year. Thrift institutions therefore used their improved flows of funds to repay debt and to rebuild liquid asset holdings.

The limited supply of Treasury bills available to the public that was characteristic of the first half of the year began to be reversed in August, as the Treasury became a substantial net borrower. This caused a sizable late-summer advance in bill yields, which sharply narrowed the earlier, wide spreads between them and other short-term rates. Then, as other short-term rates declined, Treasury bill rates shared in the downtrend.

Consumer reluctance to purchase new autos and other large-ticket durable goods cut deeply into consumer credit flows during the fourth quarter, reducing both direct demands on banks for instalment credit and indirect demands from finance companies. Consumer credit growth was also limited by the stricter quality standards being applied by lenders in response to the rising rate of loan delinquencies and the negative outlook for employment.

In addition to the Government sector, the principal area of credit markets where demands picked up toward the year-end was the corporate bond sector. Cyclically depressed tax revenues and rising expenditures forced the Federal budget into deeper deficit and required increased issuance of debt. In the corporate sector businesses took advantage of the general easing of bond market pressures to sell a near-record volume of long-term debt. Much of the corporate bond volume was in the intermediate-term maturity range—5 to 10 years.

The weakness of the economy and the repayment of short-term debt with the proceeds of longer-term financings were reflected in a sharp slowing of short-term business credit expansion in the fourth quarter. The sum of bank loans to nonfinancial businesses and of

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Table 9: U.S. GOVERNMENT FINANCE

In billions of dollars

Item	Calendar year		
	1972	1973	1974
Deficit	**17.4**	**7.9**	**10.9**
Amount financed by changes in cash assets and other items	2.1	.....	−.8
Total borrowing from public [1]	**15.3**	**7.9**	**11.8**
Net Federal Reserve purchases of Government securities [2]	−.2	8.6	2.1
Net Treasury borrowing from private investors—			
Marketable:			
Foreign	4.5	−5.4	6.8
Other	3.3	−4.1	3.2
Nonmarketable:			
Foreign	3.9	5.6	−3.2
Other	3.8	3.2	3.0
Memoranda:			
Net borrowing by Government-sponsored agencies	3.5	16.3	16.6
Federal Reserve outright purchases of sponsored agency issues	.6	.5	2.5

[1] Includes Treasury securities as well as securities issued directly by budget agencies. The ownership distribution is approximate.
[2] Includes repurchase agreements.

commercial paper issued by such firms, which had grown at seasonally adjusted annual rates of from 18 to 25 per cent in the first three quarters of the year, rose at a rate of less than 3 per cent between September and December. The deceleration of the bank component of short-term credit also was attributable in some measure to conservative lending postures by banks in light of prospective loan losses, reduced liquidity, and concern about the adequacy of bank capital.

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International Developments

A series of dramatic events combined to make 1974 a year of great economic stress in the world economy, foreshadowing major challenges for economic policy in the year ahead. In retrospect, the force initiating much of the difficulty was the coincident surge in demand in nearly all industrial countries beginning in 1972 and reaching a peak after mid-1973. That surge exposed bottlenecks in the supply of many basic commodities, and rising costs of materials aggravated demand inflation and facilitated the raising of prices by the Organization of Petroleum Exporting Countries (OPEC). Adding to pressures on consumer prices, world production of foods fell as demand rose, and food inventories were reduced to dangerously low levels.

Faced with these problems, industrial countries had shifted toward policies of demand restraint in 1973. This shift added to the already strong depressing effect on demand of higher oil prices, bringing a slowdown in industrial production by early 1974. By the end of the year industrial countries were operating well below capacity. For the industrial countries (other than the United States) as a group, it appears that real GNP rose only slightly over 1 per cent in 1974 (in the 1960–70 period growth had averaged 6.3 per cent annually) and would be far below the long-run average in 1975. If the U.S. performance is included, real GNP growth for the 2 years would be considerably lower.

Policymakers are constrained in their efforts to revive demand by rates of inflation that are far too high in every country, though some countries have been more successful than others in restraining inflation. In terms of GNP deflators, industrial countries as a group experienced a price increase of 12½ per cent in 1974 compared with a 3.6 per cent annual average in 1960–72. Weaknesses in prices of many industrial commodities began to show up clearly by mid-1974, but upward pressure on prices was sustained by several factors: escalating wage settlements as labor attempted to maintain or restore purchasing power; declining productivity as capacity utilization fell off; short supplies of foodstuffs; and the maintenance by OPEC of the high price of oil despite declining demand and great excess capacity.

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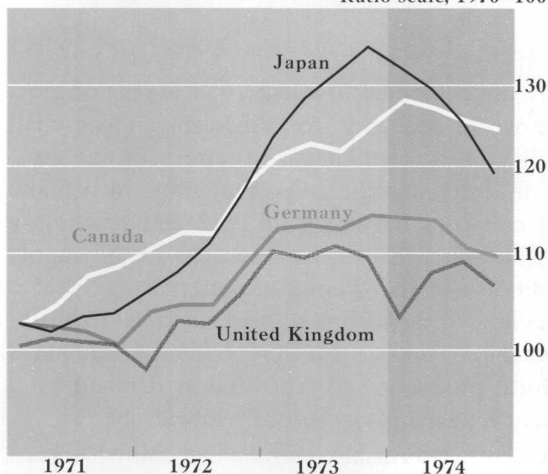
FOREIGN INDUSTRIAL PRODUCTION



NOTE.—Seasonally adjusted quarterly data from Organization for Economic Cooperation and Development. Q4 partly estimated.

When the oil producers quadrupled the price of oil, they created not only pervasive stresses on world prices and economic activity but also a challenge to the stability of world capital markets and to international economic cooperation. Financial markets have been strained as oil-consuming countries have borrowed on a long-term basis to finance their deficits, while OPEC countries have tended to concentrate on those kinds of assets that best meet their needs for liquidity, safety, and yield.

To satisfy these needs, the OPEC countries placed their investible surplus (the amount left from receipts from exports and investment income after payment for imports and outlays for military purposes and aid)—probably amounting to some $55 billion in 1974—mainly in money market assets in the United States (20 per cent) and in the U.K. and the Euro-currency markets (50 per cent). They also made large investments in direct loans to industrial oil-consuming countries (10 per cent) and in loans to the special oil facility established in the International Monetary Fund and to other multinational institutions (6 per cent). The remainder was dispersed through many channels, including some longer-term investments in industrial countries.

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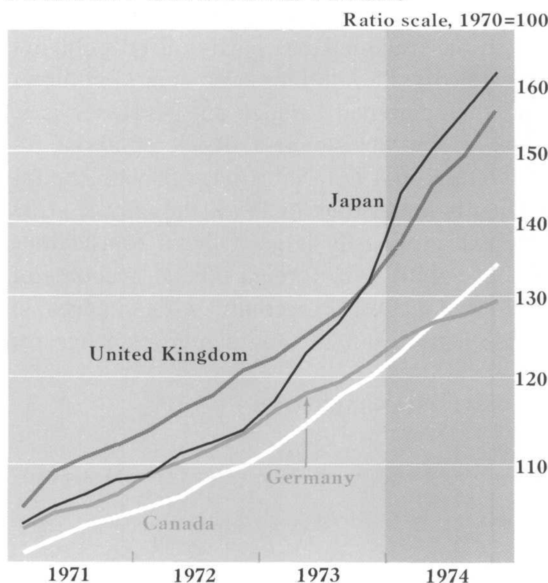
FOREIGN CONSUMER PRICES



NOTE.—Seasonally adjusted quarterly data from Organization for Economic Cooperation and Development. Q4 partly estimated.

The world's banking system faced multiple problems in 1974. Commercial banks needed to adjust not only to the vast inflow of OPEC funds and the financing requirements of oil consumers, but also to the weakening of confidence caused by the failure of a few banks with large losses in foreign exchange and other dealings. In addition, banks generally recognized that they had been expanding their operations more rapidly than was prudent in relation to their capital resources. Reacting to this situation and to the measures taken by concerned monetary authorities to preserve sound banking systems, banks tightened both their domestic and their foreign lending operations.

U.S. INTERNATIONAL TRANSACTIONS

The course of U.S. international transactions is reflected in the balance of payments accounts and also, under a system permitting substantial exchange-rate movement, in changes in the exchange rate for

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the dollar. In terms of broad aggregates of international transactions, the surplus on goods and services declined slightly from 1973 to 1974, with a sizable drop in the trade balance partly offset by higher net income on foreign investments. Private long-term capital outflows rose sharply in 1974, and the combined balance on goods, services, remittances, and long-term capital registered a deficit of about $8 billion, compared with $1 billion in 1973. Short-term private capital outflows, net, were only slightly larger than in 1973, though the gross flows through banks were extraordinarily large. Official transactions included an increase in U.S. liabilities to foreign official accounts of $9.4 billion—almost entirely for OPEC account, with changes in holdings by other countries netting out to only a minor change for

Table 10: U.S. INTERNATIONAL TRANSACTIONS

In billions of dollars, seasonally adjusted

Item	1973	1974e	1974 Q1	Q2	Q3	Q4e
Merchandise trade balance	.5	−5.8	−.1	−1.6	−2.6	−1.5
Exports	70.3	97.1	22.3	24.1	24.6	26.1
Imports	−69.8	−102.8	−22.3	−25.7	−27.2	−27.6
Investment income, net	5.3	8.8	3.1	1.8	2.2	1.7
Other service transactions, net	−1.4	−.5	−.1	−.4	(1)	......
Balance on goods and services	4.3	2.6	2.9	−.2	−.3	.2
Remittances and pensions, net	−1.9	−1.9	−.4	−.5	−.5	−.5
U.S. Govt. grants and capital, net	−3.5	−3.8	−1.2	−.9	−.8	−.9
Long-term private capital, net	.1	−5.0	.5	−1.0	−2.0	−2.5
Balance on current account and long-term capital	−1.0	−8.1	1.8	−2.5	−3.6	−3.7
Short-term private capital, net	−2.0	−3.3	−1.8	−3.8	2.6	−.2
Of which- Foreign assets of U.S. banks	−5.0	−17.1	−5.0	−6.6	−2.0	−3.6
Foreign liabilities of U.S. banks	4.2	15.0	4.7	2.8	4.0	3.4
Liabilities to foreign official agencies	5.1	9.4	−.8	4.9	1.4	3.9
Of which- Oil-exporting (OPEC) countries, not seasonally adjusted	(.4)	(9.4)	(1.0)	(2.4)	(3.9)	(2.1)
Change in U.S. reserve assets	.2	−1.4	−.2	−.4	−1.0	.1
Errors and omissions	−2.3	3.4	1.0	1.8	.6	−.1
MEMO: Official settlements balance	−5.3	−8.0	1.0	−4.5	−.4	−4.1
Official settlements balance excluding liabilities to OPEC countries, not seasonally adjusted	−4.9	1.4	2.0	−2.2	3.6	−2.0

[1] Less than $50 million.
e Estimated.

NOTE.—Details may not add to totals because of rounding.
SOURCE.—U.S. Dept. of Commerce and F.R. estimates.

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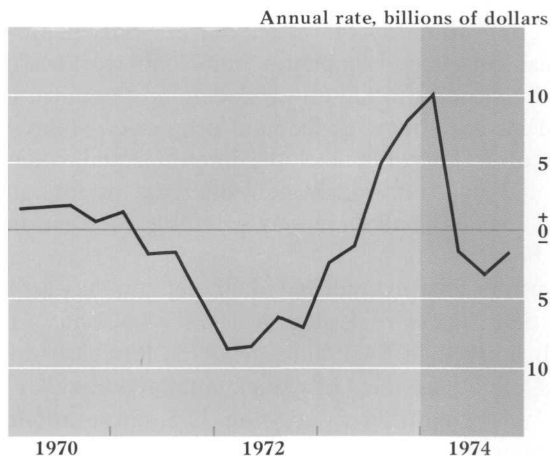
the year. There was also an increase of $1.4 billion in U.S. reserve assets. During the year errors and omissions in the accounts were generally on the receipts side, suggesting some net unrecorded inflow of capital.

As in the case of other countries, the jump in oil prices was the greatest single influence affecting both current and capital transactions in 1974, but other factors were also at work. The effective depreciation of the dollar since 1970 by about 16 per cent was probably still having a significant effect on the trade balance, supporting a strong export performance and restraining imports. On the other hand, the removal of controls on outflows of U.S. private capital in January (while barriers to inflows were coming down in other countries), together with declining interest rates in the United States early in the year and again toward the end of the year, tended to encourage the outflow of capital from the United States.

Despite an additional cost of over $18 billion for imports of fuels in 1974, the over-all trade balance declined by only $6 billion. Exports, in value terms, rose by $27 billion, including a rise of about $4 billion for agricultural exports. In volume terms agricultural ex-

BALANCE ON GOODS, SERVICES, AND REMITTANCES



NOTE.—Dept. of Commerce data at seasonally adjusted annual rates. Q4 partly estimated.

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ports were about 10 per cent lower in 1974 than in 1973, but nonagricultural exports were up by 12 per cent, following a strong—22 per cent—increase in 1973. The 1974 performance was especially impressive, given the weakening of demand in other industrial countries.

On the import side, nonfuel imports rose about $15 billion in 1974, but in volume terms they were cut back by about 2 per cent, reflecting in large part the decline in domestic economic activity. The volume of fuel imports was about 3 per cent less in 1974 than in 1973, but the price (unit value) of a barrel of imported crude oil rose from an average of $3.33 in 1973 to $11.00 in 1974.

It appears that net receipts of investment income scored a substantial gain in 1974—rising to a record of about $9 billion, compared with $5.3 billion in 1973. Most of the increase reflected larger profits by the petroleum companies from their foreign operations, though these may now diminish as initial inventory profits will not be repeated and ownership of the crude-oil-producing properties is relinquished to the host countries.

Long-term private capital transactions appear to have resulted in a net outflow of about $5 billion in 1974, based on incomplete data. This would be the largest net outflow since the imposition of capital controls in the early 1960's and a considerable shift from the near-balance in these flows in 1972 and 1973. Early in the year the net flow was inward, reflecting primarily the collection of funds in this country by international petroleum companies from their worldwide sales in advance of disbursements to the oil-producing host countries. Payments of taxes and income shares as the year progressed sharply raised the rate of outflow. The removal of the interest equalization tax in January 1974 did not spur major new offerings of foreign issues now relieved of the tax, but there was a sizable increase in offerings of Canadian bonds.

Foreign private investors sharply reduced their net purchases of U.S. securities other than Treasury issues in 1974—to about $1 billion, compared with more than $4 billion in 1973. Purchases of U.S. corporate stocks fell off as the U.S. stock market weakened, along with markets in other countries. In addition, U.S. corporations offered much smaller amounts of their bonds in foreign markets since

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they no longer needed to borrow abroad to satisfy the requirements of the controls on outflows of funds from the United States. Foreign direct investments in the United States, apart from special transactions related to certain petroleum companies, were substantially less than the 1973 peak amount.

Short-term private capital flows were very large in both directions in 1974, but preliminary data suggest that there was only a small increase in the net outflow from the United States. U.S. banks provided large amounts of credit to foreign countries, especially Japan, increasing their short- and long-term claims on foreigners by $18 billion in the year. The elimination of controls at the beginning of the year and the lower cost of borrowing in the United States for part of the year tended to raise the outflow from the U.S. offices of banks. After August there was some reduction in the rate of bank lending, in part because a number of the early borrowers had taken care of their needs for the year or had arranged borrowings from OPEC sources, and in part because of the general tightening of banks' lending policies. However, bank lending to foreigners was stepped up again in the closing months of the year. Although the increase in banks' foreign claims was enormous by past standards, it was nearly matched by a $15 billion increase in their liabilities to private foreigners—primarily through their branches and other banks in the Euro-dollar market.

In addition to magnified flows of private short-term capital, a major new element in the U.S. balance of payments in 1974 was the direct acquisition of U.S. money market assets by authorities of the OPEC countries. Such acquisitions amounted to about $9½ billion for the year, mainly in purchases of U.S. Government obligations.

Funds held in the United States by monetary authorities of non-OPEC countries were nearly unchanged for the year as a whole. At times during the year some countries—notably the United Kingdom, Italy, and Japan—drew on their dollar reserves, as well as on borrowings, to limit depreciation of their currencies. Toward the end of the year countries with strengthening currencies added to their holdings of dollar assets in the United States. U.S. reserve assets rose mainly as a consequence of drawings of dollars by some countries from the IMF.

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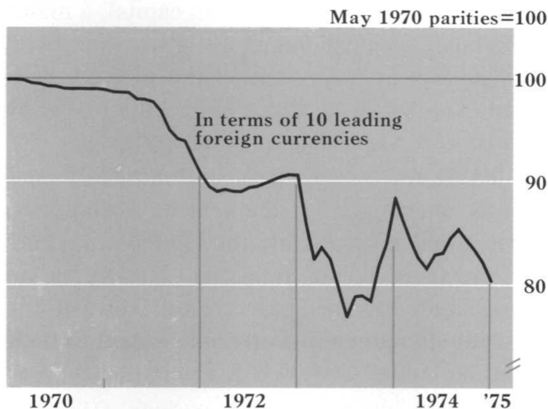
INTERNATIONAL FINANCIAL SCENE

International financial markets were under strong pressures in 1974 arising from the uncertainties created by the flow of oil payments and revenues; by rampant world inflation; and toward the end of the year, by the onset of worldwide recession. Exchange rates showed considerable variability as the market reacted to each new bit of information in this uncertain environment. The weighted-average exchange value of the U.S. dollar varied by about 10 per cent over the course of the year, and rates of exchange between the dollar and some continental European currencies varied by much more than that.

These fluctuations in exchange rates encouraged a number of banks—notably European banks—to take large open positions, particularly in the first half of the year, and some of these banks reported large foreign exchange losses. Such losses were directly responsible for the failure of a German bank that was relatively small in terms of its total assets but was a major participant in the exchange market; hence its failure had widespread effects. After that failure the volume of interbank trading declined sharply, as banks

INTERNATIONAL VALUE OF THE U.S. DOLLAR



NOTE.—Monthly-average market exchange rate of U.S. dollar against 10 major foreign currencies weighted by foreign trade in 1972. The weight for each currency is the share of that country's total trade (exports plus imports) in the total trade of the 10 countries plus the United States.

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restricted their dealings to only those banks deemed most creditworthy and reduced their limits on foreign exchange lines to nonbank as well as bank customers.

This extreme contraction of the market subsequently eased, but in general, banks have maintained a more cautious attitude toward exchange market transactions and have substantially tightened internal control procedures related to such transactions. In some major countries the authorities have increased their surveillance and/or control over banks' foreign exchange operations in the aftermath of the experience of foreign exchange losses by some banks in their jurisdictions.

After appreciating very sharply in the fourth quarter of 1973 and into January of 1974, the dollar depreciated from the end of January through mid-May, declining by 10 per cent on a weighted-average basis. Major factors in the dollar's depreciation in this period included the removal of controls on capital outflows by the United States and the relaxation of restrictions on inflows by most major foreign countries; the demonstration by several European countries of their willingness to engage in large-scale official borrowing in the Euro-currency markets to support their currencies while paying more for oil; and the continuation of large export surpluses in Germany, despite sharply higher oil payments, at a time when the trade balances of most other industrial countries were moving heavily into deficit.

The dollar's slide ended in mid-May with reports that the Federal Reserve, the German Federal Bank, and the Swiss National Bank had agreed upon the desirability of concerted exchange intervention in markets. Sharp increases in U.S. interest rates relative to foreign rates and, after June, market uneasiness stemming from the difficulties of some German banks contributed to a strong dollar until early September. At that time U.S. interest rates began a rather steady decline that continued into 1975, and the dollar's exchange value followed U.S. interest rates downward. By the year-end the dollar had depreciated by some 4.4 per cent from the beginning of the year on a weighted-average basis. Contributing to this decline in the dollar's exchange value was the asymmetry in intervention policies between countries with weaker currencies and those with strengthening currencies. Intervention sales of dollars by countries

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supporting weaker currencies exceeded purchases of dollars by countries resisting the appreciation of their currencies. The net effect of these operations was to add to the market supply of dollars, depressing the dollar's average exchange rate.

The Euro-currency market continued to expand at a very rapid rate during the first 4 months of 1974. The disclosure in May of the financial difficulties of a large U.S. bank, followed in June by the aforementioned failure of a German bank, led to greater caution on the part of lenders in the market and brought the market's growth to a halt. Between the end of April and the end of September there was a slight decline in the external foreign-currency liabilities of banks in London, the market's largest center. In part this leveling reflected an actual cutback in interbank redepositing. During this period lenders began to discriminate more sharply among borrowers and to evaluate risks more carefully. This caution produced a rate structure involving many more tiers than before, with smaller or lesser-known banks paying substantial premiums for funds, and also brought about a greater concentration of deposits with the larger banks.

In the fourth quarter, growth of the market resumed as concern for the safety of banks engaging in the Euro-currency business lessened somewhat. A factor that may have contributed to this easing of tensions in the Euro-currency market was the statement issued by the Governors of the Bank for International Settlements on September 9 to the effect that the Governors were satisfied that means were available to provide temporary liquidity to sound banking institutions and that those means would be used if and when necessary.

The rise in oil prices had a variety of impacts on the Euro-currency market. The oil-exporting countries placed perhaps 40 per cent of their estimated $55 billion surplus on current account in the Euro-currency market in 1974, generally at call or in other very short maturities. In London the oil-exporting countries' share of the gross total of Euro-currency deposits rose from 5 per cent at the end of 1973 to 14 per cent at the end of September 1974.

In the first quarter of 1974 new commitments of longer-term Euro-currency loans rose dramatically as several European governments sought funds to pay for oil. But commitments declined in the next two quarters, partly because lending banks became more wary of

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lending for balance of payments purposes. Italy, which had borrowed heavily in the market for longer-term loans in recent years, did not enter the market for further loans after early spring. In indirect reflection of swollen bills for oil imports, Japanese banks increased their takings from the Euro-currency market very sharply in the first half, for which they were obliged to pay substantial premiums. But their net borrowings do not appear to have increased much, if at all, in the second half of the year as the Japanese authorities moved to curb additional net foreign borrowings by the banks.

Reflecting the tightening of credit availability, spreads on Euro-dollar loans to nonbank borrowers widened by about ½ to ¾ percentage point between May and October, and there was a marked shortening of the average maturity of Euro-dollar loans of more than 1 year.

Gold was the subject of heightened interest as its dollar price nearly doubled from the middle of the fourth quarter of 1973 to the end of the first quarter of 1974 when the price reached $180 per ounce. As inflation in the major countries accelerated, people apparently sought refuge in gold. In the second and third quarters prices for gold fell sharply, influenced in large part by soaring interest rates, particularly on dollar assets. In the fourth quarter, however, interest rates declined, again particularly on dollar assets; this decline, together with the anticipation of U.S. residents' newly legalized purchases of gold at the close of the year, pushed the price to a new high in London of $195.25 per ounce in late December. When demand by U.S. residents for the 2 million ounces of gold offered by the U.S. Treasury in early January 1975 turned out to be unenthusiastic, the price dropped to a range of $170 to $180 per ounce in mid-January.

At the turn of the year many acute problems beset the world economy that will test severely the determination of countries to deal with their domestic concerns while contributing to the achievement of common interests. Many countries are faced with sagging economies and would normally look to an improved trade balance as a source of support—and many will do so with the added incentive of covering the cost of imported oil. But many industrial countries will have to revise their customary view of what constitutes an acceptable trade balance. Even though a considerable gain in exports to the oil

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producers can be expected, the industrial oil-consuming countries as a group must accommodate a large deficit with the OPEC countries, and any individual country's efforts to gain a trade advantage through restrictive devices would be at the expense of other oil-consuming nations. In addition to the matter of oil imports there are major discrepancies in the balance of payments performance of individual industrial countries that will require adjustment.

Apart from the adjustments needed to accommodate differences in economic performance, some of the industrial countries, and many of the less-developed countries, will need to finance continuing incremental payments for oil and related products. Such financing requirements could go beyond the limits of their ability to borrow on reasonable terms from the market.

Recognizing such needs, the Ministers of the Group of Ten at a meeting in Washington in January 1975 agreed that a solidarity fund open to all members of the Organization for Economic Cooperation and Development should be established, and the Interim Committee of the Board of Governors of the IMF agreed that the Fund's Oil Facility should be continued for 1975 with new resources of SDR 5 billion to be sought—primarily from the OPEC countries. Also in connection with the energy problem, the International Energy Agency was organized in 1974 for the purpose of implementing a program designed to deal with shortages of oil and to develop substitute energy sources.

In this period of severe economic change, it is especially difficult to make progress on the basic issues of the international monetary system. Nevertheless, discussion has continued on those issues; tentative agreement was reached in January on an increase in IMF quotas to SDR 39 billion, and the Executive Directors of the Fund were instructed to draft a number of amendments to the Articles of Agreement involving most of the outstanding issues, including the role of gold and the legalization of floating exchange rates. Through effective use of these institutional structures it should be possible to act in cooperation to meet the many acute problems of the world economy. □

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Part 2

Records, Operations, and Organization

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Record of Policy Actions of the Board of Governors

JANUARY 2, 1974

AMENDMENTS TO MARGIN REGULATIONS

Effective January 3, 1974, the Board lowered margin requirements from 65 per cent to 50 per cent for credit extended by brokers, dealers, banks, and other lenders to finance the purchasing or carrying of stock, and also lowered the required deposit on short sales from 65 per cent to 50 per cent. In taking this action, the Board amended the Supplements to Regulation G (Securities Credit by Persons Other Than Banks, Brokers, or Dealers), Regulation T (Credit by Brokers and Dealers), and Regulation U (Credit by Banks for the Purpose of Purchasing or Carrying Margin Stocks).

> Votes for this action: Messrs. Burns, Mitchell, Daane, Brimmer, and Holland. Votes against this action: None. Absent and not voting: Messrs. Sheehan and Bucher.

The Board's action covered new extensions of credit by brokers and dealers (Regulation T) and by banks and other lenders (Regulations U and G, respectively) for the purpose of purchasing or carrying securities registered on a national stock exchange or named in the Board's over-the-counter margin list.

In making the change, the Board acted under the authority granted in the Securities Exchange Act of 1934. The Board noted the sharp reduction that had occurred in stock market credit since margin requirements were increased from 55 per cent to 65 per cent, effective November 24, 1972. The level of such credit at brokers and dealers declined in November 1973 for the 11th consecutive month, and on November 30 was about $5.5 billion, 31 per cent below the peak of $7.9 billion in December 1972.

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JANUARY 3, 1974

AMENDMENTS TO REGULATION Y (BANK HOLDING COMPANIES) AND RULES REGARDING DELEGATION OF AUTHORITY

Effective March 19, 1974, the Board amended Regulation Y and its Rules Regarding Delegation of Authority to authorize Federal Reserve Banks to approve a bank holding company's retention of bank stock acquired in a fiduciary capacity if the holding company has made an unconditional commitment to dispose of such shares or of its sole discretionary authority to vote such shares within a 2-year period.

> Votes for this action: Messrs. Burns, Mitchell, Daane, Brimmer, and Holland. Votes against this action: None. Absent and not voting: Messrs. Sheehan and Bucher.

This action was taken as part of a continuing effort to expedite the processing of the increased volume of applications received under the Bank Holding Company Act as amended.

JANUARY 3, 1974

AMENDMENT TO RULES REGARDING DELEGATION OF AUTHORITY

Effective with applications accepted by Federal Reserve Banks after April 4, 1974, the Board amended its Rules Regarding Delegation of Authority to broaden the Reserve Banks' authority to approve one-bank holding company formations, bank holding company formations involving more than one bank, bank acquisitions by existing bank holding companies, and bank mergers. The action taken also delegated to the Reserve Banks authority to approve certain mergers and consolidations of bank holding companies.

> Votes for this action: Messrs. Burns, Mitchell, Daane, Brimmer, and Holland. Votes against this action: None. Absent and not voting: Messrs. Sheehan and Bucher.

This action was taken on the basis of experience with the existing delegation of authority and in a further effort to expedite the processing of the increased volume of applications received under the Bank Holding Company Act as amended.

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According to the revised standards, Reserve Banks may approve bank holding company formations and bank acquisitions by existing bank holding companies when the applicant's revenues from nonbank activities are as much as 20 per cent of its total operating income (instead of 10 per cent as previously specified), or when the debt involved amounts to as much as 20 per cent of the equity capital accounts of the holding company (instead of 10 per cent). The 20 per cent limitation on the ratio of acquisition debt to equity capital will also apply to holding company mergers approved by Reserve Banks.

The Board's action delegated to the Federal Reserve Banks the authority to approve the merger or consolidation of a bank holding company with another bank holding company under substantially the same conditions as those required for approval, under delegated authority, of acquisitions of existing banks by bank holding companies.

The amendment also introduced a requirement that the Reserve Banks forward to the Board applications for holding company formations and mergers, bank acquisitions, and bank mergers when such applications involve a covenant not to compete.

JANUARY 15, 1974

AMENDMENT TO REGULATION Z (TRUTH IN LENDING)

Effective March 1, 1974, the Board amended Regulation Z to revoke several provisions that had been included when the regulation was promulgated in July 1969 to assist creditors in making the transition to compliance with the rules.

> Votes for this action: Messrs. Mitchell, Brimmer, Sheehan, Bucher, and Holland. Votes against this action: None. Absent and not voting: Messrs. Burns and Daane.

This action was taken because the transitional provisions adopted when the regulation was promulgated more than 4 years ago were no longer necessary.

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JANUARY 24, 1974

TERMINATION OF VOLUNTARY FOREIGN CREDIT RESTRAINT PROGRAM GUIDELINES

Effective January 29, 1974, the Board terminated its voluntary foreign credit restraint program guidelines covering foreign credits and investments by U.S. banks and other financial institutions.

> Votes for this action: Messrs. Burns, Mitchell, Daane, Brimmer, Sheehan, Bucher, and Holland. Votes against this action: None.

Early in 1965 the Board had adopted guidelines for the use of banks and nonbank financial institutions in limiting foreign credit voluntarily as part of the President's program to improve the Nation's balance of payments. Announcement of the termination of the voluntary foreign credit restraint guidelines was now made in conjunction with actions by the Treasury Department to reduce the interest equalization tax to zero and by the Commerce Department to terminate its restrictions on foreign direct investment.

JANUARY 31, 1974

AMENDMENT TO REGULATION H (MEMBERSHIP OF STATE BANKING INSTITUTIONS IN THE FEDERAL RESERVE SYSTEM)

Effective March 2, 1974, the Board amended Regulation H to prohibit State-chartered member banks from lending on improved real estate or a mobile home in an identified flood-hazard area unless the property is covered by appropriate flood insurance. As of July 1, 1975, this amendment also will prohibit lending on such property in any community in a designated flood-hazard area not participating in the national flood insurance program.

> Votes for this action: Messrs. Brimmer, Sheehan, Bucher, and Holland. Votes against this action: None. Absent and not voting: Messrs. Burns, Mitchell, and Daane.

This action was taken to implement the Flood Disaster Protection Act of 1973. That legislation, signed into law by the President in December 1973, requires Federal agencies regulating financial institutions to direct those institutions subject to their rules to comply with certain specified requirements. Similar actions to restrict lending

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under the new flood insurance legislation were taken by other Federal regulatory agencies. (See subsequent Board action on September 16, 1974.)

FEBRUARY 11, 1974

AMENDMENT TO REGULATION Y (BANK HOLDING COMPANIES)

Effective February 26, 1974, the Board amended Regulation Y to permit bank holding companies, under certain specified conditions, to provide management consulting advice to banks not affiliated with the holding company. The Board also authorized the issuance of an interpretation of Regulation Y defining terms and illustrating the intended scope of the permissible activity.

> Votes for this action: Messrs. Mitchell, Sheehan, Bucher, and Holland. Vote against this action: Mr. Brimmer. Absent and not voting: Messrs. Burns and Daane.

The Board had previously held that, while a bank holding company may perform services—including management consulting services—for its bank affiliates, a bank holding company may not engage in general management consulting. By the action now taken, the Board determined that the provision of management consulting advice to nonaffiliated banks is an activity so closely related to banking or managing or controlling banks as to be permissible for bank holding companies. In engaging in this activity, bank holding companies are not authorized to perform tasks or operations or to provide services to client banks on either a daily or a continuing basis, except as may be necessary to instruct the client bank in the performance of such services for itself. The scope of management services to affiliated banks is not affected.

Under the amendment adopted, management consulting advice may be provided to banks not affiliated with the holding company if:

(1) Neither the bank holding company nor any of its subsidiaries owns or controls, directly or indirectly, any equity securities in the client bank;

(2) No officer, director, or employee of the bank holding company or any of its subsidiaries serves as an officer, director, or employee of the client bank;

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(3) The advice is provided on an explicit fee basis without regard to correspondent balances maintained by the client bank at any subsidiary bank of the bank holding company; and

(4) Disclosure is made to each potential client bank of (a) the names of all banks that are affiliates of the consulting holding company, and (b) the names of all existing client banks located in the same market area(s) as the potential client bank.

A proposal to amend the regulation had originally been published for comment in July 1973; on the basis of the comments received the language of the amendment was modified in certain respects.

The Board also considered, but at this time took no action on, a proposal to broaden the activity to permit the provision of management consulting advice to nonbanking subsidiaries of bank holding companies or to holding companies themselves.

In an interpretation issued at the same time, the Board pointed out that management consulting advice provided for banks outside the holding company system would include, but would not be limited to, the following: bank operations, systems, and procedures; computer operations and mechanization; implementation of electronic funds transfer systems; site planning and evaluation; bank mergers and the establishment of new branches; operation and management of a trust department; international banking; foreign exchange transactions; purchasing policies and practices; cost analysis, capital adequacy, and planning; auditing; accounting procedures; tax planning; investment advice (as authorized in Section 225.4(a)(5) of Regulation Y); credit policies and administration, including credit documentation, evaluation, and debt collection; product development, including specialized lending provisions; marketing operations, including research, market development, and advertising programs; personnel operations, including recruiting, training, evaluation, and compensation; and security measures and procedures.

The interpretation also indicated that the proviso that a bank holding company may not own or control equity securities of a client bank does not apply to shares acquired by a bank holding company or its subsidiaries (1) as the result of a debt previously contracted, or (2) in good faith as a fiduciary, so long as there is no sole discretionary authority to vote such shares, or so long as ownership with sole voting rights does not exceed 5 per cent of the client bank's voting shares.

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Governor Brimmer based his dissent on the view that providing management consulting advice to nonaffiliated banks would be contrary to the purposes of the Bank Holding Company Act, in conflict with various regulations of the Board, and not in the public interest.

MARCH 18, 1974

AMENDMENTS TO REGULATION Y (BANK HOLDING COMPANIES)

Effective April 17, 1974, the Board amended Regulation Y to revise the rules under which bank holding companies may engage in the leasing of personal property and to extend the activity to include the leasing of real property under a separate, nearly identical provision.

Votes for this action: Messrs. Burns, Mitchell, Brimmer, Sheehan, Bucher, Holland, and Wallich. Votes against this action: None.

Effective June 15, 1971, the Board had amended Regulation Y to permit bank holding companies to engage in the leasing of personal property and equipment under certain circumstances, as an activity closely related to banking. In December 1972 the Board published for comment a proposal to amend the regulation to permit the leasing of both real and personal property under a common set of rules. After consideration of the comments received, the Board published a revised proposal for comment and ordered that a public hearing be held on September 12, 1973, before available members of the Board.

After considering all relevant aspects of the proposal, the Board amended Regulation Y to permit the leasing of both real and personal property as activities closely related to banking. The Board adopted separate, nearly identical provisions in order to allow greater flexibility for innovation and the evolution of bank holding company leasing transactions. Both provisions retain the central condition that the leasing transaction be the functional equivalent of a loan—that is, that the lessor recover his full investment in the property during the initial term of the lease.

The amendments permit bank holding companies to lease real and personal property or to act as agent, broker, or adviser in such leasing subject to the following conditions:

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(1) The lease, as a functional equivalent of an extension of credit, must be a full-payout lease. That is, during the initial term of the lease, the lessor must recover his full investment in the property, plus the estimated cost of financing the property during the period that the lease is in effect, from (a) rentals, (b) estimated tax benefits, (c) the estimated residual value of the property at the expiration of the lease, which value shall not exceed 20 per cent of the acquisition cost of the property to the lessor, and (d) for personal property leases of up to 7 years' duration, an amount—not to exceed 60 per cent of the acquisition cost—provided by an unconditional guarantee by a lessee, an independent third party, or a manufacturer, who has been determined by the lessor to have the financial resources to meet such an obligation.

(2) The property to be leased must have been acquired specifically for the purpose of the lease involved, or for an earlier lease.

(3) The lease must be on a nonoperating basis; that is, the leasing company may not also engage in operating or servicing the leased property.

(4) The maximum term during which the leasing company must recover its full investment in the property, plus the estimated cost of financing, is 40 years.

(5) At the expiration of the lease (including any renewals or extensions with the same leaseholder) all interest in the property must be either liquidated or re-leased on a nonoperating basis as soon as practicable, but in no event later than 2 years after the expiration of the lease. The leasing company may in no case retain any interest in the property for more than 50 years after acquiring the property.

MARCH 25, 1974

REVOCATION OF REGULATION B (OPEN MARKET PURCHASES OF BILLS OF EXCHANGE, TRADE ACCEPTANCES, BANKERS' ACCEPTANCES) AND REGULATION C (ACCEPTANCE BY MEMBER BANKS OF DRAFTS OR BILLS OF EXCHANGE)

Effective April 1, 1974, the Board revoked Regulations B and C as part of a modernization and realignment of the System's rules applying to bankers' acceptances.

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Votes for this action: Messrs. Burns, Mitchell, Brimmer, Sheehan, Bucher, Holland, and Wallich. Votes against this action: None.

Regulation B was rescinded by the Board in conjunction with actions taken by the Federal Open Market Committee, also effective April 1, 1974, (1) incorporating the major elements of that regulation, with some technical changes, into its own rules on open market operations; and (2) broadening the scope of bankers' acceptances eligible for purchase by the Federal Reserve. (See Record of Policy Actions of the FOMC for March 18 and 19, 1974.)

In a related action, the Board revoked Regulation C since it had become outdated and in its present form primarily repeated the provisions of the Federal Reserve Act relating to acceptance by member banks of drafts or bills of exchange.

MAY 17, 1974

AMENDMENTS TO REGULATION L (INTERLOCKING BANK RELATIONSHIPS UNDER THE CLAYTON ACT) AND REGULATION Y (BANK HOLDING COMPANIES)

Effective June 20, 1974, the Board amended Regulation L to permit under certain circumstances interlocking services by a director, officer, or employee of a member bank with another bank, banking association, savings bank, or trust company located in a low-income or other economically depressed area.

Effective June 20, 1974, the Board also amended Regulation Y to permit a bank holding company to extend management consulting advice to an unaffiliated bank with which the bank holding company or any of its subsidiaries has established interlocking relationships pursuant to the new provisions of Regulation L.

Votes for these actions: Messrs. Mitchell, Brimmer, Sheehan, Bucher, Holland, and Wallich. Votes against these actions: None. Absent and not voting: Mr. Burns.

These actions were taken in an effort to aid the development of banks in low-income or other economically depressed areas.

In general, Regulation L prohibits directors, officers, and employees of member banks from holding similar positions in another bank, savings institution, or trust company in the same or adjacent commu-

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nities, whereas Regulation Y permits bank holding companies to offer management consulting advice to nonaffiliated banks provided there are no interlocking personnel relationships between (1) the bank holding company or any of its subsidiaries and (2) the unaffiliated client bank.

Banks in low-income or other economically depressed areas, particularly minority-owned banks, are often in need of experienced managerial assistance that could sometimes be provided by other banks or financial institutions except for the prohibitions of Regulations L and Y. The amendments now adopted relax those prohibitions under certain circumstances.

The Board also issued an interpretation of its amendment to Regulation L setting forth criteria to be used in designating low-income or other economically depressed areas. Under this interpretation, any area, without regard to political or other subdivisions or boundaries, that has some or all of the following characteristics will constitute a "low income or other economically depressed area":

(1) An unemployment rate substantially above the national average;

(2) A median level of family income significantly below the national median;

(3) An economy traditionally dominated by only one or two industries that are now in a state of long-term decline;

(4) A substantial rate of outmigration of labor or capital;

(5) An area adversely affected by changing industrial technology;

(6) An area adversely affected by changes in national defense facilities or production.

MAY 22 AND JUNE 21, 1974

AMENDMENT TO REGULATION Y (BANK HOLDING COMPANIES)

On May 22, 1974, the Board amended Regulation Y, effective June 24, 1974, to clarify the deposit-taking and lending activities permissible for trust company subsidiaries of bank holding companies.

> Votes for this action: Messrs. Burns, Mitchell, Brimmer, Bucher, Holland, and Wallich. Votes against this action: None. Absent and not voting: Mr. Sheehan.

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On June 21, 1974, the Board revised the amendment, also effective June 24, 1974, by deleting "sale of Federal funds" from the list of loans and investments permitted for trust company subsidiaries of bank holding companies.

> Votes for this action: Messrs. Burns, Brimmer, Sheehan, Bucher, Holland, and Wallich. Votes against this action: None. Absent and not voting: Mr. Mitchell.

Previously, the regulation had permitted bank holding company subsidiaries to perform any of the activities of a trust company, including activities of a fiduciary, agency, or custodial nature as authorized by State law, "so long as the institution does not both accept demand deposits and make commercial loans."

The amendment, as modified:

(1) Permits trust company subsidiaries of bank holding companies to accept deposits (a) arising from trust funds not currently invested, (b) received under a trust instrument, (c) received for special use on behalf of an issuer of or investor in securities, (d) arising from custodial and managing-agent accounts and other specified agency relationships; and

(2) Prohibits trust company subsidiaries of bank holding companies from making loans or investments except (a) call loans to securities dealers, or (b) investments in money market instruments such as certificates of deposit, commercial paper, government or municipal securities, and bankers' acceptances.

The Board specified that these types of loans and investments may not be used as a method of channeling funds to nonbanking affiliates of the trust company. Such limitations on the lending activities of trust company subsidiaries of bank holding companies were considered necessary due to provisions of the Bank Holding Company Act restricting the commercial banking business of bank holding companies to the State in which their principal banking subsidiaries operate.

In addition to clarifying the permissible deposit-taking and lending activities of limited-purpose trust companies chartered under State law, the regulation allows bank holding companies to operate limited-purpose trust companies with national bank charters so long as such

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institutions do not both accept demand deposits and make commercial loans.

MAY 24, 1974

AMENDMENT TO REGULATION M (FOREIGN ACTIVITIES OF NATIONAL BANKS)

Effective immediately, the Board amended Regulation M to eliminate duplication of Euro-dollar reserve requirements under Regulation D (Reserves of Member Banks) and Regulation M when the foreign branch of a member bank extends credit to the domestic office of another member bank.

> Votes for this action: Messrs. Burns, Sheehan, Holland, and Wallich. Votes against this action: None. Absent and not voting: Messrs. Mitchell, Brimmer, and Bucher.

This action was taken to remove the duplicating requirements of Regulations D and M by waiving reserve requirements under Regulation M on loans made by the foreign branch of one member bank to the domestic office of another member bank when the borrowing bank is already maintaining reserves on such loans under the provisions of Regulation D covering borrowings from foreign offices of other banks. The amendment will allow a foreign branch of a member bank to be competitive with foreign banks in making such loans to a domestic office of another member bank.

JUNE 7, 1974

REGULATION T (CREDIT BY BROKERS AND DEALERS)

The Board postponed until January 2, 1975, the effective date of an amendment to Regulation T that would withdraw permission for brokers and dealers to sell certain kinds of investment contract securities on credit.

> Votes for this action: Messrs. Burns, Mitchell, Brimmer, Sheehan, Bucher, Holland, and Wallich. Votes against this action: None.

In December 1973 the Board had adopted a regulatory amendment, effective June 21, 1974, relating primarily to the arrangement of credit by brokers or dealers in the sale of certain investment con-

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tract securities, such as contracts to own and rent a condominium unit or to own and feed cattle. The Board had previously held that securities brokers and dealers generally were not permitted to arrange credit for the sale of such investment contract securities, but it had made an exception when the property sale and the management contract were separate items and the credit involved was connected only with the property. The amendment adopted would negate that exception and would make the extension of credit on any part of such an investment contract an extension of credit on the whole contract in a manner consistent with that followed by the Securities and Exchange Commission.

The purpose of the action now taken was to provide time for the Securities and Exchange Commission to receive and review comments on a Commission proposal to exempt condominium investment contracts, under certain conditions, from the credit regulations covering investment contracts generally. (See subsequent Board action on December 18, 1974.)

JUNE 24, 1974

AMENDMENTS TO RULES REGARDING DELEGATION OF AUTHORITY

Effective July 31, 1974, the Board amended its Rules Regarding Delegation of Authority to delegate to the Reserve Banks authority to approve the acquisition by bank holding companies of (1) certain existing finance companies, industrial banks, and Morris Plan banks, and (2) certain existing insurance companies in towns with a population of 5,000 or less.

> Votes for this action: Messrs. Brimmer, Sheehan, Bucher, Holland, and Wallich. Votes against this action: None. Absent and not voting: Messrs. Burns and Mitchell.

The Board had previously delegated to the Reserve Banks authority to approve, under specific Board guidelines, (1) certain formations and mergers of bank holding companies, (2) certain bank mergers, and (3) certain acquisitions by bank holding companies of banks and *de novo* companies. In a further effort to expedite handling of the volume of applications received under the Bank Holding Company Act, the Board now made this additional dele-

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gation, at the same time setting forth the standards within which such authority may be exercised. Applications falling outside these standards must be forwarded to the Board for further consideration. The Board retained authority to deny applications.

The amended rules allow Reserve Banks to approve applications for the acquisition of existing finance companies, industrial banks, or Morris Plan banks, subject to the following 12 conditions:

(1) No member of the Board of Governors has indicated an objection prior to the Reserve Bank's action.

(2) All relevant departments of the Reserve Bank have recommended approval.

(3) No substantive objection to the proposal has been made by a bank supervisory authority, the U.S. Department of Justice, or a member of the public.

(4) No significant policy issue has been raised by the proposal as to which the Board has not expressed its view.

(5) Neither applicant, applicant's subsidiaries, nor the institution to be acquired has entered into or proposes to enter into any agreement with any director, officer, employee, or shareholder of the institution that contains any condition limiting or restricting in any manner the right of such person to compete with applicant or any of applicant's existing or proposed subsidiaries.

(6) The Reserve Bank has determined that consummation of the proposal can reasonably be expected to result in benefits to the public—such as greater convenience, increased competition, or gains in efficiency—that outweigh possible adverse effects—such as undue concentration of resources, decreased or unfair competition, conflicts of interest, or unsound banking practices.

(7) Applicant holds no shares of a subsidiary finance company or subsidiary industrial bank that it may not retain beyond December 31, 1980, without Board approval, nor is applicant's direct engagement in such activities limited in any way until that date, pursuant to Section 4(a)(2) of the Act.

(8) The sale of credit-related insurance by the finance company or industrial bank to be acquired is limited to the sale, under individual or group policies, of credit life insurance, credit accident and health insurance, and property-damage insurance to protect collateral.

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(9) The activities of the firm to be acquired are clearly permissible under Section 4(c)(8) of the Act and Sections 225.4(a)(1), (2), (3) and (9)(ii) of Regulation Y.

(10) Each office of the applicant's existing and proposed subsidiary banks, industrial banks, and finance companies and of the applicant (if applicant is directly engaged in such activities) is 25 miles or more distant (in a straight line) from each office of the finance company or industrial bank to be acquired.

(11) The assets of finance companies and industrial banks acquired by any given holding company under delegated authority in any calendar year may not exceed $15 million, and the assets of a finance company or an industrial bank to be acquired may not exceed $5 million. (Exception: The maximum size in assets of a finance company or an industrial bank to be acquired is $15 million if the aggregate assets of applicant's existing subsidiary finance companies and industrial banks and of the finance company or industrial bank to be acquired do not exceed $50 million.)

(12) Total assets of the finance company or industrial bank to be acquired may not exceed 10 per cent of the total consolidated assets of applicant after consummation.

The amended rules also permit Reserve Banks to approve the acquisition or retention by holding companies of existing insurance agencies in or adjacent to offices of the holding company or its subsidiaries in towns with a population of 5,000 or less, provided the aforementioned conditions (1) through (6) are met. (Reserve Banks previously had been given authority to approve acquisition of such *de novo* insurance agencies.)

JUNE 24, 1974

AMENDMENTS TO MARGIN REGULATIONS

Effective July 25, 1974, the Board amended Regulation G (Securities Credit by Persons Other Than Banks, Brokers, or Dealers), Regulation T (Credit by Brokers and Dealers), and Regulation U (Credit by Banks for the Purpose of Purchasing or Carrying Margin Stocks) to revise the criteria that over-the-counter (OTC) stocks must meet and continue to meet to be

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included on the Board's List of OTC Margin Stocks and thus be subject to its margin requirements.

> Votes for this action: Messrs. Brimmer, Sheehan, Bucher, Holland, and Wallich. Votes against this action: None. Absent and not voting: Messrs. Burns and Mitchell.

This action, which made the criteria for inclusion on the Board's List of OTC Margin Stocks less restrictive, was taken in view of significant changes that had occurred in the OTC market since the criteria for selection were first announced in July 1969, particularly those changes resulting from introduction of the National Association of Securities Dealers Automated Quotation System (NASDAQ). The criteria adopted were substantially the same as those published for comment earlier in the year.

JULY 12, 1974

ESTABLISHMENT OF OFFICE OF SAVER AND CONSUMER AFFAIRS

Effective August 5, 1974, the Board established an Office of Saver and Consumer Affairs, a new organizational unit within the Board's staff.

> Votes for this action: Messrs. Burns, Mitchell, Sheehan, Bucher, Holland, and Wallich. Votes against this action: None. Absent and not voting: Mr. Brimmer.

This unit combined in a separate department two sections of the existing Division of Supervision and Regulation: Securities Credit and Truth in Lending. The Office was created in anticipation of increased Board responsibilities for implementation of pending consumer affairs legislation, some of which has since become law.

JULY 31, 1974

REGULATION Y (BANK HOLDING COMPANIES)

The Board determined that it would not be appropriate at the present time to add the underwriting of real estate mortgage guaranty insurance to the list of activities permissible for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act.

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Votes for this action: Messrs. Burns, Brimmer, Bucher, and Holland. Votes against this action: Messrs. Sheehan and Wallich. Absent and not voting: Mr. Mitchell.

In May 1973 the Board had published for comment a proposal to amend Regulation Y to permit bank holding companies to engage in the underwriting of real estate mortgage guaranty insurance, which is essentially the placing of a limited guarantee on a mortgage loan; such a process involves both analysis of the creditworthiness of the borrower and appraisal of the real estate that is pledged as collateral.

After considering the written comments received and the record of a hearing subsequently held, the Board agreed (1) that the proposed activity is one that is closely related to banking since it involves activities that banks frequently perform and requires skills that banks clearly possess, and (2) that public benefits, such as greater competition and an increase in the supply of capital in the industry, could be expected. However, the Board noted that the mortgage guaranty insurance industry is young and its operating history untested. Therefore, the Board concluded that entry by bank holding companies into this activity at the present time would involve uncertainties sufficient to outweigh the expected public benefits. Moreover, the Board believed that at present it would be preferable for bank holding companies in general to direct their energies and resources toward maintaining strength and efficiency in their present operations and to slow their expansion into new activities. Accordingly, it declined at this time to add the underwriting of mortgage guaranty insurance to the list of activities permissible for bank holding companies.

Governors Sheehan and Wallich dissented because they believed the activity would be appropriate and beneficial to both bank holding companies and the housing industry.

AUGUST 9, 1974

AMENDMENTS TO REGULATION F (SECURITIES OF STATE MEMBER BANKS) AND REGULATION H (MEMBERSHIP OF STATE BANKING INSTITUTIONS IN THE FEDERAL RESERVE SYSTEM)

Effective September 16, 1974, the Board amended Regulations F and H to limit the use of standby letters of credit and ineligible acceptances by

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State member banks and to require such banks to disclose the amount and terms of these instruments on their balance sheets.

> Votes for this action: Messrs. Brimmer, Sheehan, Bucher, and Wallich. Votes against this action: None. Absent and not voting: Messrs. Burns, Mitchell, and Holland.

The amendments require State member banks to treat standby letters of credit and the issuance of ineligible acceptances as loans for the purpose of determining whether a bank exceeds Federal and State limitations on loans to one customer, on aggregate loans, and on loans to affiliates. In addition, the amendments require each bank to disclose on its balance sheet the amount and general terms of all standby letters of credit and ineligible acceptances, thus making possible a determination of the bank's total potential liability and its compliance with the regulations. The Board voted to require that these instruments be treated as loans for purposes of legal lending limits because each creates for the issuing bank an obligation involving a credit risk and a possible loss of funds.

The revised regulations apply to all standby letters of credit and ineligible acceptances issued, renewed, extended, or amended on or after September 16, 1974.

As now defined, a standby letter of credit is a letter of credit issued by a bank, representing the bank's obligation on behalf of the letter's beneficiary to repay money loaned or advanced by a third party, or to make payment in the event of a default by the account party in the performance of an obligation. Businesses sometimes obtain standby letters of credit from banks to support their own notes (documented discount notes), which the businesses in turn sell in money markets to raise funds. An ineligible acceptance is a time draft that has been accepted by a bank but that does not meet the requirements for discount by a Federal Reserve Bank. The amendments also specify exceptions to and exclusions from these definitions.

The amendments adopted were substantially the same as those published for comment earlier in the year.

Similar regulations were adopted by the Comptroller of the Currency and the Federal Deposit Insurance Corporation for banks under their jurisdiction.

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SEPTEMBER 4, 1974

AMENDMENT TO REGULATION D (RESERVES OF MEMBER BANKS)

Effective September 5, 1974, the Board amended Regulation D to remove the supplemental 3 per cent reserve requirement on certificates of deposit (CD's) of $100,000 or more and on similar financial instruments with an initial maturity of 120 days or longer.

> Votes for this action: Messrs. Burns, Mitchell, Sheehan, Holland, and Wallich. Votes against this action: None. Absent and not voting: Mr. Bucher.[1]

This action was taken to encourage banks to seek long-term, large-denomination time deposits and related instruments such as finance bills and bank-related commercial paper. Such obligations remained subject to the regular 5 per cent reserve requirement on time deposits.

A marginal reserve requirement of 8 per cent (the regular 5 per cent plus a supplemental 3 per cent) was announced by the Board in May 1973. Then an additional 3 per cent supplemental requirement was announced by the Board in September 1973, raising the total reserve requirement on affected deposits to 11 per cent, but this latter 3 per cent requirement was removed by the Board in December 1973.

As now amended, Regulation D required each member bank to maintain on deposit with the Federal Reserve Bank of its district reserves equal to 8 per cent of the increase—over the amount outstanding in the week ended May 16, 1973—in time deposits of $100,000 or more and related bank obligations, if such deposits and other instruments had an initial maturity of less than 120 days. Those large-denomination CD's and related instruments maturing in 120 days or more carried a reserve requirement of 5 per cent. Any bank whose large CD's and related obligations totaled less than $10 million would be exempt from the supplemental 3 per cent requirement. (See subsequent Board action on November 13 and 18, 1974.)

[1] There was one vacancy on the Board at the time this action was taken.

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Federal Reserve Bank of St. Louis

SEPTEMBER 13, 1974

AMENDMENT TO REGULATION D (RESERVES OF MEMBER BANKS)

Effective October 14, 1974, the Board amended Regulation D to classify as deposits, and thereby subject to reserve requirements, funds received by member banks from the issuance of due bills in connection with the sales of securities when the securities sold are not delivered to or for the account of the purchaser within three business days from the time of the purchase and when, for any period thereafter, such due bills are not fully collateralized by securities similar to those that the due bills represent.

> Votes for this action: Messrs. Burns, Mitchell, Sheehan, Bucher, Holland, and Wallich. Votes against this action: None.[1]

Since 1966, due bills issued by a member bank principally as a means of obtaining funds for use in its banking business have been defined as deposits subject to reserve requirements and interest rate limitations under Regulations D and Q (Interest on Deposits). The amendment adopted retained this treatment under the two regulations, but it added a provision under Regulation D that any due bill transactions that are entered into on or after the effective date of the amendment and that remain uncollateralized after three business days will be treated as deposits. Such due bills will be subject to demand deposit reserve requirements.

The amendment is applicable whether the funds are received from another bank or from other customers, and regardless of the method by which the transactions are evidenced or recorded. It reflects the Board's belief that the good-faith efforts to make (1) timely delivery of the underlying securities and (2) full disclosure to customers that a due bill might be issued in lieu of the securities are basic to bona fide due bill transactions.

At the same time, the Board approved an interpretation to describe the types of collateralization and other conditions required to exempt due bill transactions from Regulation D.

In December 1973 the Board had published for comment a proposal to amend both Regulations D and Q. On the basis of comments

[1] There was one vacancy on the Board at the time this action was taken.

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received, the proposal regarding Regulation D was revised substantially, and in July 1974 it was republished. The amendment now adopted was essentially the same as that published in July.

SEPTEMBER 16, 1974

AMENDMENT TO REGULATION H (MEMBERSHIP OF STATE BANKING INSTITUTIONS IN THE FEDERAL RESERVE SYSTEM)

Effective September 22, 1974, the Board amended Regulation H to require State-chartered member banks, as a condition of making or renewing a loan secured by improved real estate or a mobile home in an identified flood-hazard area, to provide the loan customer with advance written notice that the property is in a flood-hazard area.

> Votes for this action: Messrs. Mitchell, Sheehan, Holland, and Wallich. Votes against this action: None. Absent and not voting: Messrs. Burns and Bucher.[1]

On January 31, 1974, to implement the Flood Disaster Protection Act of 1973, the Board had amended Regulation H to prohibit State-chartered member banks from making loans secured by improved real estate or a mobile home in a flood-hazard area unless the property was covered by appropriate flood insurance. The Board now modified that provision to conform to certain recent amendments to the Housing and Urban Development Act of 1968.

Similar actions were taken by other Federal regulatory agencies for the financial institutions under their jurisdiction.

SEPTEMBER 25, 1974

AMENDMENT TO REGULATION A (EXTENSIONS OF CREDIT BY FEDERAL RESERVE BANKS)

Effective immediately, the Board amended Regulation A to allow the application of a special rate on advances to member banks under Section 10(b) of the Federal Reserve Act when such assistance is required over a prolonged period of time and in large amounts. The special Section 10(b)

[1] There was one vacancy on the Board at the time this action was taken.

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rate may apply when there are exceptional circumstances involving only a particular member bank as distinguished from difficulties arising from national, regional, or local conditions.

> Votes for this action: Messrs. Burns, Mitchell, Sheehan, Bucher, Holland, and Wallich. Votes against this action: None.[1]

This action was taken to limit any rate preference on long-term assistance to an individual bank when a wide gap exists between the basic discount rate and money market rates. The special rate will ordinarily exceed the regular Section 10(b) rate—the rate normally charged on advances to member banks; in no case will it be lower than the basic Section 10(b) rate or higher than the rate charged on advances to nonmember banks.

Under the amended regulation, the special rate will apply to borrowing by member banks for prolonged periods (such as for more than 8 weeks) and in significant amounts (such as when the loan has exceeded, on the average, the amount of the borrowing bank's required reserves). The Federal Reserve Bank may waive application of this rate in the case of a bank in unusual difficulty provided the bank has adopted a remedial plan that will lead to repayment of the loan in a reasonable length of time.

Previously, the provision in Regulation A relating to emergency credit to member banks read as follows: "Federal Reserve credit is available to assist member banks in unusual or emergency circumstances such as may result from national, regional, or local difficulties or from exceptional circumstances involving only a particular member bank."

The amendment divided that provision into two categories. The first covers Federal Reserve credit to member banks in unusual difficulties arising from national, regional, or local circumstances; the second category, to which the special rate will apply, will be available for prolonged assistance involving only a particular member bank.

The amendment adopted was substantially the same as the proposal published for comment in August 1974.

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[1] There was one vacancy on the Board at the time this action was taken.

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OCTOBER 16, 1974

AMENDMENT TO REGULATION Q (INTEREST ON DEPOSITS)

Effective October 17, 1974, the Board amended Regulation Q to remove the limitation of 150 items per year on the number of negotiable orders of withdrawal (NOW's) that may be accepted from a customer by member banks in Massachusetts and New Hampshire (the only States authorized to offer NOW accounts).

> Votes for this action: Messrs. Burns, Mitchell, Sheehan, and Holland. Votes against this action: None. Absent and not voting: Messrs. Bucher and Wallich.[1]

The 150-item limitation on NOW accounts at member banks had been set by the Board in a regulatory amendment effective January 1, 1974, to prevent widespread conversion of checking accounts into NOW accounts while the Board monitored and evaluated the effects of the newly authorized accounts on banking in the two States involved.

On the basis of its evaluation of data received for the first 8 months of NOW-account activity, which showed that such accounts were developing in an orderly manner, the Board removed the item ceiling. Since no other agency had a ceiling, the Board's action improved member banks' ability to compete for NOW accounts.

OCTOBER 25, 1974

AMENDMENT TO REGULATION A (EXTENSIONS OF CREDIT BY FEDERAL RESERVE BANKS)

Effective immediately, the Board amended Regulation A to provide that advances to member banks under Section 10(b) of the Federal Reserve Act, when secured by mortgages on 1- to 4-family residential properties, be at a rate equal to the basic discount rate. As a general rule, advances backed by such mortgages were formerly made at a rate at least ½ percentage point above the basic discount rate.

[1] There was one vacancy on the Board at the time this action was taken.

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Votes for this action: Messrs. Burns, Mitchell, Holland, and Wallich. Votes against this action: None. Absent and not voting: Messrs. Sheehan and Bucher.[1]

This action was taken to bring Regulation A into conformity with Section 10(b) of the Federal Reserve Act as amended by the recent enactment of the Emergency Home Purchase Act of 1974.

This amendment affected only the interest rate charged; it did not change existing guidelines governing basic lending policies at Federal Reserve Banks. Also unaffected were the other types of advances subject to the penalty rate under Section 10(b) of the Federal Reserve Act.

NOVEMBER 4, 1974

AMENDMENTS TO MARGIN REGULATIONS

Effective November 5, 1974, the Board amended Regulation G (Securities Credit by Persons Other Than Banks, Brokers, or Dealers), Regulation T (Credit by Brokers and Dealers), and Regulation U (Credit by Banks for the Purpose of Purchasing or Carrying Margin Stocks) to suspend for 6 months the provision limiting the use of the same-day substitution privilege to margin accounts with an equity ratio of at least 40 per cent of the market value of the securities.

Votes for this action: Messrs. Burns, Mitchell, Bucher, Holland, Wallich, and Coldwell. Votes against this action: None. Absent and not voting: Mr. Sheehan.

This action was taken to enable the Board to review the impact of the rule on margin customers, brokerage firms, and the stock market in the light of prevailing circumstances.

Under the same-day substitution privilege of the Board's margin regulations, margin customers are permitted to substitute one security for another in their accounts without using any of the proceeds of the sales to strengthen an account that is below the initial margin requirement (currently 50 per cent), provided that the sales and purchases

[1] There was one vacancy on the Board at the time this action was taken.

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occur on the same day and are of equal dollar value. In a regulatory amendment effective September 18, 1972, the Board had limited that privilege to accounts in which the customer's equity ratio was at least 40 per cent.

The Board's margin regulations apply to the purchase and carrying of stocks registered on a national exchange or included on the Board's OTC margin list.

NOVEMBER 13 AND 18, 1974

AMENDMENT TO REGULATION D (RESERVES OF MEMBER BANKS)

Effective November 28, 1974, the Board amended Regulation D to restructure reserve requirements for member banks, the over-all effect of which would be to release approximately $750 million in reserves to the banking system.

The Board adopted the amendment on November 13, 1974, but in light of revised data, modified it slightly on November 18 to maintain the projected net release of reserves at $750 million.

(1) Amendment on November 13, 1974

> Votes for this action: Messrs. Burns, Mitchell, Sheehan, Bucher, Holland, Wallich, and Coldwell. Votes against this action: None.

(2) Modification on November 18, 1974

> Votes for this action: Messrs. Burns, Mitchell, Sheehan, Bucher, Wallich, and Coldwell. Votes against this action: None. Absent and not voting: Mr. Holland.

The amendment provided for:

(1) A reduction, from 18 per cent to 17½ per cent, in the reserve requirement on that portion of a bank's net demand deposits over $400 million.

(2) Introduction of a two-category maturity breakdown (30 to 179 days, and 180 days and over) for time deposit holdings. For holdings maturing in 180 days or more, the amendment provided for a reduction from 5 per cent to 3 per cent in reserve require-

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ments, and for those holdings maturing in 30 to 179 days, an increase from 5 to 6 per cent on deposits in excess of $5 million. (The first $5 million continue to be subject to a 3 per cent reserve requirement.)

(3) Removal of the remaining supplemental reserve requirement of 3 per cent that had applied to large-denomination CD's with a maturity of less than 120 days. Removal of this supplemental requirement was made in recognition of the fact that the volume of large CD's had declined in recent weeks. Similar action had already been taken with respect to CD's maturing in 120 days or more. (See Board action on September 4, 1974.)

These actions were taken to help accommodate the seasonal expansion in the demand for money. The System normally provides reserves during the holiday season through market operations; the volume of reserves released by the restructuring was intended to provide a portion of the additional funds needed.

The Board's actions were also intended to improve the liquidity of the banking system by encouraging member banks to seek additional longer-term time deposits.

In its original action on November 13, the dividing line of the two maturity categories of time deposits had been set at 120 days. The data on which this decision was based underestimated the net amount of reserves that would be released by the original restructuring. Revised data subsequently available indicated that breaking the classification at 180 days rather than 120 days would result in a release closer to the target of $750 million. This modification also furthered the Board's objective of encouraging member banks to seek additional longer-term time deposits.

The following table shows the percentage ratios established for the various portions of a bank's demand deposits:

Demand deposits (in millions of dollars)	*Reserve requirement* (per cent)
2 or less	8
2–10	10½
10–100	12½
100–400	13½
Over 400	17½

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The table below depicts the reserve requirements for time and savings deposits:

Type and maturity of deposit	*Reserve requirement* (per cent)
Savings deposits	3
Other time deposits:	
30–179 days:	
$5 million and under	3
Over $5 million	6
180 days and over	3

NOVEMBER 18 AND 25, 1974

AMENDMENTS TO REGULATION D (RESERVES OF MEMBER BANKS) AND REGULATION M (FOREIGN ACTIVITIES OF NATIONAL BANKS)

On November 18 and November 25, 1974, the Board amended Regulations D and M, respectively, to delete certain paragraphs explaining the gradual elimination of the reserve-free base for the computation of reserve requirements on Euro-dollar borrowings from foreign branches.

(1) Amendment to Regulation D

> Votes for this action: Messrs. Burns, Mitchell, Sheehan, Bucher, Wallich, and Coldwell. Votes against this action: None. Absent and not voting: Mr. Holland.

(2) Amendment to Regulation M

> Votes for this action: Messrs. Mitchell, Sheehan, Bucher, Holland, Wallich, and Coldwell. Votes against this action: None. Absent and not voting: Mr. Burns.

These actions were taken because the reserve-free base, to which the provisions related, had been eliminated; the phasing-out process under the two regulations had been completed in March 1974. (For background information, see pages 85 and 86 of the Board's ANNUAL REPORT for 1973.)

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NOVEMBER 22, 1974

BANKERS' ACCEPTANCES

The Board determined that it was no longer appropriate for the Federal Reserve Banks to guarantee bankers' acceptances purchased by the Federal Reserve Bank of New York for the accounts of foreign official institutions.

> Votes for this action: Messrs. Burns, Mitchell, Sheehan, Bucher, Holland, Wallich, and Coldwell. Votes against this action: None.

On November 8 the New York Reserve Bank had notified all foreign correspondents of a suspension of the practice of guaranteeing bankers' acceptances pending review by the Board. The action now taken was a result of this review.

Bankers' acceptances are primarily negotiable time drafts drawn for the purpose of financing the international or domestic shipment or storage of goods, and they are termed accepted when a bank assumes the obligation to make payment at maturity. The guaranteeing of acceptances held by foreign official institutions began to develop in the early years of the Federal Reserve System as one of the reciprocal correspondent relationships entered into with foreign central banks. The guarantee system was adopted in part to encourage the development of an acceptance market in the United States as a means of financing foreign trade.

In recent years, however, the bankers' acceptance market had grown substantially and was no longer in need of support. Foreign central banks had come to consider bankers' acceptances as highly desirable investments for two reasons: (1) they typically earned a higher yield than Treasury bills; and (2) if purchased through the Federal Reserve System, such acceptances carried what amounted to a Government guarantee.

Accordingly, the Board decided that it was no longer appropriate for the Federal Reserve Banks to provide such guarantees. However, the Board allowed guarantees on outstanding acceptances held by foreign correspondents to remain in force until the acceptances matured.

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NOVEMBER 26, 1974

AMENDMENTS TO REGULATION D (RESERVES OF MEMBER BANKS) AND REGULATION Q (INTEREST ON DEPOSITS)

Effective November 27, 1974, the Board amended Regulation Q to permit member banks to accept savings deposits from governmental units, and it amended Regulation D to include deposits of such units in the definition of savings deposits, and to provide that these deposits be subject to a 3 per cent reserve requirement.

> Votes for this action: Messrs. Burns, Mitchell, Holland, Wallich, and Coldwell. Votes against this action: None. Absent and not voting: Messrs. Sheehan and Bucher.

The Board's action permits member banks to offer governmental units the same deposit alternatives offered by thrift institutions; previously, member banks were authorized to accept only demand and time deposits from such units. The actions were taken in conjunction with legislation, also effective November 27, 1974, authorizing deposit insurance up to $100,000 for time and savings deposits of governmental units.

Under the amended Regulation Q, member banks may pay interest on governmental units' time deposits of less than $100,000, regardless of maturity, at an annual rate not to exceed the highest of any of the permissible rates payable on time deposits under $100,000 by any Federally insured commercial bank, mutual savings bank, or savings and loan association. At the time of the Board's action, the highest such rate was 7½ per cent, and at year-end 1974 the rate stood at 7¾ per cent. There is no interest rate limitation on any time deposit over $100,000.

No change was made in Regulation Q's interest rate limitation on savings accounts at member banks, currently 5 per cent per year. Federal savings and loan associations and insured mutual savings banks are permitted to pay up to 5¼ per cent.

At the same time the Federal Deposit Insurance Corporation acted to permit the banks under its jurisdiction to accept savings accounts of governmental units and created a separate, new limitation on interest rates payable on time deposits of less than $100,000 of such

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units. Similiar action was taken by the Federal Home Loan Bank Board for Federal savings and loan associations regarding the separate, new interest rate limitation.

DECEMBER 4, 1974

COMMUNICATIONS REGARDING THE PRIVATE OWNERSHIP OF GOLD

In connection with Public Law 93-373, which ended the ban on private ownership of gold as of December 31, 1974, the Board authorized the sending of a letter by the Presidents of the Federal Reserve Banks to their member State banks regarding banking prudence in gold-related transactions.

> Votes for this action: Messrs. Burns, Mitchell, Sheehan, Bucher, Holland, Wallich, and Coldwell. Votes against this action: None.

The text of the letter was as follows:

Public Law 93-373 provides that on December 31, 1974, the ban on private ownership of gold will end. After that, United States citizens may own gold and trade in it as they might any other commodity. National banks possess statutory authority to buy and sell "exchange, coin, and bullion," and some State laws contain similar provisions with respect to State-chartered banks. The Office of the Comptroller of the Currency has determined that gold will not be acceptable as bullion unless it has a fineness of 0.900 or better.

For the past 41 years, United States citizens have been able to hold gold only under U.S. Treasury license. During this period, private individuals and banks have had negligible experience with gold. Gold is not legal tender. Rather, it is a highly speculative commodity, subject to widely fluctuating prices. In light of these circumstances, State member banks will wish to proceed cautiously, should they decide to provide gold-related services to customers.

The Federal Reserve System believes that the following information will be useful to State member banks in the event that they decide to participate in gold transactions. Similar information is being issued by other Federal banking agencies with respect to banks under their jurisdiction.

If a bank does decide to engage in gold-related activities, it ordinarily would be preferable for it to act only on a consignment basis or otherwise as agent.

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The risk inherent in gold transactions is such that any State member bank considering acting as principal with respect to gold transactions should give advance notice to the Federal Reserve Bank of its district. The advance notice should contain information relative to experience of personnel, services to be provided, anticipated inventories and positions, safekeeping facilities, insurance coverages, audit procedures, and anticipated impact on earnings.

Banks should not engage in the business of issuing receipts for gold without considering the implications of securities laws; and any gold for which a bank issues any form of receipt must be physically held on hand at all times and under strict safeguards. Moreover, obligations payable in gold or its equivalent are still unenforceable (Public Resolution of June 5, 1933, 31 U.S.C. 463).

As with any commodity loan, it is anticipated that banks will carefully consider such matters as adequacy of margins on loans collateralized by gold, precautions to assure authenticity and safe custody of gold held as collateral and total risk exposure from gold-related loans. Moreover, gold-related loans should be considered nonproductive credits unless extended for commercial or industrial purposes.

If a bank should decide to offer gold for sale, it should carefully avoid excessive or misleading promotions which could lead to unrealized expectations by bank clients and adversely affect public confidence in a particular bank or the banking system.

Examiners will pay strict attention to the relevant accounting practices of banks and recordkeeping for accounts of customers. Any gold owned should be shown on financial statements under "other assets," and any hedging futures contracts should be shown as a memorandum item. It would be anticipated that a bank would revalue accounts at least monthly to reflect current market values.

During examinations of State member banks, examiners will review closely a bank's total involvement in gold-related transactions to assure that individual banks and the banking system are not exposed to undue risk. Among other considerations, examiners will be concerned with management's expertise in this area, risk undertaken in relation to the bank's equity capital, and the needs of customers. An undue concentration of gold loans, as with any imprudent involvement in gold transactions, could constitute an unsafe or unsound banking practice subject to action under the cease-and-desist provisions of the Financial Institutions Supervisory Act of 1966. Our examiners are instructed to be vigorous in countering any manifestation of bank speculation in gold.

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At the same time, the Board made available to member banks a statement, in the form of a series of questions and answers, regarding the treatment of gold by the Federal Reserve Banks. The statement indicated that gold may not be used to satisfy reserve requirements because the Federal Reserve Act provides that only vault cash—consisting of U.S. currency and coin—and Reserve Bank balances may be so counted; in addition, it indicated that the Reserve Banks will neither perform services related to gold transactions by member banks nor accept gold as collateral for advances to such banks.

DECEMBER 5, 1974

AMENDMENT TO REGULATION Q (INTEREST ON DEPOSITS)

Effective December 23, 1974, the Board amended Regulation Q to establish a new category of long-term time deposits of less than $100,000, to be known as Investment Certificates, on which member banks may pay interest at an annual rate of up to 7½ per cent.

> Votes for this action: Messrs. Mitchell, Sheehan, Bucher, Holland, Wallich, and Coldwell. Votes against this action: None. Absent and not voting: Mr. Burns.

This action was taken to permit member banks to offer long-term consumer time deposits at more competitive rates of interest.

The amendment provides that Investment Certificates may be issued by member banks in amounts of $1,000 or more with a maturity of at least 6 years and with an annual interest rate of up to 7½ per cent. Investment Certificates, like other time CD's, may be issued in negotiable or nonnegotiable form. Those that are not negotiable may be redeemed prior to maturity, subject to the Board's existing early-withdrawal rules applying to other nonnegotiable time deposits. Negotiable Investment Certificates may not be redeemed prior to maturity. They may, however, be used as collateral for loans by the issuing bank provided that the interest rate on the loan is at least 2 percentage points higher than that on the Certificate. In addition, the issuing bank may arrange sales of the instruments between holders and prospective third-party buyers.

To insure that purchasers of negotiable Certificates receive adequate notice that such instruments may not, under any circumstances, be redeemed prior to maturity, the Board also amended the disclosure

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and advertising provisions of Regulation Q to require a statement of that limitation in a separate disclosure notice, in any advertising, and on the face of the instrument itself.

Actions were taken by the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board to permit nonmember commercial banks, mutual savings banks, and Federal savings and loan associations to offer similar instruments.

DECEMBER 18, 1974

REGULATION T (CREDIT BY BROKERS AND DEALERS)

The Board postponed until March 3, 1975, the effective date of an amendment to Regulation T that would withdraw permission for brokers and dealers to sell certain kinds of investment contract securities on credit.

> Votes for this action: Messrs. Burns, Mitchell, Sheehan, Bucher, Holland, Wallich, and Coldwell. Votes against this action: None.

This action was taken to allow the Securities and Exchange Commission additional time in which to receive and review comments and consider possible action on a related amendment to its regulations.

The Board had originally approved the amendment on December 4, 1973, to be effective June 21, 1974, but on June 7, 1974, the effective date was postponed until January 2, 1975, in view of the SEC's announcement of its proposed rule. (See Board action on June 7, 1974; also page 110 of the Board's ANNUAL REPORT for 1973.)

DECEMBER 20, 1974

AMENDMENT TO RULES REGARDING DELEGATION OF AUTHORITY

Effective December 30, 1974, the Board amended its Rules Regarding Delegation of Authority to transfer certain authority from the Board or designated Board members to the Secretary of the Board.

> Votes for this action: Messrs. Mitchell, Sheehan, Bucher, Holland, Wallich, and Coldwell. Votes against this action: None. Absent and not voting: Mr. Burns.

The Board had previously delegated to the Reserve Banks the

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authority to approve, under specific guidelines, certain one-bank holding company formations, bank holding company formations involving more than one bank, bank acquisitions by existing bank holding companies, and certain finance company, industrial bank, and insurance company acquisitions by bank holding companies. The Reserve Banks, however, were not permitted to exercise their authority in any such case when a significant policy issue was raised on which the Board had not expressed its view. In that connection, the Reserve Banks had been instructed not to act on any application when a director or senior officer of (1) the holding company, (2) any subsidiary bank of the holding company, (3) a merging bank, or (4) the finance company, industrial bank, or insurance company to be acquired, as the case may be, was either a director of a Federal Reserve Bank or branch or a member of the Federal Advisory Council. Reserve Banks had also been requested to forward to the Board any application for the formation of a bank holding company when an individual (or group of individuals) who was a principal in the holding company being formed was a principal in another bank holding company. Since the only issue preventing approval of such applications by the Reserve Banks would be the existence of potential conflicts of interest or policy issues possibly calling for study by the Board's staff, it was felt that the Board could transfer its authority to approve these applications.

Accordingly, the Board now delegated to the Secretary of the Board the authority to approve the above types of applications under Sections 3(a)(1), 3(a)(3), 3(a)(5), and 4(c)(8) of the Bank Holding Company Act and Section 18(c) of the Federal Deposit Insurance Act if all other relevant criteria for approval under delegated authority are met and if all relevant divisions of the Board's staff have recommended approval. Applications falling outside these standards will continue to be submitted to the Board for further consideration.

The Board had previously delegated to a designated Board member the authority (1) to approve the establishment of certain foreign branches or agencies by member banks, Edge Act corporations, or "agreement" corporations; (2) to approve, under specific guidelines, the acquisition by a member bank, Edge corporation, or agreement corporation, of the stock of certain companies and to approve such an acquisition that may exceed the limitations based

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on the applicant's capital and surplus, as specified in Section 25(a) of the Federal Reserve Act; (3) to permit an Edge or agreement corporation to exceed the limitations on liabilities of one borrower and on aggregate liabilities specified in Sections 211.9(b) and 211.9(c) of the Board's Regulation K (Corporations Engaged in Foreign Banking and Financing Under the Federal Reserve Act); and (4) to approve under certain guidelines the issuance by an Edge or agreement corporation of debentures, bonds, promissory notes, or similar obligations with a maturity of more than 1 year.

In an effort to reduce the workload of the Board members, the Board now transferred the authority to take the foregoing actions from a designated Board member to the Secretary of the Board provided that (1) the appropriate Reserve Banks and all relevant divisions of the Board's staff recommend approval; (2) no significant policy issue is raised on which the Board has not expressed its view; and (3) (for applications by a member bank, or Edge or agreement corporation to acquire stock of (a) a company chartered under the laws of a foreign country or (b) a company chartered under the laws of a State of the United States for the purpose of financing exports from the United States) such acquisition does not result, either directly or indirectly, in the acquisition of effective control of any such company, other than a company performing nominee, fiduciary, or other banking services incidental to the activities of a foreign branch or affiliate. Applications falling outside these standards will be submitted to the Board for further consideration.

In a further delegation of authority, the Board empowered the Secretary of the Board to approve applications by a bank holding company for the ownership or control, direct or indirect, of voting shares of a company chartered under the laws of a foreign country provided that (1) the appropriate Reserve Bank and all relevant divisions of the Board's staff recommend approval; (2) no significant policy issue is raised by the proposal on which the Board has not expressed its view; and (3) such acquisition does not result, either directly or indirectly, in the acquisition by the holding company of effective control of the company, other than a company performing nominee, fiduciary, or other banking services incidental to the activities of a foreign subsidiary of such corporation. Applications not meeting these criteria will continue to be submitted to the Board for further consideration.

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Federal Reserve Bank of St. Louis

1974—DISCOUNT RATES

The Board approved two changes in the discount rate during 1974. The first—an increase from 7½ to 8 per cent—was announced on April 24 at a time when short-term rates were moving sharply higher. The discount rate remained at 8 per cent until December 6 when a reduction to 7¾ per cent was approved following declines in market rates, especially short-term rates, from the record highs reached during the summer. Additional reductions in the discount rate were made during the early part of 1975, to a level of 6¼ per cent by the first week of March, as market interest rates dropped sharply further in an environment of weakening economic activity.[1]

During the course of 1974 the Board turned down actions by several Federal Reserve Banks to increase or decrease the discount rate. These actions included denials of pending reductions early in the year when market interest rates were under downward pressure. During the spring and summer months several actions to increase the rate were disapproved, because policy tightening—felt to be desirable during a period of rapid inflation and of ballooning business credit demands—was being accomplished through policy instruments other than the discount rate. Likewise, the subsequent easing in monetary conditions was promoted initially through the use of other policy instruments, and several Reserve Bank actions to reduce the rate were denied during the September–December period. The individual decisions of the Board in 1974 and the associated record of votes of the members of the Board are shown starting on page 111 of this ANNUAL REPORT.

JANUARY–MARCH: PENDING REDUCTIONS DISAPPROVED

Two actions by the Federal Reserve Bank of Boston to reduce the discount rate from 7½ to 7¼ per cent were denied by the Board

[1] The general economic and financial conditions that the Board considered in arriving at its discount rate decisions during 1974 are reviewed in more detail elsewhere in this ANNUAL REPORT, particularly in the discussion of the U.S. economy contained in Part I and in the Record of Policy Actions of the Federal Open Market Committee in Part II.

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during February and March. The directors of the Boston Bank had communicated the view that current business conditions and the outlook for economic activity suggested the need for more easing in monetary policy and for further declines in short-term interest rates. They believed that a reduction in the discount rate would provide a desirable signal of an easier policy and would foster continued declines in short-term interest rates.

In denying the pending reductions, the Board took note of the sizable declines in short-term market rates that had occurred during the early weeks of the year—a period of weakness in general economic activity aggravated by shortages of petroleum products. In this situation the System's policy of lessened monetary restraint, begun in late 1973 through open market operations, was being reflected in a lower rate for Federal funds. However, the funds rate and short-term interest rates in general were still well above the discount rate when the first pending reduction was denied by the Board in mid-February.

Short-term interest rates began to rise again during the latter half of February and by the end of the month there were indications of substantial strengthening in the growth of the monetary aggregates. In these circumstances the Board concluded that approval of the Boston Bank's second request for a reduction—in the first week of March—would carry a substantial risk of stimulating unwarranted market expectations regarding monetary policy and would be likely to contribute to inflationary psychology.

APRIL–AUGUST: INCREASE TO 8 PER CENT APPROVED; FURTHER INCREASES DISAPPROVED

On April 24 the Board approved an increase in the discount rate from 7½ to 8 per cent. Market interest rates had risen considerably since around mid-February as burgeoning money and credit demands in an environment of rapidly rising prices and costs contributed to a sharp tightening of credit markets. In this situation the increase in the discount rate reflected only a partial adjustment to the higher market rates of interest. In addition, however, a considerable firming in the posture of monetary policy was being effected through open market operations.

A short time earlier—in mid-April—the Board had turned down pending rate increases to 8 per cent at two Federal Reserve Banks.

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Several Board members had concurred in the view that a higher discount rate might be desirable in the near future in light of the rise in market interest rates, the strong performance of the monetary aggregates, and—more broadly—the rapid advances in prices and costs. However, the Board had concluded that approval of the pending increases at that particular time might trigger further large advances in rates on both market instruments and bank loans because of the sensitive conditions then prevailing in financial markets. Accordingly, it had been decided to defer for awhile any increase in the discount rate.

In the period from mid-May through mid-August the Board turned down a series of increases in the rate submitted by two Federal Reserve Banks. Communications received from Reserve Bank directors in support of the increases emphasized the need for policy actions to counter inflationary expectations and the desirability of narrowing the spread between short-term interest rates and the discount rate. The directors also felt that the rate increases would serve to reinforce the System's policy of monetary restraint in a period of heavy demands by business for credit and of rapid expansion in the monetary aggregates.

During the second half of May the Board disapproved two pending increases in the discount rate to 8½ per cent. In the Board's judgment such increases could have an undue impact on market rates of interest owing to the sensitive conditions prevailing at that time in financial markets. The uneasiness that had developed in those markets reflected press reports of the special problems being faced by a major New York bank (Franklin National) and rumors that some other financial institutions might be experiencing liquidity pressures and other financial difficulties.

During the first half of June the Board disapproved two other actions by Federal Reserve Banks to raise the discount rate to 8½ per cent. Although it felt that maintenance of a firm posture on monetary policy was desirable, the Board concluded that announcing an increase in the discount rate at a time when financial markets were under substantial pressure might trigger a sharp and undesirable advance in market interest rates. In this situation the Board believed it would be preferable for monetary policy to exert any tightening in-

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fluence deemed necessary through open market operations, which had the advantage of greater flexibility. Evidence available around mid-June that the monetary aggregates were expanding at a faster rate than had been expected led to some additional firming through open market operations and to further increases in the Federal funds rate.

During the second half of June the Board turned down an action to raise the discount rate to 8¾ per cent. Subsequently, in late June and again during the first part of July, it denied two pending actions increasing the rate to 9 per cent. In reaching these decisions, some Board members suggested that a good case might be made for approving a smaller increase—perhaps ½ percentage point—but in view of the System's tightening actions through open market operations and of the very sensitive state of financial conditions, they felt that a relatively large increase in the discount rate would be likely to have unsettling and unacceptable repercussions.

In the latter half of July and in August three pending actions to raise the rate from 8 to 9 per cent were denied. The Board continued to be concerned about the possible impact of such increases on financial conditions, including both markets and institutions. Moreover, it viewed indications of developing weakness in the economy as grounds for exercising caution, even though inflation remained a severe problem and short-term interest rates were well above the discount rate. The growing evidence of moderation in the pace of monetary expansion as the summer progressed was regarded by the Board as an additional reason for not signaling further monetary restraint.

SEPTEMBER–DECEMBER: REDUCTION TO 7-3/4 PER CENT APPROVED; OTHER ACTIONS TO REDUCE RATE DISAPPROVED

In the period from September to late November the Board denied several actions to reduce the rate from 8 to 7¾ per cent. Short-term interest rates fell markedly during this period, but in general they remained above the discount rate—substantially so in the early weeks of the period. Given the persistence of inflation and of inflationary psychology, the Board felt that the weakening tendencies in the

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economy should be countered initially through the use of monetary policy instruments other than the discount rate. To this end System open market operations became increasingly less restrictive as the fall progressed in an effort to stimulate faster growth in the monetary aggregates and in bank credit. And toward the end of the period—in mid-November—the Board announced a reduction in reserve requirements. By December 6 the Board believed that a reduction of ¼ percentage point in the discount rate to 7¾ per cent would be timely in view of the slackening that had developed in demands for credit and in recognition of the significantly lower levels to which market interest rates had fallen since the summer months.

From December 6 through the year-end the Board turned down a number of Reserve Bank actions calling for further reductions in the rate to 7½ or 7 per cent. It was the Board's opinion that any actions signaling further easing of monetary policy should be delayed somewhat in light of the recent reductions in reserve requirements and in the discount rate. Shortly after the turn of the year, it approved a reduction in the rate to 7¼ per cent.

VOTES ON RESERVE BANK ACTIONS TO CHANGE THE DISCOUNT RATE

In accordance with the provisions of the Federal Reserve Act, the boards of directors of the Federal Reserve Banks are required to establish rates on discounts for and advances to member banks at least every 14 days and to submit such rates to the Board for review and determination. The Board votes listed below are those that involved approval or disapproval of actions to change the rate. Specific reference is made to the rate on discounts for and advances to member banks under Sections 13 and 13a of the Federal Reserve Act.

Appropriately corresponding changes in rates on advances to member banks under Section 10(b) of the Act and on advances to individuals, partnerships, and corporations other than member banks under the last paragraph of Section 13 of the Act were included in each action with these exceptions: On September 25 the Board amended Regulation A to permit the application of a special lending rate under Section 10(b) of the Federal Reserve Act for member banks requiring significant amounts of assistance over prolonged pe-

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Federal Reserve Bank of St. Louis

riods (see pages 91 and 92 of this REPORT). This special rate was set initially at 10 per cent and was reduced by ½ percentage point on December 6 when other rates under Sections 13, 13a, and 10(b) were lowered by ¼ percentage point. No change was made on December 6 in the rate under the last paragraph of Section 13 of the Federal Reserve Act governing advances to individuals, partnerships, or corporations other than member banks. That rate remained at 10 per cent. These changes in the schedule of rates served to establish a spread of ½ percentage point between the highest rate that may be paid by a member bank on its borrowings from the Federal Reserve and the rate that may be charged to nonmember borrowers.

FEBRUARY 19, 1974

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Boston on February 19 to reduce the discount rate from 7½ per cent to 7¼ per cent.

> Votes for this action: Messrs. Burns, Mitchell, Daane, Brimmer, Sheehan, Bucher, and Holland. Votes against this action: None.

MARCH 6, 1974

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Boston on March 4 to reduce the discount rate to 7¼ per cent.

> Votes for this action: Messrs. Mitchell, Brimmer, Sheehan, Bucher, and Holland. Votes against this action: None. Absent and not voting: Messrs. Burns and Daane.

APRIL 15, 1974

The Board disapproved actions taken by the directors of the Federal Reserve Banks of Cleveland and Chicago on April 11 to increase the discount rate to 8 per cent.

> Votes for this action: Messrs. Burns, Mitchell, Brimmer, Sheehan, Bucher, Holland, and Wallich. Votes against this action: None.

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Federal Reserve Bank of St. Louis

APRIL 24, 1974

Effective April 25, 1974, the Board approved actions taken by the directors of the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Kansas City, Dallas, and San Francisco to increase the discount rate to 8 per cent.

> Votes for this action: Messrs. Burns, Mitchell, Brimmer, Sheehan, Bucher, Holland, and Wallich. Votes against this action: None.

The Board subsequently approved similar actions taken by the directors of the Federal Reserve Banks of Chicago, St. Louis, and Minneapolis, effective April 26; the Federal Reserve Bank of Atlanta, effective April 29; and the Federal Reserve Bank of Boston, effective April 30.

MAY 17, 1974

The Board disapproved an action taken by the directors of the Federal Reserve Bank of St. Louis on May 9 to increase the discount rate to 8½ per cent.

> Votes for this action: Messrs. Burns, Mitchell, Brimmer, Sheehan, Bucher, Holland, and Wallich. Votes against this action: None.

MAY 24, 1974

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Kansas City on May 23 to increase the discount rate to 8½ per cent.

> Votes for this action: Messrs. Burns, Sheehan, Holland, and Wallich. Votes against this action: None. Absent and not voting: Messrs. Mitchell, Brimmer, and Bucher.

JUNE 10, 1974

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Kansas City on June 6 to increase the discount rate to 8½ per cent.

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Votes for this action: Messrs. Burns, Brimmer, Bucher, Holland, and Wallich. Votes against this action: None. Absent and not voting: Messrs. Mitchell and Sheehan.

JUNE 14, 1974

The Board disapproved an action taken by the directors of the Federal Reserve Bank of St. Louis on June 13 to increase the discount rate to 8½ per cent.

Votes for this action: Messrs. Burns, Mitchell, Sheehan, Bucher, and Holland. Votes against this action: None. Absent and not voting: Messrs. Brimmer and Wallich.

JUNE 21, 1974

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Kansas City on June 20 to increase the discount rate to 8¾ per cent.

Votes for this action: Messrs. Burns, Brimmer, Sheehan, Bucher, and Holland. Votes against this action: None. Absent and not voting: Messrs. Mitchell and Wallich.

JUNE 28, 1974

The Board disapproved an action taken by the directors of the Federal Reserve Bank of St. Louis on June 27 to increase the discount rate to 9 per cent.

Votes for this action: Messrs. Burns, Brimmer, Sheehan, Bucher, Holland, and Wallich. Votes against this action: None. Absent and not voting: Mr. Mitchell.

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Federal Reserve Bank of St. Louis

JULY 12, 1974

The Board disapproved an action taken by the directors of the Federal Reserve Bank of St. Louis on July 11 to increase the discount rate to 9 per cent.

> Votes for this action: Messrs. Burns, Mitchell, Sheehan, Bucher, Holland, and Wallich. Votes against this action: None. Absent and not voting: Mr. Brimmer.

JULY 19, 1974

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Kansas City on July 18 to increase the discount rate to 9 per cent.

> Votes for this action: Messrs. Burns, Brimmer, Sheehan, Bucher, Holland, and Wallich. Votes against this action: None. Absent and not voting: Mr. Mitchell.

AUGUST 16, 1974

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Kansas City on August 15 to increase the discount rate to 9 per cent.

> Votes for this action: Messrs. Burns, Sheehan, Bucher, and Wallich. Votes against this action: None. Absent and not voting: Messrs. Mitchell, Brimmer, and Holland.

AUGUST 23, 1974

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Kansas City on August 22 to increase the discount rate to 9 per cent.

> Votes for this action: Messrs. Mitchell, Brimmer, Sheehan, Holland, and Wallich. Votes against this action: None. Absent and not voting: Messrs. Burns and Bucher.

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Federal Reserve Bank of St. Louis

SEPTEMBER 10, 1974

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Atlanta on September 6 to reduce the discount rate to 7¾ per cent.

> Votes for this action: Messrs. Burns, Mitchell, Sheehan, Bucher, and Holland. Votes against this action: None. Absent and not voting: Mr. Wallich.[1]

SEPTEMBER 16, 1974

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Atlanta on September 13 to reduce the discount rate to 7¾ per cent.

> Votes for this action: Messrs. Burns, Sheehan, Holland, and Wallich. Votes against this action: None. Absent and not voting: Messrs. Mitchell and Bucher.[1]

OCTOBER 18, 1974

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Philadelphia on October 16 to reduce the discount rate to 7¾ per cent.

> Votes for this action: Messrs. Mitchell, Sheehan, Holland, and Wallich. Votes against this action: None. Absent and not voting: Messrs. Burns and Bucher.[1]

OCTOBER 29, 1974

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Atlanta on October 25 to reduce the discount rate to 7¾ per cent.

> Votes for this action: Messrs. Burns, Sheehan, Bucher, Holland, and Wallich. Votes against this action: None. Absent and not voting: Mr. Mitchell.[1]

[1] There was one vacancy on the Board at the time this action was taken.

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Federal Reserve Bank of St. Louis

NOVEMBER 13, 1974

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Atlanta on November 8 to reduce the discount rate to 7¾ per cent.

> Votes for this action: Messrs. Burns, Mitchell, Sheehan, Bucher, Holland, Wallich, and Coldwell. Votes against this action: None.

NOVEMBER 25, 1974

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Philadelphia on November 21 to reduce the discount rate to 7¾ per cent.

> Votes for this action: Messrs. Burns, Mitchell, Sheehan, Bucher, Holland, Wallich, and Coldwell. Votes against this action: None.

DECEMBER 6, 1974

Effective December 9, 1974, the Board approved actions taken by the directors of the Federal Reserve Banks of New York and Philadelphia to reduce the discount rate to 7¾ per cent.

> Votes for this action: Messrs. Burns, Sheehan, Bucher, Holland, and Wallich. Votes against this action: None. Absent and not voting: Messrs. Mitchell and Coldwell.

The Board subsequently approved similar actions taken by the directors of the Federal Reserve Banks of Boston, Richmond, Chicago, and Dallas, effective December 10; the Federal Reserve Bank of San Francisco, effective December 11; the Federal Reserve Banks of Cleveland, St. Louis, Minneapolis, and Kansas City, effective December 13; and the Federal Reserve Bank of Atlanta, effective December 16.

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Federal Reserve Bank of St. Louis

DECEMBER 13, 1974

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Boston on December 9 to reduce the discount rate to 7 per cent.

> Votes for this action: Messrs. Burns, Mitchell, Sheehan, Bucher, Holland, Wallich, and Coldwell. Votes against this action: None.

DECEMBER 23, 1974

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Philadelphia on December 19 to reduce the discount rate to 7½ per cent.

> Votes for this action: Messrs. Burns, Sheehan, Bucher, Holland, and Wallich. Votes against this action: None. Absent and not voting: Messrs. Mitchell and Coldwell.

DECEMBER 24, 1974

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Boston on December 23 to reduce the discount rate to 7 per cent.

> Votes for this action: Messrs. Burns, Sheehan, Holland, and Wallich. Votes against this action: None. Absent and not voting: Messrs. Mitchell, Bucher, and Coldwell.

DECEMBER 27, 1974

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Boston on December 26 to reduce the discount rate to 7½ per cent.

> Votes for this action: Messrs. Mitchell, Sheehan, Holland, and Wallich. Votes against this action: None. Absent and not voting: Messrs. Burns, Bucher, and Coldwell.

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Federal Reserve Bank of St. Louis

DECEMBER 30, 1974

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Atlanta on December 27 to reduce the discount rate to 7½ per cent.

> Votes for this action: Messrs. Mitchell, Sheehan, Holland, Wallich, and Coldwell. Votes against this action: None. Absent and not voting: Messrs. Burns and Bucher.

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Federal Reserve Bank of St. Louis

Record of Policy Actions of the Federal Open Market Committee

The record of policy actions of the Federal Open Market Committee is presented in the ANNUAL REPORT of the Board of Governors pursuant to the requirements of Section 10 of the Federal Reserve Act. That section provides that the Board shall keep a complete record of the actions taken by the Board and by the Federal Open Market Committee on all questions of policy relating to open market operations, that it shall record therein the votes taken in connection with the determination of open market policies and the reasons underlying each such action, and that it shall include in its ANNUAL REPORT to the Congress a full account of such actions.

In the pages that follow, there are entries with respect to the policy actions taken at the meetings of the Federal Open Market Committee held during the calendar year 1974, including the votes on the policy decisions made at those meetings as well as a résumé of the basis for the decisions. The summary descriptions of economic and financial conditions are based on the information that was available to the Committee at the time of the meetings, rather than on data as they may have been revised later.

It will be noted from the record of policy actions that in some cases the decisions were by unanimous vote and that in other cases dissents were recorded. The fact that a decision in favor of a general policy was by a large majority, or even that it was by unanimous vote, does not necessarily mean that all members of the Committee were equally agreed as to the reasons for the particular decision or as to the precise operations in the open market that were called for to implement the general policy.

Under the Committee's rules relating to the availability of information that were in effect in 1974, the policy record for each meeting was released approximately 90 days following the date of the meeting and was subsequently published in the Federal Reserve *Bulletin* as well as in this ANNUAL REPORT.

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Policy directives of the Federal Open Market Committee are issued to the Federal Reserve Bank of New York as the Bank selected by the Committee to execute transactions for the System Open Market Account. In the area of domestic open market activities the Federal Reserve Bank of New York operates under two separate directives from the Open Market Committee—an Authorization for Domestic Open Market Operations and a domestic policy directive. In the foreign currency area it operates under an Authorization for Foreign Currency Operations and a foreign currency directive. These four instruments are shown below in the form in which they were in effect at the beginning of 1974. Changes in the instruments during the year are reported in the records for the individual meetings.

AUTHORIZATION FOR DOMESTIC OPEN MARKET OPERATIONS

(in effect January 1, 1974)

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, to the extent necessary to carry out the most recent domestic policy directive adopted at a meeting of the Committee:

(a) To buy or sell U.S. Government securities and securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States in the open market, from or to securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices and, for such Account, to exchange maturing U.S. Government and Federal agency securities with the Treasury or the individual agencies or to allow them to mature without replacement; provided that the aggregate amount of U.S. Government and Federal agency securities held in such Account at the close of business on the day of a meeting of the Committee at which action is taken with respect to a domestic policy directive shall not be increased or decreased by more than $2.0 billion during the period commencing with the opening of business on the day following such meeting and ending with the close of business on the day of the next such meeting;

(b) To buy or sell prime bankers' acceptances of the kinds designated in the Regulation of the Federal Open Market Committee in the open market, from or to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the account of the Federal

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Reserve Bank of New York at market discount rates; provided that the aggregate amount of bankers' acceptances held at any one time shall not exceed (1) $125 million or (2) 10 per cent of the total of bankers' acceptances outstanding as shown in the most recent acceptance survey conducted by the Federal Reserve Bank of New York, whichever is the lower;

(c) To buy U.S. Government securities, obligations that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, and prime bankers' acceptances with maturities of 6 months or less at the time of purchase, from nonbank dealers for the account of the Federal Reserve Bank of New York under agreements for repurchase of such securities, obligations, or acceptances in 15 calendar days or less, at rates that, unless otherwise expressly authorized by the Committee, shall be determined by competitive bidding, after applying reasonable limitations on the volume of agreements with individual dealers; provided that in the event Government securities or agency issues covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, they shall be sold in the market or transferred to the System Open Market Account; and provided further that in the event bankers' acceptances covered by any such agreement are not repurchased by the seller, they shall continue to be held by the Federal Reserve Bank or shall be sold in the open market.

2. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, or, if the New York Reserve Bank is closed, any other Federal Reserve Bank, to purchase directly from the Treasury for its own account (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the rate charged on such certificates shall be a rate ¼ of 1 per cent below the discount rate of the Federal Reserve Bank of New York at the time of such purchases, and provided further that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed $1 billion.

3. In order to insure the effective conduct of open market operations, the Federal Open Market Committee authorizes and directs the Federal Reserve Banks to lend U.S. Government securities held in the System Open Market Account to Government securities dealers and to banks participating in Government securities clearing arrangements conducted through a Federal Reserve Bank, under such instructions as the Committee may specify from time to time.

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Federal Reserve Bank of St. Louis

DOMESTIC POLICY DIRECTIVE

(in effect January 1, 1974)

The information reviewed at this meeting—including recent developments in industrial production, residential construction, and retail sales—suggests that growth in economic activity is slowing in the fourth quarter. A further weakening in activity and an appreciable rise in prices are in prospect because of the curtailment in oil supplies. In November nonfarm payroll employment expanded further, but the unemployment rate, which had dropped in October, rose again to about the level that had prevailed since midyear. Wholesale prices of industrial commodities continued to rise sharply in November, reflecting large additional increases for petroleum products and widespread advances among other commodities; farm and food prices declined further.

In nearly all industrial countries abroad, concern has grown that a sustained cut in oil supplies will disrupt economic activity. Major foreign currencies have depreciated further against the dollar, and intervention sales of dollars by foreign monetary authorities have continued. The U.S. merchandise trade balance registered a strong surplus in the September–October period.

The narrowly defined money stock, following little net change over the third quarter, has grown at a relatively rapid pace over the past 2 months. Growth in the more broadly defined money stock has also been substantial, as net inflows at banks of consumer-type time deposits have been large. Net deposit inflows at nonbank thrift institutions improved somewhat further. Bank credit expansion remained moderate in November, although business loans increased after 2 months of little or no growth. On December 7 the Federal Reserve announced a reduction from 11 to 8 per cent in marginal reserve requirements on large-denomination CD's. Most short-term market interest rates have declined somewhat on balance in recent weeks, while movements in long-term market rates have been mixed.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to resisting inflationary pressures, cushioning the effects on production and employment growing out of the oil shortage, and maintaining equilibrium in the country's balance of payments.

To implement this policy, while taking account of international and domestic financial market developments, the Committee seeks to achieve some easing in bank reserve and money market conditions, provided that the monetary aggregates do not appear to be growing excessively.

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AUTHORIZATION FOR FOREIGN CURRENCY OPERATIONS

(in effect January 1, 1974)

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, for System Open Market Account, to the extent necessary to carry out the Committee's foreign currency directive and express authorizations by the Committee pursuant thereto:

A. To purchase and sell the following foreign currencies in the form of cable transfers through spot or forward transactions on the open market at home and abroad, including transactions with the U.S. Stabilization Fund established by Section 10 of the Gold Reserve Act of 1934, with foreign monetary authorities, and with the Bank for International Settlements:

Austrian schillings
Belgian francs
Canadian dollars
Danish kroner
Pounds sterling
French francs
German marks
Italian lire
Japanese yen
Mexican pesos
Netherlands guilders
Norwegian kroner
Swedish kronor
Swiss francs

B. To hold foreign currencies listed in paragraph A above, up to the following limits:

(1) Currencies purchased spot, including currencies purchased from the Stabilization Fund, and sold forward to the Stabilization Fund, up to $1 billion equivalent;

(2) Currencies purchased spot or forward, up to the amounts necessary to fulfill other forward commitments;

(3) Additional currencies purchased spot or forward, up to the amount necessary for System operations to exert a market influence but not exceeding $250 million equivalent; and

(4) Sterling purchased on a covered or guaranteed basis in terms of the dollar, under agreement with the Bank of England, up to $200 million equivalent.

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C. To have outstanding forward commitments undertaken under paragraph A above to deliver foreign currencies, up to the following limits:

(1) Commitments to deliver foreign currencies to the Stabilization Fund, up to the limit specified in paragraph 1B(1) above; and

(2) Other forward commitments to deliver foreign currencies, up to $550 million equivalent.

D. To draw foreign currencies and to permit foreign banks to draw dollars under the reciprocal currency arrangements listed in paragraph 2 below, provided that drawings by either party to any such arrangement shall be fully liquidated within 12 months after any amount outstanding at that time was first drawn, unless the Committee, because of exceptional circumstances, specifically authorizes a delay.

2. The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for the System Open Market Account for periods up to a maximum of 12 months with the following foreign banks, which are among those designated by the Board of Governors of the Federal Reserve System under Section 214.5 of Regulation N, Relations with Foreign Banks and Bankers, and with the approval of the Committee to renew such arrangements on maturity:

Foreign bank	Amount of arrangement (millions of dollars equivalent)
Austrian National Bank	250
National Bank of Belgium	1,000
Bank of Canada	2,000
National Bank of Denmark	250
Bank of England	2,000
Bank of France	2,000
German Federal Bank	2,000
Bank of Italy	2,000
Bank of Japan	2,000
Bank of Mexico	180
Netherlands Bank	500
Bank of Norway	250
Bank of Sweden	300
Swiss National Bank	1,400
Bank for International Settlements:	
Dollars against Swiss francs	600
Dollars against authorized European currencies other than Swiss francs	1,250

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3. Currencies to be used for liquidation of System swap commitments may be purchased from the foreign central bank drawn on, at the same exchange rate as that employed in the drawing to be liquidated. Apart from any such purchases at the rate of the drawing, all transactions in foreign currencies undertaken under paragraph 1(A) above shall, unless otherwise expressly authorized by the Committee, be at prevailing market rates and no attempt shall be made to establish rates that appear to be out of line with underlying market forces.

4. It shall be the practice to arrange with foreign central banks for the coordination of foreign currency transactions. In making operating arrangements with foreign central banks on System holdings of foreign currencies, the Federal Reserve Bank of New York shall not commit itself to maintain any specific balance, unless authorized by the Federal Open Market Committee. Any agreements or understandings concerning the administration of the accounts maintained by the Federal Reserve Bank of New York with the foreign banks designated by the Board of Governors under Section 214.5 of Regulation N shall be referred for review and approval to the Committee.

5. Foreign currency holdings shall be invested insofar as practicable, considering needs for minimum working balances. Such investments shall be in accordance with Section 14(e) of the Federal Reserve Act.

6. The Subcommittee named in Section 272.4(c) of the Committee's Rules of Procedure is authorized to act on behalf of the Committee when it is necessary to enable the Federal Reserve Bank of New York to engage in foreign currency operations before the Committee can be consulted. All actions taken by the Subcommittee under this paragraph shall be reported promptly to the Committee.

7. The Chairman (and in his absence the Vice Chairman of the Committee, and in the absence of both, the Vice Chairman of the Board of Governors) is authorized:

A. With the approval of the Committee, to enter into any needed agreement or understanding with the Secretary of the Treasury about the division of responsibility for foreign currency operations between the System and the Secretary;

B. To keep the Secretary of the Treasury fully advised concerning System foreign currency operations, and to consult with the Secretary on such policy matters as may relate to the Secretary's responsibilities; and

C. From time to time, to transmit appropriate reports and information to the National Advisory Council on International Monetary and Financial Policies.

8. Staff officers of the Committee are authorized to transmit pertinent information on System foreign currency operations to appropriate officials of the Treasury Department.

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9. All Federal Reserve Banks shall participate in the foreign currency operations for System Account in accordance with paragraph 3G(1) of the Board of Governors' Statement of Procedure with Respect to Foreign Relationships of Federal Reserve Banks dated January 1, 1944.

FOREIGN CURRENCY DIRECTIVE

(in effect January 1, 1974)

1. The basic purposes of System operations in foreign currencies are:

A. To help safeguard the value of the dollar in international exchange markets;

B. To aid in making the system of international payments more efficient;

C. To further monetary cooperation with central banks of other countries having convertible currencies, with the International Monetary Fund, and with other international payments institutions;

D. To help insure that market movements in exchange rates, within the limits stated in the International Monetary Fund Agreement or established by central bank practices, reflect the interaction of underlying economic forces and thus serve as efficient guides to current financial decisions, private and public; and

E. To facilitate growth in international liquidity in accordance with the needs of an expanding world economy.

2. Unless otherwise expressly authorized by the Federal Open Market Committee, System operations in foreign currencies shall be undertaken only when necessary:

A. To cushion or moderate fluctuations in the flows of international payments, if such fluctuations (1) are deemed to reflect transitional market unsettlement or other temporary forces and therefore are expected to be reversed in the foreseeable future; and (2) are deemed to be disequilibrating or otherwise to have potentially destabilizing effects on U.S. or foreign official reserves or on exchange markets, for example, by occasioning market anxieties, undesirable speculative activity, or excessive leads and lags in international payments;

B. To temper and smooth out abrupt changes in spot exchange rates, and to moderate forward premiums and discounts judged to be disequilibrating. Whenever supply or demand persists in influencing exchange rates in one direction, System transactions should be modified or curtailed unless upon review and reassessment of the situation the Committee directs otherwise;

C. To aid in avoiding disorderly conditions in exchange markets. Special factors that might make for exchange market instabilities include

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(1) responses to short-run increases in international political tension, (2) differences in phasing of international economic activity that give rise to unusually large interest rate differentials between major markets, and (3) market rumors of a character likely to stimulate speculative transactions. Whenever exchange market instability threatens to produce disorderly conditions, System transactions may be undertaken if the Special Manager reaches a judgment that they may help to reestablish supply and demand balance at a level more consistent with the prevailing flow of underlying payments. In such cases, the Special Manager shall consult as soon as practicable with the Committee or, in an emergency, with the members of the Subcommittee designated for that purpose in paragraph 6 of the Authorization for Foreign Currency Operations; and

D. To adjust System balances within the limits established in the Authorization for Foreign Currency Operations in light of probable future needs for currencies.

3. System drawings under the swap arrangements are appropriate when necessary to obtain foreign currencies for the purposes stated in paragraph 2 above.

4. Unless otherwise expressly authorized by the Committee, transactions in forward exchange, either outright or in conjunction with spot transactions, may be undertaken only (i) to prevent forward premiums or discounts from giving rise to disequilibrating movements of short-term funds; (ii) to minimize speculative disturbances; (iii) to supplement existing market supplies of forward cover, directly or indirectly, as a means of encouraging the retention or accumulation of dollar holdings by private foreign holders; (iv) to allow greater flexibility in covering System or Treasury commitments, including commitments under swap arrangements, and to facilitate operations of the Stabilization Fund; (v) to facilitate the use of one currency for the settlement of System or Treasury commitments denominated in other currencies; and (vi) to provide cover for System holdings of foreign currencies.

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MEETING HELD ON JANUARY 21-22, 1974[1]

1. Domestic policy directive

Preliminary estimates of the Commerce Department indicated that growth in real output of goods and services (real gross national product) had slowed to an annual rate of 1.3 per cent in the fourth quarter of 1973—from 3.5 per cent in the third quarter—and that the rise in the GNP implicit deflator had accelerated to an annual rate of about 8 per cent, in part as a result of the impact of the oil shortage. Staff projections suggested that economic activity would weaken further in the first half of 1974 and that prices would rise somewhat more sharply than had been expected 5 weeks earlier.

In December industrial production declined, as output of automobiles fell sharply and residential and commercial use of electricity and gas was substantially reduced; the gain in industrial production from the third to the fourth quarter of 1973 was small. Nonfarm payroll employment—which had grown rapidly in the first 11 months of the year—expanded little in December, when some workers were laid off as a result of the energy situation, and the unemployment rate rose further to 4.9 per cent. Retail sales declined in December and changed little in the fourth quarter as a whole, chiefly because of a drop in demand for the larger automobiles and for some other durable goods.

Wholesale prices of industrial commodities rose sharply further in December; as in the preceding 2 months, increases were large for fuels and were substantial and widespread among other industrial commodities. Wholesale prices of farm and food products, which had declined for 3 months, turned up, reflecting sizable increases in prices of grains, animal feeds, oilseeds, fats and oils,

[1]This meeting was held over a 2-day period, beginning on the evening of January 21, 1974, in order to enable the Committee to hear reports from members who had attended international gatherings without infringing on the time available for its deliberations on current monetary policy.

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and raw cotton. In the closing months of 1973 the consumer price index continued upward at a rapid rate as a result of the rise in prices of various types of energy and increases in prices of foods and services. The index of average hourly earnings of production workers on private nonfarm payrolls also continued to move up at a fast pace, but real spendable weekly earnings of production workers declined in the fourth quarter of the year as they had over the first three quarters.

Staff projections for the first half of 1974 still suggested that the short-fall in supplies of petroleum products would lead to additional curtailment in expenditures for automobiles and related goods and services. Consequently, real consumption expenditures, which had declined in the fourth quarter of 1973, would remain weak. As before, it was anticipated that the decline in residential construction would be extended but that the expansion in business fixed investment would remain relatively strong and that growth in State and local government purchases of goods and services would continue at a substantial rate. The over-all increase in nominal GNP projected for the first half of the year was now somewhat greater than had been expected 5 weeks earlier, owing to larger increases in prices—mainly in those of petroleum products.

In late December the large price increase for crude oil imposed by producing countries generated new uncertainties and fears about foreign trade prospects for oil-importing countries, about the size and direction of international flows of funds, and about the course of economic activity in major industrial countries. Participants in foreign exchange markets apparently believed that the United States would be the principal recipient of the capital flows arising from the investment of oil producers' receipts; as a result, major foreign currencies depreciated significantly further against the dollar in late December and early January—even while some foreign monetary authorities intervened in the markets, selling large amounts of dollars to limit depreciation of their currencies.

U.S. merchandise imports had risen substantially in November, in part because of earlier sharp increases in prices of petroleum products. Exports also had advanced, but U.S. merchandise trade had been in approximate balance, following 2 months of large surpluses.

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Total loans and investments at U.S. commercial banks increased relatively little in December, and growth in bank credit over the fourth quarter was moderate. Expansion in outstanding business loans—which had picked up in November—slowed again in December as some borrowers apparently used proceeds of new bond issues to pay down bank loans. Real estate and consumer loans grew at about the same rates as in November, remaining well below rates earlier in the year. And while banks added to their holdings of State and local government securities, they further reduced their holdings of Treasury issues.

The narrowly defined money stock (M_1)[2] continued to grow at a rapid pace in December, but growth was somewhat faster over the November–December period than it otherwise would have been because of temporary increases in deposits held by foreign commercial banks; weekly data suggested that on balance M_1 changed little between mid-December and mid-January. In December inflows of time and savings deposits other than large-denomination certificates of deposit (CD's) were still sizable, although somewhat less than in November, and growth in the more broadly defined money stock (M_2)[3] remained substantial. The outstanding volume of large-denomination CD's expanded, contributing to a moderate pick-up in growth in the bank credit proxy[4] from very slow rates in October and November. In late December and early January the outstanding volume of such CD's expanded further, and the credit proxy grew at a faster rate.

Net deposit inflows at nonbank thrift institutions—which had improved significantly in October and November—expanded slightly further in December, reflecting primarily a larger-than-seasonal amount of interest credited to accounts at the month's end; growth in the measure of the money stock that includes such deposits (M_3)[5]—like growth in M_2—remained substantial. Contract interest rates on conventional mortgages were unchanged in De-

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[2]Private demand deposits plus currency in circulation.

[3]M_1 plus commercial bank time and savings deposits other than large-denomination CD's.

[4]Daily-average member bank deposits, adjusted to include funds from nondeposit sources.

[5]M_2 plus time and savings deposits at mutual savings banks and at savings and loan associations.

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cember, after having declined over the two preceding months, but yields in the secondary market for Federally insured mortgages declined for the third consecutive month.

Following the Committee meeting in mid-December, System open market operations had been directed initially toward achieving some easing in bank reserve and money market conditions—in accordance with the Committee's decision to seek such easing, provided that the monetary aggregates did not appear to be growing excessively. As a result the Federal funds rate declined to a level of around 9¾ per cent in the early days of January—from around 10⅛ per cent in the two statement weeks before the December meeting—and member bank borrowings declined to an average of about $1,010 million in the 3 weeks ending January 9 from an average of about $1,390 million in the preceding 4 weeks.

On January 11, after incoming data had suggested that in the December–January period the annual rate of growth in reserves available to support private nonbank deposits (RPD's) might be close to the upper limit of the specified range and that rates of growth in M_1 and M_2 might exceed acceptable ranges, a majority of the available members concurred in a recommendation by the Chairman that, in view of the sensitive state of financial markets and the general economic situation, the System aim to maintain prevailing money market conditions for the time being. The funds rate remained around 9¾ per cent until the last few days before this meeting, when it averaged about 9⅝ per cent; in the statement week ending January 16 member bank borrowings were about $990 million.

Changes in market interest rates since mid-December had been mixed. Long-term rates in general had risen in response to a relatively heavy volume of capital market financing. The over-all volume of new public offerings of corporate and State and local government bonds—which had expanded in the October-November period—declined less than seasonally in December, and a substantial increase was in prospect for January.

In short-term markets some private rates had declined since mid-December, reflecting the slackening in business demands for short-term credit and the inflow of funds from abroad. However, Treasury bill rates had risen, apparently because money market conditions had eased less than market participants had expected

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and because foreign monetary authorities had sold a substantial volume of bills in association with their intervention in foreign exchange markets.

The Treasury was expected to announce on January 30 the terms of its mid-February refunding. Of the maturing issues, $4.5 billion were held by the public.

A staff analysis suggested that, because of the larger rise in prices and higher projected rate of expansion in nominal GNP, growth in the demand for money over the first half of 1974 was likely to be somewhat greater than had been expected earlier. It appeared likely that if M_1 were to grow at a rate consistent with the Committee's earlier longer-run objectives for the monetary aggregates, money market conditions would tighten somewhat in the period immediately ahead and market interest rates in general would rise. As a result, net inflows of consumer-type time and savings deposits to banks and nonbank thrift institutions might decline appreciably, reducing the rates of growth in both M_2 and M_3. This analysis implied that a moderately higher rate of growth in M_1 would be associated with little change or possibly some easing in money market conditions; under these conditions net inflows of consumer-type time and savings deposits likely would be maintained or would expand somewhat from recent rates.

According to the staff analysis, expansion in M_1 was likely to be relatively slow on the average in the January–February period—following the rapid pace over the preceding 2 months that was attributable in part to the transitory increases in deposits held by foreign commercial banks. However, growth was expected to be faster in the second quarter, reflecting the temporary effects of large refunds of Federal income taxes and initial payments of increased social security benefits. It was also anticipated that growth in bank credit would pick up this winter from the low rate of the fourth quarter of 1973 and that the outstanding volume of large-denomination CD's, which had turned up in mid-December, would expand at a moderate pace.

The Committee agreed that the economic situation and outlook called for moderate growth in monetary aggregates over the longer run, including a slightly higher rate of growth in M_1 than contemplated earlier. Taking account of the staff analysis, the Committee concluded that growth in M_1 and M_2 over the January–February

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period at annual rates within ranges of tolerance of 3 to 6 per cent and 6 to 9 per cent, respectively, would be consistent with its longer-run objectives for the monetary aggregates. The members agreed that such growth rates would be likely to involve RPD growth during the January–February period at an annual rate within a 4¾ to 7¾ per cent range of tolerance, and they decided that in the period until the next meeting the weekly average Federal funds rate might be permitted to vary in an orderly fashion from as low as 8¾ per cent to as high as 10 per cent, if necessary, in the course of operations. It was understood that a slight easing in reserve and money market conditions would be sought promptly, provided that the data becoming available later in the week of the meeting did not suggest that the monetary aggregates were growing rapidly.

The members also agreed that, in the conduct of operations, account should be taken of the forthcoming Treasury financing and of international and domestic financial market developments. It was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives and constraints.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting indicates that growth in real output of goods and services was slow in the fourth quarter of 1973, in part because of the fuel situation. Prices continued to rise sharply in December, reflecting additional increases for petroleum products and widespread advances among other goods and services. A further weakening in activity and sharp rise in prices appear to be in prospect for early 1974. In December nonfarm payroll employment changed little, and the unemployment rate increased further. Wage rates have continued to rise substantially in recent months, although not so sharply as prices.
>
> Major foreign currencies have depreciated further against the dollar since mid-December, and some foreign monetary authorities have continued to sell dollars in exchange markets. Steep price increases imposed by oil-producing countries have heightened fears of economic disruption in many countries and of large and erratic international flows of funds.

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The narrowly defined money stock increased substantially in the last 2 months of 1973, partly reflecting increased foreign deposits, but it has changed little on balance over recent weeks. Net inflows of consumer-type time deposits remained sizable at both banks and nonbank thrift institutions. Bank credit expansion, which was moderate over the closing months of 1973, has accelerated in recent weeks as banks have stepped up issuance of large-denomination CD's. Since mid-December, interest rate movements have been mixed; yields on most long-term securities and on Treasury bills have risen on balance, while some private short-term rates have declined.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to resisting inflationary pressures, cushioning the effects on production and employment growing out of the oil shortage, and maintaining equilibrium in the country's balance of payments.

To implement this policy, while taking account of the forthcoming Treasury financing and of international and domestic financial market developments, the Committee seeks to achieve bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the months ahead.

Votes for this action: Messrs. Burns, Balles, Brimmer, Bucher, Daane, Holland, Mayo, Mitchell, Morris, and Sheehan. Votes against this action: Messrs. Hayes and Francis.

In dissenting, both Mr. Hayes and Mr. Francis indicated that they favored no change in the Committee's longer-run objectives for growth in the monetary aggregates, and Mr. Hayes also was opposed to a range of tolerance for the Federal funds rate that was skewed to the low side of the range that had prevailed in recent days. In Mr. Hayes' view, the probabilities favored a relatively mild business slowdown in 1974 as a whole, and in light of the rapid monetary growth in recent months, the Committee should lean against the strong inflationary pressures that remained the major economic problem. Mr. Francis believed that the actual and prospective slowdown in economic activity resulted wholly from capacity, supply, and price-distorting constraints, rather than from a weakening in demand, and that any easing in monetary policy would increase inflationary pressures without expanding real output or reducing unemployment.

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2. Ratification of earlier action

By unanimous vote, the Committee ratified the action for which a majority of the members had voted on January 4, 1974, increasing from $2 billion to $3 billion the limit on changes between Committee meetings in System Account holdings of U.S. Government and Federal agency securities specified in paragraph 1(a) of the authorization for domestic open market operations, effective for the period from January 4 through the close of business on January 22, 1974.

The action in question had been taken on recommendation of the System Account Manager. The Manager had advised that a substantial volume of open market purchases of securities had been required in the period since the Committee's meeting on December 18, 1973, in order to offset reserve absorption resulting from market factors and that a near-term need to supply reserves was in prospect; he had further advised that strength of the dollar in foreign exchange markets suggested that foreign official sales of U.S. Treasury bills might be heavy and that the System should be in a position to acquire some of those bills while offsetting any undesired effects on bank reserves by other means.

3. Authorization for foreign currency operations

The Committee approved an increase from $2 billion to $3 billion in the System's swap arrangement with the Bank of Italy, and the corresponding amendment to paragraph 2 of the authorization for foreign currency operations, subject to the understanding that the action would become effective upon approval by the Subcommittee (consisting of the Chairman and Vice Chairman of the Committee and the Vice Chairman of the Board of Governors) designated in the Committee's rules of procedure, after consultation with the U.S. Treasury.

> Votes for this action: Messrs. Burns, Hayes, Balles, Brimmer, Bucher, Daane, Francis, Holland, Mayo, Mitchell, Morris, and Sheehan. Votes against this action: None.

On January 29, 1974, the Subcommittee approved the indicated increase, effective February 1, 1974. Accordingly, as of the latter date, paragraph 2 of the authorization read as follows:

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The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for the System Open Market Account for periods up to a maximum of 12 months with the following foreign banks, which are among those designated by the Board of Governors of the Federal Reserve System under Section 214.5 of Regulation N, Relations with Foreign Banks and Bankers, and with the approval of the Committee to renew such arrangements on maturity:

Foreign bank	Amount of arrangement (millions of dollars equivalent)
Austrian National Bank	250
National Bank of Belgium	1,000
Bank of Canada	2,000
National Bank of Denmark	250
Bank of England	2,000
Bank of France	2,000
German Federal Bank	2,000
Bank of Italy	3,000
Bank of Japan	2,000
Bank of Mexico	180
Netherlands Bank	500
Bank of Norway	250
Bank of Sweden	300
Swiss National Bank	1,400
Bank for International Settlements:	
Dollars against Swiss francs	600
Dollars against other European currencies	1,250

This action was taken on the grounds that it would prove helpful in coping with possible exchange market pressures on the lira arising from the oil crisis, and thus would contribute to international monetary stability.

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MEETING HELD ON FEBRUARY 20, 1974

Domestic policy directive

The information reviewed at this meeting suggested that real output of goods and services—which had grown at an annual rate of about 1.5 per cent in the fourth quarter of 1973—was declining in the first quarter of this year, mainly because of the oil situation, and that the GNP implicit deflator was continuing to rise rapidly. Staff projections suggested that weakness in economic activity would continue in the second quarter and that the rise in prices would remain rapid.

In January industrial production declined appreciably further, as output of automobiles and residential and commercial use of electricity and gas continued to decline while output of business equipment and other major categories of goods changed little; the January level was below the average in the fourth quarter of 1973. Nonfarm payroll employment fell sharply—reflecting sizable reductions in durable goods manufacturing and in contract construction—and the average workweek in manufacturing also declined considerably. The unemployment rate rose from 4.8 to 5.2 per cent. The dollar volume of retail sales recovered, following a sizable decline in December; although the January level was somewhat above the fourth-quarter average, the gain appeared to be less than the rise in prices of consumer goods.

Wholesale prices of industrial commodities continued to rise at a rapid pace in January; increases again were large for fuels and were substantial and widespread among other commodity groups. Wholesale prices of farm and food products also rose sharply, with increases especially large for prices of livestock, meats, and grains. In December the consumer price index had risen appreciably further, although the increase was tempered by declines in retail prices of meats and used cars. The index of average hourly earnings of production workers on nonfarm payrolls also had continued to advance in recent months, but at a less rapid pace than prices.

The latest staff projections for the first half of 1974 suggested

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that nominal GNP would expand somewhat less, and that real GNP would decline somewhat more, than had been anticipated at the time of the Committee's meeting in mid-January. Declines were concentrated in real consumption expenditures and residential construction activity, both of which were now projected to be weaker than had been expected 4 weeks earlier. As before, it was anticipated that the expansion in business fixed investment would remain relatively strong and that growth in State and local government purchases of goods and services would continue at a substantial rate. Business inventory investment was projected to be moderately below the high rate experienced in the fourth quarter of 1973, when stocks of large automobiles accumulated as sales fell off.

In foreign exchange markets the strong appreciation of the dollar that had begun in October gave way to depreciation near the end of January, reflecting in part the removal of U.S. controls on outflows of capital, relaxation of some foreign restraints on inflows of capital, and declines in U.S. interest rates relative to those abroad. In December U.S. merchandise exports had remained strong while imports had dropped from the very high level in November; the trade surplus had increased sharply both in December and in the fourth quarter as a whole.

Growth in total loans and investments at U.S. commercial banks accelerated in January, reflecting increases in most categories of loans and in banks' holdings of both Treasury and other securities. Expansion in business loans, which had been moderate in the fourth quarter of 1973, was especially strong in January, and business borrowing in the commercial paper market also was heavy. Between late January and mid-February, most banks lowered the prime rate applicable to large corporations from 9¾ to 9 per cent.

The narrowly defined money stock (M_1)[1]—which had grown at a rapid pace in the last 2 months of 1973—declined in January; weekly data suggested that M_1 was expanding in early February. Inflows of consumer-type time and savings deposits increased substantially; as a result, growth in the more broadly defined money stock (M_2)[2] remained near the moderate rate in December. The outstanding volume of large-denomination CD's rose appreciably

[1] Private demand deposits plus currency in circulation.

[2] M_1 plus commercial bank time and savings deposits other than large-denomination CD's.

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in January and, along with a large increase in U.S. Government deposits, contributed to an acceleration of growth in the bank credit proxy.[3]

Net deposit inflows at savings and loan associations in January remained near the improved rate in the final months of 1973, but inflows to mutual savings banks fell off again. Growth in the measure of the money stock that includes such deposits (M_3)[4]—like growth in M_2—continued near the moderate rate in December. Contract interest rates on conventional mortgages and yields in the secondary market for Federally insured mortgages declined between early January and early February.

On January 30 the Treasury announced that in early February it would auction up to $4.05 billion of notes and bonds to refund the bulk of $4.5 billion of publicly held notes and bonds maturing on February 15; the remainder would be retired by drawing down cash balances. In auctions on February 5, 6, and 7, respectively, the Treasury sold $1.50 billion of 7-year, 7 per cent notes at an average price to yield 6.95 per cent; $2.25 billion of 3¼-year, 6⅞ per cent notes at an average price to yield 6.70 per cent; and $300 million of 19½-year, 7½ per cent bonds at a price to yield 7.46 per cent to maturity.

System open market operations since the January 21–22 meeting had been guided by the Committee's decision to seek bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the months ahead, while taking account of the Treasury's mid-February refunding and of international and domestic financial market developments. Soon after the meeting, incoming data suggested that in the January–February period the monetary aggregates would grow at rates well within the ranges of tolerance specified by the Committee; therefore, operations were directed toward a slight easing in bank reserve and money market conditions, in accordance with the Committee's instructions that such easing would be sought promptly if the data then available did not suggest that the aggregates were growing rapidly.

Around the beginning of February available data suggested that

[3] Daily-average member bank deposits, adjusted to include funds from nondeposit sources.

[4] M_2 plus time and savings deposits at mutual savings banks and at savings and loan associations.

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growth both in reserves available to support private nonbank deposits (RPD's) and in M_1 might fall below the specified ranges of tolerance. Therefore, the System sought some further easing in bank reserve and money market conditions. In the 2 weeks preceding this meeting the Federal funds rate was close to 9 per cent, compared with around 9⅝ per cent in the days before the January meeting; member bank borrowings averaged around $1,140 million in the 4 weeks ending February 13, little changed from the average in the preceding 5 weeks. Data that became available a few days before this meeting indicated that M_1 was expanding rapidly in early February and that it was likely to grow in the January–February period at a rate within the specified range; however, growth in RPD's still appeared likely to fall short of the specified range.

Short-term market interest rates had fallen appreciably since the Committee's meeting on January 21–22, in large part because money market conditions had eased, but also, apparently, because market participants expected them to ease further. On the day before this meeting the market rate on 3-month Treasury bills was 7.03 per cent, down from 7.97 per cent on the day before the January meeting.

Yields on longer-term securities also had declined somewhat, despite a large volume of financing in the capital markets and the sizable Treasury refunding. The over-all volume of new public offerings of corporate and State and local government bonds rose substantially in January, and an equally large volume was in prospect for February.

The Committee agreed that the economic situation and outlook continued to call for moderate growth in monetary aggregates over the longer run. Staff analysis suggested that, because of the lower projected rate of expansion in nominal GNP, the demand for money was likely to expand less over the first half of 1974 than had been expected earlier. In the February–March period, however, M_1 was expected to grow relatively rapidly, assuming little or no change in money market conditions; in February in particular, monetary expansion was expected to be spurred temporarily by an extremely sharp reduction in Treasury deposits. Relatively rapid M_1 growth over the February–March period appeared consistent with the Committee's longer-run objectives for the monetary aggregates

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because it would follow the sizable decrease of January and because it seemed likely to be temporary. In the event that money market conditions did remain about unchanged in the period immediately ahead, little or no further decline appeared likely in short-term market interest rates in general, and—to the extent that recent declines had been based on expectations of prompt further easing in money market conditions—rates could move up again.

Over the February–March period, according to the staff analysis, net inflows of consumer-type time and savings deposits to banks and nonbank thrift institutions were expected to remain sizable—with the effects of the recent declines in short-term market interest rates bolstered, perhaps, by increases in precautionary balances. Reflecting the availability of such funds, banks were not likely to issue substantial amounts of large-denomination CD's, even though business loan expansion might not moderate very much from the fast pace of January.

Taking account of the staff analysis, the Committee concluded that progress toward its longer-run objective of moderate monetary growth could be achieved with rates of expansion in the aggregates over the February–March period that were temporarily above those desired for the longer term. For the February–March period it adopted ranges of tolerance of 6½ to 9½ per cent and 9½ to 12½ per cent for the annual rates of growth in M_1 and M_2, respectively. The members agreed that rates of growth within those ranges would be likely to involve RPD growth during the February–March period at an annual rate within a 3½ to 6½ per cent range of tolerance, and they decided that in the period until the next meeting the weekly average Federal funds rate might be permitted to vary in an orderly fashion from as low as 8¼ per cent to as high as 9½ per cent, if necessary, in the course of operations.

The members also agreed that, in the conduct of operations, account should be taken of international and domestic financial market developments. It was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives and constraints.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

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The information reviewed at this meeting suggests that real output of goods and services is declining in the current quarter, mainly because of the oil situation, and that prices are continuing to rise rapidly. In January industrial production declined again, nonfarm payroll employment dropped, and the unemployment rate rose above 5 per cent. Prices of both farm products and industrial commodities increased very sharply. Wage rates have continued to rise substantially in recent months, although not so sharply as prices.

After having appreciated for several months, the dollar has declined somewhat on the average against foreign currencies in recent weeks. U.S. controls on capital outflows were removed at the end of January, and several foreign countries have relaxed controls on capital inflows. The U.S. trade surplus rose sharply in December and in the fourth quarter as a whole.

The narrowly defined money stock, after increasing substantially in the last 2 months of 1973, declined in January; most recently, however, it has appeared to strengthen. Broader measures of the money stock continued to rise in January, as net inflows of consumer-type time deposits remained relatively strong. Expansion in business loans and in total bank credit accelerated, and banks stepped up issuance of large-denomination CD's. Since mid-January, short-term market interest rates have fallen appreciably, and long-term rates have declined somewhat.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to resisting inflationary pressures, cushioning declines in production and employment that are being induced in large part by the oil situation, and maintaining equilibrium in the country's balance of payments.

To implement this policy, while taking account of international and domestic financial market developments, the Committee seeks to achieve bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the months ahead.

Votes for this action: Messrs. Burns, Hayes, Balles, Brimmer, Daane, Holland, Mayo, and Mitchell. Votes against this action: Messrs. Bucher, Francis, Morris, and Sheehan.

The members dissenting from this action did so for different reasons. Messrs. Bucher, Morris, and Sheehan expressed concern about current and prospective weakness in aggregate economic demands. In order to encourage further declines in short- and

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long-term interest rates, including mortgage rates, they favored somewhat higher ranges of tolerance for the monetary aggregates and a lower range for the Federal funds rate than the Committee had agreed would be consistent with the directive. Mr. Francis expressed the view that the over-all economic situation was stronger than suggested by the staff projections and that inflation remained the major long-term economic problem. He dissented because he thought the policy adopted by the Committee would permit the money stock to grow at a faster rate than was consistent with progress in dealing with inflation.

Subsequent to the meeting it appeared that in the February–March period growth in the monetary aggregates would equal or exceed the upper limits of the short-run ranges of tolerance specified by the Committee. In view of that behavior, the System ordinarily would have become more restrictive in its reserve-supplying operations, expecting that the weekly average Federal funds rate would rise toward the upper limit of its range of tolerance—namely, 9½ per cent. On March 1, however, a majority of the available members[5] concurred in a recommendation by the Chairman that in light of the recent marked rise in market interest rates and the highly sensitive state of financial markets, the System conduct reserve operations in a manner expected to be consistent with maintenance of the funds rate at the prevailing level of about 9 per cent, for the time being.

One week later, it appeared that strong growth in the monetary aggregates was persisting. On March 11, in view of that behavior, the available members—with the exceptions of Messrs. Bucher and Sheehan—concurred in a recommendation by the Chairman that the System return to conducting reserve operations in a manner consistent with the full range of tolerance for the Federal funds rate agreed upon at the February meeting. However, in light of recent increases in market interest rates and the sensitive state of financial markets, the Account Manager would be expected to proceed very cautiously in operations thought likely to be consistent with a rise in the weekly average funds rate above 9 per cent.

[5]The members and alternate members of the Committee newly elected by the Federal Reserve Banks took office on March 1 for the term of 1 year commencing on that date. Mr. Coldwell, responding as alternate for Mr. Kimbrel, did not concur in the Chairman's recommendation.

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MEETING HELD ON MARCH 18–19, 1974[1]

1. Domestic policy directive

The information reviewed at this meeting continued to suggest that real output of goods and services, which had grown at an annual rate of about 1.5 per cent in the fourth quarter of 1973, was declining in the first quarter of this year—in large part because of the oil situation—and that the GNP implicit deflator was still rising at a rapid rate. Staff projections, like those of 4 weeks earlier, suggested that real output would change little in the second quarter and that the rise in prices would remain rapid.

In February industrial production receded for the third consecutive month, as output of automobiles and auto parts and of nondurable consumer goods declined while output of business equipment changed little. Employment in durable goods manufacturing also continued to decline, but total nonfarm employment rose appreciably, returning to the peak reached in November 1973. The rate of unemployment—which had risen from a recent low of 4.6 per cent in October to 5.2 per cent in January—was unchanged in February. Retail sales fell, reflecting decreases in sales at automobile dealerships and gasoline service stations; total retail sales for the month were slightly below the monthly average for the fourth quarter of 1973.

Wholesale prices of farm and food products and of industrial commodities rose sharply in February, although at a lesser rate than in the preceding 2 months. Price increases continued to be widespread among industrial commodities and were especially large for fuels, metals, and nonmetallic minerals. In January the consumer price index had risen substantially further, with much of

[1]This meeting was held over a 2-day period, beginning on the afternoon of March 18, in order to permit the Committee to review its continuing authorizations and directives without infringing on the time available for its deliberations on current monetary policy.

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the rise being caused by steep increases in retail prices of foods and fuels. In the first 2 months of the year, advances in the index of average hourly earnings of production workers on nonfarm payrolls moderated from the rapid pace in the second half of 1973.

Staff projections suggested that termination of the Arab embargo on oil shipments to the United States—reported on March 18—would have no more than a marginally expansive impact on over-all real output until the summer, although it might strengthen the automobile and housing markets promptly. Expectations for the second quarter were that expansion in business fixed investment would remain relatively strong; that growth in government purchases of goods and services would continue at a substantial rate; and that the rise in personal consumption expenditures would pick up somewhat as demands for domestic-type automobiles—which had fallen sharply in the autumn and winter months—strengthened. It was also anticipated, however, that residential construction outlays—which lag behind starts for new housing units—would decline appreciably further and that investment in business inventories would not be so large as in the two preceding quarters.

In foreign exchange markets the dollar depreciated against leading foreign currencies during the first 3 weeks of February and then changed little through mid-March, at an average level still well above that of October 1973. Moreover, the U.S. balance of payments on the official settlements basis appeared to have shifted from a substantial surplus in January to a deficit in February. In January the U.S. merchandise trade surplus—although down somewhat from December—remained large, with exports expanding almost as much as imports; a significant part of the rise in the value of imports was attributable to a sharp increase in the cost of imported petroleum products.

Growth in total loans and investments at U.S. commercial banks remained rapid in February; while expansion in most major types of loans slowed appreciably, banks' holdings of Treasury securities and loans to securities dealers rose sharply. Although businesses continued to increase their short-term borrowing at a rapid pace, they raised a large share of these funds in the commercial paper market where rates were favorable relative to effective rates on bank loans. In late February most banks reduced the prime rate applicable to large corporations from 9 to 8¾ per cent.

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The narrowly defined money stock (M_1),[2] after having declined in January, expanded substantially in February in association with an unusually large decline in U.S. Government deposits. Rapid expansion in M_1 continued in early March. Net inflows of time and savings deposits other than large-denomination CD's remained relatively strong in February, and growth in the more broadly defined money stock (M_2)[3] accelerated to a high rate. However, the bank credit proxy[4] rose little; the large increases in private demand deposits and in consumer-type time and savings deposits were almost offset by the extraordinary decline in U.S. Government deposits and a slowing down—as compared with January—of growth in the outstanding volume of large-denomination CD's.

Net deposit inflows at nonbank thrift institutions in February, as in January, remained near the improved rate of the final months of 1973. Growth in the measure of the money stock that includes such deposits (M_3)[5]—like growth in M_2—accelerated to a high rate. Contract interest rates on conventional mortgages declined further between early February and early March.

System open market operations since the February 20 meeting had been guided by the Committee's decision to seek bank reserve and money market conditions consistent with moderate growth in the monetary aggregates over the months ahead, while taking account of international and domestic financial market developments. Toward the end of February, incoming data suggested that in the February–March period growth in M_1 would exceed the range of tolerance specified by the Committee and that growth in M_2 and in reserves available to support private demand deposits (RPD's) would about equal the upper limits of their specified ranges. Such behavior ordinarily would have led to more restrictive reserve-supplying operations and a rise in the Federal funds rate toward the upper limit of its range of tolerance—namely, 9½ per cent. On March 1, however, a majority of the available Committee

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[2]Private demand deposits plus currency in circulation.

[3]M_1 plus commercial bank time and savings deposits other than large-denomination CD's.

[4]Daily-average member bank deposits, adjusted to include funds from nondeposit sources.

[5]M_2 plus time and savings deposits at mutual savings banks and at savings and loan associations.

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members concurred in the Chairman's recommendation that, in light of the marked rise in short-term interest rates that had occurred since the February meeting and of the highly sensitive state of the financial markets, reserve-supplying operations for the time being should be conducted in a manner expected to be consistent with maintenance of the Federal funds rate at about the 9 per cent level that had prevailed over the preceding 3 weeks.

Ten days later, in response to evidence that strong growth in the monetary aggregates was persisting, a majority of the available members concurred in the Chairman's recommendation that reserve-supplying operations should be conducted in a manner consistent with the range of tolerance for the Federal funds rate that had been agreed upon at the February meeting—although, in light of recent increases in market interest rates and the sensitive state of financial markets, the Account Manager was instructed to proceed very cautiously in operations thought likely to be consistent with a rise in the weekly average Federal funds rate above 9 per cent. In mid-March, just before this meeting, the Federal funds rate was in a range of 9¼ to 9½ per cent; member bank borrowings averaged around $1,130 million in the 4 weeks ending March 13, almost the same as in the preceding 4 weeks.

Short-term market interest rates, which had fallen irregularly for more than 2 months, rose appreciably in the period between the Committee's meeting on February 20 and this meeting—in large part because the Federal funds rate did not decline further as market participants had expected and because short-term credit demands remained strong. Rates advanced more for Treasury bills than for other short-term instruments, under the influence of the following: an increase in dealers' costs of financing inventories, System sales of bills to offset the reserve-supplying effects of the large reduction in U.S. Government deposits at Federal Reserve Banks, and Treasury issuance of a tax-anticipation bill for new cash. At the time of this meeting the market rate on 3-month Treasury bills was 7.95 per cent, up from 7.03 per cent on the day before the February meeting.

Yields on long-term securities, like those on short-term issues, rose appreciably in the inter-meeting period, as capital market financing remained heavy and as dealers—who had been holding substantial inventories in anticipation of continuing declines in

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yields—reduced their inventories when yields turned up. The overall volume of new public offerings of corporate and State and local government bonds—although down moderately—was still relatively large in February, and a substantial increase in the volume was in prospect for March.

The Treasury planned to announce shortly a cash offering of securities amounting to $4 billion. The offering was expected to include short-term notes as well as tax-anticipation bills.

The Committee concluded that the economic situation and outlook continued to call for moderate growth in monetary aggregates over the longer run; therefore, in view of the rapid monetary expansion recently, it would seek to moderate growth in monetary aggregates over the months ahead. According to a staff analysis, pursuit of that objective would be likely to entail a further tightening of bank reserve and money market conditions in the near term and some further increases in interest rates in general. Upward pressures on interest rates might well be intensified in the weeks ahead as the market absorbed the large Treasury financing in prospect. The analysis also noted, however, that estimates of the likely strength of money demands over the spring and summer and of the relationships between monetary growth rates and market interest rates were subject to larger margins of error than usual because of the greater uncertainty attached to projections of nominal GNP and because of the difficulties of assessing how borrowers, lenders, and savers would react to the recent and prospective rates of inflation.

The staff analysis suggested that, even with the contemplated firming of bank reserve and money market conditions, expansion in M_1 would be relatively large over the March–April period, partly as a consequence of the sizable increase that had taken place in early March. Although net inflows of consumer-type time and savings deposits to banks and nonbank thrift institutions were expected to recede in response to the increases in market rates of interest, growth in M_2 also was expected to be relatively high. Thus, ranges of tolerance for the March–April period of 6½ to 8½ per cent and 7¾ to 9¾ per cent for M_1 and M_2, respectively, might be consistent with achievement of the Committee's longer-run objectives for the monetary aggregates.

Taking account of the staff analysis, the Committee concluded

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that progress toward its objective of moderating monetary growth could be achieved even with rates of expansion in the aggregates over the March–April period that were temporarily above those desired for the longer term. Accordingly, the members found the upper limits of the 2-month ranges of tolerance noted above to be acceptable. In view of the recent high rate of monetary growth, however, they agreed that the lower limits of those ranges should be reduced somewhat, so as to permit more rapid progress toward moderate monetary growth, should the growth rates in the aggregates in the period immediately ahead appear to be falling short of present expectations. Specifically, for the March–April period the Committee adopted ranges of tolerance of 5½ to 8½ per cent and of 6¾ to 9¾ per cent for the annual rates of growth in M_1 and M_2, respectively. The members agreed that rates of growth within those ranges would be likely to involve RPD growth during the same period at an annual rate within a 4 to 7 per cent range of tolerance, and they decided that in the period until the next meeting the weekly average Federal funds rate might be permitted to vary in an orderly fashion from as low as 9 per cent to as high as 10½ per cent, if necessary, in the course of operations.

The members also agreed that, in the conduct of operations, account should be taken of international and domestic financial market developments, including the prospective Treasury financing. It was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives and constraints.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that real output of goods and services is declining in the current quarter, in large part because of the oil situation, and that prices are continuing to rise rapidly. In February industrial production and manufacturing employment declined again, while total nonfarm payroll employment recovered, and the unemployment rate was unchanged at 5.2 per cent. Prices of farm and food products and industrial commodities increased sharply, although less so than in the preceding 2 months. Increases in wage rates appear to have moderated in recent months.

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After depreciating during the first 3 weeks of February, the dollar has since shown little net change against leading foreign currencies. The U.S. trade surplus remained large in January, despite a further sharp rise in the cost of petroleum imports.

The narrowly defined money stock, after having declined in January, increased sharply in February and early March. Broader measures of the money stock rose substantially in February, as net inflows of consumer-type time deposits remained relatively strong. Business short-term borrowing at banks and in the open market has continued at a rapid pace. Following earlier declines, both short- and long-term market interest rates have risen appreciably in recent weeks.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to resisting inflationary pressures, supporting a resumption of real economic growth, and maintaining equilibrium in the country's balance of payments.

To implement this policy, while taking account of international and domestic financial market developments, including the prospective Treasury financing, the Committee seeks to achieve bank reserve and money market conditions that would moderate growth in monetary aggregates over the months ahead.

Votes for this action: Messrs. Burns, Hayes, Black, Brimmer, Bucher, Clay, Holland, Kimbrel, Mitchell, Sheehan, Wallich, and Winn. Votes against this action: None.

2. Review of continuing authorizations

This being the first meeting of the Federal Open Market Committee following the election of new members from the Federal Reserve Banks to serve for the year beginning March 1, 1974, and their assumption of duties, the Committee followed its customary practice of reviewing all of its continuing authorizations and directives. Certain amendments made to the authorization for domestic open market operations and the authorization for foreign currency operations are reported in succeeding sections of this record. Except for the changes resulting from those amendments, the Committee reaffirmed the two authorizations, and also the foreign currency directive, in their existing form.

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Votes for these actions: Messrs. Burns, Hayes, Black, Brimmer, Bucher, Clay, Holland, Kimbrel, Mitchell, Sheehan, Wallich, and Winn. Votes against these actions: None.

Paragraph 2 of the authorization for domestic open market operations authorizes the Federal Reserve Bank of New York (and, under certain circumstances, other Reserve Banks) to purchase short-term certificates of indebtedness directly from the Treasury, subject to certain conditions. This authorization is, in turn, based on a provision of Section 14(b) of the Federal Reserve Act authorizing the Federal Reserve Banks to buy and sell obligations of specified types "directly from or to the United States," subject to certain conditions. It was noted at this meeting that, because the statutory authority in question had expired on November 1, 1973, paragraph 2 of the authorization had been in a state of *de facto* suspension since then, and that the paragraph would remain in suspension until pending legislation to extend the authority was enacted.

The Committee also took special note of paragraph 3 of the domestic authorization, which authorizes the Reserve Banks to engage in lending of U.S. Government securities held in the System Open Market Account under such instructions as the Committee might specify from time to time. That paragraph had been added to the authorization on October 7, 1969, on the basis of a judgment by the Committee that in the existing circumstances such lending of securities was reasonably necessary to the effective conduct of open market operations and to the effectuation of open market policies, and on the understanding that the authorization would be reviewed periodically. At this meeting the Committee concurred in the judgment of the Manager that the lending activity in question remained reasonably necessary and that, accordingly, the authorization should remain in effect subject to periodic review.

3. Amendments to authorization for domestic open market operations

On the recommendation of the System Account Manager, the Committee amended paragraph 1(a) of the authorization for do-

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mestic open market operations to raise from $2 billion to $3 billion the limit on changes between Committee meetings in System Account holdings of U.S. Government and Federal agency securities, effective March 18, 1974. The Manager noted that there had been a marked increase in recent years in the maximum net variation in System Account holdings between meeting dates as a result mainly of increased variation in market factors affecting reserves, and that in 3 of the past 12 inter-meeting periods the Committee had found it necessary to authorize temporary increases in the limit to $3 billion. The Committee concurred in the Manager's view that a permanent increase would be appropriate at this time.

The Committee also approved two clarifying changes in the language of paragraph 1(a) recommended by the Manager, effective March 18, 1974. One of these, which involved the insertion of a parenthetical phrase reading "including forward commitments" in the statement regarding changes in System Account holdings between meeting dates, was intended to make it clear that, for purpose of the limit, holdings were to be calculated on a "commitment" basis. A similar phrase had been included in the corresponding statement prior to March 1964. At that time the Committee had approved an amendment to the clause for the purpose of clarifying the language in certain other respects, and in transcribing the new language the reference to forward commitments was inadvertently omitted.

The second clarifying change, which involved the addition of the phrase "including securities of the Federal Financing Bank" in the first sentence of paragraph 1(a), was intended to make it clear that securities of that Bank, when issued, would be treated in System open market operations in the same manner as Treasury securities. The Federal Financing Bank, which had been established by legislation enacted late in 1973 for the purpose of consolidating the financing of a variety of Federal agencies and of other borrowers whose obligations are guaranteed by the Federal Government, was expected to commence operations soon. Under the terms of the legislation, the obligations of the Bank would be obligations of the United States.

Votes for these actions: Messrs. Burns, Hayes, Black, Brimmer, Bucher, Clay, Holland, Kimbrel,

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Mitchell, Sheehan, Wallich, and Winn. Votes against these actions: None.

On the basis of recommendations by a staff committee appointed to study System operations in bankers' acceptances, the Committee amended paragraph 1(b) of the domestic authorization, which relates to open market purchases and sales of acceptances, and the part of paragraph 1(c), governing repurchase agreements, which relates to repurchase agreements in acceptances, effective April 1, 1974. Prior to this action the domestic authorization had authorized System operations in prime bankers' acceptances "of the kinds designated in the Regulation of the Federal Open Market Committee."[6] One purpose of the amendments was to incorporate the rules governing System operations in bankers' acceptances directly in the Committee's domestic authorization. A second purpose was to modernize those rules by removing outdated provisions and broadening somewhat the scope of bankers' acceptances eligible for purchase by the System. The new rules broadened the types of acceptances eligible for purchase by eliminating the requirement that banks have in their possession shipping documents conveying or securing title at the time they accept drafts covering the shipment of goods in the United States; by increasing from 6 to 9 months the maximum maturity of acceptances eligible for purchase; and by authorizing the purchase of acceptances that finance the storage in the United States of any goods, rather than "readily marketable staples." Dollar exchange bills, a type of instrument that is seldom used, were eliminated from the list of acceptances authorized for purchase. No major change in System operations in bankers' acceptances was expected to result from these amendments.

One further amendment to paragraph 1(b) was made simply to remove unnecessary wording. Previous language specifying that aggregate holdings of bankers' acceptances should not exceed the lower of two figures—$125 million, or 10 per cent of the total

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[6]The Committee's Regulation, in turn, had authorized operations in acceptances of the kinds made eligible for purchase by the Reserve Banks under the Board of Governors' Regulation B. In companion actions, also effective April 1, 1974, the Board of Governors rescinded its Regulation B and the Committee amended its Regulation to delete the reference to Regulation B. Notice of these regulatory actions was published in the *Federal Register* for April 1, 1974.

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volume of acceptances outstanding—was replaced by language specifying a single limit of $125 million. The 10 per cent limitation no longer served a useful purpose since the volume of outstanding acceptances had grown to a level in excess of $8 billion.

> Votes for these actions: Messrs. Burns, Hayes, Black, Brimmer, Bucher, Clay, Holland, Kimbrel, Mitchell, Sheehan, Wallich, and Winn. Votes against these actions: None.

In connection with the foregoing actions, the Committee instructed the staff committee to conduct further studies of the desirability of expanding System open market operations in bankers' acceptances to encompass all types of prime acceptances, including finance bills.

Reflecting the amendments to paragraphs 1(a), 1(b), and 1(c), the authorization for domestic open market operations read as follows:

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, to the extent necessary to carry out the most recent domestic policy directive adopted at a meeting of the Committee:

   (a) To buy or sell U.S. Government securities, including securities of the Federal Financing Bank, and securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States in the open market, from or to securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices, and, for such Account, to exchange maturing U.S. Government and Federal agency securities with the Treasury or the individual agencies or to allow them to mature without replacement; provided that the aggregate amount of U.S. Government and Federal agency securities held in such Account (including forward commitments) at the close of business on the day of a meeting of the Committee at which action is taken with respect to a domestic policy directive shall not be increased or decreased by more than $3.0 billion during the period commencing with the opening of business on the day following such meeting and ending with the close of business on the day of the next such meeting;

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(b) To buy or sell in the open market, from or to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the account of the Federal Reserve Bank of New York at market discount rates, prime bankers' acceptances with maturities of up to 9 months at the time of acceptance that (1) arise out of the current shipment of goods between countries or within the United States, or (2) arise out of the storage within the United States of goods under contract of sale or expected to move into the channels of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods; provided that the aggregate amount of bankers' acceptances held at any one time shall not exceed $125 million;

(c) To buy U.S. Government securities, obligations that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, and prime bankers' acceptances of the types authorized for purchase under 1(b) above, from nonbank dealers for the account of the Federal Reserve Bank of New York under agreements for repurchase of such securities, obligations, or acceptances in 15 calendar days or less, at rates that, unless otherwise expressly authorized by the Committee, shall be determined by competitive bidding, after applying reasonable limitations on the volume of agreements with individual dealers; provided that in the event Government securities or agency issues covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, they shall be sold in the market or transferred to the System Open Market Account; and provided further that in the event bankers' acceptances covered by any such agreement are not repurchased by the seller, they shall continue to be held by the Federal Reserve Bank or shall be sold in the open market.

2. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, or, if the New York Reserve Bank is closed, any other Federal Reserve Bank, to purchase directly from the Treasury for its own account (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the rate charged on such certificates shall be a

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rate ¼ of 1 per cent below the discount rate of the Federal Reserve Bank of New York at the time of such purchases, and provided further that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed $1 billion.

3. In order to insure the effective conduct of open market operations, the Federal Open Market Committee authorizes and directs the Federal Reserve Banks to lend U.S. Government securities held in the System Open Market Account to Government securities dealers and to banks participating in Government securities clearing arrangements conducted through a Federal Reserve Bank, under such instructions as the Committee may specify from time to time.

4. Authorization for foreign currency operations

The Committee approved an increase from $2 billion to $3 billion in the System's swap arrangement with the Bank of England and the corresponding amendment to paragraph 2 of the authorization for foreign currency operations, effective March 26, 1974. With this change, paragraph 2 of the authorization read as follows:

> The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for the System Open Market Account for periods up to a maximum of 12 months with the following foreign banks, which are among those designated by the Board of Governors of the Federal Reserve System under Section 214.5 of Regulation N, Relations with Foreign Banks and Bankers, and with the approval of the Committee to renew such arrangements on maturity:

Foreign bank	Amount of arrangement (millions of dollars equivalent)
Austrian National Bank	250
National Bank of Belgium	1,000
Bank of Canada	2,000
National Bank of Denmark	250
Bank of England	3,000
Bank of France	2,000
German Federal Bank	2,000
Bank of Italy	3,000
Bank of Japan	2,000
Bank of Mexico	180

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Foreign bank	Amount of arrangement (millions of dollars equivalent)
Netherlands Bank	500
Bank of Norway	250
Bank of Sweden	300
Swiss National Bank	1,400
Bank for International Settlements:	
Dollars against Swiss francs	600
Dollars against other European currencies	1,250

Votes for this action: Messrs. Burns, Hayes, Black, Brimmer, Bucher, Clay, Holland, Kimbrel, Mitchell, Sheehan, Wallich, and Winn. Votes against this action: None.

This action was taken after consultation with the U.S. Treasury. It was expected to contribute to international monetary stability by expanding the facilities available for coping with possible temporary pressures on sterling arising from short-run fluctuations in international payments flows.

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Federal Reserve Bank of St. Louis

MEETING HELD ON APRIL 15–16, 1974[1]

Domestic policy directive

The information reviewed at this meeting suggested that real output of goods and services had declined appreciably in the first quarter of 1974—in large part because of the impact of the oil shortage—and that the GNP implicit deflator had risen at an exceptionally fast pace. Staff projections continued to suggest that real output would change little in the second quarter and that the rise in prices would remain rapid.

In March industrial production declined moderately, after having receded more in January and February than had been indicated by earlier estimates for those months. Employment in manufacturing establishments also declined further in March, while employment in other nonagricultural sectors changed little. The unemployment rate, at 5.1 per cent, was about the same as in the preceding 2 months; both the labor force and total employment remained near the levels of January. According to the advance report, retail sales expanded moderately in March.

Wholesale prices of farm and food products declined in March, reflecting for the most part decreases in prices of livestock, meats, grains, cotton, and wool. Wholesale prices of industrial commodities rose sharply; while price increases were widespread, they were extraordinarily large for iron and steel, nonferrous metals, fuels and power, chemicals, and some types of machinery. In February the consumer price index had risen substantially further, with a significant share of the rise again accounted for by large increases in foods, fuels, and power. The index of average hourly earnings of production workers on nonfarm payrolls advanced moderately

[1] This meeting began on the afternoon of April 15 and continued on the following morning.

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in the first quarter of the year, after having risen substantially in the second half of 1973, but there were signs that the slowdown resulted at least in part from temporary influences.

The latest staff projections, like those of 4 weeks earlier, suggested that easing of the oil shortage following termination of the Arab embargo on oil shipments to the United States would have no more than a marginally expansive impact on over-all real output until the summer. For the second quarter, expectations were that business fixed investment would continue to expand; that government purchases of goods and services would grow at a substantial rate; and that personal consumption expenditures would strengthen. It was also anticipated, however, that residential construction outlays would fall further and that net exports would continue to decline.

According to the staff projections, real GNP would grow moderately in the second half of the year. It was anticipated that residential construction outlays would turn up; that business fixed investment would rise further; that government purchases of goods and services would continue to grow at a fairly rapid pace; and that disposable personal income and consumption expenditures would expand appreciably more than in the first half.

In foreign exchange markets the dollar depreciated against leading foreign currencies in March and the first few days of April and then recovered somewhat. Market activity in late March and early April was dominated by shifting expectations concerning the value of the German mark. The U.S. balance of payments on the official settlements basis, which had shifted from a substantial surplus in January to a deficit in February, was in deficit again in March. The surplus on U.S. merchandise trade had fallen sharply in February, chiefly because of a large rise in the cost of imported fuel.

Growth in total loans and investments at U.S. commercial banks remained rapid in March, reflecting an exceptionally large increase in business loans. In contrast with February, effective rates on bank loans were favorable relative to rates in the commercial paper market, encouraging businesses to concentrate their strong credit demands at banks. In late March and early April the prime rate applicable to large corporations was raised in five steps from 8¾ per cent to 10 per cent at most banks.

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In March the narrowly defined money stock (M_1)[2] again expanded at a rapid pace. Over the first quarter as a whole, however, M_1 grew at an annual rate of about 6.5 per cent, down from a rate of about 7.5 per cent in the preceding quarter.[3] Banks' net inflows of time and savings deposits other than large-denomination CD's slowed substantially in March, and the broader measure of the money stock (M_2)[4] rose more moderately than M_1. In order to help finance growth in loans, banks stepped up the issuance of large-denomination CD's and increased borrowings in the Euro-dollar market in March and early April. As a result, the bank credit proxy[5] expanded sharply.

Net deposit inflows at nonbank thrift institutions in March remained at about the improved rate of the immediately preceding months. Growth in the measure of the money stock that includes such deposits (M_3)[6]—like growth in M_2—was more moderate than that in M_1. Contract interest rates on conventional mortgages and yields in the secondary market for Federally insured mortgages rose somewhat in March, after having declined over the preceding 5 months.

On March 20 the Treasury announced that it would raise $4 billion in new money by auctioning an additional $2.5 billion of June tax-anticipation bills on March 26 and $1.5 billion of 2-year notes on March 28. The bills and notes were sold at average prices to yield 8.306 and 8.08 per cent, respectively. The Treasury was expected to announce on May 1 the terms of its mid-May refunding; of the maturing issues, $4.05 billion were held by the public.

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[2] Private demand deposits plus currency in circulation.

[3] Growth rates cited are calculated on the basis of the daily-average level in the last month of the quarter relative to that in the last month of the preceding quarter. The measure of the money stock subsequently was revised upward to reflect new benchmark data for deposits at nonmember banks; on the revised basis M_1 grew at an annual rate of about 7 per cent over the first quarter, down from a rate of about 9 per cent in the preceding quarter.

[4] M_1 plus commercial bank time and savings deposits other than large-denomination CD's.

[5] Daily-average member bank deposits, adjusted to include funds from nondeposit sources.

[6] M_2 plus time and savings deposits at mutual savings banks and at savings and loan associations.

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System open market operations since the March 18–19 meeting had been guided by the Committee's decision to seek bank reserve and money market conditions that would moderate growth in monetary aggregates over the months ahead, while taking account of financial market developments, including the prospective Treasury financing. Soon after the meeting, operations were directed toward additional tightening in bank reserve and money market conditions. The Federal funds rate rose somewhat, and member bank borrowings increased appreciably.

Toward the end of the inter-meeting period, available data suggested that in the March–April period M_1 would grow at a rate somewhat above the specified range of tolerance and that—for the most part because of banks' issuance of large-denomination CD's and borrowings in the Euro-dollar and commercial paper markets—reserves available to support private nonbank deposits (RPD's) would grow at a rate well above the specified range. Operations were directed toward further tightening in bank reserve and money market conditions, and the Federal funds rate—which had been around 9⅜ per cent just before the March meeting—rose further to about 10¼ per cent. In the 3 weeks ending April 10, member bank borrowings averaged about $1,470 million, about $315 million above the average in the preceding 4 weeks.

Short- and long-term market interest rates rose considerably further in the period between the Committee's meeting on March 18–19 and this meeting—in response to strong business credit demands, to the tightening in money market conditions, and to growing market expectations that economic activity in the months ahead would not be as weak as had been thought earlier. However, toward the end of the period Treasury bill rates moved downward against the trend of other short-term rates, in part because of demands for bills by foreign monetary authorities and also by small investors who were attracted by the high yield relative to interest rates available on time deposits. At the time of this meeting the market rate on 3-month Treasury bills was 7.95 per cent, down from an inter-meeting period high of 8.65 per cent on April 4–5 but unchanged from the rate at the time of the March meeting.

In markets for long-term securities, the rise in rates led to somewhat unsettled conditions for a time. Some offerings of new corporate and State and local government bonds that had been

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scheduled for March and early April were postponed or canceled. Nevertheless, the volume of new public offerings of corporate bonds was moderately larger in March than in February, while the volume of State and local government offerings was little changed. A small increase in the over-all volume of public offerings was in prospect for April.

A staff analysis suggested that growth in the demand for money over the second and third quarters of 1974 was likely to be somewhat greater than had been expected earlier. Consequently, it appeared likely that if M_1 were to be held to a growth rate consistent with the Committee's earlier longer-run objectives for the monetary aggregates, money market conditions would continue to tighten in the period immediately ahead and market interest rates would rise somewhat further. As a result, net inflows of consumer-type time and savings deposits to banks and nonbank thrift institutions would decline, bringing about reductions in the rates of growth in both M_2 and M_3. The analysis also indicated that if the rate of growth in M_1 were to be moderately higher than that consistent with the Committee's earlier longer-run objectives, little change in money market conditions and in market interest rates would be likely; under these conditions, net inflows of consumer-type time and savings deposits to banks and nonbank thrift institutions would decline less.

The staff analysis suggested that, because of the sizable increase that had taken place in early April, expansion in M_1 over the April–May period as a whole would be at a somewhat higher rate than desired for the longer term, even if money market conditions were to tighten further in the period immediately ahead. Growth in M_2 in the 2-month period also was expected to be somewhat higher than desired for the longer run, even though net inflows of consumer-type time and savings deposits to banks and nonbank thrift institutions were expected to recede.

The Committee concluded that the economic situation and outlook continued to call for moderate growth in monetary aggregates over the longer run and that, in view of the rapid monetary expansion recently, it would seek to achieve less rapid growth in monetary aggregates over the months ahead. The longer-run growth rate for M_1 accepted by the Committee was revised upward slightly, however, since attainment of the growth rate contemplated pre-

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viously appeared likely to be associated with sizable declines in net inflows of consumer-type time and savings deposits to banks and nonbank thrift institutions.

Taking account of the staff analysis, the Committee decided that progress toward its objective of moderating monetary growth could be achieved even if rates of expansion in the aggregates over the April–May period were temporarily above those desired for the longer term. At the same time, however, the members agreed that more rapid progress toward moderate monetary growth should be accepted in the event that growth rates in the period ahead proved to be lower than expected at present. Consequently, they decided that the ranges of tolerance for the 2-month period should be wide enough to allow for such lower rates of growth. Specifically, for the April–May period the Committee adopted ranges of tolerance of 3 to 7 per cent and 5½ to 8½ per cent for the annual rates of growth in M_1 and M_2, respectively. The members agreed that rates of growth within those ranges would be likely to involve RPD growth during the same period at an annual rate within a 6 to 11 per cent range of tolerance, and they decided that in the period until the next meeting the weekly average Federal funds rate might be permitted to vary in an orderly fashion from as low as 9¾ per cent to as high as 10¾ per cent, if necessary, in the course of operations.

The members also agreed that, in the conduct of operations, account should be taken of the forthcoming Treasury financing and of international and domestic financial market developments. It was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives and constraints.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that real output of goods and services declined appreciably in the first quarter and that price increases were exceptionally large. The decline in economic activity reflected mainly the impact of the oil shortage, which is being eased by the ending of the oil embargo. In March industrial

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production and manufacturing employment receded further, but retail sales strengthened. The unemployment rate changed little, remaining slightly above 5 per cent. Prices of farm and food products declined in March, but increases among industrial commodities were widespread and extraordinarily large. Advances in wage rates were moderate in the first quarter.

In March the dollar depreciated further against leading foreign currencies, and the balance of payments was in deficit on the official settlements basis. The U.S. trade surplus diminished again in February as the cost of imported oil rose sharply.

The narrowly defined money stock increased sharply again in March. Broader measures of the money stock rose more moderately, however, as net inflows of consumer-type time deposits at banks slowed substantially. Business short-term credit demands remained strong, with demands at banks exceptionally large. To help finance loan growth, banks in late March and early April stepped up the issuance of large-denomination CD's and also increased borrowings from abroad. Both short- and long-term market interest rates have risen considerably further in recent weeks.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to resisting inflationary pressures, supporting a resumption of real economic growth, and maintaining equilibrium in the country's balance of payments.

To implement this policy, while taking account of the forthcoming Treasury financing and of international and domestic financial market developments, the Committee seeks to achieve bank reserve and money market conditions that would moderate growth in monetary aggregates over the months ahead.

Votes for this action: Messrs. Burns, Hayes, Black, Brimmer, Bucher, Clay, Holland, Kimbrel, Mitchell, Sheehan, Wallich, and Winn. Votes against this action: None.

Subsequent to the meeting it appeared that in the April–May period the annual rates of growth in the monetary aggregates would be above the upper limits of the ranges that had been specified by the Committee. Largely because of unexpectedly strong money market pressures, the Federal funds rate was around 11 per cent on April 22 and 23, and in the statement week ending April 24 it seemed likely to average slightly above the upper limit of 10¾

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per cent set by the Committee. The System Account Manager reported that in order to bring the funds rate back within the range of tolerance he would have to expand reserve-supplying operations, thus stimulating further growth of the monetary aggregates. On April 24, in view of those circumstances and against the background of the increase in Federal Reserve discount rates announced that day, Chairman Burns recommended that the upper limit of the funds rate constraint be raised by ¼ of a percentage point to 11 per cent. The members of the Committee—with the exception of Mr. Bucher—concurred in the Chairman's recommendation.

In mid-May available data suggested that in the April–May period the annual rates of growth in M_1 and M_2 would be within the short-run ranges of tolerance specified by the Committee while the rate of growth in RPD's would be well above its specified range. The Federal funds rate remained above the 11 per cent upper limit of the Committee's range of tolerance despite System efforts to achieve a lower rate; in the statement week ending May 15, it averaged 11.46 per cent. Major member banks apparently preferred to avoid borrowing at the discount window, bidding in the Federal funds market instead. In addition, a technical market shortage of collateral for repurchase agreements hampered efforts to provide reserves. In any event, it would have been difficult to bring the funds rate back down to 11 per cent without providing nonborrowed reserves through open market operations on a scale that would have risked market misinterpretation of the System's policy intent. On May 17 Chairman Burns recommended that the Committee take note of the difficulties faced by the System Account Manager in recent days and, in view of the likelihood that those conditions would persist over the next few days, that it change the ceiling guideline for the funds rate from 11 to 11¼ per cent. The members—with the exception of Mr. Holland—concurred in the Chairman's recommendation.

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MEETING HELD ON MAY 21, 1974

Domestic policy directive

The information reviewed at this meeting suggested that real output of goods and services was changing little in the current quarter, after having declined at an annual rate of 6.3 per cent in the first quarter, and that the increase in the GNP implicit deflator, which had accelerated to an annual rate of 11.5 per cent in the first quarter, was continuing at a rapid pace. Staff projections suggested that real economic activity would rise somewhat in the second half of the year and that prices would increase at a less rapid rate than in the first half.

In April industrial production expanded somewhat—after having receded over the preceding 4 months—mainly as a result of increases in output of automobiles and business equipment. Employment in manufacturing establishments also rose, following four consecutive months of decline, and total nonfarm payroll employment advanced moderately. The civilian labor force, which had changed little since January, declined in April, and the unemployment rate edged down from 5.1 to 5.0 per cent. According to the advance report, retail sales expanded moderately further, reflecting in large part an increase in sales of domestic models of new automobiles.

Wholesale prices of farm and food products declined substantially in April, for the second consecutive month. However, wholesale prices of industrial commodities continued upward at a rapid pace; price increases, which were reported for most commodity groups, were particularly large for metals, wood pulp, paper products, chemicals, and some types of machinery. In March the consumer price index had risen almost as substantially as in the preceding month, although retail prices of meats had declined.

The index of average hourly earnings of production workers on nonfarm payrolls, which had risen more in February and March

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than earlier data for those months had indicated, advanced at a faster pace in April. In the first quarter, when real output and productivity declined, unit labor costs in the private nonfarm economy increased sharply.

The latest staff projections for the second half of 1974, like those of 5 weeks earlier, suggested that business fixed investment would increase further and that government purchases of goods and services would continue to grow at a fairly rapid rate. However, it was now expected that the expansion in real consumption expenditures would slow, reflecting mainly a slower rise in sales of new automobiles, and that the upturn in residential construction activity would be more moderate than had been anticipated 5 weeks earlier.

In foreign exchange markets the dollar depreciated further against leading foreign currencies in April and the first half of May. In mid-May, however, the dollar was buoyed by a speculative flurry based on a news report that the United States, Germany, and Switzerland were contemplating concerted intervention in the markets. The U.S. balance of payments, which had been in deficit in February and March, remained in deficit in April and early May. The U.S. foreign trade balance had shifted into sizable deficit in March, mainly because of increased costs of imports of petroleum and other industrial materials which reflected earlier increases in prices; for the first quarter as a whole the trade balance was still in surplus, but the amount was small and represented a substantial deterioration from the preceding quarter.

Growth in loans and investments at U.S. commercial banks remained strong in April, reflecting for the most part continuation of rapid expansion in business loans; loans to nonbank financial institutions and to foreign commercial banks also increased, and banks added to their holdings of both Treasury and other securities. As in March, effective rates on bank loans were favorable relative to rates in the commercial paper market, and businesses continued to concentrate their strong short-term credit demands at banks. Between mid-April and mid-May the prime rate applicable to large corporations was raised in six steps from 10 per cent to 11½ per cent at most banks.

Growth in the narrowly defined money stock (M_1)[1] slowed some-

[1]Private demand deposits plus currency in circulation.

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what in April from the rapid pace of the preceding 2 months, but at an annual rate of about 8 per cent, it was slightly faster than over the first quarter as a whole. Banks' net inflows of time and savings deposits other than large-denomination CD's picked up slightly, and growth in the more broadly defined money stock (M_2)[2] remained at about the moderate rate recorded in March. In order to help finance the growth in their loans, banks further stepped up the issuance of large-denomination CD's—to a record amount in April—and continued to increase borrowings in the commercial paper and Euro-dollar markets. As a result, the bank credit proxy[3] rose at an unprecedented rate.

Net deposit inflows at nonbank thrift institutions slowed sharply in April, as yields on market securities became increasingly attractive to savers, and growth in the measure of the money stock that includes such deposits (M_3)[4] slackened somewhat. Contract interest rates on conventional mortgages and yields in the secondary market for Federally insured mortgages rose sharply in April and early May.

On May 1 the Treasury announced that it would auction up to $4.05 billion of notes and bonds to refund the bulk of $5.6 billion of publicly held securities maturing on May 15; the remainder would be retired by drawing down cash balances. In an auction on May 7 the Treasury sold $1.75 billion of 4¼ year, 8¾ per cent notes at an average price to yield 8.73 per cent; and in auctions on May 8 it sold $2 billion of 25½-month, 8¾ per cent notes at an average price to yield 8.73 per cent and $300 million of 25-year, 8½ per cent bonds at a price to yield 8.23 per cent.

System open market operations since the April 15–16 meeting had been guided by the Committee's decision to seek bank reserve and money market conditions that would moderate growth in monetary aggregates over the months ahead, while taking account of the forthcoming Treasury financing and of international and

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[2] M_1 plus commercial bank time and savings deposits other than large-denomination CD's.

[3] Daily-average member bank deposits, adjusted to include funds from nondeposit sources.

[4] M_2 plus time and savings deposits at mutual savings banks and at savings and loan associations.

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domestic financial market developments. Soon after the meeting, available data suggested that in the April–May period the annual rates of growth in the monetary aggregates would be above the upper limits of the ranges of tolerance that had been specified by the Committee. Accordingly, System operations were directed toward tightening in bank reserve and money market conditions.

Largely because of unexpectedly strong money market pressures, the Federal funds rate rose to around 11 per cent on April 22 and 23—from around 10¼ per cent just before the April meeting—and in the statement week ending April 24 it seemed likely to average a little above the upper limit of 10¾ per cent set by the Committee. The System Account Manager reported that in order to bring the funds rate back within the range of tolerance he would have to expand reserve-supplying operations, thus stimulating further growth of the monetary aggregates. On April 24 the members of the Committee—with the exception of Mr. Bucher—concurred in the Chairman's recommendation that, in view of those circumstances and against the background of the increase in Federal Reserve discount rates announced that day, the upper limit of the funds rate constraint be raised by ¼ of a percentage point to 11 per cent.

In mid-May available data suggested that in the April–May period growth rates in M_1 and M_2 would be within their short-run ranges of tolerance while the growth rate in reserves available to support private nonbank deposits (RPD's) would be well above its specified range. The Federal funds rate remained above its 11 per cent upper limit, averaging 11.46 per cent in the most recent statement week, despite System efforts to achieve a lower rate. Major member banks apparently were bidding in the Federal funds market in order to avoid borrowing at the discount window; in addition, efforts to provide reserves were hampered by a technical market shortage of collateral for repurchase agreements. In any event, it would have been difficult to reduce the funds rate to 11 per cent without providing reserves through open market operations on a scale that would have risked market misinterpretation of the System's policy intent. On May 17 the members—with the exception of Mr. Holland—concurred in Chairman Burns' recommendation that the Committee take note of the difficulties faced by the System Account Manager in recent days and, in view of

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the likelihood that those conditions would persist over the next few days, that it change the ceiling guideline for the funds rate from 11 to 11¼ per cent.

On the day before this meeting, the Federal funds rate was 11¼ per cent. In the four statement weeks ending May 15, member bank borrowings averaged about $1,920 million, compared with an average of about $1,555 million in the preceding 4 weeks.

Private short-term market interest rates rose sharply further in the period between the Committee's meeting on April 15–16 and this meeting—in response to persistent strong business demands for credit and further tightening in money market conditions. In addition, yield spreads between high- and lower-quality securities widened, in part because of the uneasiness that developed in financial markets as a result of press reports of the special problems being experienced by Franklin National Bank and of rumors that some other financial institutions might be encountering liquidity problems and other difficulties.

Treasury bill rates also increased in late April and early May. Subsequently, however, they dropped in response to a number of influences, including substantial purchases of bills by foreign monetary authorities, strong demands by small investors who continued to be attracted by the high yield relative to interest rates available on time deposits, System purchases for its own account, and the apparent shift in investor preference toward securities of higher quality. On the day before this meeting, the market rate on 3-month bills was 7.94 per cent, down nearly a percentage point from levels reached in late April and early May, and about the same as at the time of the April meeting. Federal Reserve discount rates were raised from 7½ to 8 per cent, effective at seven Reserve Banks on April 25; shortly thereafter, rates were raised at the remaining five Banks.

Yields on long-term securities also increased in the inter-meeting period, but by much less than those on private short-term instruments. Demands for the longer-term issues—especially from small investors—tended to increase as yields advanced. Moreover, the volume of public offerings of corporate bonds declined in April, in part because some scheduled offerings of new issues were postponed or canceled. A substantial increase in the volume was in prospect for May. Offerings of State and local government issues

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expanded in April, and a moderate decline was in prospect for May.

A staff analysis suggested that maintenance of prevailing money market conditions at this time would be associated with a dampening in the rate of growth of the narrowly defined money stock over the months ahead, because the demand for money was likely to be restrained by the lagged effects of the sharp rise in short-term market rates of interest that had occurred over the past few months. According to the analysis, growth in consumer-type time and savings deposits at both banks and nonbank thrift institutions would continue to be curtailed—because of high market interest rates relative to rates available on time deposits—and growth in broader measures of the money stock would slow further. Banks would continue to rely heavily on issuance of large-denomination CD's and borrowings in the Euro-dollar market to finance loan expansion, although it appeared likely that a tightening in banks' lending terms would moderate loan growth.

The Committee concluded that the economic situation continued to call for moderate growth in monetary aggregates over the months ahead. At the same time, the members decided that—in view of the sensitive state of financial markets and the considerable tightening in money market conditions that had occurred over recent months—greater emphasis than usual should be placed on money market conditions during the period until the next meeting, and accordingly, that the range specified for the Federal funds rate should be narrower than usual. In particular, they agreed that operations in the coming period should be directed toward maintaining about the prevailing restrictive money market conditions, provided that the monetary aggregates appeared to be growing over the May–June period at rates within specified ranges of tolerance. The members also agreed that the lower limits of the tolerance ranges specified for the monetary aggregates should be set at levels that would accommodate slower growth rates than expected at present in the event that such rates developed, given about the prevailing money market conditions.

Taking account of the staff analysis, the Committee decided that in the period until the next meeting the weekly average Federal funds rate might be permitted to vary in an orderly fashion from as low as 11 per cent to as high as 11½ per cent, if necessary,

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in the course of operations. For the May–June period the Committee adopted ranges of tolerance of 3 to 7 per cent and 4½ to 7½ per cent for the annual rates of growth in M_1 and M_2, respectively. The members agreed that rates of growth within those ranges would be likely to involve RPD growth during the same period at an annual rate within a 13 to 20 per cent range.

The members also agreed that, in the conduct of operations, account should be taken of developments in domestic and international financial markets. It was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives and constraints.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that real output of goods and services—which had declined appreciably in the first quarter—is likely to change little in the current quarter and that price increases are continuing exceptionally large. In April industrial production and manufacturing employment expanded somewhat, after having declined for 4 months. The unemployment rate edged down to 5 per cent, as the civilian labor force declined. Wholesale prices of farm and food products declined substantially further, but increases among industrial commodities again were widespread and extraordinarily large. The advance in wage rates has accelerated somewhat in recent months, and unit labor costs have been rising at a fast pace.
>
> In April and early May the dollar depreciated further against leading foreign currencies, and the balance of payments remained in deficit on the official settlements basis. Rising import costs for petroleum and other products contributed to a sizable deficit in U.S. foreign trade in March.
>
> Growth in the narrowly defined money stock slackened somewhat in April from the rapid pace in the preceding 2 months, and the more broadly defined money stock continued to expand moderately. Deposit experience at nonbank thrift institutions deteriorated sharply. Business short-term credit demands remained exceptionally strong. These demands were concentrated in banks, and to help finance loan growth, banks issued a record amount of large-denomination CD's and continued to borrow in the commercial paper and

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Euro-dollar markets. Private short-term market interest rates have risen sharply further in recent weeks and conditions in financial markets have been uneasy. Treasury bill rates also rose in late April and early May, but have declined markedly in recent days. Long-term rates have continued upward. Effective April 25, Federal Reserve discount rates were raised one-half point to 8 per cent.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to resisting inflationary pressures, supporting a resumption of real economic growth, and achieving equilibrium in the country's balance of payments.

To implement this policy, while taking account of developments in domestic and international financial markets, the Committee seeks to maintain about the prevailing restrictive money market conditions, provided that the monetary aggregates appear to be growing at rates within the specified ranges of tolerance.

> Votes for this action: Messrs. Burns, Hayes, Black, Brimmer, Bucher, Clay, Holland, Kimbrel, Mitchell, Sheehan, Wallich, and Winn. Votes against this action: None.

In the first 3 days of the statement week beginning June 6 the Federal funds rate averaged about 11.40 per cent, close to the 11½ per cent upper limit established by the Committee. The System Account Manager advised that market psychology was delicately poised; expectations of declining interest rates had strengthened during the past week, partly in conjunction with publicity attendant on reductions in the prime rate by a number of banks. Although those expectations had been dampened by System operations, the Manager reported that it would be useful to have some additional leeway with respect to the funds rate if necessary to counteract a resurgence of such expectations. Against that background, Chairman Burns recommended on June 10 that the upper limit of the funds rate constraint be raised to 11¾ per cent, on the understanding that the Manager would use the additional leeway if market interest rates came under downward pressure or if the monetary aggregates for the May–June period appeared to be testing the upper limits of their tolerance ranges. The members concurred in the Chairman's recommendation.

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MEETING HELD ON JUNE 18, 1974

Domestic policy directive

The information reviewed at this meeting suggested that real output of goods and services would change little in the current quarter after declining at an annual rate of 6.3 per cent in the first quarter. There was some improvement in economic activity as the spring progressed. The second-quarter increase in the GNP implicit deflator, while still large, was not expected to be quite so large as in the first quarter. Staff projections continued to suggest that real economic activity would expand somewhat in the second half of the year—although by less than had appeared likely 4 weeks earlier—and that prices would increase at a less rapid pace than in the first half.

In May industrial production rose—for the second consecutive month—reflecting significant gains in output of business equipment and consumer goods. Employment in manufacturing changed little, but total employment in nonfarm establishments expanded substantially further. The unemployment rate rose from 5.0 to 5.2 per cent, however, as the civilian labor force increased sharply after having changed little over the preceding 3 months. According to the advance report, the dollar volume of retail sales had expanded in May; although the May level was moderately above the first-quarter average, the gain appeared to be no greater than the increase in average retail prices.

Wholesale prices of farm and food products declined substantially in May for the third consecutive month. However, wholesale prices of industrial commodities continued upward at a rapid pace; as in earlier months of the year, large price increases were reported for most commodity groups. The index of average hourly earnings of production workers on nonfarm payrolls accelerated somewhat further in May, but the size of the advance was influenced by the initial effects of the increase in the minimum wage at the beginning of the month and by other special factors. In April the rise in

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the consumer price index had been less rapid than in the first 3 months of the year, as retail prices of foods, particularly meats, had declined.

The latest staff projections for the second half of 1974 suggested that the rise in consumption expenditures would slow somewhat more from the first-half pace than had been anticipated 4 weeks earlier. The projected rise had been scaled down because of the recent continued sluggishness of retail sales and because it no longer seemed likely that the rate of growth in disposable income would be augmented by a downward adjustment of the withholding schedule for Federal income taxes. Less expansion in both business fixed investment and residential construction also was now in prospect. It was still expected that government purchases of goods and services would continue to grow at a fairly rapid rate.

In foreign exchange markets the depreciation of the dollar against leading foreign currencies, which had been substantial over the preceding 3½ months, was arrested in mid-May. The dollar was buoyed first by a news report that the United States, Germany, and Switzerland were contemplating concerted intervention in the markets, and later by the release of figures indicating improvement in U.S. foreign trade in April. On the balance of payments basis, the trade deficit had narrowed substantially, despite a further large rise in the cost of petroleum imports; over all, the increase in imports had been small while the gain in exports had been large. In May U.S. international transactions were in approximate balance on the official settlements basis, after having been in substantial deficit in the preceding 2 months. The improvement appeared to reflect an abatement in net outflows of capital reported by banks.

Growth in loans and investments at U.S. commercial banks moderated in May from the high rates earlier in the year, reflecting in large part a slowing in business loan growth. While over-all business credit demands remained relatively strong, expansion in short-term credit—measured by the combination of bank loans and of borrowing in the commercial paper market—receded from the extraordinary pace of the preceding month to about the rate of the first quarter. Moreover, prime corporate borrowers tended to shift to commercial paper issuance as interest rates on prime paper declined relative to the effective rate on bank loans. At the same time, issuers with nonprime ratings experienced some difficulty

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in rolling over maturing commercial paper and, consequently, drew more heavily on their credit lines at banks.

Growth in the narrowly defined money stock (M_1)[1] moderated further in May, to an annual rate of about 5.2 per cent. Weekly data suggested that the rate of growth had increased somewhat in early June, however, and it appeared likely that growth over the second quarter would be close to the 7 per cent rate of the first quarter.[2] Banks' net inflows of time and savings deposits other than large-denomination CD's slowed in May, after having picked up in April, and expansion in the more broadly defined money stock (M_2)[3] also slackened, to an annual rate of 5.5 per cent. In order to help finance loan growth, banks again issued a substantial amount of large-denomination CD's and continued to increase their borrowings in the Euro-dollar market, with the result that expansion in the bank credit proxy[4]—although well below the unprecedented rate of April—was still relatively rapid. In late May and early June the increase in outstanding large-denomination CD's and Euro-dollar borrowings abated.

Net deposit inflows at nonbank thrift institutions continued to be weak in May, as yields on market securities remained attractive to savers; growth in the measure of the money stock that includes such deposits (M_3)[5] slowed. Contract interest rates on conventional mortgages and yields in the secondary market for Federally insured mortgages rose further from early May to early June.

System open market operations since the May 21 meeting had been guided by the Committee's decision to maintain about the prevailing restrictive money market conditions, provided that the monetary aggregates appeared to be growing at rates within the specified ranges of tolerance, while taking account of developments in domestic and international financial markets. In the first 2 weeks

[1]Private demand deposits plus currency in circulation.

[2]Growth rates cited are calculated on the basis of the daily-average level in the last month of the quarter relative to that in the last month of the preceding quarter.

[3]M_1 plus commercial bank time and savings deposits other than large-denomination CD's.

[4]Daily-average member bank deposits, adjusted to include funds from nondeposit sources.

[5]M_2 plus time and savings deposits at mutual savings banks and at savings and loan associations.

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following the meeting, the maintenance of taut money market conditions, with the Federal funds rate averaging close to the upper limit of the 11 to 11½ per cent range established by the Committee, served to counter incipient market anticipations of an easing in System policy and of declining interest rates. At the same time, it appeared that the monetary aggregates would grow in the May–June period at rates within their specified ranges.

In the first 3 days of the statement week beginning June 6 the Federal funds rate averaged about 11.40 per cent. The System Account Manager advised that market psychology was delicately poised; expectations of declining interest rates had strengthened during the previous week, partly in conjunction with publicity concerning reductions in the prime rate by a number of banks. Although those expectations had been dampened by System operations, the Manager reported that it would be useful to have some additional leeway with respect to the funds rate if necessary to counteract a resurgence of such expectations. The members of the Committee concurred in the Chairman's recommendation of June 10 that the upper limit of the funds rate constraint be raised to 11¾ per cent, on the understanding that the Manager would use the additional leeway if market interest rates came under downward pressure or if the monetary aggregates for the May–June period appeared to be testing the upper limits of their tolerance ranges. Subsequently, estimates of the 2-month growth rates for the monetary aggregates were revised upward to the neighborhood of those upper limits, and in the remaining days before this meeting the funds rate fluctuated around 11¾ per cent.

In the four statement weeks ending June 12, member bank borrowings averaged about $3,120 million, up from an average of about $1,925 million in the preceding 4 weeks. The magnitude of the increase was associated with the special problems experienced by the Franklin National Bank.

Short-term market interest rates fluctuated in a narrow range in the period between the Committee's meeting on May 21 and this meeting, as money market conditions remained taut. Wide yield spreads between high- and lower-quality securities persisted as financial markets continued uneasy. Treasury bill rates remained unusually low relative to other short-term rates, reflecting not only the shift in investor preference toward securities of higher quality,

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but also the persistence of substantial purchases of bills by foreign monetary authorities and strong demands for such securities by small investors. On the day before this meeting the market rate on 3-month bills was 8.17 per cent, compared with 7.94 per cent on the day before the May meeting.

Yields on long-term securities also fluctuated in a narrow range in the inter-meeting period. The volume of public offerings of corporate bonds—which had declined in April, in part because some scheduled offerings were postponed or canceled—rose substantially in May, and a further increase was in prospect for June. Offerings of State and local government issues declined moderately in May, and little change was in prospect for June.

A staff analysis suggested that maintenance of prevailing money market conditions would be associated with some slowing in the rate of growth of the narrowly defined money stock over the months ahead, because the demand for money was likely to be restrained by the lagged effects of the rise in short-term market rates of interest that had occurred over the past few months. According to the analysis, growth in consumer-type time and savings deposits at both banks and nonbank thrift institutions would remain relatively slow.

The Committee concluded that the economic situation continued to call for moderate growth in monetary aggregates over the months ahead. As at the May 21 meeting, the members decided that greater emphasis than usual should be placed on money market conditions during the period until the next meeting. In particular, they agreed that operations in the coming period should be directed toward maintaining about the prevailing restrictive money market conditions, provided that the monetary aggregates appeared to be growing over the June–July period at rates within specified ranges of tolerance. Also, against the background of the substantial growth rates recorded earlier in the year, the members agreed that the lower limits of the tolerance ranges specified for the monetary aggregates should be set at levels that would accommodate slower growth rates than expected at present if such rates were to develop under prevailing money market conditions.

Taking account of the staff analysis, the Committee decided that in the period until the next meeting the weekly average Federal funds rate might be permitted to vary in an orderly fashion from

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as low as 11¼ per cent to as high as 12¼ per cent, if necessary, in the course of operations. For the June–July period the Committee adopted ranges of tolerance of 3½ to 7½ per cent and 5½ to 8½ per cent for the annual rates of growth in M_1 and M_2, respectively. The members agreed that rates of growth within those ranges would be likely to involve growth in reserves available to support private nonbank deposits (RPD's) during the same period at an annual rate within a 10 to 13½ per cent range.

The Committee also agreed that, in the conduct of operations, account should be taken of developments in domestic and international financial markets. It was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives and constraints.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that real output of goods and services will be about the same in the current quarter as a whole as in the first quarter, but that there has been some improvement as the spring has progressed. The over-all rate of price rise, while very large, is not quite so rapid as in the first quarter. In May industrial production increased somewhat for the second consecutive month, and nonfarm employment expanded substantially further. The unemployment rate moved above 5 per cent, however, as the civilian labor force rose sharply. Wholesale prices of farm and food products declined substantially further, but increases among industrial commodities again were widespread and extraordinarily large. The advance in wage rates accelerated somewhat further.
>
> In May the depreciation of the dollar against leading foreign currencies was arrested. U.S. international transactions were in approximate balance on the official settlements basis, as bank-reported net outflows of capital apparently abated. The foreign trade deficit narrowed in April, despite a further large rise in the cost of petroleum imports.
>
> Growth in the narrowly defined money stock moderated in May, but apparently it accelerated in early June. Net inflows of consumer-type time deposits at banks slowed in May, and deposit experience at nonbank thrift institutions continued poor. Business

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credit demands remained large, although the expansion in short-term credit was below the extraordinary pace of April and was less concentrated at banks. In May banks increased their outstanding large-denomination CD's substantially further and continued to borrow in the Euro-dollar market; most recently, however, they have reduced their reliance on these sources of funds. Market interest rates have fluctuated in a narrow range in recent weeks.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to resisting inflationary pressures, supporting a resumption of real economic growth, and achieving equilibrium in the country's balance of payments.

To implement this policy, while taking account of developments in domestic and international financial markets, the Committee seeks to maintain about the prevailing restrictive money market conditions, provided that the monetary aggregates appear to be growing at rates within the specified ranges of tolerance.

Votes for this action: Messrs. Burns, Black, Brimmer, Bucher, Holland, Kimbrel, Mitchell, Sheehan, Wallich, Winn, and Debs. Vote against this action: Mr. Clay.

Absent and not voting: Mr. Hayes. (Mr. Debs voted as alternate for Mr. Hayes.)

Mr. Clay dissented from this action because he thought that for too long the Committee had accepted rates of growth in the monetary aggregates that would result in a continuing and growing inflation. He believed that the aggregates had not yet been brought under control and that the longer that situation persisted the more difficult it would be to achieve control and the greater would be the damage done to the economy by inflation.

Subsequent to this meeting, in the statement week ending July 3, the Federal funds rate was consistently above 13 per cent and averaged about 13½ per cent, despite System efforts to bring the rate down into the 11¼ to 12¼ per cent range of tolerance that had been specified by the Committee. On July 5 the Committee held a telephone meeting to discuss the situation and to consider whether any Committee actions would be appropriate. Mr. Coldwell and Mr. Debs participated as alternates for Mr. Kimbrel and Mr. Hayes, respectively.

On the day of the telephone meeting, it appeared that in the

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June–July period growth in M_1 would be within its range of tolerance and that growth in M_2 would be at about the upper limit of its range. The Manager reported that in order to bring the funds rate back within its range of tolerance he would have had to expand reserve-supplying operations substantially. In his view, the high funds rate was a reflection of the great uncertainty prevailing in both domestic and foreign financial markets, compounded by the effects of market transactions related to the midyear statement date for banks and by the July 4 holiday. The Committee concluded that there was no immediate need to press hard to bring the funds rate down within the specified range of tolerance, in view of the likelihood that the high level of the rate was primarily a consequence of technical factors that might well prove temporary.

Subsequent to the telephone meeting the volume of reserves provided was deemed sufficient to have reduced the Federal funds rate to about 12 per cent under normal circumstances. Member bank borrowing at the Reserve Banks was unexpectedly low, however, and the funds rate remained at an extremely high level; its average for the statement week ending July 10 was estimated at about 13½ per cent. The Manager reported that it probably would be difficult to bring the weekly average rate down to the 12¼ per cent upper limit of the Committee's range of tolerance without providing nonborrowed reserves on a very large scale. It appeared that in the June–July period the growth rates of both M_1 and M_2 would be somewhat below the upper limits of their ranges of tolerance.

On July 10 Chairman Burns recommended that the Manager be instructed to act to reduce the funds rate, but not so aggressively as to risk unduly rapid growth in reserves and monetary aggregates. The Chairman recommended specifically that the Manager be instructed to undertake operations promptly with a view to reducing the average funds rate to 13 per cent, on the understanding that the funds rate would be permitted to decline to the neighborhood of 12 per cent should money market factors work in that direction. All of the members concurred in this recommendation except Messrs. Bucher and Sheehan, who favored decisive action to reduce the Federal funds rate to the neighborhood of 12¼ per cent, and Mr. Winn, who opposed overt action to lower the funds rate, although he would not resist a decline produced by market forces.

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MEETING HELD ON JULY 16, 1974

1. Domestic policy directive

The information reviewed at this meeting suggested that real output of goods and services had changed little in the second quarter, after having declined at an annual rate of 6.3 per cent in the first quarter, and that the increase in the GNP implicit deflator had not been quite so large as in the first quarter. No significant forces of economic expansion appeared to be emerging, and staff projections suggested that in the second half of the year real economic activity would grow at a minimal pace and that prices would increase less rapidly than in the first half.

In June industrial production was unchanged, after having advanced moderately in the preceding 2 months; for the second quarter as a whole, the level of output was essentially the same as that in the first quarter. Total nonfarm payroll employment edged down in June, following 2 months of substantial gains, and the unemployment rate remained at 5.2 per cent. According to the advance report, the dollar volume of retail sales had declined in June; the gain in sales from the first to the second quarter appeared to be little if any greater than the rise in average retail prices.

Wholesale prices of farm and food products dropped substantially in June for the fourth consecutive month. However, wholesale prices of industrial commodities continued upward at a fast pace, reflecting further large increases for most commodity groups. The advance in the index of average hourly earnings of production workers on nonfarm payrolls remained rapid in June, and the increase for the second quarter as a whole was much larger than that in the first quarter. In May the rise in the consumer price index had accelerated again to about the rate in the first quarter, reflecting in part an appreciable rise in retail prices of foods following a small decline in April.

The latest staff projections suggested that real economic activity would grow somewhat less in the second half of the year than

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had been anticipated 4 weeks earlier, in large part because an upturn in residential construction was no longer expected and a somewhat greater decline in net exports now appeared in prospect. Moreover, the projected rise in consumption expenditures had been scaled down slightly further. It was still anticipated that business fixed investment would expand moderately and that State and local government purchases of goods and services would continue to grow at a substantial rate.

In recent weeks the exchange rate for the dollar against leading foreign currencies had appreciated somewhat further to a level significantly above the low reached in mid-May after 3½ months of decline. The U.S. balance of payments on the official settlements basis was in substantial deficit in June, but the deficit reflected a large increase in investments in the United States by oil-producing countries rather than purchases of dollars by foreign monetary authorities for exchange-market intervention purposes. In May the U.S. merchandise trade deficit had increased sharply, as exports had dropped while imports had continued to expand.

Growth in loans and investments at U.S. commercial banks continued to moderate in June, reflecting for the most part a further slowing in business loan growth; banks enlarged their holdings of Federal agency and other securities. In late June and early July, however, outstanding business loans at banks expanded considerably, as some credit demands were diverted from the commercial paper and capital markets in response to sharp deterioration in conditions in those markets and to increases in market interest rates relative to effective rates on bank loans. The prime rate applicable to large corporations was raised by most banks in two steps from 11½ to 12 per cent.

The narrowly defined money stock (M_1)[1] grew somewhat more rapidly in June than in May, but a major part of the step-up was attributable to a temporary increase in foreign official deposits arising from payments to oil exporters. Net inflows to banks of time and savings deposits other than large-denomination CD's rose sharply. Banks again added a substantial amount to their outstanding volume of large-denomination CD's, but the addition was far below that for April or May. During the second quarter M_1 grew

[1] Private demand deposits plus currency in circulation.

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at an annual rate of 6.7 per cent, compared with 7.1 per cent in the first quarter, while the more broadly defined money stock (M_2)[2] grew at a rate of 7.7 per cent, down from 10 per cent in the first quarter.[3]

Net deposit inflows at nonbank thrift institutions—which had been weak in April and May—strengthened in June, although deposit experience deteriorated late in the month. Growth in the measure of the money stock that includes such deposits (M_3)[4] also picked up in June; over the second quarter, however, M_3 grew at an annual rate of about 6.6 per cent, compared with 9.4 per cent in the first quarter. Contract interest rates on conventional mortgages and yields in the secondary market for Federally insured mortgages rose further from early June to early July.

The Treasury was expected to announce on July 31 the terms of its mid-August refunding. Of the maturing issues, $4.3 billion were held by the public.

System open market operations immediately after the June 18 meeting had been guided by the Committee's decision to maintain about the prevailing restrictive money market conditions, provided that the monetary aggregates appeared to be growing at rates within the specified ranges of tolerance, while taking account of developments in domestic and international financial markets. In the statement week ending June 26 the Federal funds rate edged up to an average of about 12 per cent, compared with 11¾ per cent in the days before the June meeting. In the statement week ending July 3, however, the Federal funds rate was consistently above 13 per cent and averaged about 13½ per cent, despite System efforts to bring the rate down into the 11¼ to 12¼ per cent range of tolerance that had been specified by the Committee. On July 5 the Committee held a telephone meeting to discuss the situation

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[2] M_1 plus commercial bank time and savings deposits other than large-denomination CD's.

[3] Growth rates cited are calculated on the basis of the daily-average level in the last month of the quarter relative to that in the last month of the preceding quarter. Measures of the money stock subsequently were revised to reflect new benchmark data for deposits at nonmember banks; on the revised basis M_1 grew at annual rates of 5.6 and 6.4 per cent in the first and second quarters, respectively.

[4] M_2 plus time and savings deposits at mutual savings banks and at savings and loan associations.

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and to consider whether any Committee actions would be appropriate.

On the day of the telephone meeting it appeared that in the June–July period growth in M_1 would be within its range of tolerance and that growth in M_2 would be at about the upper limit of its range. The Manager reported that, in order to bring the funds rate back within its range of tolerance, he would have had to expand reserve-supplying operations substantially. In his view, the high level of the funds rate was a reflection of the great uncertainty prevailing in both domestic and foreign financial markets, compounded by the effects of market transactions related to the midyear statement date for banks and by the July 4 holiday. In view of the likelihood that the high level of the rate was primarily a consequence of technical factors that might well prove temporary, the Committee concluded that there was no immediate need to press hard to bring the funds rate down within the specified range of tolerance.

Subsequent to the telephone meeting the volume of reserves provided through open market operations was deemed sufficient to have reduced the Federal funds rate to about 12 per cent under normal circumstances. Member bank borrowing at the Reserve Banks was unexpectedly low, however, and the funds rate remained at an extremely high level; its average for the statement week ending July 10 was estimated at about 13½ per cent. The Manager reported that to bring the weekly average rate down to the 12¼ per cent upper limit of the Committee's range of tolerance probably would be difficult without providing nonborrowed reserves on a very large scale. It now appeared that in the June–July period the growth rates of both M_1 and M_2 would be somewhat below the upper limits of their ranges of tolerance. A majority of the members of the Committee concurred in a recommendation by the Chairman on July 10 that the Manager be instructed to act to reduce the funds rate, but not so aggressively as to risk unduly rapid growth in reserves and monetary aggregates. Specifically, the members agreed that the Manager be instructed to undertake operations promptly with a view to reducing the funds rate to 13 per cent, on the understanding that the rate would be permitted to decline to the neighborhood of 12 per cent should money market factors work in that direction.

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The funds rate remained near 13½ per cent until the day of this meeting, when it dropped below 12½ per cent. In the 3 weeks ending July 10, member bank borrowings averaged about $2,955 million, down from an average of about $3,155 million in the preceding 4 weeks.

Private short-term market interest rates rose substantially in the period between the Committee's meeting on June 18 and this meeting, in response both to the rise in the Federal funds rate and to strong short-term credit demands of business, which were bolstered by the diversion of some demands from the capital market. Yield spreads between high- and lower-quality securities widened further as a result of uneasiness in financial markets. In contrast with private short-term rates, Treasury bill rates declined somewhat, reflecting not only the shift in investor preference toward securities of higher quality, but also a seasonal reduction in market supplies of bills and the persistence of substantial demands from foreign monetary authorities and from small investors. On the day before this meeting the market rate on 3-month Treasury bills was 7.62 per cent, down from 8.17 per cent on the day before the June meeting.

Yields on long-term private securities rose substantially in the inter-meeting period, while yields on long-term Government securities increased relatively little. The volume of public offerings of corporate bonds declined somewhat in June, as some scheduled offerings were postponed or canceled and other issues were reduced in size. An unseasonally large volume of corporate offerings appeared in prospect for July. Long-term offerings of State and local government bonds declined slightly from May to June and appeared likely to decline a little further in July.

The Committee concluded that the economic situation continued to call for moderate growth in monetary aggregates over the longer run and that, in view of the rapid monetary expansion recently, it would seek to achieve less rapid growth in monetary aggregates over the months ahead. A staff analysis suggested that if growth in M_1 were maintained at a rate consistent with the Committee's longer-run objectives for the monetary aggregates, money market conditions would ease somewhat in the period immediately ahead.

According to the staff analysis, the tightening in money market conditions that had occurred in recent weeks reflected in part

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uncertainties that caused member banks to attempt to protect their liquidity positions; their willingness to borrow from Federal Reserve Banks was reduced and their willingness to hold excess reserves was increased at given levels of the Federal funds rate. Bank attitudes concerning borrowings and excess reserves appeared to be returning to normal, and that development—along with open market operations directed toward accommodating any lingering increased demands for liquidity—was expected to ease money market pressures. Such easing would probably lead to a more general relaxation of pressures in markets for short- and long-term securities, although any declines in interest rates that might occur were likely to be moderate and short-lived in view of the rate of inflation, continuance of strong credit demands, and the forthcoming Government financings.

The analysis suggested that inflows of consumer-type time and savings deposits to banks and to nonbank thrift institutions would continue to be constrained and that rates of growth in both M_2 and M_3 would decline. The rate of expansion in total bank credit was expected to be reduced substantially. Although credit demands at banks would continue large, in part because of diversions of some demands from the unsettled financial markets, it seemed likely that many banks would find it difficult to expand their outstanding volume of large-denomination CD's and would meet loan demands by curtailing acquisitions of securities.

Taking account of the staff analysis, the Committee decided that ranges of tolerance for rates of expansion in the monetary aggregates over the July–August period should be wide enough to accommodate lower rates of growth in the monetary aggregates than were expected at present, in the event that growth appeared to be falling short of present expectations, given the range of tolerance specified for the Federal funds rate. Specifically, for the July–August period the Committee adopted ranges of tolerance of 2 to 6 per cent and 4½ to 7½ per cent for the annual rates of growth in M_1 and M_2, respectively. The members agreed that rates of growth within those ranges would be likely to involve growth in reserves available to support private nonbank deposits (RPD's) during the same period at an annual rate within a range of tolerance of 8¾ to 11¾ per cent, and they decided that in the period until the next meeting the weekly average Federal funds rate might be

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permitted to vary in an orderly fashion from as low as 11½ per cent to as high as 13 per cent, if necessary, in the course of operations.

The members also agreed that, in the conduct of operations, account should be taken of the forthcoming Treasury financing and of developments in domestic and international financial markets. It was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives and constraints.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that real output of goods and services changed little in the second quarter and that no significant expansive forces appear to be emerging. The over-all rate of price rise, while very large, was not quite so rapid in the second as in the first quarter, but the advance in wage rates accelerated. In June industrial production was unchanged, following 2 months of moderate advance, while nonfarm payroll employment edged down. The unemployment rate remained at 5.2 per cent. Wholesale prices of farm and food products declined substantially further, but increases among industrial commodities continued widespread and extraordinarily large.
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> Since mid-May the dollar has appreciated somewhat against leading foreign currencies. In June there was a large increase in foreign official assets in the United States, mainly reflecting investments by oil-exporting countries. The foreign trade deficit increased sharply in May, as exports declined and imports rose further.
>
> Growth in the narrowly defined money stock was somewhat more rapid in June than in May; growth during the second quarter was close to the 7 per cent first-quarter pace. Net inflows of consumer-type time deposits at banks and at nonbank thrift institutions increased in June, but deposit experience at the nonbank institutions deteriorated late in the month. Growth in business loans and in total bank credit slowed in June, and banks added much less to their outstanding volume of large-denomination CD's than in April and May. Private market interest rates have risen substantially in recent weeks, and in association with uneasy conditions in financial markets, yield spreads between prime and lower quality issues have widened. Yields on long-term Government securities have increased

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relatively little, and those on Treasury bills have declined somewhat.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to resisting inflationary pressures, supporting a resumption of real economic growth, and achieving equilibrium in the country's balance of payments.

To implement this policy, while taking account of the forthcoming Treasury refunding and of developments in domestic and international financial markets, the Committee seeks to achieve bank reserve and money market conditions that would moderate growth in monetary aggregates over the months ahead.

Votes for this action: Messrs. Burns, Hayes, Black, Clay, Holland, Kimbrel, Mitchell, Sheehan, Wallich, and Winn. Vote against this action: Mr. Bucher.

Absent and not voting: Mr. Brimmer.

In dissenting from this action, Mr. Bucher said he favored maintaining a generally restrictive policy stance in order to combat inflation. However, he thought that that longer-run objective would be best served by seeking in the short run to maintain growth in the monetary aggregates at recent rates; in his view, further efforts to moderate monetary growth at this point would involve an unduly high risk of creating economic conditions that would necessitate a marked relaxation of policy.

2. Amendment to authorization for domestic open market operations

The Committee amended paragraph 1(b) of the authorization for domestic open market operations to increase the limit on outright holdings of bankers' acceptances from $125 million to $500 million. With this amendment, paragraph 1(b) read as follows:

To buy or sell in the open market, from or to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the account of the Federal Reserve Bank of New York at market discount rates, prime bankers' acceptances with maturities of up to 9 months at the time of acceptance that (1) arise out of the current shipment of goods between countries or within the United States, or (2) arise out of the storage within the United States of goods

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under contract of sale or expected to move into the channels of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods; provided that the aggregate amount of bankers' acceptances held at any one time shall not exceed $500 million.

Votes for this action: Messrs. Burns, Hayes, Black, Bucher, Clay, Holland, Kimbrel, Mitchell, Sheehan, Wallich, and Winn. Votes against this action: None.

Absent and not voting: Mr. Brimmer.

This action was taken on recommendation of the Account Manager, who reported that recent purchases had brought System holdings of bankers' acceptances close to the $125 million limit. The Manager noted that purchases of acceptances were particularly useful as a supplement to other reserve-supplying techniques under current circumstances, when the volume of Government securities available in the market was often limited, and in the Committee's current policy discussion earlier in this meeting, it had been suggested that the Manager give greater weight to the purchase of bankers' acceptances in the process of supplying reserves. Because the volume of bankers' acceptances outstanding had risen sharply over the past decade, the new limit was less than 5 per cent of outstandings, as the previous limit had been when it was established in 1964.

3. Revision of guidelines for operations in Federal agency issues

On recommendation of the Manager, the Committee amended the guidelines for the conduct of operations in securities issued by Federal agencies to delete those previously numbered 4 and 7, and to renumber as 4, 5, and 6 those previously numbered 5, 6, and 8. The guidelines deleted were as follows:

4. System holdings of maturing agency issues will be allowed to run off at maturity.
7. No new issues will be purchased in the secondary market until at least 2 weeks after the issue date.

Votes for this action: Messrs. Burns, Hayes, Black, Bucher, Clay, Holland, Kimbrel, Mitchell,

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Sheehan, Wallich, and Winn. Votes against this action: None.

Absent and not voting; Mr. Brimmer.

Initial guidelines for operations in agency issues had been approved on August 21, 1971, with the understanding that they would be subject to review and revision as experience was gained, and revisions had been made on several subsequent occasions. At this meeting the Committee concurred in the Manager's judgment that experience had demonstrated both the absence of need for the technical restrictions embodied in the two guidelines in question and the advantages of their deletion. With respect to the latter, it was noted that the deletion of guideline 4 would make it possible to avoid the negative impact on reserves that automatically ensued when maturing issues were redeemed, and that the deletion of guideline 7 would increase the availability of agency issues for purchase by the System, since recent issues were the most actively traded in the market. These changes brought System operating practices for agency issues more closely in line with those for Treasury securities.

As a result of these changes, the guidelines for operations in agency issues read as follows:

1. System open market operations in Federal agency issues are an integral part of total System open market operations designed to influence bank reserves, money market conditions, and monetary aggregates.
2. System open market operations in Federal agency issues are not designed to support individual sectors of the market or to channel funds into issues of particular agencies.
3. System holdings of agency issues shall be modest relative to holdings of U.S. Government securities, and the amount and timing of System transactions in agency issues shall be determined with due regard for the desirability of avoiding undue market effects.
4. Purchases will be limited to fully taxable issues for which there is an active secondary market. Purchases will also be limited to issues outstanding in amounts of $300 million or over in cases where the obligations have a maturity of 5 years or less at the time of issuance, and to issues outstanding in amounts of $200 million or over in cases where the securities have a maturity of more than 5 years at the time of issuance.

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5. System holdings of any one issue at any one time will not exceed 20 per cent of the amount of the issue outstanding. Aggregate holdings of the issues of any one agency will not exceed 10 per cent of the amount of outstanding issues of that agency.
6. All outright purchases, sales and holdings of agency issues will be for the System Open Market Account.

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MEETING HELD ON AUGUST 20, 1974

Domestic policy directive

The information reviewed at this meeting suggested that real output of goods and services was changing little in the current quarter, after having declined in the first half of 1974, and that the GNP implicit deflator and wage rates were continuing to rise at a rapid pace. Staff projections suggested that weakness in real economic activity would persist in the final quarter of the year and in the first half of 1975 and that the rate of increase in prices would remain rapid, although not so rapid as in recent quarters.

In July industrial production remained at the May–June level, and total nonfarm payroll employment declined for the second consecutive month. The unemployment rate edged up to 5.3 per cent. According to the advance report, retail sales increased sharply in July; from the first to the second quarter sales had advanced at a rate that was no greater than the rise in prices.

Wholesale prices of farm and food products—which had declined appreciably from February to June—rose sharply in July, in part because of unfavorable weather. Among industrial commodities, price increases were widespread and extraordinarily large in July, as they had been throughout the first half of the year. The advance in the index of average hourly earnings for private nonfarm production workers had remained at a rapid rate over recent months. In June the consumer price index had continued to rise at a fast pace.

Soon after he took the oath of office on August 9, President Ford indicated that high priority would be given to bringing inflation under control. Toward that end, he proposed to call a summit meeting of national leaders at an early date, to be preceded by several sub-summit meetings, and he recommended legislation to create an agency that would monitor prices and wages in order to expose abuses.

Staff projections that weakness in economic activity would persist

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in the fourth quarter of this year and in the first half of 1975 were based on the following expectations: that the contraction in residential construction outlays would continue; that the expansion in business fixed investment would taper off; that growth in disposable income and in personal consumption expenditures would be little, if any, greater than the rate of increase in prices; and that the pace of business inventory accumulation would moderate.

In foreign exchange markets the gradual appreciation of the dollar against leading foreign currencies that had begun in mid-May continued between mid-July and mid-August. U.S. commercial bank loans to foreigners, especially to Japanese borrowers, apparently remained large; however, inflows of foreign capital, particularly from oil-exporting countries, also were large. In June the U.S. merchandise trade deficit was well below the extraordinary deficit of May, as exports rose much more than imports; from the first quarter to the second quarter, however, the trade deficit had deepened considerably, primarily as a result of a large further increase in the value of petroleum imports.

The rate of expansion in loans and investments at U.S. commercial banks—which had moderated throughout the second quarter, even though business loan growth had remained strong—picked up in July, reflecting a substantial further increase in business loans. Business demands for bank loans had begun to strengthen in late June, as some demands for credit were diverted from the commercial paper and capital markets in response to a marked deterioration in conditions in those markets and to increases in market interest rates relative to effective rates on bank loans. After mid-July, however, business loan growth subsided, as financial market conditions improved and commercial paper rates declined relative to bank rates. To finance the July expansion in loans, banks increased their outstanding volume of large-denomination CD's and reduced their holdings of Government securities by substantial amounts.

The narrowly defined money stock (M_1)[1] grew at an annual rate of 1.7 per cent in July—down from a rate of 7.8 per cent in June and of 6 per cent over the first half of the year.[2] Reflecting the

[1] Private demand deposits plus currency in circulation.

[2] Growth rates cited are calculated on the basis of the daily-average level in the last month of the period relative to that in the last month preceding the period and on the basis of the revised statistics published on August 22.

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behavior of M_1, growth in the more broadly defined money stock (M_2)[3] also slowed appreciably in July; net inflows to banks of time and savings deposits other than large-denomination CD's were only a little below the relatively strong pace of June.

Net deposit inflows at nonbank thrift institutions weakened considerably in July, in part because of the more attractive rates available on market securities. The deterioration in deposit experience apparently was progressive during the month, and it continued in early August. Growth in the measure of the money stock that includes such deposits (M_3)[4] slowed appreciably in July. Contract interest rates on conventional mortgages in the primary market and yields in the secondary market for Federally underwritten mortgages rose substantially further from early July to early August.

On July 31 the Treasury announced that it would auction up to $4.4 billion of notes and bonds to refund publicly held notes that were to mature in mid-August. In auctions on August 6, 7, and 8, respectively, the Treasury sold $2.25 billion of 33-month, 9 per cent notes at an average price to yield 8.59 per cent; $1.75 billion of 6-year, 9 per cent notes at an average price to yield 8.75 per cent; and $400 million of 24¾-year bonds at an average price to yield 8.63 per cent. In addition, $1.5 billion of 244-day bills of the Federal Financing Bank were auctioned on July 23 at an average price to yield 8.05 per cent on a discount basis.

At the time of the Committee meeting in mid-July money market conditions had begun to ease from an exceptionally taut position, reflecting abatement of the uncertainties that temporarily had reduced the willingness of member banks to borrow from Federal Reserve Banks and had increased their desire to hold excess reserves. The Federal funds rate dropped to around 12¼ per cent on the day of the July 16 meeting, after having been in a range of 13 to 14 per cent in late June and early July. Following the July 16 meeting, System open market operations had been guided by the Committee's decision to seek bank reserve and money market conditions that would moderate growth in monetary aggregates over the months ahead, while taking account of the forth-

[3] M_1 plus commercial bank time and savings deposits other than large-denomination CD's.

[4] M_2 plus time and savings deposits at mutual savings banks and at savings and loan associations.

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coming Treasury financing and of developments in domestic and international financial markets. As the inter-meeting period progressed, available data suggested that in the July–August period the annual rates of growth in the monetary aggregates would be within the ranges of tolerance that had been specified by the Committee. Accordingly, System operations were directed toward maintaining the funds rate around the middle of the 11½ to 13 per cent range the Committee had specified; on the day before this meeting the rate was about 12¼ per cent, the same as on July 16. In the four statement weeks ending August 14, member bank borrowings averaged about $3,365 million, about $350 million more than the average in the preceding 4 weeks.

Market interest rates on most short- and long-term private securities had declined somewhat in the period since the Committee's meeting on July 16, and yield spreads between high- and lower-quality securities—which had widened sharply last spring—had narrowed, in association with the lessening of tensions in financial markets. The over-all volume of public offerings of corporate and State and local government bonds declined further in July, even though an unseasonally large volume had appeared in prospect, as some issues were postponed or canceled and other issues were reduced in size. A moderate increase in the volume appeared to be in prospect for August.

In contrast, yields on Treasury and Federal agency securities generally advanced in the inter-meeting period, in part because of the considerable increase in market supplies of such securities, particularly short-term issues, resulting from the recent Treasury offerings. On the day before this meeting the market rate on 3-month Treasury bills was 8.84 per cent, up from 7.62 per cent on the day before the July meeting.

The Committee concluded that the economic situation continued to call for moderate growth in monetary aggregates over the longer run. A staff analysis suggested that the unusually slow pace of monetary growth in July was not likely to persist in view of the continued sizable rate of growth in prospect for nominal GNP; in fact, data available for early August indicated that some strengthening had occurred already. Nevertheless, it appeared likely that if M_1 were to grow at a rate consistent with the Committee's longer-run objectives for the monetary aggregates, money market

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conditions would ease somewhat in the period immediately ahead. Such easing would probably lead to only a modest downward adjustment in market interest rates in general, because in the weeks ahead the volume of offerings of both private and Government securities was expected to be substantial.

The staff analysis suggested that inflows to banks of time and savings deposits other than money market CD's would slow somewhat further in the months ahead and that the deposit experience of nonbank thrift institutions would remain weak, as many small savers continued to find market instruments more attractive than deposit accounts. It was expected that expansion in business loans—and in total bank credit—would moderate, because of both a decline in the rate of business inventory accumulation and a tightening of bank lending policies, and that, consequently, growth in the outstanding volume of money market CD's would moderate.

Taking account of the staff analysis, the Committee concluded that growth in M_1 and M_2 over the August–September period at annual rates within ranges of tolerance of 4¾ to 6¾ per cent and 5½ to 7½ per cent, respectively, would be consistent with its longer-run objectives for the monetary aggregates. The members agreed that such growth rates would be likely to involve growth in reserves available to support private nonbank deposits (RPD's) within a range of tolerance of 7¾ to 9¾ per cent, and they decided that in the period until the next meeting the weekly average Federal funds rate might be permitted to vary in an orderly fashion from as low as 11½ per cent to as high as 12½ per cent, if necessary, in the course of operations.

The members also agreed that, in the conduct of operations, account should be taken of developments in domestic and international financial markets. It was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives and constraints.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that real output of goods and services is changing little in the current quarter,

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following the first-half decline, and that price and wage increases are continuing large. In July industrial production was unchanged from the May–June level, and nonfarm payroll employment declined further. The unemployment rate edged up to 5.3 per cent. Wholesale prices of farm and food products rose sharply, after having declined for 4 months, and increases among industrial commodities continued widespread and extraordinarily large.

The new Administration has indicated that it will give high priority to combating inflation and that it will convene a summit meeting of the nation's economic leaders to that end.

In recent weeks the dollar has appreciated somewhat further against leading foreign currencies. U.S. bank lending to foreign borrowers, especially in Japan, has apparently continued large, but inflows of foreign capital, particularly from oil-exporting countries, have also been large. The foreign trade deficit, although smaller in June than in May, widened substantially from the first to the second quarter as the value of petroleum imports increased.

The narrowly defined money stock rose only slightly in July, after having grown at an annual rate of 6 per cent over the first half of the year. Net inflows at banks of time deposits other than money market CD's slowed somewhat in July, and deposit experience at nonbank institutions worsened materially in July and early August. Growth in business loans and in total bank credit was substantial in July, although the pace of expansion slackened after the early part of the month. To finance loan growth, banks reduced their holdings of Treasury securities and increased their outstanding volume of large-denomination CD's by substantial amounts. Interest rates on most private market instruments have declined a little in recent weeks, and in association with some easing of tensions in financial markets, yield spreads between prime- and lower-quality issues—which had widened sharply—have narrowed. Yields on Government securities, particularly Treasury bills, have increased, in part because new Treasury offerings relieved a market shortage of such securities.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to resisting inflationary pressures, supporting a resumption of real economic growth, and achieving equilibrium in the country's balance of payments.

To implement this policy, while taking account of developments in domestic and international financial markets, the Committee seeks to achieve bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the months ahead.

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Votes for this action: Messrs. Burns, Hayes, Black, Bucher, Clay, Holland, Kimbrel, Mitchell, Sheehan, Wallich, and Winn. Votes against this action: None.

Absent and not voting: Mr. Brimmer.

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MEETING HELD ON SEPTEMBER 10, 1974

1. Domestic policy directive

The information reviewed at this meeting continued to suggest that real output of goods and services—which had declined in the first half of the year—was changing little in the current quarter and that both the GNP implicit deflator and wage rates were continuing to rise at a rapid pace. Staff projections, like those of 3 weeks earlier, suggested that weakness in real economic activity would persist in the fourth quarter of the year and in the first half of 1975 and that the rate of increase in prices would remain rapid, although not so rapid as in recent quarters.

In August, according to preliminary indications, industrial production had remained near the level of the preceding 3 months. Although employment in manufacturing establishments declined somewhat during the month—only in part because of strikes—total nonfarm payroll employment rose moderately. The unemployment rate edged up further to 5.4 per cent. Weekly data suggested that retail sales, after a sharp advance in July, had expanded somewhat further in August.

Wholesale prices of farm products rose further in the period from mid-July to mid-August, and price increases for industrial products continued numerous. The advance in the index of average hourly earnings for private nonfarm production workers had remained rapid over recent months. In July the consumer price index had risen somewhat less than in the preceding 2 months, reflecting a decline in retail prices of foods.

Staff projections that weakness in economic activity would persist in the fourth quarter of this year and in the first half of 1975, like those of 3 weeks earlier, were based on the following expectations: that the contraction in residential construction outlays would continue; that the expansion in business fixed investment would taper off; that growth in disposable personal income and in personal consumption expenditures would be little, if any, greater than the

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rate of increase in prices; and that the pace of business inventory accumulation would moderate.

In recent weeks the exchange rate for the dollar against leading foreign currencies had continued to appreciate, apparently in part because of a favorable shift in net capital flows. In July there had been a net inflow of bank-reported capital, reflecting both a lessening of the outflow of U.S. bank credit to foreigners and a significant increase in liabilities to private foreigners. Foreign lending by U.S. banks appeared to have declined further in August. The U.S. trade deficit, which had narrowed in June, increased appreciably in July, as imports rose somewhat further while exports declined.

Expansion in total loans and investments at U.S. commercial banks was moderate in August. Growth in business loans remained relatively strong, but growth in total loans slowed from the fast pace in July and banks further reduced their holdings of U.S. Government securities.

The narrowly defined money stock (M_1)[1] grew at an annual rate of 3 per cent in August, up somewhat from the slow July pace but still well below the 6 per cent rate of the first half of the year.[2] Growth in the more broadly defined money stock (M_2)[3] also picked up a little in August; whereas the performance of passbook savings continued weak, inflows of total time and savings deposits other than large-denomination CD's remained relatively strong. U.S. Treasury deposits increased substantially, and banks reduced their outstanding volume of large-denomination CD's and their use of nondeposit sources of funds. On September 4 the Board announced the removal of the 3 per cent marginal reserve requirement on large time deposits and related instruments maturing in 4 months or more.

Deposit experience at nonbank thrift institutions continued weak in August, and growth in the measure of the money stock that includes such deposits (M_3)[4] remained near the reduced rate of

[1]Private demand deposits plus currency in circulation.

[2]The growth rate cited for the quarter is calculated on the basis of the daily-average level in the last month of the quarter relative to that in the last month of the preceding quarter.

[3]M_1 plus commercial bank time and savings deposits other than large-denomination CD's.

[4]M_2 plus time and savings deposits at mutual savings banks and at savings and loan associations.

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July. Contract interest rates on conventional mortgages in the primary market and yields in the secondary market for Federally underwritten mortgages continued to rise during August.

Market interest rates on most private short-term securities had fluctuated narrowly in the period since the Committee's meeting on August 20. However, yields on Treasury bills moved through a wide range; they rose sharply in late August—when market supplies increased as the Treasury auctioned $2 billion of 299-day bills and raised the size of the regular weekly bill auctions—and then declined in early September. On the day before this meeting the market rate on 3-month Treasury bills was 9.15 per cent, down from an inter-meeting high of 9.74 per cent on August 23 but up from 8.84 per cent on the day before the August meeting.

Yields on long-term securities rose moderately, on balance, over the inter-meeting period, reflecting market anticipation of a large volume of Federal agency and corporate offerings. Public offerings of corporate bonds were unseasonally large in August, and a moderate increase was in prospect for September. Offerings of State and local government bonds declined in August but were expected to rise considerably in September.

System open market operations since the August meeting had been guided by the Committee's decision to seek bank reserve and money market conditions consistent with moderate growth in the monetary aggregates over the months ahead, while taking account of developments in domestic and international financial markets. Data that had become available a few days after the meeting suggested that in the August–September period M_1 would grow at a rate slightly below the lower limit of the range of tolerance that had been specified by the Committee while M_2 would grow at a rate within its range; data available a week later suggested that growth rates for both aggregates had weakened. Accordingly, System operations were directed toward some easing in bank reserve and money market conditions, with the expectation that the Federal funds rate would decline within the 11½ to 12½ per cent range that the Committee had specified. At the time of this meeting the funds rate was about 11¾ per cent, compared with 12¼ per cent at the time of the August meeting.

The Committee concluded that the economic situation and outlook called for moderate growth in the monetary aggregates over

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the longer run, at rates slightly higher than those contemplated earlier. A staff analysis suggested that monetary growth—although apparently remaining sluggish in September—would pick up in later months as transactions demands for money strengthened. Nevertheless, it appeared likely that if M_1 were to grow at a rate consistent with the Committee's longer-run objectives for the monetary aggregates, money market conditions would ease somewhat further in the period immediately ahead. Such easing would probably lead to additional declines in market interest rates.

The staff analysis suggested that a modest recovery in flows of savings at both banks and nonbank thrift institutions might develop and that upward pressures on mortgage rates might lessen. Demands for bank credit were likely to be tempered by the projected slowdown in the rate of expansion in nominal GNP.

In view of sluggish monetary growth since midyear, the Committee decided that the tolerance ranges specified for rates of expansion in the monetary aggregates over the September–October period should be wide enough to accommodate somewhat higher growth rates, should they develop, than those presently thought to be consistent with the money market conditions contemplated. Specifically, for the September–October period the members adopted ranges of tolerance of 3 to 6 per cent and 5 to 7½ per cent for the annual rates of growth in M_1 and M_2, respectively, and they agreed that such growth rates would be likely to involve growth in reserves available to support private nonbank deposits (RPD's) within a range of 6 to 8½ per cent. The members also decided that in the period until the next meeting the weekly average Federal funds rate might be permitted to vary in an orderly fashion from as low as 10½ per cent to as high as 12 per cent, if necessary, in the course of operations. It was understood that in the early weeks of the period the weekly average funds rate would be permitted to decline gradually from its present level of 11¾ per cent to about 11¼ per cent so long as the monetary aggregates did not appear to be growing at rates above their specified ranges.

The members also agreed that, in the conduct of operations, account should be taken of developments in domestic and international financial markets. It was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant incon-

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sistencies appeared to be developing among the Committee's various objectives and constraints.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that real output of goods and services is changing little in the current quarter, following the first-half decline, and that price and wage increases are continuing large. In August industrial production, according to preliminary indications, remained near the level of recent months, while the unemployment rate edged up to 5.4 per cent. Wholesale prices of farm products rose further, on average, and announcements of increases for industrial commodities continued numerous.
>
> In recent weeks, the dollar has continued to appreciate against leading foreign currencies. U.S. bank lending to foreign borrowers diminished in July and apparently also in August, while inflows from abroad increased. The foreign trade deficit, which had narrowed in June, widened in July.
>
> In August growth of the narrowly defined money stock was above the low pace of July but well below the 6 per cent annual rate of the first half of the year. Net inflows of time deposits other than money market CD's continued at about the July rate, but the performance of passbook savings at banks—and of total deposits at nonbank thrift institutions—remained weak. Although growth in business loans remained relatively strong in August, growth in total bank credit was moderate, and banks reduced their reliance on large-denomination CD's and nondeposit funds. Interest rates on most short-term market instruments have changed little on balance since mid-August, while rates on most types of longer-term securities have risen further. On September 4 the Federal Reserve announced the removal of the 3 per cent marginal reserve requirement on longer-term large-denomination CD's.
>
> In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to resisting inflationary pressures, supporting a resumption of real economic growth, and achieving equilibrium in the country's balance of payments.
>
> To implement this policy, while taking account of developments in domestic and international financial markets, the Committee seeks to achieve bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the months ahead.

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Votes for this action: Messrs. Burns, Black, Bucher, Clay, Holland, Kimbrel, Mitchell, Sheehan, Wallich, and Winn. Vote against this action: Mr. Hayes.

Mr. Hayes, who dissented from this action, observed that inflation and inflationary expectations continued unabated whereas the probabilities, in his view, were against the development of a severe recession. He believed that the pursuit of somewhat higher rates of monetary growth than contemplated earlier—in accordance with the Committee's decision—would signify an inappropriate easing of policy in terms of an immediate decline in the Federal funds rate and in other market interest rates. He favored maintenance of about the current policy of firm monetary restraint, particularly since fiscal restraint was by no means assured at present.

Subsequent to the meeting it appeared that in the September–October period the annual rates of growth in the monetary aggregates would be below the lower limits of the ranges of tolerance that had been specified by the Committee. The Federal funds rate recently had been fluctuating around 11 per cent, ½ of a percentage point above the lower limit of its specified range, and the System Account Manager was endeavoring to supply reserves at a rate consistent with some further easing in money market conditions. The members—with the exception of Messrs. Hayes and Winn—concurred in the Chairman's recommendation of October 3 that, in order to provide operating flexibility in the event of evidence of further weakening in the behavior of the aggregates, the lower limit of the funds rate constraint be reduced by ¼ of a percentage point, to 10¼ per cent, for the period remaining until the next Committee meeting.

2. Special authorization relating to foreign currency operations

On September 25, 1974, Committee members were advised that the Federal Reserve Bank of New York, after discussions with Franklin National Bank, had developed a plan to purchase the foreign exchange position of Franklin, amounting to approximately $800 million equivalent; that the Board of Governors of the Federal Reserve System had concurred in the proposed arrangement; and

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that the New York Bank was requesting the Committee's specific approval of such open market transactions in foreign currencies as might be necessary to carry out the arrangement.

The members of the Committee voted to approve the following special authorization:

> The Federal Reserve Bank of New York is authorized and directed, under the provisions of 270.4(e) of the Regulation relating to Open Market Operations of Federal Reserve Banks, to engage in such open market transactions in foreign currencies, including transactions for the System Open Market Account, as may be necessary to carry out the arrangements that have been made by the Federal Reserve Bank of New York, with the concurrence of the Board of Governors of the Federal Reserve System, for the disposition of assets and liabilities of the Franklin National Bank.

Votes for this action: Messrs. Burns, Hayes, Black, Bucher, Clay, Holland, Kimbrel, Mitchell, Sheehan, Wallich, and Winn. Votes against this action: None.

This action was taken against the background of the problems that Franklin has been experiencing in covering its foreign exchange commitments, and for the purpose of assisting the foreign exchange markets by avoiding the weakening of confidence that appeared likely to ensue if contracts in the volume Franklin had outstanding were not honored. Under the agreement proposed (and subsequently implemented), Franklin would indemnify the New York Bank against any losses it might incur in fulfilling Franklin's foreign exchange position.

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MEETING HELD ON OCTOBER 14-15, 1974[1]

1. Domestic policy directive

The information reviewed at this meeting suggested that real output of goods and services—which had fallen at an annual rate of about 4.5 per cent in the first half of the year—declined somewhat further in the third quarter and that both prices and wage rates were continuing to rise at a rapid pace. Staff projections suggested that contraction in real economic activity would persist in the fourth quarter of the year and in the first half of 1975 and that the rate of increase in prices would remain rapid, although not so rapid as in the first three quarters of this year.

In September industrial production rose somewhat, for the most part as a result of settlements of work stoppages that had accounted for much of the August reduction in output, and total nonfarm payroll employment changed little. However, the unemployment rate rose from 5.4 to 5.8 per cent, reflecting an upsurge in the labor force following 10 months of slow growth. According to the advance report, retail sales declined in September, mainly because of decreases in sales of automobiles—after introduction of the higher-priced 1975 models—and of other consumer durable goods.

The rise in wholesale prices of industrial commodities moderated in September—although increases still were widespread and substantial—and prices of farm and food products declined moderately after having risen sharply in July and August. The index of average hourly earnings for private nonfarm production workers continued to advance at a rapid pace. In August the consumer price index had increased substantially further.

On October 8 the President recommended a program to combat inflation and to mitigate the impact of monetary and fiscal restraint on certain sectors of the economy. The proposals included a tax

[1]This meeting began on the afternoon of October 14 and continued on the following morning.

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surcharge on corporate income and on personal incomes in the middle and upper levels; an expanded public service employment program; extended unemployment benefits; an enlarged program to improve the availability of funds for mortgages on new houses; and an increase in the investment tax credit on outlays for new production facilities. The President also indicated support for pending tax reform legislation, which included some reductions in taxes on lower incomes. The tax and expenditure measures would, on balance, have approximately a neutral effect on the size of the Federal deficit. Earlier, a Council on Wage and Price Stability had been established to monitor wage and price increases.

Staff projections for the fourth quarter of 1974 and the first half of 1975 suggested that the decline in residential construction activity would be larger and that the expansion in personal consumption expenditures would be smaller than indicated by the projections of 5 weeks earlier. As before, it appeared likely that the rise in both disposable income and personal consumption expenditures would be little, if any, greater than the increase in prices. It was still expected that the expansion in business fixed investment would taper off and that the pace of business inventory investment would moderate.

The exchange rate for the dollar against leading foreign currencies had declined since early September, after having risen persistently since May. In August the U.S. merchandise trade deficit had increased substantially further, reflecting increases in imports of petroleum and industrial materials; total exports had changed little, although exports of corn and some other agricultural commodities had declined.

Total loans and investments at U.S. commercial banks declined in September, and growth in bank credit over the third quarter was relatively slow. In September loans to security dealers dropped, and banks reduced their holdings of Treasury securities by a substantial amount. Expansion in total short-term and in long-term business credit slackened, and in part because some business borrowers shifted their short-term credit demands to the commercial paper market in response to declines in rates in that market, outstanding business loans at banks changed little. In early October banks reduced the prime rate applicable to large corporations from 12 per cent to 11¾ per cent.

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The narrowly defined money stock (M_1)[2] rose slightly in September; over the third quarter it grew at an annual rate of about 2 per cent, compared with a rate of 6 per cent in the first half of the year.[3] Net inflows to banks of time and savings deposits other than large-denomination CD's were small in September, and deposit experience at nonbank thrift institutions remained weak. Consequently, the more broadly defined measures of the money stock (M_2[4] and M_3[5]) also increased only a little.

System open market operations since the September meeting had been guided by the Committee's decision to seek bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the months ahead, while taking account of developments in domestic and international financial markets. Data that had become available a few days after that meeting suggested that in the September–October period M_1 and M_2 would grow at annual rates slightly below the lower limits of the ranges of tolerance that had been specified by the Committee. Accordingly, System operations had been directed toward some easing in bank reserve and money market conditions, although in the early part of the inter-meeting period such operations had been undertaken cautiously in order to avoid encouraging an unduly rapid decline in market interest rates.

In early October the available data continued to suggest that in the September–October period the annual rates of growth in the monetary aggregates would be below the specified ranges of tolerance. The Federal funds rates—which had been about 11¾ per cent at the time of the September meeting—was fluctuating around 11 per cent, ½ percentage point above the lower limit of its specified range, and the System Account Manager was endeavoring to supply reserves at a rate consistent with some further easing in money market conditions. A majority of the members concurred in the Chairman's recommendation of October 3 that,

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[2]Private demand deposits plus currency in circulation.

[3]Growth rates cited are calculated on the basis of the daily-average level in the last month of the period relative to that in the last month preceding the period.

[4]M_1 plus commercial bank time and savings deposits other than large-denomination CD's.

[5]M_2 plus time and savings deposits at mutual savings banks and at savings and loan associations.

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in order to provide operating flexibility in the event of evidence of further weakening in the behavior of the aggregates, the lower limit of the funds rate constraint be reduced by ¼ percentage point, to 10¼ per cent, for the period remaining until the next Committee meeting. In the statement week ending October 9, the average funds rate was slightly below 10½ per cent.

Short-term market interest rates had declined considerably in the period since the Committee's meeting on September 10, in response to the continuing decline in the Federal funds rate and in anticipation of further easing in money and credit market conditions. On the last market day before this meeting the rate on 3-month Treasury bills was 7.63 per cent, down from a market rate of 9.15 per cent on the day before the September meeting.

Yields on long-term Treasury and State and local government bonds declined moderately over the inter-meeting period, but yields on long-term corporate securities rose somewhat further, on balance, as public offerings of corporate bonds—which had declined substantially in September—were expected to rise sharply in October. Contract interest rates on new commitments for conventional mortgages in the primary market also rose further between early September and early October, but yields on commitments in the secondary market for Federally underwritten mortgages eased a little.

The Treasury was expected to announce on October 30 the terms of its mid-November refunding. Of the maturing issues, $4.3 billion were held by the public.

The Committee concluded that the economic situation and outlook called for a resumption of moderate growth in the monetary aggregates over the longer run. A staff analysis suggested that—although monetary growth apparently remained sluggish in October—demand for money would pick up in the remaining months of the year, in part as a result of the lagged effects of recent interest rate declines. Nevertheless, it appeared likely that if M_1 were to grow at a rate consistent with the Committee's longer-run objectives for the monetary aggregates, money market conditions would have to ease somewhat further in the period immediately ahead. Such easing would probably lead to additional declines in other market interest rates, although the strong over-all credit demands expected over the next few weeks would tend to moderate such declines.

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The staff analysis suggested that some improvement in flows of savings at both banks and nonbank thrift institutions could be expected to develop as short-term interest rates declined further. Demands for bank credit appeared likely to be moderate.

In view of the sluggish monetary growth since midyear, the Committee decided that the tolerance ranges specified for rates of expansion in the monetary aggregates over the October–November period should be wide enough to accommodate somewhat higher growth rates, if they should develop, than those presently thought to be consistent with the money market conditions contemplated. Specifically, for the October–November period the members adopted ranges of tolerance of 4¾ to 7¼ and 5¾ to 8¼ per cent for the annual rates of growth in M_1 and M_2, respectively, and they agreed that such growth rates would be likely to involve growth in reserves available to support private nonbank deposits (RPD's) within a range of 5½ to 8 per cent. The members also decided that in the period until the next meeting the weekly average Federal funds rate be permitted to vary in an orderly fashion from as low as 9 per cent to as high as 10½ per cent, if necessary, in the course of operations. It was understood that during the inter-meeting period the weekly average funds rate would be permitted to decline gradually to about the midpoint of the specified range so long as the monetary aggregates did not appear to be growing at rates at or above the upper limits of their specified ranges.

The members also agreed that, in the conduct of operations, account should be taken of the forthcoming Treasury financing and of developments in domestic and international financial markets. It was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives and constraints.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that real output of goods and services declined somewhat further in the third quarter and that price and wage increases continued large. In September industrial production increased somewhat, reflecting settlement of

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work stoppages that had reduced output in August. An upsurge in the labor force, following several months of relatively slow growth, raised the unemployment rate from 5.4 to 5.8 per cent. The rise in wholesale prices of industrial commodities moderated, although it remained substantial, and prices of farm products and foods declined after having increased sharply in July and August.

On October 8 the President recommended a program to combat inflation and to mitigate the impact of monetary and fiscal restraint on certain sectors of the economy. The tax and expenditure proposals included in the program would, on balance, have approximately a neutral effect on the size of the Federal deficit.

In recent weeks the dollar has declined against leading foreign currencies. The U.S. foreign trade deficit increased substantially in August, as imports of petroleum and industrial materials rose while exports held steady.

The narrowly defined money stock rose slightly in September and grew at an annual rate of about 2 per cent over the third quarter, compared with a rate of 6 per cent in the first half of the year. The money supply measure more broadly defined to include bank time and savings deposits other than money market CD's—as well as the measure that includes deposits at other thrift institutions—also rose only slightly in September. Over-all business credit demands slackened last month, and outstanding business loans at banks leveled off. Since early September interest rates on short-term market instruments have fallen considerably, while yields on Treasury and State and local government bonds have declined modestly. Yields on corporate bonds have risen somewhat further, on balance, reflecting the large volume of offerings in prospect.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to resisting inflationary pressures, supporting a resumption of real economic growth, and achieving equilibrium in the country's balance of payments.

To implement this policy, while taking account of the forthcoming Treasury financing and of developments in domestic and international financial markets, the Committee seeks to achieve bank reserve and money market conditions consistent with resumption of moderate growth in monetary aggregates over the months ahead.

> Votes for this action: Messrs. Burns, Hayes, Black, Bucher, Holland, Kimbrel, Mitchell, Sheehan, Wallich, and Winn. Vote against this action: Mr. Clay.

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Mr. Clay, who dissented from this action, expressed the opinion that the recent shortfalls in growth of M_1 were not due entirely to the weakness in economic activity but were, at least in part, a lagged response to the high levels of short-term interest rates prevailing in the spring. He believed that monetary growth was likely to pick up, and he was concerned about the possibility of provoking a growth rate that was too rapid.

Subsequent to this meeting, on October 31, the available data suggested that in the October–November period the annual rate of growth in M_1 would be at the midpoint of the 4¾ to 7¼ per cent range of tolerance that had been specified by the Committee, reflecting an expectation that M_1 growth would accelerate in November from an estimated October rate that was near the lower limit of the range. The rate of growth in M_2 in the 2-month period appeared to be at the upper limit of its range. Federal funds most recently had been trading around 9¾ per cent, the midpoint of the 9 to 10½ per cent range of tolerance that had been adopted by the Committee.

In view of the behavior of the aggregates, the System ordinarily would have become more restrictive in its reserve-supplying operations, to the extent consistent with even-keel considerations, expecting that the weekly average Federal funds rate would rise slightly above 9¾ per cent. However, members of the Committee, with the exception of Messrs. Clay and Coldwell, concurred in the Chairman's recommendation of October 31 that the funds rate target be reduced to 9½ per cent for the time being, in view of the evidence of additional weakness in economic activity, restraint in the lending policies of banks and other institutions, and the severe financial problems of the construction industry. It was understood that the Manager's operations would need to reflect further changes in the behavior of monetary aggregates and would also have to take account of the current Treasury financing.

2. Amendment to authorization for domestic open market operations

On November 11 Committee members voted to amend paragraph 1(b) of the authorization for domestic open market operations to increase the limit on outright holdings of bankers' acceptances from

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$500 million to $1 billion. With this amendment, paragraph 1(b) read as follows:

> To buy or sell in the open market, from or to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the account of the Federal Reserve Bank of New York at market discount rates, prime bankers' acceptances with maturities of up to 9 months at the time of acceptance that (1) arise out of the current shipment of goods between countries or within the United States, or (2) arise out of the storage within the United States of goods under contract of sale or expected to move into the channels of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods; provided that the aggregate amount of bankers' acceptances held at any one time shall not exceed $1 billion.

Votes for this action: Messrs. Burns, Hayes, Black, Bucher, Clay, Coldwell, Holland, Kimbrel, Mitchell, Sheehan, and Winn. Votes against this action: None.

Absent and not voting: Mr. Wallich.

This action was taken on recommendation of the Account Manager who noted that, pending further review, Federal Reserve Banks, effective November 12, 1974, would no longer guarantee payment of bankers' acceptances purchased by the Federal Reserve Bank of New York for official foreign accounts. The Manager advised that the effects of this change on the acceptance market and on accepting banks could not be foreseen and that an increase in the limit in question could prove helpful in case of need for System action designed to insure a smooth market adjustment. (At its meeting on November 19 the Committee decided to retain the $1 billion limit, which was deemed consistent with longer-term needs to supply reserves.)

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MEETING HELD ON NOVEMBER 19, 1974

Domestic policy directive

The information reviewed at this meeting suggested that real output of goods and services—which had declined at an annual rate of about 3 per cent in the third quarter of the year and of about 4.5 per cent in the first half—was falling significantly further in the current quarter while prices and wages were continuing to rise at a rapid pace. Staff projections, like those of 5 weeks earlier, suggested that contraction in real economic activity would persist during the first half of 1975 and that the rate of increase in prices would remain rapid, although not so rapid as throughout 1974.

After having changed little since May, industrial production declined in October as a result of widespread decreases among consumer goods as well as industrial and construction materials; although auto output increased somewhat in October, it was being curtailed in November because of declining sales and a record level of inventories. Total retail sales edged down in October, reflecting the weakness in auto sales. Nonfarm payroll employment changed little. However, the unemployment rate rose further, from 5.8 to 6.0 per cent, and in late October and early November claims for unemployment insurance continued to increase. Although a new labor contract had just been negotiated in the coal industry, the length of the strike that had begun on November 12 was uncertain because of the need for ratification by the union membership; a prolonged strike could induce substantial curtailments in output and employment in other industries.

Wholesale prices of industrial commodities rose substantially further in October—reflecting increases in motor vehicles, machinery, and chemicals—but as in September, the rise was well below the extraordinarily rapid rate earlier in the year. Wholesale prices of farm and food products increased sharply after having declined moderately in September. The index of average hourly earnings for private nonfarm production workers continued to advance at

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a relatively rapid pace. In September the consumer price index had increased substantially further.

Staff projections for the first half of 1975 were similar to those made 5 weeks earlier: it was still anticipated that the rise in both disposable personal income and personal consumption expenditures would be little, if any, greater than the increase in consumer prices; that the expansion in business fixed investment would taper off; and that the pace of business inventory investment would moderate. However, residential construction activity now was expected to decline somewhat less in the first quarter and then to turn up in the second quarter.

The exchange rate for the dollar against leading foreign currencies—which had turned down in early September—continued downward between mid-October and mid-November, in part because of a decline in interest rates in the United States relative to rates in most other countries. The U.S. merchandise trade deficit, already sizable in the second quarter of the year, increased substantially in the third quarter, reflecting a large decline in exports of agricultural commodities and a further rise in imports. However, U.S. banks and U.S. agencies and branches of foreign banks sharply reduced their lending abroad.

Total loans and investments at U.S. commercial banks, after having declined in September, were unchanged in October. The growth in outstanding business loans was moderate—as prime business borrowers continued to be attracted to the commercial paper market by declines in rates in that market—and bank holdings of Treasury securities declined further. Banks reduced their Euro-dollar borrowings and their outstanding volume of large-denomination CD's. Between mid-October and mid-November, most banks reduced the prime rate applicable to large corporations in four steps from 11¾ per cent to 10¾ per cent, but the reduction was substantially less than the decline in commercial paper rates.

On November 13 the Board of Governors announced a restructuring of member bank reserve requirements that would release reserves to the banking system in the week beginning December 12 and thus would help to meet the seasonal need for reserves over the following weeks.[1] The action also was designed to improve

[1] On November 18 the Board announced a modification of the restructuring of reserve requirements.

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the liquidity of the banking system by encouraging banks to alter the structure of their time deposits in favor of the longer-term maturities; toward that end, reserve requirements on longer-term time deposits were reduced and those on shorter-term time deposits were raised.

The narrowly defined money stock (M_1)[2] rose at an annual rate of about 5 per cent in October, compared with rates of about 1.5 per cent in the third quarter and 6 per cent in the first half of the year.[3] Net inflows of consumer-type time and savings deposits to banks and to nonbank thrift institutions also picked up in October, and the more broadly defined measures of the money stock (M_2[4] and M_3[5]) expanded appreciably.

The Treasury raised new money on October 23 by auctioning $1 billion of 4½-year notes at an average price to yield 7.89 per cent. In its regular quarterly financing the Treasury auctioned $4.85 billion of notes and bonds to refund $4.3 billion of publicly held securities having mid-November maturities and to raise $550 million of new money: on November 6, 7, and 8, respectively, it sold $2.5 billion of 3-year notes at an average price to yield 7.85 per cent; $1.75 billion of 7-year notes at an average price to yield 7.82 per cent; and $600 million of a reopened 24½-year bond at an average price to yield 8.21 per cent to maturity. On November 14 the Treasury announced that later in the month it would raise more new money by auctioning $3.5 billion of April and June tax-anticipation bills and $1 billion of a strip of bills made up of additions to the weekly bills maturing in late December and early January.

System open market operations since the October meeting had been guided by the Committee's decision to seek bank reserve and money market conditions consistent with a resumption of moderate growth in monetary aggregates over the months ahead, while

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[2] Private demand deposits plus currency in circulation.

[3] Growth rates cited are calculated on the basis of the daily-average level in the last month of the period relative to that in the last month preceding the period. Measures of the money stock subsequently were revised to reflect new benchmark data for deposits at nonmember banks; on the revised basis M_1 grew at an annual rate of about 4 per cent in October.

[4] M_1 plus commercial bank time and savings deposits other than large-denomination CD's.

[5] M_2 plus time and savings deposits at mutual savings banks and at savings and loan associations.

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taking account of the forthcoming Treasury financing and of developments in domestic and international financial markets. Data that had become available a few days after that meeting suggested that in the October–November period M_1 would grow at a rate in the lower part of the 4¾ to 7¼ per cent range of tolerance that had been specified by the Committee. In accordance with the understanding that the weekly average rate for Federal funds would be permitted to decline to about the midpoint of its specified range of 9 to 10½ per cent so long as the monetary aggregates did not appear to be growing at rates at or above the upper limits of their specified ranges, System operations had been directed toward some further easing in bank reserve and money market conditions. In the final days of October the funds rate was about 9¾ per cent, compared with an average of about 10⅛ per cent in the statement week ending October 16.

On October 31 the available data suggested that in the October–November period the annual rate of growth in M_1 would be at the midpoint of the specified range, reflecting an expectation that growth in M_1 would accelerate in November from an October rate that was estimated to be near the lower limit of the range. The rate of growth in M_2 in the 2-month period appeared to be at the upper limit of its range. In view of the behavior of the aggregates, the System ordinarily would have become more restrictive in its reserve-supplying operations—to the extent consistent with even-keel considerations—expecting that the weekly average Federal funds rate would rise slightly above 9¾ per cent. However, a majority of the members concurred in the Chairman's recommendation of October 31 that the target for the funds rate be reduced to 9½ per cent for the time being, in view of the evidence of additional weakness in economic activity, restraint in the lending policies of banks and other institutions, and the severe financial problems of the construction industry. In the days before this meeting the funds rate was about 9½ per cent.

Most short-term market interest rates declined considerably further in the inter-meeting period—despite the large additions to the supplies of Treasury bills—in response to the continuing decline in the Federal funds rate. However, Treasury bill rates moved up again following the November 14 announcement that the Treasury would auction a substantial volume of tax-anticipation bills to raise

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new money. On the day before this meeting the rate on 3-month Treasury bills was 7.52 per cent, compared with 7.17 per cent on November 14 and with 7.63 per cent on the last market day before the October meeting.

Markets for long-term securities also improved, as many investors concluded that long-term rates had passed their peaks. Yields on Treasury and corporate bonds declined, although the volume of public offerings of corporate bonds in October and in prospect for November was unusually large. Contract interest rates on new commitments for conventional home mortgages in the primary market turned down in October, while yields on commitments in the secondary market for Federally underwritten home mortgages continued to decline.

The Committee concluded that the economic situation and outlook called for moderate growth in the monetary aggregates over the longer run. A staff analysis suggested that growth in M_1—although still relatively sluggish in October—would be fairly rapid in the November–December period, reflecting the cumulative impact of the decline in interest rates that had occurred in recent months and the temporary effects of a substantial decline in U.S. Government deposits. Nevertheless, it appeared likely that if M_1 were to grow at a rate consistent with the Committee's longer-run objectives for the monetary aggregates, money market conditions would have to ease slightly further in the period immediately ahead. Such easing probably would be accompanied by little, if any, further decline in other market interest rates.

The staff analysis suggested that net inflows to banks of time and savings deposits other than large-denomination CD's, which had picked up sharply in October, would remain substantial in the period immediately ahead and that net inflows to nonbank thrift institutions would improve further. Expansion in bank credit was likely to be moderate, in part because banks had adopted more cautious loan and investment policies.

Taking account of the staff analysis and in light of the recent relatively slow growth of the monetary aggregates, the Committee concluded that its objective of moderate monetary growth could be furthered with relatively rapid rates of expansion in the November–December period. Specifically, the Committee adopted ranges of tolerance for the November–December period of 6½ to 9½ per

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cent and 8 to 10½ per cent for the annual rates of growth in M_1 and M_2, respectively. The members agreed that such growth rates would be likely to involve growth in reserves available to support private nonbank deposits (RPD's) within a range of tolerance of 2½ to 5½ per cent. They decided that in the period until the next meeting the weekly average Federal funds rate be permitted to vary in an orderly fashion from as low as 8½ per cent to as high as 10 per cent, if necessary, in the course of operations.

The members also agreed that, in the conduct of operations, account should be taken of developments in domestic and international financial markets. It was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives and constraints.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that real output of goods and services is falling significantly further in the current quarter while price and wage increases are continuing large. In October industrial production declined—after having changed little since May—and the unemployment rate increased further, from 5.8 to 6.0 per cent. In recent weeks sizable cutbacks in automobile production have been announced, and claims for unemployment insurance have continued to increase. There are major uncertainties concerning the duration of the coal strike; a lengthy shutdown would have substantial effects on other industries. The October rise in wholesale prices of industrial commodities, although substantial, remained well below the extraordinarily rapid rate in the first 8 months of the year; prices of farm products and foods increased sharply.
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> In recent weeks the dollar has declined further against leading foreign currencies. In the third quarter the U.S. foreign trade deficit was substantially larger than in the second quarter, but U.S. banks sharply reduced their foreign lending.
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> Growth of the narrowly defined money stock picked up from the slow pace of the third quarter to an annual rate of about 5 per cent in October. Net inflows of consumer-type time and savings deposits at banks and at nonbank thrift institutions also improved in October, and the money supply measures more broadly defined

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expanded appreciably. Bank credit outstanding changed little, and banks reduced their borrowing through Euro-dollars and large-denomination CD's. Since mid-October markets for short- and long-term securities have improved, despite heavy Treasury financing and a large volume of corporate security issues. Interest rates on market securities in general have declined further, and mortgage yields also have fallen somewhat. On November 13 the Board of Governors announced a restructuring of member bank reserve requirements, which will have the effect of releasing reserves to the banking system in the week beginning December 12.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to resisting inflationary pressures, supporting a resumption of real economic growth, and achieving equilibrium in the country's balance of payments.

To implement this policy, while taking account of developments in domestic and international financial markets, the Committee seeks to achieve bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the months ahead.

Votes for this action: Messrs. Burns, Hayes, Black, Bucher, Clay, Coldwell, Holland, Kimbrel, Mitchell, Sheehan, Wallich, and Winn. Votes against this action: None.

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MEETING HELD ON DECEMBER 16-17, 1974[1]

Domestic policy directive

The information reviewed at this meeting suggested that real output of goods and services—after declining at an annual rate of 2 per cent in the third quarter of the year and about 4.5 per cent in the first half—was falling substantially further in the current quarter, only in small part because of the 4-week coal strike. Price and wage increases were continuing large, although not so large as in the first three quarters of the year. Staff projections suggested that real economic activity would recede significantly further in the first half of 1975 and that the rate of increase in prices, while still rapid, would moderate.

In November retail sales declined for the third consecutive month. The index of industrial production fell sharply further, reflecting curtailments in output of some types of business equipment as well as of consumer goods and industrial materials. Reductions in employment were widespread, especially in manufacturing, and the unemployment rate rose further, from 6.0 to 6.5 per cent. In recent weeks additional production cutbacks and layoffs had been announced.

Wholesale prices of industrial commodities rose substantially further in November—reflecting for the most part increases in machinery and chemicals—but as in September and October, the rise was below the extraordinarily rapid pace earlier in the year. Wholesale prices of farm and food products continued to increase. As in October, the advance in the index of average hourly earnings for private nonfarm production workers was less rapid than in the second and third quarters of the year. The consumer price index had increased substantially further in October, although the rise in prices of nonfood commodities had moderated.

The latest staff projections for the first half of 1975 suggested that economic activity would contract significantly more than anticipated at the time of the last meeting, and consequently that nominal GNP would rise appreciably less. For the most part, the greater weakness now expected reflected a substantial reduction

[1]This meeting began on the afternoon of December 16 and continued on the following day.

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in the rate of business inventory investment in the first quarter—from an unusually high rate estimated for the current quarter, in association with a sharp weakening in final purchases of goods—and then a shift to inventory liquidation in the second quarter. In addition, the expansion in business fixed investment now was expected to fall short of the rise in prices. It was still anticipated that the rise both in disposable personal income and in personal consumption expenditures would be little, if any, greater than the increase in consumer prices and that residential construction activity would decline somewhat further in the first quarter and then turn up in the second.

The exchange rate for the dollar against leading foreign currencies—which had been declining since early September—declined somewhat further between mid-November and mid-December, reflecting in part upward pressure on the German mark and the Swiss franc. In October the U.S. merchandise trade deficit had narrowed, for the second consecutive month, as exports of nonagricultural commodities expanded sharply while total imports increased little. Inflows of bank-reported private capital had continued, although at a pace somewhat below that during the third quarter, and on balance, oil-exporting countries had added to their investments in the United States.

At U.S. commercial banks, total loans expanded at a moderate pace in November and holdings of securities increased slightly. The growth in outstanding business loans slowed, as many prime business borrowers continued to be attracted to the commercial paper market by the relatively lower cost of funds. Although most banks reduced the prime rate applicable to large corporations from 10¾ per cent to 10½ per cent in late November, reductions in the prime rate continued to lag behind declines in commercial paper rates.

The narrowly defined money stock (M_1)[2] grew at an annual rate of about 7 per cent in November, compared with rates of about 4 per cent in October and of 1.5 per cent in the third quarter.[3]

[2]Private demand deposits plus currency in circulation.

[3]The growth rate cited for the quarter is calculated on the basis of the daily-average level in the last month of the quarter relative to that in the last month of the preceding quarter.

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In November net inflows of consumer-type time and savings deposits remained strong at banks and continued to improve at nonbank thrift institutions, and the more broadly defined measures of the money stock (M_2[4] and M_3[5]) again expanded appreciably.

System open market operations since the November 19 meeting had been guided by the Committee's decision to seek bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the months ahead, while taking account of developments in domestic and international financial markets. Data that had become available a few days after the November meeting suggested that in the November–December period the aggregates would grow at rates near the lower limits of the ranges of tolerance that had been specified by the Committee. Consequently, System operations were directed toward some further easing in bank reserve and money market conditions. Through the first week after the meeting, however, the Federal funds rate remained near its pre-meeting level of 9½ per cent, as banks elected to hold large excess reserves over the Thanksgiving holiday. Thereafter, the funds rate declined to about 8¾ per cent.

Short-term market interest rates turned up in late November, apparently because market participants were disappointed in their expectations that the Federal funds rate would continue to decline. However, rates turned down again around the end of the month, following resumption of the decline in the funds rate. At the time of this meeting the market rate of 3-month Treasury bills was 7.14 per cent, compared with 7.52 per cent on the day before the November meeting and with 7.17 per cent on November 14, before the Treasury announced that it would raise a considerable amount of new money in the short-term market. Federal Reserve discount rates were reduced at 2 Reserve Banks from 8 to 7¾ per cent, effective on December 9; shortly thereafter, rates were reduced at the remaining 10 Banks.

Yields on long-term corporate and Treasury issues rose in late November and subsequently declined, along with short-term market

[4] M_1 plus commercial bank time and savings deposits other than money market CD's.

[5] M_2 plus time and savings deposits at mutual savings banks and at savings and loan associations.

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rates, but yields on State and local government bonds were subjected to upward pressures throughout the period. The volume of public offerings of corporate and State and local government securities remained exceptionally large in November, and a substantial volume was in prospect for December. In mortgage markets, contract interest rates on new commitments for conventional home mortgages in the primary market and yields on commitments in the secondary market for Federally underwritten home mortgages continued to decline during the period from early November to early December.

The Committee concluded that the economic situation and outlook called for somewhat more rapid growth in monetary aggregates over the months ahead than had occurred in recent months. The longer-run growth rates for the aggregates adopted by the Committee were raised slightly from those contemplated at other recent meetings.

A staff analysis suggested that, in view of the weaker expansion in nominal GNP now projected, some further easing in money market conditions probably would be required in the period immediately ahead if M_1 were to grow at a rate consistent with the Committee's longer-run objectives for the monetary aggregates. Such easing was likely to be accompanied by only modest declines in other market interest rates because credit demands—although tending to moderate—would still be strong. It was expected that net inflows to banks of time and savings deposits other than large-denomination CD's would remain substantial and that net inflows to nonbank thrift institutions would continue to improve.

The Committee concluded that growth in M_1 and M_2 over the December–January period at annual rates within ranges of tolerance of 5 to 7 per cent and 7½ to 10 per cent, respectively, would be consistent with its longer-run objectives for the monetary aggregates. The members agreed that such growth rates would be likely to involve growth in reserves available to support private nonbank deposits (RPD's) within a range of tolerance of 9 to 11 per cent. They decided that in the period until the next meeting the weekly average Federal funds rate be permitted to vary in an orderly fashion from as low as 7½ per cent to as high as 9 per cent, if necessary, in the course of operations.

The members also agreed that, in the conduct of operations,

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account should be taken of developments in domestic and international financial markets. It was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives and constraints.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that real output of goods and services is falling substantially further in the current quarter. Price and wage increases are continuing large, although not so large as earlier this year. In November declines in industrial production and employment were sharp and widespread, and the unemployment rate increased further, from 6.0 to 6.5 per cent. In recent weeks additional production cutbacks and layoffs have been announced. The November rise in wholesale prices of industrial commodities, although substantial, remained well below the extraordinarily rapid rate in the first 8 months of the year.
>
> Since mid-November the dollar has declined somewhat further against leading foreign currencies. In October the U.S. foreign trade deficit was reduced sharply for the second consecutive month, while there were continued net inflows of bank-reported private capital and of investments by oil-exporting countries.
>
> Growth of the narrowly defined money stock increased in November to an annual rate of about 7 per cent. Net inflows of consumer-type time and savings deposits remained strong at banks and continued to improve at nonbank thrift institutions, and the more broadly defined money supply measures again expanded appreciably. Bank loans increased only moderately. Most market interest rates, after rising in the second half of November, subsequently turned down again. Yields on State and local government securities, however, continued under upward pressure. Effective December 9, Federal Reserve discount rates were reduced from 8 to 7¾ per cent.
>
> In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to resisting inflationary pressures, cushioning recessionary tendencies and encouraging resumption of real economic growth, and achieving equilibrium in the country's balance of payments.
>
> To implement this policy, while taking account of developments in domestic and international financial markets, the Committee seeks

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Federal Reserve Bank of St. Louis

to achieve bank reserve and money market conditions consistent with somewhat more rapid growth in monetary aggregates over the months ahead than has occurred in recent months.

> Votes for this action: Messrs. Burns, Hayes, Black, Bucher, Clay, Coldwell, Holland, Kimbrel, Sheehan, and Winn. Votes against this action: Messrs. Mitchell and Wallich.

Messrs. Mitchell and Wallich, who dissented from this action, both believed that the economic situation and outlook called for a more stimulative monetary policy. In Mr. Mitchell's opinion, the primary objective should be to achieve a level of interest rates that would encourage the increased volume of borrowing in mortgage and capital markets essential to the kind of revival in economic activity needed in 1975. Mr. Wallich believed that for a limited period it would be desirable to seek a higher rate of monetary growth than favored by the majority.

Subsequent to the meeting, on January 9, the available data suggested that in December M_1 and M_2 had grown at rates of about 2 and 2.5 per cent, respectively, and that growth rates for the December–January period would be well below the lower limits of the ranges of tolerance that had been specified by the Committee. In the statement week ending January 8, the Federal funds rate had averaged slightly below 7¾ per cent, and the System currently was conducting reserve-supplying operations thought to be consistent with a weekly average rate of about 7½ per cent, the lower limit of its range of tolerance. Against that background, and to give the Manager greater flexibility, Chairman Burns recommended on January 9 that the lower limit of the funds rate constraint be reduced to 7⅛ per cent for the period remaining until the next Committee meeting. The members concurred in the Chairman's recommendation.

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Federal Reserve Operations in Foreign Currencies

The Federal Reserve intervened in the exchange markets on frequent occasions in 1974 to help maintain orderly market conditions and to smooth out rate fluctuations deemed to be transitory in nature. Gross System sales of foreign currencies in the exchange markets amounted to $1,062 million equivalent, exceeding purchases by $152 million equivalent. System sales were concentrated in the periods February–April and October–December. After October 1973 there had been a sharp run-up in the dollar's exchange value that was brought on by the oil crisis; the decline that followed in the winter and early spring of 1974 was associated with the removal of capital controls in the United States and the relaxation of controls abroad at the end of January, a temporary easing in U.S. interest rates, and the initiation of large official borrowings by several major foreign countries to finance their oil-related, current-account deficits.

During the summer, with the rise of U.S. interest rates to historic highs, and particularly after the failure of a German bank and reports of difficulties of other European banks had shaken confidence in the banking systems of some European countries, the dollar strengthened and the System was able to repurchase foreign currencies that it had previously sold.

In the fourth quarter, however, the dollar again weakened as the U.S. economy moved into deep recession and U.S. interest rates dropped sharply relative to foreign rates. In addition, there were reports that members of the Organization of Petroleum Exporting Countries (OPEC) were beginning to diversify their liquid asset holdings—moving an increased volume of funds into continental European currencies. As the dollar dropped sharply against European currencies through year-end, the System again sold substantial amounts of foreign currencies.

Of the total sales of foreign currencies during the year, $761 million equivalent was financed by drawings on the Federal Reserve's swap lines with foreign central banks. Through subsequent pur-

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FEDERAL RESERVE SALES (−) AND PURCHASES OF FOREIGN CURRENCIES, 1974

Millions of dollars equivalent

Currency	Q1	Q2	Q3	Q4	Year
German marks	28.0 −279.1	206.7 −130.4	214.5 −112.4	136.2 −418.2	585.4 −940.1
Swiss francs	228.5	....	....	[1] 31.6 −39.0	260.1 −39.0
Dutch guilders	....	....	7.6 −7.6	34.6 −38.1	42.2 −45.7
Belgian francs	7.0 −16.8	....	2.2 −6.9	13.2 −13.7	22.4 −37.4
Total	263.5 −295.9	206.7 −130.4	224.3 −126.9	215.6 −509.0	910.1 −1,062.2

[1] Of which $25.8 million equivalent was purchased directly from the Swiss National Bank.

chases of foreign exchange, the System was able to repay $725 million equivalent of swap drawings over the course of the year. At the year-end outstanding System swap indebtedness totaled $1,462 million equivalent, up from $1,427 million equivalent on December 31, 1973.

The only drawing by a foreign central bank on its swap line with the Federal Reserve was by the Bank of Mexico, which drew $180 million in August and fully repaid that amount in November.

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Voluntary Foreign Credit Restraint and Capital Flows Abroad

On January 29, 1974, the Board announced the termination of its Voluntary Foreign Credit Restraint (VFCR) guidelines. The program based on these guidelines had been designed to restrain foreign lending and foreign investment by banks and other financial institutions in order to protect the U.S. balance of payments. The VFCR was ended in conjunction with actions taken by the Treasury Department to reduce the interest-equalization tax to zero and by the Department of Commerce to terminate its foreign direct investment restrictions. The Federal Reserve System had administered the VFCR program since early 1965 at the request of the administration.

In order to monitor capital flows in the wake of the lifting of the several sets of restrictions, the Board asked banks and other financial institutions to continue during 1974 to report their foreign lending and investments to the Board, but in reduced detail. In keeping with

FOREIGN ASSETS OF U.S. BANKS

Item	1973, Dec. 31	Increase, or decrease (−), 1974				1974, Dec. 31
		Q1	Q2	Q3	Q4	
Number of reporting banks	230	11	1	4	−3	241
	Millions of dollars					
Total assets	19,392	4,066	5,674	1,855	3,465	34,452
Less: Assets held for account of customers	2,314	632	58	−157	503	3,350
Assets held for own account	17,078	3,434	5,616	2,012	2,962	31,102
Export credits	• 6,252	−411	20	52	466	6,379
Financial leases	170	27	4	12	5	218
Investments in foreign subsidiaries	1,629	99	129	93	275	2,255

• Partly estimated.

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the form of restraint that had applied to U.S. agencies and branches of foreign banks, those institutions were also requested to report their foreign liability positions.

In 1974 gross foreign assets held for own account by U.S. banks increased $14 billion to reach a level of $31 billion. This was a marked increase over 1973, when such assets increased by $2.5 billion. All but $200 million of the 1973 increase occurred in classes of assets that had not been subject to restraint, principally export credits and Canadian assets. The $14 billion increase in the foreign assets of U.S. banks in 1974 was to a large extent offset by an increase in their liabilities (excluding U.S. Treasury bills and certificates) to foreigners other than official foreign institutions, according to data reported by U.S. banks to the Treasury Department.

U.S. agencies and branches of foreign banks reported that their holdings of foreign assets held for own account increased in 1974 by $3.5 billion compared with the $3.7 billion increase in 1973. Foreign liabilities of these institutions increased in 1974 by $4.7 billion, so in 1974 there was a net capital inflow through these institutions of $1.2 billion.

FOREIGN ASSETS AND FOREIGN LIABILITIES OF U.S. AGENCIES AND BRANCHES OF FOREIGN BANKS

Item	1973, Dec. 31	Increase, or decrease (−), 1974				1974, Dec. 31
		Q1	Q2	Q3	Q4	
Number of reporting banks	75	4	5	3	1	88
	Millions of dollars					
Total assets	8,906	1,142	1,642	106	942	12,738
Less: Assets held for account of customers	399	123	296	−137	93	774
Assets held for own account	8,507	1,019	1,346	243	849	11,964
Export credits	2,303	123	158	308	85	2,977
Financial leases	....	....	....	....	....	....
Investments in foreign subsidiaries	....	....	....	....	....	....
Foreign liabilities	10,812	1,276	710	2,067	618	15,483
Net foreign position: Assets held for own account less liabilities	−2,305	−258	636	−1,283	230	−3,520

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Legislation Enacted

Depositary institutions amendments

An Act of Congress approved October 28, 1974 (Public Law 93–495), among other things:

(1) Provides full deposit insurance for public units up to $100,000;

(2) Increases deposit insurance for individual accounts from $20,000 to $40,000;

(3) Requires bank regulatory agencies to issue bank security regulations similar to those of the Securities and Exchange Commission;

(4) Extends the flexible interest rate control authority from December 31, 1974, to December 31, 1975;

(5) Increases the dollar limit for construction of Federal Reserve Bank branches from $60 million to $140 million;

(6) Extends from October 31, 1973, to October 31, 1975, the authority of the Federal Reserve Banks to purchase Treasury obligations directly from the Treasury Department;

(7) Extends the cease-and-desist authority of the Board of Governors to include bank holding companies and their nonbank subsidiaries;

(8) Establishes a 26-member National Commission of Electronic Fund Transfers to conduct a thorough study and investigation and to recommend administrative action and legislation in connection with the development of private and public fund transfers, with all Federal agencies directed to furnish the Commission with any information or data it requires;

(9) Amends the Truth in Lending Act, principally by—

(a) Enacting the Fair Credit Billing Act, which, effective October 28, 1975, provides for semiannual disclosure to consumers of their fair credit billing rights and establishes specific procedures by which creditors must acknowledge and resolve a consumer's billing error complaint;

(b) Providing that advertisements for consumer credit repayable in more than four instalments shall state clearly and conspicuously that credit costs are included in the quoted price;

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(c) Exempting agricultural credit transactions in excess of $25,000;

(d) Limiting a consumer's right of rescission to 3 years notwithstanding the creditor's failure to provide required disclosures;

(e) Exempting from liability under the Act any good faith act or omission in conformity with any rule, regulation, or interpretation by the Board;

(f) Providing a single recovery for multiple failures to disclose in connection with a single account under an open-end consumer credit plan;

(g) Making creditors who fail to comply with requirements of the Act subject to liability for damages to consumers, and setting recovery limits for individuals and class actions; and

(h) Adjusting the criminal sanctions for the fraudulent use of a credit card;

(10) Enacts the Equal Credit Opportunity Act, which, effective October 28, 1975, prohibits discrimination based upon sex and marital status in credit transactions, and requires the Board to make necessary implementing regulations; and

(11) Provides that the proceeds of abandoned traveler's checks, money orders, and similar instruments escheat to the State where purchased.

Federal Trade Commission Improvements Act

An Act of Congress approved January 4, 1975 (Public Law 93–637), requires the Board of Governors and other Federal authorities that regulate financial institutions to establish a separate division of consumer affairs. Such divisions are directed to act upon complaints of unfair or deceptive acts or practices by banks subject to their jurisdictions. The Office of Saver and Consumer Affairs was established by the Board of Governors in 1974 in compliance with this statutory mandate. (See page 86 of this REPORT.)

The Board of Governors is also required to promulgate regulations dealing with unfair or deceptive acts or practices of banks. The Act provides that whenever the Federal Trade Commission finally adopts an unfair or deceptive acts-or-practices rule, the Board must then promulgate within 60 days substantially similar regulations relating

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to banks. The Board need not adopt a similar regulation if it finds either that such acts or practices of banks are not unfair or deceptive or that implementation of similar regulations with respect to banks would seriously conflict with essential monetary and payments systems policies. However, the Board is required to publish in the *Federal Register* the reasons for its decision.

Internal Revenue Code amendments

Two Acts of Congress passed in 1974 amend the Internal Revenue Code of 1974. An Act approved January 3, 1975 (Public Law 93–625), among other things, increases from 6 per cent to 9 per cent the rate paid by taxpayers on tax deficiencies and provides that such rate be adjusted on the basis of the prime rate quoted by commercial banks to large business, as determined by the Board of Governors. An Act approved October 26, 1974 (Public Law 93–483), permits individuals to deduct from gross income those amounts forfeited to depositary institutions as a penalty for premature withdrawal of funds.

Obligations of bank holding companies

An Act of Congress approved October 29, 1974 (Public Law 93–501):

(1) Amends Section 19(a) of the Federal Reserve Act to authorize the Board of Governors to define obligations issued to an affiliate of a member bank as deposits, regardless of the use of the proceeds, with exceptions for bank holding companies that have filed (prior to the Act) irrevocable declarations to divest themselves of all banks, and for debt obligations that are exempted securities under the Securities Act of 1933;

(2) Establishes an interest rate ceiling on certain business and agricultural loans of $25,000 or more; and

(3) Prohibits Federally insured depositary institutions or affiliates from asserting (with respect to deposits or obligations) any right under State laws regulating interest rates (State usury ceilings).

Commodity Futures Trading Commission Act

An Act of Congress approved October 23, 1974 (Public Law 93–463), amends the Ccmmodity Exchange Act of 1936 to, among other

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things, establish a new independent Federal agency, the Commodity Futures Trading Commission; strengthen the regulation of futures trading; bring all agricultural and other commodities traded on exchanges under regulation; require registration of commodity trading advisers and commodity pool advisers; and to authorize the newly created Commission to regulate leverage-contract or margin-account transactions for delivery of silver bullion, gold bullion, bulk silver coins, or bulk gold coins.

International Development Association Act amendments

An Act of Congress of August 14, 1974 (Public Law 93–373), amends the International Development Association Act of 1960 to permit, among other things, U.S. citizens to purchase, hold, sell, or otherwise deal with gold.

Second Liberty Bond Act amendment

An Act of Congress approved June 30, 1974 (Public Law 93–325), amends Section 21 of the Second Liberty Bond Act to provide for a temporary increase in the public debt of $95 billion, to a total of $495 billion, for the period June 30, 1974–March 31, 1975.

Freedom of Information Act amendments

An Act of Congress approved November 21, 1974 (Public Law 93–502), amends the Freedom of Information Act of 1967 to, among other things, require every Federal agency to:

(1) Maintain, make available for public inspection and copying, and publish current indexes of agency matters;

(2) Specify a uniform intra-agency schedule of fees, limited to reasonable standard charges for direct costs, for document search and duplication;

(3) Determine within 10 days after receipt of any request for records whether to comply with such request and then notify the person making the request of its determination and reasons and the person's appeal rights; and

(4) Comply with specific procedures including time limitations set forth for district court litigation (including penalty for noncompliance with court orders), administrative appeal, and judicial review.

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Real Estate Settlement Procedures Act

An Act of Congress approved December 22, 1974 (Public Law 93–533), among other things:

(1) Requires that a standard real estate settlement form be developed in compliance with Truth in Lending Act requirements, for nationwide use in all transactions that involve Federally related mortgage loans (the form must clearly and conspicuously itemize all settlement charges imposed upon the buyer and upon the seller);

(2) Provides for greater disclosure of the nature and costs of real estate settlement services;

(3) Requires lenders to provide prospective borrowers with an itemized written disclosure of each settlement charge at least 12 calendar days prior to settlement;

(4) Requires lenders to confirm that the seller has disclosed in writing to the buyer the previous selling price of existing real property;

(5) Prohibits the payment of kickbacks and unearned fees in connection with settlement services and prohibits imposition of a fee for preparation of Truth in Lending statements in Federally related mortgage transactions; and

(6) Places limitations on requirements of advance deposits in escrow accounts for taxes and insurance premiums in connection with Federally related mortgage loans.

Housing and Community Development Act

An Act of Congress approved August 22, 1974 (Public Law 93–383), among other things, consolidates, simplifies, and improves laws relating to housing and housing assistance; amends Section 24 of the Federal Reserve Act relating to real estate loans by national banks; and provides Federal assistance in support of community development activities.

Congressional Budget and Impoundment Control Act

An Act of Congress approved July 12, 1974 (Public Law 93–344), establishes a budget committee in the House of Representatives and in the Senate and a congressional budget office to assist the committees; changes the beginning date of the fiscal year from July 1 to

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Federal Reserve Bank of St. Louis

October 1 beginning in 1976; sets certain dates and procedures for budget submissions, revisions, and reconciliations, pursuant to concurrent resolution; prohibits Presidential impoundment of funds without congressional approval; and directs that a study be undertaken of off-budget activities with recommendations for their termination.

Defense Production Act amendments

An Act of Congress approved September 30, 1974 (Public Law 93–426), extends the Defense Production Act of 1950 (Section 301 of which is the basis for guarantees of loans for defense production) through June 30, 1975. Earlier actions had provided extensions through September 30, 1974 (Act of August 7, 1974, Public Law 93–367), and through July 30, 1974 (Act of June 30, 1974, Public Law 93–323).

Emergency Home Purchase Assistance Act

An Act of Congress approved October 18, 1974 (Public Law 93–449), amended Section 10(b) of the Federal Reserve Act (12 U.S.C. Sec. 347b) to authorize Federal Reserve Banks to make advances to a member bank at the lowest discount rate for its time notes that are secured by mortgages on 1- to 4-family residences.

Other

An Act of Congress approved October 11, 1974 (Public Law 93–441), authorizes the Secretary of the Treasury to change the composition of the copper-zinc alloy of the 1-cent piece whenever necessary and amends the Bank Holding Company Act Amendments of 1970 to authorize the Secretary to make grants to Eisenhower College from the proceeds of the sale of coins bearing President Eisenhower's likeness.

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Legislative Recommendations

Banking supervision and regulation

In the light of developments over the past 2 years, the Board of Governors has been considering measures to improve the performance of banking and bank regulation. Some recommendations in this field were recently transmitted to the Congress, and the Board's study in this field is continuing. Other recommendations will be sent to the Congress as the Board completes its review in each specific area. Areas under review, among others, include banking structure, bank examination, bank capitalization, transactions with insiders and affiliates, and penalties for statutory and regulatory violations.

The following two sets of recommendations were sent to the Congress earlier this year:

a. Acquisition by holding company of a "failing bank." On February 19, 1975, the Board of Governors sent to the Congress draft legislation that would: (1) allow the Board to approve promptly an acquisition, consolidation, or merger under Section 3 of the Bank Holding Company Act when the bank or bank holding company to be acquired is in severe financial difficulty; and (2) grant the Board authority to approve an acquisition of a bank across State lines when the Board determines that a large bank, or a bank holding company controlling a large bank, is in severe financial difficulty.

The first recommendation parallels existing authority in the Bank Merger Act (12 U.S.C. Section 1828(c)). It provides that comments by a bank supervisory agency concerning a proposed acquisition of a bank or a bank holding company in an emergency situation may be requested to be submitted in 10 days rather than 30 days, and that the time delay for consummation would be 5 days instead of 30 days. The Board would also be authorized to waive the waiting periods and notice and hearing provisions entirely and to act immediately when it determines that action is necessary to prevent the probable failure of a bank or bank holding company.

The second recommendation deals with a related problem. It provides that in certain emergency and failing bank situations, an

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out-of-State bank holding company may apply to acquire a problem bank. Under existing law, out-of-State acquisitions by a bank holding company are prohibited unless the acquisition is specifically sanctioned by State law. Since no State has enacted a law specifically permitting such an acquisition, remedial Federal legislation is in order to deal with emergency situations. The Board plans to use this authority only in cases when the size or other special characteristics of a problem bank or bank holding company and the probable widespread effects of its failure warrant invoking an exception to the general policy set out in the present law.

Both recommendations give Federal banking authorities necessary flexibility in resolving problem bank situations in the public interest.

The proposed legislation also includes an amendment to Section 7 of the Bank Holding Company Act, which is intended to deal with cases when a State statute might otherwise effectively prohibit an acquisition by an out-of-State bank holding company. The proposed amendment provides that once the Board approves a multistate acquisition under the emergency or failing bank provision, the State is required to allow the acquisition of and the operation of the bank by the bank holding company regardless of any provisions of State law that would otherwise restrict the operations of the bank or bank holding company involved, unless the State law is one that prohibits multibank holding companies and consummation of the proposal would result in the applicant having more than one banking subsidiary in that State.

b. Regulation of foreign banks. On March 4, 1975, the Board of Governors sent to the Congress draft legislation to establish a national policy on foreign banks operating in the United States and to provide a system of Federal regulation and supervision of those operations.

The draft bill was the outgrowth of the work of the System Steering Committee on International Banking Regulation, which the Board established in February 1973. Part of the committee's assignment was to review the activities of foreign banks in this country because of their growing importance in the functioning of U.S. money and credit markets and their increasing impact on the structure of the banking system. As a result of that review, the Board is convinced that the time has come for the establishment of a national policy on the entry

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Federal Reserve Bank of St. Louis

and operations in the United States of foreign banking institutions.

The underlying principle embodied in the draft legislation is national treatment, or mutual nondiscrimination, a principle long advocated by the United States in its international economic and financial relations. Following this principle the legislation would subject the entry and activities of foreign banks to the same rules and regulations as comparable domestic banking institutions. The legislation would also provide for a Federal presence in the licensing and supervision of foreign bank operations in order to assure uniformity of treatment and a national approach to multinational banking issues.

The principal provisions of the draft legislation are the following:

1. Coverage. The scope of coverage of the Bank Holding Company Act would be redefined to include branches and agencies—as well as subsidiaries that are presently covered—of foreign banks, bringing nearly all foreign banks with depositary and lending functions in the United States under the Bank Holding Company Act.

2. National treatment. In addition to bringing virtually all foreign bank operations in the United States under the Bank Holding Company Act, the Act would provide equality of treatment with respect to domestic banking by facilitating foreign ownership of national banks, by enabling the licensing of a Federally licensed branch, and by requiring insurance by the Federal Deposit Insurance Corporation of deposits in branches and agencies.

3. Entry alternatives. The National Banking Act would be amended to permit up to one-third of the directors of a national bank—all of whose directors must now be U.S. citizens—to be foreigners. The Comptroller would also be empowered to license branches of foreign banks to conduct a banking business in any State on essentially the same basis as a national bank.

4. Edge Act Corporations. The section of the Federal Reserve Act dealing with the establishment of Edge Act Corporations—subsidiaries of member banks in the United States that conduct international banking operations—would be amended to allow foreign banks to establish Edge Act Corporations, thereby enabling them to conduct an international banking and financing business throughout the United States on the same basis as domestic banks, without majority control by U.S. citizens.

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5. Federal Reserve membership. Membership would be required for branches, agencies, and subsidiaries of a foreign bank when the parent foreign bank had worldwide bank assets exceeding $500 million.

6. Grandfathering. Multistate banking operations of foreign banks established on or before December 3, 1974 (the date the legislation was originally introduced in the 93rd Congress), would be permanently grandfathered and could be expanded, where existing, in accordance with State law. Nonbanking interests of foreign banks covered by the legislation would also be permanently grandfathered if acquired on or before December 3, 1974. This includes securities affiliates of foreign banks in the United States.

7. Federal Government presence. To assure a consistent national policy toward foreign banks and to enable consideration of international financial relations in the entry of foreign banks, the draft legislation provides that a Federal banking license would have to be obtained for all banking facilities of foreign banks, whether organized or operating under State or Federal law. The Comptroller of the Currency is designated as the Federal licensing agent for this purpose. However, the Secretary of the Treasury would have to approve the issuance of any such license, and before granting approval he would be required to consult with the Secretary of State of the United States and the Board of Governors of the Federal Reserve System.

8. Exchange of information. To facilitate discussions and agreements with foreign authorities on multinational banking issues, a provision of the draft legislation authorizes the Federal supervisory authorities—the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, and the FDIC—to enter into mutual arrangements with foreign bank supervisory authorities for the interchange of information on banking institutions.

The following recommendations in the field of banking supervision and regulation, which were sent to the Congress in prior years, are repeated by the Board at this time:

c. Retention by holding company of bank stock acquired as a result of debt previously contracted. Section 4 of the Bank Holding Company Act authorizes the Board to extend from 2 to 5 years the time within which to dispose of stock in nonbanking organi-

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zations acquired by a holding company pursuant to a debt previously contracted. The reasons underlying that authorization seem equally applicable in the case of bank stock. Accordingly, the Board recommends that Section 3 be amended to parallel the provisions of Section 4 in this respect.

d. Loans to executive officers. Loans to executive officers of member banks are subject to restrictions under Section 22(g) of the Federal Reserve Act. The concern over possible self-dealing and conflict of interest that may be harmful to the banking system, which is the basis for these restrictions, is also applicable to loans by both member and nonmember bank subsidiaries of bank holding companies to executive officers of both holding companies and other bank and nonbank subsidiaries of holding companies, and the Board recommends an appropriate extension of these restrictions.

e. Interlocking relationships. Section 8 of the Clayton Act generally prohibits interlocking relationships between a member bank and any other bank located in the same or an adjacent community. During 1970 the Federal Reserve System made an extensive review of interlocking bank relationships and concluded that Section 8 should be amended in several respects to protect the public against situations arising in which the risk of abuse of an interlocking relationship outweighs the likelihood of benefit. The major extension favored by the Board would apply the prohibition to interlocks between any depositary institutions in the same or an adjacent community, with an appropriate delay to permit a gradual phasing out of prohibited relationships.

In one respect the Board considers the existing law to be unnecessarily restrictive. The law presently prohibits interlocking service as a "director, officer, or employee." The Board believes that the purpose of the law would be better served by limiting the applicability of the prohibition to service as a "director or an officer or an employee with management functions."

f. Loans to bank examiners. Title 18 of the U.S. Code, "Crimes and Criminal Procedure," prohibits loans to a bank examiner by any bank that the examiner is authorized to examine. For several years the Board has favored modification of this prohibition to permit a Federally insured bank to make a home mortgage loan to a bank

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examiner under appropriate statutory safeguards. The Board also believes that a bank examiner may experience difficulties in being prevented from obtaining other forms of bank credit, such as loans to finance the education of children, automobile loans, home improvement loans, credit-card loans, and other types of consumer credit. For that reason, the Board favors legislation to permit loans to a bank examiner to be made in accordance with regulations prescribed by the agency employing the examiner.

Monetary policy

a. Reserve requirements. The Board of Governors recommends that reserve requirements set by the Federal Reserve be extended to certain deposits in nonmember financial institutions.

The Board believes that better control over the flow of money and credit in the economy would be achieved by uniform reserve requirements, and that a more equitable sharing of the reserve requirements burden among financial institutions that offer similar deposit service would result. The basic principle underlying this recommendation is that equivalent cash reserve requirements should apply to all deposits that effectively serve as a part of the public's money balances, regardless of the type of institution that holds those balances.

There would be no requirement that nonmember institutions must join the Federal Reserve System.

The Board's recommendation will improve control over money and credit and will foster equity among financial institutions.

b. Lending authority of Federal Reserve Banks. As a complement to the Board's recommendation regarding the extension of reserve requirements to certain deposits in nonmember financial institutions, the Board again urges enactment of legislation that would permit institutions to borrow from their Reserve Banks on the security of any sound assets without paying a "penalty" rate of interest whenever technically ineligible paper is presented as collateral. Under Section 13 of the Federal Reserve Act, Federal Reserve Banks may extend short-term credit to member banks on their promissory notes secured by obligations eligible either for purchase or for discount by the Reserve Banks.

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Obligations eligible for purchase include those issued or fully guaranteed as to principle and interest by the United States or any agency thereof, cable transfers, bank acceptances, bills of exchange, and certain municipal warrants. Obligations eligible for discounting are limited to notes that are issued or drawn for agricultural, industrial, or commercial purposes and that have a maturity at the time of discount of not more than 90 days (or 9 months in the case of agricultural paper).

Under Section 10(b) Reserve Banks are authorized to extend credit to member banks secured simply by collateral viewed as satisfactory by the Reserve Banks. However, Section 10(b) also provides that such credit extensions "shall bear interest at a rate not less than one-half of 1 per centum per annum higher than the highest discount rate in effect" at the Reserve Bank making the loan. (Recent legislation authorized an exception, by providing that advances by Reserve Banks to member banks for mortgages on 1- to 4-family homes were to be made at the basic lending rate.) The result is that many perfectly sound member bank loans cannot qualify as security for Federal Reserve advances except at the penalty rate of interest prescribed in Section 10(b). This is true even though the quality of the "ineligible" collateral may be equal to that of presently "eligible" paper.

Consumer affairs and public service

a. Truth in Lending. In its Annual Report on Truth in Lending (pages 268–77), the Board submitted draft legislation designed to remedy consumer leasing circumventions of cost disclosure requirements.

Consumer leasing is becoming a popular alternative to credit sales in connection with consumer durable goods. The Board is concerned that there are no effective disclosure requirements governing these leases. Presently, the Truth in Lending Act has potential application only to those leases that contain an option to purchase and when the purchase price under that option is nominal. Many consumer leases do not contain such an option, yet the lessee is responsible for the value of the commodity leased at the end of the lease term.

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Federal Reserve Bank of St. Louis

The Board's draft legislation would require aggregate cost disclosures in consumer lease advertising and at the time the lease is consummated, regardless of whether the lessee has a purchase option under the lease. The Board considers these disclosures to be essential if consumers are to intelligently compare lease arrangements and competing credit sales transactions. The provisions of the recommended legislation generally mirror Truth in Lending Act disclosure requirements, incorporate some leasing requirements of the Uniform Consumer Credit Code, and place a limitation on the consumer's liability for the residual value of the leased commodity when its value falls below the depreciated value stated in the contract.

b. Bank investments for community development. As leading institutions in their communities, banks are expected to participate in programs for the improvement of the community. In some cases this responsibility can be fulfilled by contributing funds or services. In others, the appropriate form of participation is an investment in stock of a corporation established for a particular purpose, such as to promote the economic rehabilitation and development of low-income areas. In the Board's judgment, limited investments in such corporations are in the public interest and should be encouraged by appropriate legislation.

Enactment of the sweeping Housing and Community Development Act of 1974 (Public Law 93–383) can be expected to achieve some of the objectives of community improvement, particularly in the area of housing for low- and lower-income families. The Board believes, however, that authorization should be granted to cover investments in community corporations that could engage more broadly in community welfare, regardless of whether established by private or governmental authorities. To assure that such investments do not have an adverse effect on the soundness of the Nation's banks, investments would be regulated by the Comptroller of the Currency, the Board of Governors, and the FDIC with regard to banks under their respective jurisdictions.

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Litigation

Bank holding companies—Antitrust action

At the end of 1974 only one case was outstanding that involved a challenge by the U.S. Department of Justice under the antitrust laws of the United States to prevent consummation of bank acquisitions by a registered bank holding company as previously approved by the Board. The Department of Justice alleges that the acquisitions will substantially lessen competition, or will tend to create a monopoly in violation of Section 7 of the Clayton Act (15 U.S.C. 18). A description of the case follows:

United States v. *Michigan National Corporation, et al.*, filed June 13, 1974, U.S.D.C. for the Eastern District of Michigan. The Department of Justice filed this suit to prevent consummation by Michigan National Corporation, Bloomfield Hills, Michigan, of the acquisition of two banks in Saginaw and Grand Rapids, Michigan. The acquisition was approved by the Board in October 1973 (Federal Reserve *Bulletin* for November 1973, page 819).

The Justice Department filed suit against this acquisition and against the acquisition of two other banks in Lansing and Wyandotte, Michigan, by Michigan National in November 1973, alleging (1) elimination of existing competition and of the potential for increased competition and (2) increased concentration of commercial banking in the relevant markets in violation of Federal antitrust laws. The court dismissed these earlier suits as premature since the Comptroller of the Currency had not approved the proposed mergers. The Comptroller then acted on two of the four proposed mergers, and the Department of Justice has brought suit again on the same grounds. Since that time the Supreme Court has reversed the district court decision, thereby permitting the Justice Department to bring antitrust actions before the Comptroller grants final approval to the bank mergers.

Bank holding companies—Review of Board actions

During 1974 the Board was named in 21 lawsuits as compared with 22 filed during 1973. Nineteen of the actions filed in 1974 raise

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questions under the Bank Holding Company Act. On January 1, 1975, 22 cases were pending, 20 of which raise issues under the Bank Holding Company Act.

During 1974 the courts issued opinions favorable to the Board in 6 cases and summarily dismissed 10 others, thereby upholding Board Orders. In addition, one case was remanded to the Board for further action. A brief description of each case that remains pending or that was disposed of during 1974 follows:

In ***National Association of Insurance Agents, Inc.*** v. ***Board of Governors,*** filed September 1971, U.S.C.A. for the District of Columbia Circuit, petitioner asked the court to review and set aside a regulatory action by the Board to simplify certain procedures in connection with applications under Sections 3(a)(1) and 4(c)(8) of the Bank Holding Company Act. In December 1971 the Board suspended the operation of that regulatory action as it relates to Section 4(c)(8) and published proposed regulatory amendments that include modifications of the suspended procedures. (For the action establishing the procedures, see the Federal Reserve *Bulletin* for September 1971, page 723; for the proposed amendments, see the *Federal Register* for December 28, 1971, page 25048.) In April 1974, after an extended period during which court action was suspended pending further Board action establishing simplified procedures, the court granted petitioner's unopposed motion to dismiss. The dismissal was without prejudice, so the petitioner would be able to refile the suit should the Board again implement these same simplified procedures.

In ***Gravois Bank, et al.*** v. ***Board of Governors,*** filed July 1972, the U.S.C.A. for the Eighth Circuit, in a decision filed April 27, 1973, remanded the case to the Board for further consideration (478 F. 2d. 546, Eighth Cir. 1973). The court held that the Federal Reserve Bank of St. Louis, acting pursuant to delegated authority in approving the application of Manchester Financial Corporation, St. Louis, Missouri, to acquire the National Bank of Affton, Affton, Missouri, a proposed new bank, had failed to consider whether the acquisition would violate Missouri's law prohibiting branch banking. The Board reconsidered the application, including the branching issue, and entered an Order approving the acquisition in April 1974.

In ***Anthony R. Martin-Trigona*** v. ***BankAmerica Corporation, et al.,*** filed August 1973, U.S.D.C. for the District of Columbia,

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plaintiff brought an action challenging the acquisition, approved by the Board, of GAC Finance, Inc., Allentown, Pennsylvania, by BankAmerica Corporation, San Francisco, and seeking to compel the Department of Justice to bring suit under the antitrust laws of the United States to block this acquisition. The court dismissed this action in March 1974.

In *Memphis Bank and Trust Company* v. *Board of Governors,* filed January 1974, U.S.C.A. for the District of Columbia Circuit, petitioner requested the court to review and set aside a Board Order, dated December 21, 1973, granting the application of First Amtenn Corporation, Nashville, Tennessee, to acquire City National Bank of Memphis, Memphis, Tennessee, a proposed new bank. (See the *Federal Register* for January 4, 1974, page 1123.) On motion of the petitioners, the court dismissed this case in March 1974.

In *National Association of Life Underwriters, et al.* v. *Board of Governors,* filed February 1974, U.S.C.A. for the District of Columbia Circuit, petitioners requested the court to review and set aside a Board Order, dated January 28, 1974, granting the application by Worcester Bancorp, Inc., Worcester, Massachusetts, to engage *de novo* in certain insurance activities, including the sale of credit life insurance, credit accident and health insurance, and mortgage redemption insurance. (See the *Federal Register* for February 5, 1974, page 4618.) On motion of the petitioners, the court dismissed this case in April 1974.

In *NCNB Corporation* v. *Board of Governors,* filed April 1973, U.S.C.A. for the District of Columbia Circuit, petitioner has requested the court to review and set aside a Board Order (Federal Reserve *Bulletin* of May 1973, page 305) permitting petitioner to engage in a general trust business in South Carolina to the extent permitted by State law. The court granted petitioner's motion to hold this proceeding in abeyance pending the outcome of a suit filed by petitioner in the U.S.D.C. for the District of South Carolina challenging the constitutionality of the State statute restricting trust company activities of out-of-State banking organizations. The district court recently declared the South Carolina statute to be unconstitutional. Petitioner has requested the Court of Appeals to remand the case to the Board for further action consistent with the district court opinion.

In *Bankers Trust New York Corporation* v. *Board of Gov-*

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ernors, filed May 1973, U.S.C.A. for the Second Circuit, petitioner has requested the court to review and set aside a Board Order (Federal Reserve *Bulletin* for May 1973, page 364) denying petitioner's application to engage in investment advisory activities through a newly formed subsidiary corporation at Palm Beach, Florida. The First National Bank in Palm Beach and The Florida Bankers Association have been granted leave to intervene. In October 1973 the court granted petitioner's motion to hold the proceedings in abeyance until 40 days after the judgment of the U.S.D.C. for the Northern District of Florida in a suit filed by petitioner challenging the constitutionality of the Florida statute prohibiting out-of-State banking organizations from performing investment advisory activities in Florida, the statute on which the Board based its denial of petitioner's application.

In *Lake County National Bank* v. *Board of Governors,* filed August 1973, U.S.C.A. for the District of Columbia Circuit and in *Lorain County Savings and Trust Co.* v. *Board of Governors,* filed August 1973, U.S.C.A. for the District of Columbia Circuit, petitioners challenged four Board Orders, dated July 20, 1973, approving several related applications that effectuate the corporate reorganization of The Cleveland Trust Company, Cleveland, Ohio. (For the Board Orders see the *Federal Register* for July 30, 1973, page 20293.) In February 1974 the court granted petitioners' motion to hold the proceedings in abeyance until 40 days after the judgment of the Supreme Court of Ohio in a suit challenging, as a violation of State branch-banking laws, issuance of the State banking charters necessary for the reorganization of The Cleveland Trust Company. In May 1974 the Ohio Supreme Court decided that there was no violation of State branching laws, and the intervenor, Cleveland Trust Company, moved for dismissal of the suits before the U.S. Court of Appeals. The court, upon stipulation of the parties, dismissed one of the actions and, in July 1974, summarily affirmed the Board's Order in the other case.

In *East Lansing State Bank* v. *Board of Governors,* filed December 1973, U.S.C.A. for the Sixth Circuit, petitioner has asked the court to review and set aside a Board Order (Federal Reserve *Bulletin* of November 1973, page 819) permitting Michigan National Corporation to acquire four banks, including First National Bank of East Lansing, East Lansing, Michigan. The court has granted a stay

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of proceeding pending the outcome of a suit filed by the Justice Department challenging these acquisitions as violations of the Federal antitrust laws.

In *Anthony R. Martin-Trigona* v. *Board of Governors,* filed August 1973, U.S.C.A. for the District of Columbia Circuit, petitioner requested the court to review and set aside the Board action denying petitioner's request for a hearing in the matter of the application of BankAmerica Corporation, San Francisco, California, to acquire GAC Finance, Inc., Allentown, Pennsylvania. Petitioner also requested the court to review and set aside the Board Order (Federal Reserve *Bulletin* of September 1973, page 687) approving this acquisition. In a decision filed December 6, 1974, the court dismissed this action without prejudice, holding that petitioner had failed to show that he had standing before the court or standing to request participation in the proceedings before the Board.

In *Patagonia Corporation* v. *Board of Governors,* filed August 1973, U.S.C.A. for the Ninth Circuit, petitioner has requested the court to review and set aside a Board Order (Federal Reserve *Bulletin* of July 1973, page 539) concluding that petitioner is not entitled to indefinite "grandfather" privileges under Section 4(a)(2) of the Bank Holding Company Act with respect to certain nonbanking activities, including those of Pima Savings and Loan Association, Tucson, Arizona.

In *Cameron Financial Corporation* v. *Board of Governors,* filed August 1973, U.S.C.A. for the Fourth Circuit, petitioner requested the court to review and set aside a Board Order, dated July 20, 1973, concluding that petitioner is not entitled to indefinite grandfather privileges under Section 4(a)(2) of the Bank Holding Company Act with respect to its subsidiary, Courier Express Corporation. In June 1974 the court rendered a decision upholding the Board's interpretation. The court stated "that 'subsidiary' in Section 4(a)(2) does not refer to banking subsidiary" and, therefore, that petitioner is not entitled to indefinite grandfather privileges with respect to Courier Express Corporation by reason of its operation of that courier activity through a subsidiary bank on June 30, 1968.

In *Iowa Independent Bankers* v. *Board of Governors,* filed September 1973, U.S.C.A. for the District of Columbia Circuit, petitioner has requested the court to review and set aside a Board Order (see the *Federal Register* for August 9, 1973, page 21530)

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Federal Reserve Bank of St. Louis

permitting Northwest Bancorporation, Minneapolis, Minnesota, to acquire Bettendorf Bank and Trust, Bettendorf, Iowa, and Security State Bank, Keokuk, Iowa, on the ground that the Iowa statute permitting out-of-State holding companies to acquire Iowa banks is unconstitutional. The court granted Northwest Bancorporation leave to intervene in September 1973.

In *Independent Bankers Association of Georgia* v. *Board of Governors,* filed September 1973, U.S.C.A. for the District of Columbia Circuit, petitioner has requested the court to review and set aside a Board Order, dated August 31, 1973, permitting Citizens and Southern Holding Company, Atlanta, Georgia, to engage *de novo* in mortgage banking activities. Citizens and Southern Holding Company has been granted leave to intervene.

In *American Bancorporation, et al.,* v. *Board of Governors,* filed September 1973, U.S.C.A. for the Eighth Circuit, and in *Springsted, Inc., et al.* v. *Board of Governors,* filed September 1973, U.S.C.A. for the Eighth Circuit, petitioners asked the court to review and set aside the Board Order (Federal Reserve *Bulletin* of September 1973, page 701) approving the acquisition by Northwest Bancorporation, Minneapolis, Minnesota, of T. G. Evensen & Associates, Inc., Minneapolis, Minnesota. In December 1974 the court issued its decision, holding that the Board's amendment to its regulation permitting bank holding companies to act as investment advisers, which amendment specifically authorizes the offering of such investment advice to State and local governments, was interpretive in nature and not subject to requirements of public notice and of opportunity to comment. The court also held, however, that petitioners had raised adjudicative issues before the Board and were entitled to a formal hearing. The court, therefore, vacated the Board's Order and instructed the Board to conduct a formal hearing.

In *Independent Bankers Association of America, Inc.* v. *Board of Governors,* filed December 1973, U.S.C.A. for the District of Columbia Circuit, and in *National Courier Association, et al.* v. *Board of Governors,* filed December 1973, U.S.C.A. for the District of Columbia Circuit, petitioners have sought judicial review of a Board regulation (Federal Reserve *Bulletin* of December 1973, page 892) determining that certain courier service activities are so closely related to banking or managing or controlling banks as to be a proper incident thereto, and are therefore permissible activities for bank

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holding companies (12 CFR 225.4(a)(11)). The two suits have been consolidated, and Cameron Financial Corporation has been granted leave to intervene.

In *Old Kent Financial Corporation* v. *Board of Governors,* filed February 1974, U.S.C.A. for the District of Columbia Circuit, petitioner has requested the court to review and set aside a Board Order (Federal Reserve *Bulletin* of February 1974, page 133) denying petitioner's application to acquire National Lumberman's Bank and Trust Company, Muskegon, Michigan. In April 1974 the court remanded the matter to the Board for the limited purpose of allowing petitioner to file a motion for reconsideration before the Board. Such a motion was filed, and on August 9, 1974, the Board decided to reconsider petitioner's application.

In *Financial General Bankshares, Inc.* v. *Board of Governors,* filed March 1974, U.S.C.A. for the District of Columbia Circuit, petitioner has sought judicial review of a Board denial of petitioner's request for reconsideration of a condition imposed by the Board Order (Federal Reserve *Bulletin* of September 1973, page 678) approving petitioner's application to acquire Second National Bank of Richmond, Richmond, Virginia. The condition imposed by the Board, and which petitioner has requested the Board to reconsider, is the termination of control of petitioner by International Bank, Washington, D.C.

In *The Exchange National Bank of Jefferson City, et al.* v. *Board of Governors,* filed March 1974, U.S.C.A. for the Eighth Circuit, petitioners requested the court to review and set aside a Board Order (Federal Reserve *Bulletin* of March 1974, page 224) granting the application of United Missouri Bancshares, Inc., Kansas City, Missouri, to acquire United Missouri National Bank of Jefferson City, Jefferson City, Missouri, a proposed new bank. On motion of the petitioners, the court dismissed this case in July 1974.

In *The Adair Corporation* v. *Board of Governors,* filed April 1974, U.S.C.A. for the Eighth Circuit, petitioner requested the court to review and set aside a Board Order (Federal Reserve *Bulletin* of April 1974, page 309) denying petitioner's application to become a bank holding company through acquisition of Exchange State Bank, Adair, Iowa. On motion of petitioner, the court dismissed this case November 1974.

In *North Hills Bank, et al.* v. *Board of Governors,* filed April

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1974, U.S.C.A. for the Eighth Circuit, petitioner requested judicial review of a Board Order (Federal Reserve *Bulletin* of April 1974, page 294) approving the application of Mercantile Bancorporation, Inc., St. Louis, Missouri, to acquire Mercantile National Bank of Clay County, a proposed new bank. In an opinion filed November 14, 1974, the court upheld the Board's Order. The court found no dispute in the facts of the case and held, therefore, that the Board's judgment and conclusions must prevail and that the Board properly applied the standards of the Bank Holding Company Act.

In *National Automobile Dealers Association, Inc.* v. *Board of Governors,* filed April 1974, U.S.C.A. for the D.C. Circuit, petitioner has sought judicial review of a Board Order (Federal Reserve *Bulletin* of April 1974, page 284) amending the Board's Regulation Y to modify the scope of personal property leasing, which is an activity previously determined to be "so closely related to banking or managing or controlling banks as to be a proper incident thereto."

In *George Brice, Jr., et al.* v. *Board of Governors,* filed April 1974, U.S.C.A. for the Ninth Circuit, petitioners have requested the court to review and set aside a Board Order (Federal Reserve *Bulletin* of May 1974, page 371) granting the application of Orbanco, Inc., Portland, Oregon, to acquire Security Bank of Oregon, Portland, Oregon. Orbanco has been granted leave to intervene.

In *The First National Bank of St. Charles, et al.* v. *Board of Governors,* filed April 1974, U.S.C.A. for the Eighth Circuit, petitioners have requested the court to review and set aside a Board Order, dated April 17, 1974, approving the request of Mark Twain Bancshares, Inc., Clayton, Missouri, to acquire Mark Twain O'Fallon Bank, O'Fallon, Missouri, a proposed new bank. (See the *Federal Register* for April 25, 1974, page 14644.) Both Mark Twain Bancshares, Inc., and Mark Twain O'Fallon Bank have been granted leave to intervene.

In *Investment Company Institute* v. *Board of Governors,* filed May 1974, U.S.D.C. for the District of Columbia, plaintiff has requested the court to enjoin the Board from continuing to approve applications permitting bank holding companies to act as investment advisers to investment companies under Section 225.4(a)(5) of the Board's Regulation Y. In addition, plaintiff has requested that the court order the Board to set aside or rescind all previous Orders permitting bank holding companies to engage in such activity.

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In *Bank of Commerce, et al.* v. *Board of Governors,* filed June 1974, U.S.C.A. for the Tenth Circuit, petitioner has requested the Board to review and set aside the Board Order approving the application of Wyoming Bancorporation, Cheyenne, Wyoming, to acquire Bank of Wyoming, N.A., Sheridan, Wyoming, a proposed new bank. (See the *Federal Register* for May 10, 1974, page 16935.) A similar action has been pending for some months against the Comptroller of the Currency, alleging error in the granting of the proposed new bank charter.

In *Alabama Association of Insurance Agents, et al.* v. *Board of Governors,* filed July 1974, U.S.C.A. for the Fifth Circuit, petitioners have requested the court to review and set aside the Board's Order (Federal Reserve *Bulletin* of August 1974, page 596) approving the application of The Alabama Financial Group, Inc. (now Southern Bancorporation), to engage in certain insurance agency activities. Southern Bancorporation and the Committee to Preserve Consumer Options have been granted leave to intervene.

In *Georgia Association of Insurance Agents, et al.* v. *Board of Governors,* filed October 1974, U.S.C.A. for the Fifth Circuit, petitioning national and State associations of independent insurance agents have sought judicial review of the Board's Order approving the application of First National Holding Company, Atlanta, Georgia, to engage in certain insurance agency activities. (See the *Federal Register* for September 17, 1974, page 33414.) First National has been granted leave to intervene.

In *West Virginia Bankers Association, et al.* v. *Board of Governors,* filed August 1974, U.S.C.A. for the Fourth Circuit, petitioners have sought judicial review of the Board's Order permitting Intermountain Bankshares Company, Charleston, West Virginia, to become a bank holding company through acquisition of Kanawha Banking & Trust Company, N.A., Charleston, West Virginia, and Community Bank & Trust Company, N.A., Fairmont, West Virginia. (See the *Federal Register* for August 8, 1974, page 28566.) The Board in its Order had interpreted a West Virginia statute as not prohibiting formation of bank holding companies in the State.

In *Tri-State Bancorporation, Inc.* v. *Board of Governors,* filed November 1974, U.S.C.A. for the Seventh Circuit, petitioner has sought judicial review of the Board's Order (Federal Reserve *Bulletin* of November 1974, page 777) denying petitioner's application to

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become a bank holding company through acquisition of voting shares of Tri-State Bank of East Dubuque, East Dubuque, Iowa.

In *Purolator Courier Corporation* v. *Board of Governors,* filed December 1974, U.S.C.A. for the District of Columbia Circuit, petitioner has sought judicial review of a Board letter, dated November 15, 1974, which denies a request by petitioner that the Board find the expansion of courier activities by Courier Express Corporation, a subsidiary of Cameron Financial Corporation of North Carolina, to be a violation of the Bank Holding Company Act because prior approval of the Board had not been sought.

In *American Security and Trust Company, et al.* v. *Board of Governors,* filed December 1974, U.S.C.A. for the District of Columbia Circuit, petitioner has sought judicial review of the Board Order (Federal Reserve *Bulletin* of December 1974, page 875) directing petitioner to terminate its ownership and control of Fairfax County National Bank, Falls Church, Virginia, within 2 years. In a related case, *The Riggs National Bank* v. *Board of Governors,* filed December 1974, U.S.C.A. for the District of Columbia Circuit, The Riggs National Bank has also sought judicial review of the same Board Order.

Other litigation involving challenges to Board procedures and regulations

In *Community Bank, et al.* v. *Board of Governors,* filed September 1972, U.S.C.A. for the Ninth Circuit and in *Independent Bankers Association of America, et al.* v. *Board of Governors,* filed September 1972, U.S.C.A. for the District of Columbia Circuit, petitioners have appealed district court decisions granting the Board's motions for summary judgment and dismissing these separate actions brought to challenge certain amendments to the Board's Regulation J that require payment of cash items on the day of presentment. In both cases the Courts of Appeals have affirmed the favorable district court's decisions.

In the District of Columbia Circuit, the court, in a decision rendered on June 28, 1974, held that the Board had taken into account the impact of its actions on nonmember banks and had taken adequate steps to mitigate that impact. The court stated that, while the Board is under a responsibility not to unreasonably jeopardize the

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operations of nonmember banks, it is under no duty to treat them identically in all respects to member banks, and the Board had no duty or power to lower reserve requirements for nonmember banks simply because it had done so for member banks.

In the Ninth Circuit, the court, in a decision filed on July 22, 1974, found the amendments to Regulation J are "both consistent with California law and with the power conferred on the Board by the Federal Reserve Act." The court found that nonmember banks that continue to use the Federal Reserve routing number, and thereby to avail themselves of the System's check-clearing procedures, are bound under the California Commercial Code by the terms and conditions of Regulation J. The court further held that same-day payment under Regulation J is not contrary to the California law that permits, but does not require, a collecting bank to take a check of a remitting bank or of another bank on any bank except the remitting bank as settlement of an item. Finally, the court held the amendments are within the scope of authority conferred on the Board by the Federal Reserve Act. Petitioners in the Ninth Circuit have sought review of this decision by the Supreme Court on a writ of certiorari.

In *Consumers Union of the United States, Inc., et al.* v. *Board of Governors,* filed September 1973, U.S.D.C. for the District of Columbia, plaintiffs have brought suit under the Freedom of Information Act to compel the Board of Governors to release certain data furnished by individual banks that are used to compile the Board's composite G.10 Statistical Release. In June 1974 the district court rendered a decision for the plaintiffs and ordered the Board to disclose all the information collected in the G.10 survey. The Board appealed to the U.S. Court of Appeals, which has remanded the case to the district court with instructions to oversee a settlement, if possible, or to take further evidence and make further factual findings.

In *Donald K. Gearhart, et al.* v. *Board of Governors, et al.,* filed September 1973, U.S.D.C. for the Southern District of Ohio, plaintiffs have brought a class action on behalf of purchasers of bank certificates of deposit in face amounts of less than $100,000 and savings account depositors at certain Cincinnati banks named as defendants, alleging that the Board, through its Regulation Q, accords preferential treatment to purchasers of certificates of deposit in face amounts of $100,000 or more by permitting banks to pay

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higher rates of interest on this category of deposits. The court, in a decision dated July 22, 1974, dismissed plaintiffs' action for failure to state a claim upon which relief could be granted. In a lengthy opinion the court held that: (1) the classifications found in the Board's Regulation Q are directed toward achieving legitimate ends, such as curbing inflation and assisting banks to obtain funds to lend to businesses and are rationally related to achieving these ends, and so are constitutional; (2) the Board ceilings on certificates of deposit of less than $100,000 are not unconstitutional and, therefore, do not violate plaintiffs' civil rights; (3) the plaintiffs failed to state facts from which it could be concluded that defendant banks omitted material facts in their communications to plaintiffs in violation of the security laws; (4) there was no violation of the antitrust laws upon which plaintiffs could sue because they were paid the highest rate possible under Regulation Q and, therefore, they were not injured. Plaintiffs have sought review of this decision by the U.S. Court of Appeals for the Sixth Circuit.

In ***Leslie P. Spelman, et al.*** v. ***Bank of America National Trust and Savings Association, et al.***, filed October 1973, U.S.D.C. for the Southern District of California, plaintiffs filed a class action on behalf of all persons who deposit their taxes with member banks of the Federal Reserve System that are designated Federal tax depositories, alleging that these member banks are unjustly enriched as a result of having the use of taxpayers' funds on an interest-free basis for long periods of time. In June 1974, the court, in response to a motion by the Board, summarily dismissed this case.

In ***Barbara Norton*** v. ***Arthur F. Burns, et al.***, filed May 1974, U.S.D.C. for the District of Columbia, plaintiff sought injunctive relief and damages against the individually named defendants for alleged discrimination against her because of race and for alleged denial of equal employment opportunity. The parties have submitted the issue to binding arbitration, and the court, accordingly, dismissed the case.

In ***Bowery Savings Bank, et al.*** v. ***Board of Governors***, filed July 1974, U.S.D.C. for the Southern District of New York, plaintiffs requested the court to issue a declaratory judgment that the Board has the statutory power under Section 19 of the Federal Reserve Act to regulate the terms of proposed note issues of bank holding companies regardless of the use of the proceeds and to determine

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whether the proceeds of these issues shall be deemed "deposits" under Board Regulations D and Q. In October 1974, the Congress amended Section 19(a) of the Federal Reserve Act, thereby giving the Board the authority to regulate note issues of bank holding companies regardless of the use of the proceeds of such notes. This legislation made the case moot, and it was dismissed in November 1974.

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Bank Supervision and Regulation by the Federal Reserve System

Bank holding companies. During 1974, pursuant to the provisions of the Bank Holding Company Act of 1956, as amended, the numbers of proposals acted on by the Board, and by the Federal Reserve Banks under delegated authority, were as follows:

Section	Board		Reserve Banks	
	Approved	Denied	Approved	Permitted
3(a)(1)	72	16	66	.....
3(a)(3)	177	14	130	.....
3(a)(5)	6	3	.....	.....
4(c)(8)	[1] 130 (255)	[1] 13 (23)	9	533
4(c)(12)	1	.....	.....	31
4(d)	1	1	.....	.....

[1] Multiple applications in parentheses.

In addition to the above, four determinations were made by the Board pursuant to Section 4(a)(2) of the Act.

Board statements and/or orders with respect to applications, whether approved or denied, are released immediately to the press and the public, and the orders—some accompanied by statements—are published in the Federal Reserve *Bulletin*. Actions by the Federal Reserve Banks also are reported to the press and the public and appear in the Federal Reserve *Bulletin* and in the Board's weekly H.2 release. Board actions on applications under Sections 4(c)(9) and 4(c)(13) are not published, but reports of such actions are available for inspection upon request.

Annual reports for 1973 were obtained from all registered bank holding companies pursuant to the provisions of Section 5(c) of the Act. At the end of 1974, there were 1,752 bank holding companies in operation.

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Federal Reserve Bank of St. Louis

In processing applications filed under the Act, the Board has continued to stress the financial soundness of bank holding companies and their subsidiaries and to emphasize the public benefits, increased convenience and needs, and improved financial services accruing to the public in the communities to be served. Some cases decided by the Board during the year have led to the introduction of new financial services into a market, while other holding company acquisitions have made possible an increased supply of credit in a particular area.

Competition has been increased in some markets either through *de novo* entry by a holding company, which adds a competitor to a market, or by limiting holding company acquisitions to relatively small organizations. In other cases, holding companies have been permitted to acquire financially weak institutions, thus giving them the ability to become more viable competitors.

In 1974 many banking organizations continued to experience rapid growth. During this period the Board gave careful consideration to proposals that would apply funds toward further expansion rather than toward augmenting the capital and liquidity positions of these organizations. In such circumstances, the employment of funds to enlarge an organization's capital and liquidity positions was preferred, and the utilization of funds for further expansion was not ordinarily favored.

Examination of member banks. Each State member bank is subject to examinations made by direction of the Board of Governors or the Federal Reserve Bank of the district in which it is located by examiners selected or approved by the Board. The established policy is for the Federal Reserve Bank to conduct at least one regular examination of each State member bank, including its trust department, during each calendar year, with additional examinations if considered desirable. In most States concurrent examinations are made in cooperation with the State banking authorities, while in others alternate independent examinations are made. All but 42 of the 1,072 State member banks were examined during 1974.

National banks, all of which are members of the Federal Reserve System, are subject to examination by direction of the Board of Governors or the Federal Reserve Banks. However, as a matter of practice they are not examined by either, because the law charges the Comptroller of the Currency directly with that responsibility. The Comptroller provides reports of examination of national banks to

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the Board upon request, and each Federal Reserve Bank purchases from the Comptroller copies of reports of examination of national banks in its district.

The Board of Governors makes its reports of examination of State member banks available to the Federal Deposit Insurance Corporation, and the FDIC in turn makes its reports of insured nonmember State banks available to the Board upon request. Also, upon request, reports of examination of State member banks are made available to the Comptroller of the Currency.

In its supervision of State member banks, the Board receives, reviews, and analyzes reports of examination of State member banks and coordinates and evaluates the examination and supervisory functions of the System. It passes on applications for admission of State banks to membership in the System; administers the public disclosure requirements of the Securities Exchange Act of 1934, as amended, with respect to equity securities of State member banks within its jurisdiction under the 1934 Act, and the provisions of the Act giving responsibility to the Board for regulating security credit transactions; prescribes regulations pursuant to the Truth in Lending Act for financial institutions and other firms engaged in extending consumer credit and administers these regulations in their application to State member banks; administers the provisions of the Fair Credit Reporting Act, the Currency Transaction Reporting Act, and the Civil Rights Act of 1968 in their application to State member banks; and under provisions of the Federal Reserve Act and other statutes, passes on applications for permission, among other things, to (1) merge banks, (2) form or expand bank holding companies, (3) establish domestic and foreign branches, (4) exercise expanded powers to create bank acceptances, (5) establish foreign banking and financing corporations, and (6) invest in bank premises an amount in excess of 100 per cent of a bank's capital stock.

By Act of Congress approved September 12, 1964 (Public Law 88–593), insured banks are required to inform the appropriate Federal banking agency of any changes in control of management of such banks and of any loans by them secured by 25 per cent or more of the voting stock of any insured bank. In 1974, 28 such changes in ownership of the outstanding voting stock of State member banks were reported to the Reserve Banks as changes in control of these member banks. Arrangements continue among the three

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Federal Reserve Bank of St. Louis

Federal supervisory agencies for appropriate exchanges of reports received by them pursuant to the Act. The Reserve Banks send copies of all reports they receive to the appropriate district office of the Federal Deposit Insurance Corporation, the Regional Administrator of National Banks (Comptroller of the Currency), and the State bank supervisor.

Upon receipt of reports involving changes in control of State member banks, the Reserve Banks are under instructions to forward such reports promptly to the Board, together with a statement (1) that the new owner and management are known and acceptable to the Reserve Bank or (2) that they are not known and that an investigation is being made. The findings of any investigation and the Reserve Bank's conclusions based on such findings are forwarded to the Board.

By Act of Congress approved July 3, 1967 (Public Law 90–44), each member bank of the Federal Reserve System is required to include with (but not as part of) each report of condition and copy thereof a report of all loans to its executive officers since the date of submission of its previous report of condition. Data submitted by member banks during 1974, as required by law, appear in the accompanying table.

LOANS TO EXECUTIVE OFFICERS

Period covered (condition report dates)	Total loans to executive officers		Range of interest rate charged (per cent)
	Number	Amount (dollars)	
Jan. 1, 1974— Apr. 24, 1974...	7,490	29,349,356	1–24
Apr. 25, 1974— June 30, 1974...	7,189	26,210,528	1–24
July 1, 1974— Oct. 15, 1974....	8,431	29,181,890	1–24
Oct. 16, 1974— Dec. 31, 1974....	6,898	23,477,577	1–24

Federal Reserve membership. As of December 31, 1974, member banks accounted for 40 per cent of the number of all commer-

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Federal Reserve Bank of St. Louis

cial banks in the United States and for 60 per cent of all commercial banking offices, and they held approximately 77 per cent of the total deposits in such banks; these figures compare with 40 per cent, 61 per cent, and 77 per cent, respectively, at the end of 1973. State member banks accounted for 11 per cent of the number of all State commercial banks and 24 per cent of the banking offices, and they held 47 per cent of total deposits in State commercial banks.

Of the 5,782 banks that were members of the Federal Reserve System at the end of 1974, there were 4,708 national banks and 1,074 State banks. During the year there were net increases of 49 national and net declines of 4 State member banks. The decline in State member banks was offset in part by the organization of 97 new national banks and by the conversion of 8 nonmember banks to national banks. The decrease in State member banks reflected mainly 28 withdrawals from membership and 12 conversions to branches incident to mergers and absorptions.

At the end of 1974 member banks were operating 19,946 branches, facilities, and additional offices, 980 more than at the close of 1973. During the year member banks established 1,167 *de novo* branches.

Detailed figures on changes in the banking structure during 1974 are shown in Table 18, pages 316 and 317.

Bank mergers. Under Section 18(c) of the Federal Deposit Insurance Act (12 U.S.C. 1828 (c)), the prior written consent of the Board of Governors of the Federal Reserve System must be obtained before a bank may merge, consolidate, or acquire the assets and assume the liabilities of another bank if the acquiring, assuming, or resulting bank is to be a State member bank.

In deciding whether to approve an application, the Board is required by Section 18(c) to consider the impact of the proposed transaction on competition, the financial and managerial resources and prospects of the existing and proposed institution, and the convenience and needs of the community to be served. The Board is precluded from approving "any proposed merger transaction which would result in a monopoly, or which would be in furtherance of any combination or conspiracy to monopolize or to attempt to monopolize the business of banking in any part of the United States." A proposed transaction "whose effect in any section of the country may be substantially to lessen competition, or to tend to create a monopoly, or which in any other manner would be in restraint of trade,"

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Federal Reserve Bank of St. Louis

may be approved only if the Board of Governors is able to find that the anticompetitive effects of the transaction would be clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served.

Before acting on each application the Board must request reports from the Attorney General, Comptroller of the Currency, and Federal Deposit Insurance Corporation on the competitive factors involved in each transaction. The Board in turn responds to requests by the Comptroller or the FDIC for reports on competitive factors involved when the acquiring, assuming, or resulting bank is to be a national bank or an insured nonmember State bank.

During 1974 the Board disapproved 1 and approved 12 of these applications, and it submitted 110 reports on competitive factors to the Comptroller of the Currency and 121 to the Federal Deposit Insurance Corporation. In addition, the Federal Reserve Banks approved 12 merger applications on behalf of the Board of Governors pursuant to delegated authority. As required by Section 18(c) of the Federal Deposit Insurance Act, a description of each of the 24 applications approved by the Board or the Reserve Banks, together with other pertinent information, is shown in Table 21, pages 320–42.

Statements and/or orders of the Board with respect to all bank merger applications, whether approved or disapproved, are released immediately to the press and the public. These statements and/or orders set forth the factors considered, the conclusions reached, and the vote of each Board member present.

Foreign branches of member banks. At the end of 1974, 125 members banks had in active operation a total of 732 branches in 79 foreign countries and overseas areas of the United States; 97 national banks were operating 653 of these branches, and 28 State member banks were operating 79 such branches. The number and location of these foreign branches were as shown in the tabulation on the opposite page.

Under the provisions of the Federal Reserve Act (Section 25 as to national banks and Sections 9 and 25 as to State member banks), the Board of Governors during the year 1974 approved 47 applications made by member banks for permission to establish branches in foreign countries and overseas areas of the United States. During the year, 59 overseas branches were opened by member banks and 26 were closed.

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Federal Reserve Bank of St. Louis

[Tabulation referred to on preceding page.]

American Samoa	1	Liberia	2
Argentina	37	Luxembourg	6
Austria	1	Malaysia	5
Bahamas	80	Mariana Islands	1
Bahrain	2	Marshall Islands	1
Barbados	6	Mauritius	1
Brunei	3	Mexico	5
Belguim	9	Monaco	1
Bolivia	3	Netherlands	6
Brazil	19	Netherlands Antilles	4
Canal Zone	2	Nicaragua	4
Cayman Islands	44	Okinawa	2
Colombia	36	Pakistan	4
Dominican Republic	18	Panama	33
Ecuador	15	Paraguay	5
El Salvador	1	Peru	6
Fiji Islands	5	Philippines	4
France	17	Puerto Rico	22
Germany	30	Qatar	1
Greece	18	Romania	1
Guam	7	Saudi Arabia	2
Guatemala	3	Singapore	18
Guyana	1	Switzerland	9
Haiti	3	Taiwan	7
Honduras	3	Thailand	2
Hong Kong	24	Trinidad and Tobago	6
India	11	Truk Islands	1
Indonesia	6	United Arab Emirates	6
Ireland	4	United Kingdom	55
Israel	2	Uruguay	5
Italy	10	Venezuela	4
Jamaica	7	Vietnam	3
Japan	29	Virgin Islands (U.S.)	20
Jordan	1	Virgin Islands (British)	3
Kenya	2	Other (West Indies)	11
Korea	3		
Lebanon	3	**Total**	**732**

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Federal Reserve Bank of St. Louis

Foreign banking and financing corporations. At the end of 1974 there were five corporations operating under agreements with the Board pursuant to Section 25 of the Federal Reserve Act relating to investment by member banks in the stock of corporations engaged principally in international or foreign banking. Four of these "agreement" corporations were examined during the year by examiners for the Board of Governors. The remaining agreement corporation is a national bank in the Virgin Islands and is owned by a State member bank in Philadelphia.

During 1974, under the provisions of Section 25(a) of the Federal Reserve Act, the Board issued final permits to 10 corporations to engage in international or foreign banking or other international or foreign financial operations. Fourteen corporations began operations. At the end of the year there were 112 corporations in active operation under Section 25(a). Eight of these corporations operate a total of 13 overseas branches. Examiners for the Board of Governors examined 99 of these corporations during 1974.

Actions under delegation of authority. Pursuant to the provisions of Section 11(k) of the Federal Reserve Act, the Board of Governors has delegated to the Reserve Banks (1) authority to approve, on behalf of the Board, certain applications of State member banks to establish domestic branches, to invest in bank premises, to declare certain dividends, and to grant or deny a waiver of 6 months' notice by a bank of its intention to withdraw from membership in the Federal Reserve System, and (2) certain other authorities. Under authority granted in (1) above, the Reserve Banks approved 211 branch applications, 92 investments in bank premises, 5 applications of State member banks to declare certain dividends, and denied 10 waivers of notice of intention to withdraw from membership in the Federal Reserve System. Under authority granted in (2) above, the Reserve Banks approved 1,665 applications.

The Board has delegated certain authorities to the Director or Acting Director of the Division of Banking Supervision and Regulation. Under this authority 198 actions were taken. In addition, the Director or Acting Director of the Division of Banking Supervision and Regulation is authorized under Section 18(c)(4) of the Federal Deposit Insurance Act (12 U.S.C. 1828(c)(4)) to furnish to the Comptroller of the Currency and the Federal Deposit Insurance Corporation reports on competitive factors involved in a bank merger

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Federal Reserve Bank of St. Louis

required to be approved by one of those agencies if each of the appropriate departments or divisions of the appropriate Federal Reserve Bank and the Board of Governors are of the view that the proposed merger either would have no adverse competitive effects or would have only slightly adverse competitive effects, and if no member of the Board has indicated an objection prior to the forwarding of the report to the appropriate agency. Under this authority 207 competitive factor reports were approved.

Bank Examination Schools. In 1974 the Board's Bank Examination School conducted two sessions of the School for Examiners, three sessions of the School for Assistant Examiners, and one session of the School for Trust Examiners. The Bank Examination School was established in 1952 by the three Federal bank supervisory agencies, and from 1962 through 1970 was conducted jointly by the Federal Reserve System and Federal Deposit Insurance Corporation.

Since the establishment of this program, 5,200 persons have attended the various sessions. This number includes representatives of the Federal bank supervisory agencies; the State Banking Departments of Arizona, Arkansas, California, Connecticut, Florida, Georgia, Idaho, Indiana, Kentucky, Louisiana, Maine, Michigan, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Dakota, Tennessee, Utah, Vermont, Virginia, Washington, and Wyoming; the Treasury Department of the Commonwealth of Puerto Rico; the Division of Banking and Insurance, the Virgin Islands; and 24 foreign countries.

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Federal Reserve Bank of St. Louis

Truth in Lending

This sixth Annual Report on Truth in Lending is submitted to Congress by the Board of Governors of the Federal Reserve System, pursuant to Section 114 of the Truth in Lending Act (Title I, Consumer Credit Protection Act). In accordance with that requirement, this Report includes information on the Board's administration of its functions under the Truth in Lending Act, an assessment of the extent to which compliance with requirements of Truth in Lending is being achieved, and recommendations for amendments to the Act. Each of these three topics is developed in the following sections of this Report.

ADMINISTRATIVE FUNCTIONS

Office of Saver and Consumer Affairs

The Board established a new Office of Saver and Consumer Affairs to administer its responsibilities under Truth in Lending in August 1974. The new office is also charged with administering the Board's Security Credit Regulation functions and will be responsible for developing regulations implementing the recently enacted Fair Credit Billing and Equal Credit Opportunity Acts.

Amendments and interpretations to Regulation Z

Variable interest rates. The Board published for comment in December 1974 an amendment to Regulation Z requiring other than open-end creditors to disclose variable interest rate clauses contained in their promissory notes or other contractual instruments. These clauses are sometimes found in long-term obligations such as home mortgages. Generally, they permit a creditor to raise or lower the contract rate of interest corresponding to fluctuations in market rates. Primarily found in conventional mortgages, these clauses were included in about 12 per cent of home mortgages in 1970. However, they were seldom invoked until recently, when market rates increased dramatically.

The Board believes that the disclosure of such terms in advance

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is essential to the consumer shopping function of the Act. Therefore, the Board proposes to incorporate this as a disclosure requirement in the body of the regulation.

Cash-advance checks. In December 1974, the Board promulgated for comment an amendment to the regulation requiring open-end creditors to make new disclosures upon the issuance of new credit devices such as "cash-advance checks." During the past year, some bank-card creditors issued to their cardholders what appeared to be personalized checks, but which in fact were instruments activating cash-advance loans. Most advertising material that has accompanied the checks has encouraged cardholders to use them as they would a personal check. These checks activate cash-advance loans that are normally subject to a periodic interest rate—usually 1 per cent per month—that begins as soon as the check is cleared, with no free-ride or grace period. In addition, some plans impose a fixed charge of 1 to 2 per cent of the amount of the check.

Although some open-end creditors have disclosed these charges at the time the checks are delivered, in many cases this disclosure has been obscured by other disclosures and advertising materials accompanying the checks. Under the regulation, if a creditor has disclosed the terms of a cash-advance loan before a customer opens an open-end account, there is no further need to disclose cash-advance terms when the checks are issued. In light of the fact that the account may have been opened 3 to 5 years earlier, it is the Board's view that new disclosures of the terms of check-activated cash-advance loans should be repeated clearly and conspicuously at the time of the issuance of such checks. These disclosure requirements would also apply to other new credit devices incorporated into an open-end account.

New legislation. On October 28, 1974, President Ford signed into law PL 93–495, Titles III and IV of which amend the Truth in Lending Act. Title III, the Fair Credit Billing Act, establishes an error resolution procedure for consumers to utilize in resolving alleged inaccuracies in their open-end credit accounts. Title IV comprises some 15 amendments to the Truth in Lending Act, many of which were recommended to Congress by the Board and the National Commission on Consumer Finance. The Board issued for comment a series of amendments implementing the provisions of Title IV in December 1974. It is anticipated that amendments implementing the

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Fair Credit Billing provisions of Title III will be proposed for comment prior to June 1975.

Finance charges on daily balances. In December 1974, the Board also amended interpretation of Section 226.703 respecting the open-end credit disclosures for an account in which the creditor imposes finance charges on daily balances by the imposition of one or more daily periodic rates; for example, one rate on balances up to $500 and a lower rate for balances more than $500.

Transitional provisions. In March 1974, the Board promulgated an amendment to Regulation Z that revoked the regulation's transitional provisions contained in Sections 226.6(j) and (k), 226.7(f), 226.602, and 226.605. These provisions were originally included in the regulation to assist creditors in making the transition to compliance with its requirements; for example, one provision allowed creditors who had not received printed disclosure forms before the effective date of the Act to alter existing forms until new forms were received.

State exemptions

The Board granted no new State exemptions from the disclosure, rescission, or credit-card requirements of the Truth in Lending Act during 1974. As noted in last year's [Truth in Lending] annual report, Idaho applied for an exemption in October 1973. However, certain conflicts between the provisions of Regulation Z and Idaho's version of the Uniform Consumer Credit Code in the treatment of premiums for vendors' single-interest insurance have raised a serious question concerning whether Idaho's statute is substantially similar to the Federal Act. Failure to resolve this question has prevented the Board from taking further action on this State's application.

In view of the amendments to Truth in Lending contained in Title IV of PL 93–495, the Board's staff has apprised the exempt States under the Act (Massachusetts, Maine, Connecticut, Oklahoma, and Wyoming) of the legislative and regulatory actions required to be taken in assuring that their laws remain substantially similar to the Federal Act. In addition, the Board anticipates issuing a new supplement to Regulation Z setting forth the procedures for States to employ in seeking an exemption to permit State enforcement of the Fair Credit Billing provisions contained in Title III of PL 93–495.

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The Board continues to believe that the exempt States are effectively administering their versions of the Truth in Lending law.

Education

Federal enforcement agencies and the exempt States are continuing their efforts in educating consumers and creditors as to their rights and responsibilities under the Truth in Lending Act. Oklahoma has added a consumer education specialist to its staff and developed a consumer dictionary of credit terminology. Wyoming anticipates adding a consumer educator to its staff.

The Seattle Regional Office of the Federal Trade Commission completed a pilot Truth in Lending advertising program that is designed to increase consumer awareness of the use of annual percentage rates in shopping for credit. This program was subsequently evaluated by an independent research service, and the evaluation suggested that the advertising campaign contributed to expanded knowledge of Truth in Lending's requirements. The evaluation also found that television was by far the most effective medium for the campaign, followed by newspaper and spot radio messages; billboard and mass transit ads were not considered effective in the Seattle market. The evaluation indicated that nearly 50 per cent of all consumers had some awareness of the Truth in Lending Act and its requirements.

The Board's education efforts during the past year included publication of a revised pamphlet on the Act and Regulation Z as amended to September 30, 1974. This pamphlet includes three appendixes containing common questions and answers concerning the Act, the forms required in connection with the right of rescission, and an example of how to compute annual percentage rates using Volume I of the Board's *Annual Percentage Rate Tables*. In addition, the Board plans in early 1975 to release to the examination staff of the Federal Reserve Banks and to the other Truth in Lending enforcement agencies a manual for examiner use in checking Truth in Lending compliance.

During the past year the Board's staff also presented training sessions on Truth in Lending to the examination staffs of the Federal Reserve Banks. Other bank regulatory examiners as well as some State bank commission staffs also participated. This education program, which the Board regards as crucial in keeping examiners

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abreast of developments relating to Truth in Lending, has been well received, and it is anticipated that the program will continue in 1975, with particular emphasis paid to the recently enacted Fair Credit Billing provisions.

The Truth in Lending educational materials developed in 1973 by the Board's staff for use in secondary and adult education classrooms were distributed for preliminary evaluation during 1974 to several school districts, the Federal Trade Commission, the Office of Consumer Affairs of the Department of Health, Education, and Welfare, and the Consumer Information Center of the General Services Administration. Positive educator responses to these materials have convinced the Board that it would be useful to further develop these materials for formal classroom use in the coming year.

Advisory Committee

No meeting of the Truth in Lending Advisory Committee was held during 1974. The Board plans, however, to convene a meeting of the Committee during the coming year to solicit its views on regulations respecting Title III of the recently enacted PL 93–495. (A list of Advisory Committee members appears on p. 277.)

Litigation

Although numerous court decisions respecting the Truth in Lending Act's requirements were handed down during 1974, four noteworthy Federal Courts of Appeals' opinions were issued concerning three significant regulatory matters on which the Board's authority had been challenged. Each of these opinions has upheld the validity of the Board's regulations or informal staff opinion letters.

Two cases from the Second and District of Columbia Circuits, *American Airlines* v. *Remis Industries*[1] and *Credit Card Service Corporation* v. *The Federal Trade Commission*,[2] supported the Board's 1972 amendments to Regulation Z making the $50 maximum

[1] Decided March 1974, U.S.C.A. for the Second Circuit (CCH paragraph 98,849).

[2] Decided March 1974, U.S.C.A. for the District of Columbia Circuit (CCH paragraph 98,840).

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liability limit for the unauthorized use of credit cards applicable to credit cards used for business as well as consumer purposes. A third decision by the U.S. Court of Appeals for the Ninth Circuit in *Bone* v. *The Hibernia Bank* [3] upheld the validity of the Board's interpretation of Section 226.818, respecting the requirement to "identify" the method of rebating any unearned portion of the finance charge in the event of prepayment of a precomputed instalment obligation.

Finally, the U.S. Court of Appeals for the Fifth Circuit in *Philbeck* v. *Timmers Chevrolet* [4] upheld the Board's position in interpretation of Section 226.402 and a Board staff opinion letter that applied to that interpretation regarding the disclosure of the term of insurance where such term is coterminous with that of the instalment obligation.

The 1973 U.S. Supreme Court decision in *Mourning* v. *Family Publications Service, Inc.*,[5] discussed in last year's [Truth in Lending] annual report, upheld the basic delegation of regulatory authority by the Congress to the Board. Other circuit court decisions have supported additional Board regulations that have been challenged. Consequently after 5 years of enforcement, the Act and the Board's regulatory authority appear to be firmly established.

COMPLIANCE

Written disclosures

Reports received from the eight other Federal enforcement agencies and the five exempt States indicate that substantial compliance with the written disclosure requirements of the Truth in Lending Act is being achieved. As noted in previous [Truth in Lending] annual reports, the consensus among Truth in Lending enforcement authorities is that the larger creditors with access to legal counsel, and thus arguably better able to handle the complexities of the Act and regulation, have the best compliance record. The compliance record of smaller creditors is not as good but appears to be continually improving.

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[3] Decided March 1974, U.S.C.A. for the Ninth Circuit (CCH paragraph 98,860).

[4] Decided August 1974, U.S.C.A. for the Fifth Circuit (499 F2d 971).

[5] 411 U.S. 356 (1973).

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Oral disclosures

The record of creditor compliance with the regulation's oral disclosure requirements remains disappointing. An interpretation, Section 226.101 of Regulation Z, requires creditors in responding to oral inquiries concerning interest rates to respond only in terms of the annual percentage rate rather than add-on or discount rates. During the past year, as in 1973, various Public Interest Research Groups throughout the country have continued to conduct telephone surveys of banks to check on compliance with the requirements of this interpretation. In 1973, more than 1,700 banks were contacted by telephone to ascertain their compliance with this provision and more than 36 per cent were found to be in violation. During 1974, slightly less than 900 additional banks were surveyed by Public Interest Research Groups and nearly 50 per cent were in violation.

As was the case during 1973, each of the surveyed noncomplying banks has been contacted by appropriate Federal supervisory authorities and directed to take corrective measures in regard to oral disclosures. Evidence gathered during 1974 through resurveys of noncomplying banks by Public Interest Research Groups suggests that nearly all of the previous offending banks have taken effective steps to correct their oral disclosure policies. For example, in Florida some 116 banks were found to be in noncompliance during 1973; a resurvey in 1974 showed that only 9 of these banks remained in noncompliance. A similar resurvey in Michigan indicated that only 16 out of 100 formerly noncomplying banks remained in violation. A resurvey of 226 noncomplying banks in California indicated that more than 94 per cent are now in full compliance. Nonetheless, the Board is still not satisfied with the compliance achieved in connection with the requirements of Section 226.101, and its staff is currently studying this problem to see what additional enforcement measures may need to be taken to assure compliance in the future.

Credit life insurance

Disclosures by certain creditors concerning the sale of credit life and disability insurance also remained a problem during 1974. Under the Act and Regulation Z, premiums for credit life and disability insurance need not be included in the finance charge if the insurance

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coverage is offered to the customer on an optional basis and the customer voluntarily elects to take the insurance.

In 1973, the Federal Trade Commission reported that many creditors subject to its enforcement authority were achieving penetration rates approaching 100 per cent in connection with credit life and disability insurance sold on an "optional-voluntary" basis. The Commission stated that such high penetration rates indicated that some creditors were circumventing the Act's disclosure requirements through practices that lead borrowers to believe that the purchase of this insurance is necessary to obtain the loan, despite disclosures to the contrary.

The Federal Trade Commission reports that these penetration rates have not abated during the past year and recommends that the Act be amended to require premiums for such insurance to be included in the finance charge, despite the fact that insurance may nominally be offered on an optional basis. The Comptroller of the Currency also indicates that such an amendment may be necessary. Alternatively, the Commission suggests that the regulation be amended to require that solicitations for the purchase of such insurance be delayed for a certain period following consummation of the credit transaction and be limited to a mailed solicitation.

If such penetration rates prove to be widespread among other creditors, an amendment to the Act or regulation may be in order. Presently, the Board is investigating data on penetration rates achieved by creditors.

The Board is not prepared at this point to recommend that the Act be amended to require that credit life and disability insurance premiums be included in the finance charge in all cases. For example, credit unions and other creditors lending on a simple interest rate basis apparently offer credit-life and disability insurance and provide that it may be canceled at any point over the term of the obligation at the election of the borrower. It would seem to be unfair to include in the finance charge any credit-life premiums offered on this basis. The suggested amendment to the regulation that requires that solicitations for such insurance be delayed presents an interesting potential remedy. We have also noted that at least one State has provided the consumer with a subsequent right of cancellation for credit insurance premiums. Should there be a clear indication that comparable

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penetration rates are being achieved by other creditors, these proposals will merit further study.

RECOMMENDATIONS

Consumer leasing disclosures

The Board's recommendations for amending the Truth in Lending Act, included at this point in the Annual Report on Truth in Lending as it was sent to Congress, are included with the Board's other legislative recommendations on pages 244 and 245 of this REPORT.

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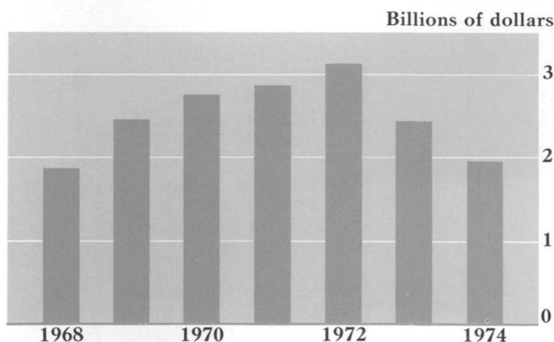
Federal Reserve Banks

Payments mechanism developments. During 1974 the Federal Reserve Banks continued the programs announced in a policy statement that the Board of Governors had issued on June 17, 1971. This statement placed a high priority on improving the Nation's check collection system and on expanding the facilities in the Reserve System's communications system.

In 1974 six regional centers were established to provide increased overnight clearings of checks. Including the 35 centers previously established, a total of 41 regional clearing centers were operational by the end of the year. Nine of these centers are operated at remote sites, in cities other than the 36 locations of Federal Reserve Banks and branches. One new remote center is planned for 1975. The regional clearing center operation and the November 1972 change in Regulation J have resulted in a reduction of about $1 billion in daily-average Federal Reserve check float since 1972.

NET CHECK FLOAT



NOTE.—Annual averages. Because of the exclusion of float that is not related to checks, the net check float data shown above are not directly comparable with the float data in Table 17.

Five Federal Reserve offices installed automated-communications-switching facilities in 1974, thus completing the program begun in 1971 to automate the Reserve System's communications facilities.

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Currently, the 12 Federal Reserve Banks and the communications center at Culpeper, Virginia, are processing high-speed, interregional transfers of funds and settlement of balances between member banks and their customers.

During 1974 the number of automated clearing houses operated by Reserve offices increased from three to five, with the initiation of such operations in Boston and Minneapolis. Reserve offices in San Francisco and Los Angeles had begun such operations in 1972, and Atlanta in 1973. These facilities provide the means for member banks and their customers to transfer funds on magnetic tape in lieu of paper checks. Other Federal Reserve offices are considering the initiation of such operations in 1975.

In July 1974 the Department of the Treasury, the Social Security Administration, and the Board of Governors jointly announced an experimental program that allows social security recipients in the State of Georgia to elect to have their checks deposited directly in financial institutions. This program is the first phase of a nationwide plan, expected to be completed in 1976, to convert social security payments to electronic funds transfer for those beneficiaries electing to receive payment in this manner. Additional direct deposit programs with other Government agencies are now under study.

During the latter part of 1974 the Departments of the Treasury and Air Force and the Board of Governors jointly announced implementation of a program under which Air Force personnel may elect to have their pay electronically deposited directly in financial institutions in the States of Georgia, Colorado, Wyoming, New Mexico, and California. Nationwide implementation of this program is expected to be completed in 1975.

In response to the November 1973 Regulation J release, which proposed the legal framework for electronic transfer of funds on the Reserve System's expanded communications facilities, the Board received 242 comments. They were submitted by Federal agencies, financial institutions, associations, and other interested parties.

Examination. The Board's Division of Federal Reserve Bank Operations examined the 12 Federal Reserve Banks, 24 branches, and 10 facilities during the year, as required by Section 21 of the Federal Reserve Act. In conjunction with the examination of the Federal Reserve Bank of New York, the Board's examiners audited

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Federal Reserve Bank of St. Louis

the accounts and holdings related to the System Open Market Account and the foreign currency operations conducted by that Bank in accordance with policies formulated by the Federal Open Market Committee, and rendered reports thereon to the Committee. The procedures followed by the Board's examiners were surveyed and appraised by a private firm of certified public accountants, pursuant to the policy of having such reviews made on an annual basis.

Earnings and expenses. The accompanying table summarizes the earnings, expenses, and distribution of net earnings of the Federal Reserve Banks for 1974 and 1973.

Current earnings of $6,280 million in 1974 were 25 per cent higher than in 1973. The principal changes in earnings were increases of $1,147 million on U.S. Government securities, $57 million on loans, and $38 million on all other.

Current expenses were $548 million, or 10 per cent more than in 1973. Statutory dividends to member banks amounted to $53 million, an increase of $3 million from 1973. The rise in dividends reflected an increase in capital and surplus of member banks and a consequent increase in the paid-in capital stock of the Federal Reserve Banks.

Payments to the Treasury as interest on Federal Reserve notes totaled $5,550 million for the year, compared with $4,341 million in

EARNINGS, EXPENSES, AND DISTRIBUTION OF NET EARNINGS OF FEDERAL RESERVE BANKS, 1974 AND 1973

In thousands of dollars

Item	1974	1973
Current earnings	6,280,091	5,016,769
Current expenses	547,541	495,117
Current net earnings	5,732,550	4,521,652
Net deduction from current net earnings	−78,487	−80,654
Net earnings before payments to U.S. Treasury	5,654,063	4,440,998
Dividends paid	52,580	49,140
Payments to U.S. Treasury (interest on F.R. notes)	5,549,999	4,340,680
Transferred to surplus	51,484	51,178

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1973. This amount consists of all net earnings after dividends and the amount necessary to bring surplus to the level of paid-in capital.

A detailed statement of earnings and expenses of each Reserve Bank during 1974 is shown in Table 7, pages 300 and 301, and a condensed historical statement in Table 8, pages 302 and 303.

Holdings of loans and securities. The table below shows holdings, earnings, and average interest rates on loans and securities of the Federal Reserve Banks during the past 3 years.

Average daily holdings of loans and securities during 1974 amounted to $85,505 million—an increase of $7,668 million over 1973. Holdings of U.S. Government securities increased $7,106 million, loans $377 million, and acceptances $185 million.

The average rates of interest on holdings were up from 6.44 to 7.27 per cent on U.S. Government securities, from 6.52 to 8.08 per cent on loans, and from 7.62 to 10.42 per cent on acceptances.

RESERVE BANK EARNINGS ON LOANS AND SECURITIES, 1972–74

Item and year	Total	U.S. Govt. securities[1]	Loans	Acceptances
	In millions of dollars			
Average daily holdings:[2]				
1972	71,391	70,980	322	89
1973	77,837	76,058	1,678	101
1974	85,505	83,164	2,055	286
Earnings:				
1972	3,789.7	3,771.7	14.4	4.1
1973	5,013.6	4,896.5	109.4	7.7
1974	6,239.5	6,043.6	166.1	29.8
	In per cent			
Average rate of interest:				
1972	5.31	5.31	4.47	4.61
1973	6.44	6.44	6.52	7.62
1974	7.30	7.27	8.08	10.42

[1] Includes Federal agency obligations.
[2] Based on holdings at opening of business.

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Volume of operations. Table 9 on page 304 shows the volume of operations in the principal departments of the Federal Reserve Banks for 1971–74. Both the number and dollar amounts of loans increased during the year as the number of borrowing banks rose to 1,962, compared with 1,803 in 1973.

The rate of increase in the number of checks handled declined to 9 per cent from 17 per cent in 1973. This reflected a slower rate of expansion of the regional check-processing program. Use of the Federal Reserve communications network for movement of funds has continued to grow rapidly as indicated by the 25 per cent growth in the volume of transfers of funds. Also, with the continued expansion of the food stamp program and the introduction of a cost-of-living adjustment in the coupon allotment, the number of food coupons redeemed increased 23 per cent. Partly as a result of the shortage of pennies during the year, the volume of coin received and counted declined 5 per cent.

Loan guarantees for defense production. Under the Defense Production Act of 1950, the Departments of the Army, Navy, and Air Force, the Defense Supply Agency of the Department of Defense, the Departments of Commerce, Interior, and Agriculture, the General Services Administration, the National Aeronautics and Space Administration, and the Atomic Energy Commission are authorized to guarantee loans for defense production made by commercial banks and other private financing institutions. The Federal Reserve Banks act as fiscal agents of the guaranteeing agencies under the Board's Regulation V.

During 1974 the guaranteeing agencies did not authorize the issuance of any new guarantee agreements. Loan authorizations outstanding on December 31, 1974, totaled $52.2 million, of which $52 million represented outstanding loans and $200,000 represented additional credit available to borrowers. Of total loans outstanding, 15 per cent on the average was guaranteed. During the year approximately $3 million was disbursed on guaranteed loans, all of which are revolving credits.

Authority for the V-loan program, unless extended, will terminate on June 30, 1975.

Table 15 on page 310 shows guarantee fees and maximum interest rates applicable to Regulation V loans.

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Foreign and international accounts. Assets held for account of foreign countries at the Federal Reserve Banks increased $4,913 million in 1974. At the end of the year such assets amounted to $73,772 million: $418 million of dollar deposits; $12,303 million of earmarked gold; $55,605 million of U.S. Treasury securities (including securities payable in foreign currencies); $1,109 million of bankers' acceptances purchased through Federal Reserve Banks; and $4,337 million of miscellaneous assets. The last item consists mainly of dollar bonds issued by foreign countries and international organizations and debt securities of U.S. Federally sponsored agencies and U.S. corporations.

The Federal Reserve Banks did not make any loans against gold collateral in 1974.

The Federal Reserve Bank of New York continued to act as depositary and fiscal agent for international and regional organizations. As fiscal agent of the United States, the Bank continued to operate the Exchange Stabilization Fund pursuant to authorization and instructions of the Secretary of the Treasury. Also on behalf of the Treasury Department, it administered foreign assets control regulations pertaining to assets held in the United States of Cuba, North Vietnam, the People's Republic of China (pertaining to assets blocked before May 7, 1971), and North Korea, and their nationals, and to transactions with those countries and their nationals.

Federal Reserve bank premises. During 1974 the Pittsburgh Branch occupied the coin vault and loading dock addition. With the approval of the Board, the San Francisco Bank acquired property for a future building site, and the Richmond Bank acquired property adjacent to Annex 2.

Table 6 on page 299 shows the cost and book value of bank premises owned and occupied by the Federal Reserve Banks and of real estate acquired for banking-house purposes.

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Board of Governors

Completion of Martin Building. Construction of the Martin Building was substantially completed during 1974 and most of the building was occupied by Board staff. Dedication ceremonies were held on November 19, 1974, with William McChesney Martin, Jr., former Chairman of the Board, as guest of honor. The estimated cost of the building, including furnishings, is $47 million. Approximately $4.5 million of this amount will be recovered from the Department of the Interior under an agreement whereby the Board constructed a North Garage (including the above-ground park) for the use of both Federal Reserve and Department of Interior employees.

Income and expenses. The accounts of the Board for the year 1974 were audited by the public accounting firm of Touche Ross & Co.

ACCOUNTANTS' OPINION

Board of Governors of the
Federal Reserve System
Washington, D.C.

We have examined the balance sheet of the Board of Governors of the Federal Reserve System as of December 31, 1974 and 1973, and the related statements of assessments and expenses, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the Board of Governors of the Federal Reserve System at December 31, 1974 and 1973, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.
Certified Public Accountants

Washington, D.C.
February 4, 1975

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

BALANCE SHEET

ASSETS	December 31 1974	December 31 1973
OPERATING FUND:		
Cash	$ 5,111,271	$ 8,513,248
Miscellaneous receivables and advances	211,915	73,705
Stockroom and cafeteria inventories—at cost (first-in, first-out method)	166,299	88,605
Total operating fund	5,489,485	8,675,558
PROPERTY FUND:		
Land and improvements	781,913	792,852
Building	4,452,156	4,396,950
Furniture and equipment	2,129,054	2,126,172
Construction-in-progress	45,964,619	35,602,065
Computer	3,971,412	....
Total property fund	57,299,154	42,918,039
	$62,788,639	$51,593,597
LIABILITIES AND FUND BALANCES		
OPERATING FUND:		
Accounts payable and accrued expenses	$ 2,733,445	$ 2,127,548
Income taxes withheld	89,339	231,867
Accrued payroll	698,040	505,801
Retention on construction-in-progress	850,181	1,662,319
	4,371,005	4,527,535
Fund balance:		
Balance, beginning of year	4,148,023	662,492
Assessments over (under) expenses	(3,029,543)	3,485,531
Balance, end of year	1,118,480	4,148,023
Total operating fund	5,489,485	8,675,558
PROPERTY FUND:		
Fund balance:		
Balance, beginning of year	42,918,039	29,138,534
Additions—at cost	14,549,577	13,829,796
Disposals—at cost	(168,462)	(50,291)
Net increase	14,381,115	13,779,505
Total property fund, end of year	57,299,154	42,918,039
	$62,788,639	$51,593,597

See notes to financial statements.

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Board of Governors of the Federal Reserve System

Statement of Assessments and Expenses

	Year ended December 31	
	1974	1973
Assessments Levied on Federal Reserve Banks:		
For Board expenses and additions to property....	$41,116,600	$44,411,700
For expenditures made on behalf of the Federal Reserve Banks....	27,052,554	31,658,174
Total assessments....	68,169,154	76,069,874
Expenses:		
For the Board:		
Salaries....	21,552,324	18,882,255
Retirement and insurance contributions....	1,825,870	1,738,258
Travel expenses....	694,699	782,253
Legal, consultant and audit fees....	482,420	469,217
Contractual services....	285,870	258,951
Printing and binding—net....	742,874	736,876
Equipment, office space and other rentals....	1,988,364	2,720,257
Telephone and telegraph....	460,866	396,612
Postage and expressage....	315,941	331,094
Stationery, office and other supplies....	310,251	183,807
Heat, light and power....	414,736	106,745
Operation of cafeteria—net....	184,241	165,938
Repairs, maintenance and alterations....	146,401	83,778
Books and subscriptions....	85,675	60,183
System membership, Center for Latin American Monetary Studies....	44,807	43,872
Miscellaneous—net....	74,883	141,617
	29,610,222	27,101,713
For additions to property—net of recovery on disposals of $13,656 in 1974 and $5,340 in 1973....	14,535,921	13,824,456
	44,146,143	40,926,169
Expenditures for printing, issue and redemption of Federal Reserve Notes, paid on behalf of the Federal Reserve Banks....	27,052,554	31,658,174
Total expenses....	71,198,697	72,584,343
Assessments Over (Under) Expenses....	$(3,029,543)	$ 3,485,531

See notes to financial statements.

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended December 31	
	1974	1973
SOURCE OF FUNDS:		
Assessments over (under) expenses	$(3,029,543)	$ 3,485,531
Net increase in property fund	14,381,115	13,779,505
Increase in accounts payable and accrued expenses	605,897	....
Increase in accrued payroll	192,239	137,268
Increase in income taxes withheld	....	44,813
Decrease in miscellaneous receivables and advances	....	18,371
	12,149,708	17,465,488
APPLICATION OF FUNDS:		
Additions to property—net:		
Construction-in-progress	10,362,554	13,570,556
Computer	3,971,412	....
Building	55,206	98,635
Furniture and equipment	2,882	110,314
Land and improvements	(10,939)	....
	14,381,115	13,779,505
Decrease in retention on construction-in-progress	812,138	....
Decrease in income taxes withheld	142,528	....
Increase in miscellaneous receivables and advances	138,210	....
Increase in stockroom and cafeteria inventories	77,694	36,655
Decrease in accounts payable and accrued expenses	....	700,381
	15,551,685	14,516,541
INCREASE (DECREASE) IN CASH	$(3,401,977)	$ 2,948,947

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1974 AND 1973

SIGNIFICANT ACCOUNTING POLICIES

Assessments made by the Board on the Federal Reserve Banks for Board expenses and additions to property are calculated based upon expected cash needs and are accrued when assessed. Board expenses and property additions are recorded on the accrual basis of accounting.

Assessments and expenditures made on behalf of the Federal Reserve Banks for the printing, issue and redemption of Federal Reserve Notes are recorded on the cash basis and produce results which are not materially different from those which would have been produced on the accrual basis of accounting.

The Board does not charge depreciation as an operating expense. Property additions are charged to expense in the Operating Fund in the year of acquisition; recoveries on the disposal of property are recorded as a reduction in expense in the Operating Fund in the year of disposal. When property is acquired or sold, the property accounts in the Property Fund are increased or reduced at full cost, with a corresponding increase or decrease in the property fund balance. Because of the short duration and temporary nature of the Board's leases, leasehold improvements have not been capitalized in the Property Fund.

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The Board is self-insured against loss of its building and furniture and equipment from fire or other casualty. The construction-in-progress is covered by builder's risk insurance for work to December 31, 1974. Coverage for other customarily insured risks, such as workmen's compensation insurance and comprehensive general liability insurance, is carried by the Board.

CONSTRUCTION-IN-PROGRESS

The construction-in-progress represents the cost as of December 31, 1974, for the construction, furnishing and landscaping of the Martin Building, which first became occupied during 1974. The cost includes both building costs and costs relating to furniture, equipment and landscaping. When the construction and furnishing are completed in 1975, the final costs will be allocated to the appropriate property fund accounts.

Also included in the construction-in-progress is approximately $6,500,000 of cost that relates to the North Garage. Over the next 40 years the Board will receive approximately $4,300,000 from the Department of Interior for the use of parking spaces in the garage (subject to adjustment for both reduction of the number of spaces used by Interior and the final actual cost of the garage). Actual use of these spaces started in August, 1974 and miscellaneous expense has been offset for the $9,000 monthly payment received from Interior since that time.

The retention on construction-in-progress represents amounts withheld on contracts for the construction, furnishing and landscaping and is to be paid at the satisfactory completion of the contracts.

LONG-TERM LEASES

The Board leases outside office and parking space under leases expiring from February 28, 1975 to December 31, 1977. Because the leases may be terminated with six months notice commencing in 1975, at December 31, 1974, the only fixed future rental commitment is $265,000 for 1975. Rent expense for outside office, storage and parking space for the years ended December 31, 1974 and 1973 was approximately $990,000 and $1,064,000, respectively.

RETIREMENT PLANS

There are two contributory retirement programs for employees of the Board. About 85% of the employees are covered by the Federal Reserve Board Plan. All new members of the staff who do not come directly from a position in the Government are covered by this plan. The second, the Civil Service Retirement Plan, covers all new employees who come directly from Government service. Employee contributions are the same under both plans, and benefits are similar, being based upon the Civil Service Plan.

Under the Civil Service Plan, Board contributions match employee payroll deductions while under the Federal Reserve Plan, Board contributions are actuarially determined annually.

Additionally, employees of the Board participate in the Federal Reserve System's Thrift Plan. Under this plan, the Board adds a fixed percentage to allowable employee savings.

Board contributions to these plans totaled $1,509,054 in 1974 and $1,494,707 in 1973.

CONTINGENT LIABILITIES

Litigation involving the Board generally arises from challenges to, or appeals from actions or proposed actions of the Board pursuant to statutory or regulatory requirement or authorization. In essence, such law suits seek injunctive or declaratory relief against the Board rather than monetary awards.

At December 31, 1974, there are no claims or litigation outstanding involving monetary awards that would have a material impact on the financial statements of the Board.

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Statistical Tables

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Federal Reserve Bank of St. Louis

1. DETAILED STATEMENT OF CONDITION OF ALL FEDERAL RESERVE BANKS COMBINED, DECEMBER 31, 1974

(In thousands of dollars)

ASSETS				
Gold certificates on hand			1,278	
Gold certificates due from U.S. Treasury:				
Interdistrict settlement fund			8,595,716	
F.R. Agents' fund			3,055,000	
Total gold certificate account				**11,651,994**
Special Drawing Rights certificate account				**400,000**
F.R. notes of other F.R. Banks				**1,341,450**
Other cash:				
United States notes			71	
Silver certificates			2	
National bank notes and F.R. Bank notes			115	
Coin			240,754	
Total other cash				**240,942**
Loans to member banks secured by—				
U.S. Govt. and agency obligations		119,254		
Other eligible paper		113,730		
Other paper (Sec. 10(b))		66,019	299,003	
Loans to others			....	
Foreign loans on gold			....	
Total loans			**299,003**	
Acceptances:				
Bought outright			**578,950**	
Held under repurchase agreement			**420,271**	
Federal agency obligations:				
Bought outright			**4,702,144**	
Held under repurchase agreement			**510,500**	
U.S. Govt. securities:				
Bought outright:				
Bills	**36,764,505**			
Certificates	....			
Notes	**40,009,253**			
Bonds	**3,283,392**			
Total bought outright		**80,057,150**		
Held under repurchase agreement		**443,350**		
Total U.S. Govt. securities			**80,500,500**	
Total loans and securities				**87,011,368**
Cash items in process of collection:				
Transit items			7,942,260	
Exchanges for clearing house			174,441	
Other cash items			1,637,645	
Total cash items in process of collection				**9,754,346**
Bank premises:				
Land			68,159	
Buildings (including vaults)		158,039		
Fixed machinery and equipment		94,686		
Construction account		74,128		
Total buildings		326,853		
Less depreciation allowances		132,622	194,231	
Total bank premises				**262,390**
Other assets:				
Due from FDIC-account closed bank			1,723,472	
Denominated in foreign currencies			38,321	
Reimbursable expenses and other items receivable			12,813	
Interest accrued			853,035	
Premium on securities			109,489	
Deferred charges			9,885	
Real estate acquired for banking-house purposes			3,018	
Suspense account			138,942	
Overdrafts			38,887	
All other			3,453	
Total other assets				**2,931,315**
Total assets				**113,593,805**

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LIABILITIES

F.R. notes:			
Outstanding (issued to F.R. Banks)		75,117,563	
Less: Held by issuing F.R. Banks	2,836,022		
Forwarded for redemption	23,162	2,859,184	
F.R. notes, net (includes notes held by U.S. Treasury and by F.R. Banks other than issuing Bank)			**72,258,379**
Deposits:			
Member bank reserves		**25,825,688**	
U.S. Treasury—General Account		**3,113,490**	
Foreign		**418,028**	
Other deposits:			
Nonmember bank—Clearing accounts	1,663		
Officers' and certified checks	15,876		
Reserves of corporations doing foreign banking or financing	261,835		
International organizations	189,634		
Secretary of Treasury special account	86,718		
All other	715,537		
Total other deposits		**1,271,263**	
Total deposits			**30,628,469**
Deferred availability cash items			**7,767,214**
Other liabilities:			
Unearned discount		7,855	
Discount on securities		1,069,782	
Sundry items payable		19,246	
Suspense accounts		51,015	
All other		832	
Total other liabilities			**1,148,730**
Total liabilities			**111,802,792**

CAPITAL ACCOUNTS

Capital paid in	**895,507**
Surplus	**895,507**
Other capital accounts [1]	....
Total liabilities and capital accounts	**113,593,805**
Contingent liability on acceptances purchased for foreign correspondents	**980,818**

[1] During the year this item includes the net earnings, expenses, profit and loss items, and accrued dividends, which are closed out on Dec. 31; see Table 7, pp. 300 and 301.

NOTE.—Amounts in boldface type indicate items shown in the Board's weekly statement of condition of the F.R. Banks.

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2. STATEMENT OF CONDITION OF EACH FEDERAL RESERVE BANK, DECEMBER 31, 1974 AND 1973

(In millions of dollars unless otherwise indicated)

Item	Total		Boston		New York		Philadelphia		Cleveland		Richmond	
	1974	1973	1974	1973	1974	1973	1974	1973	1974	1973	1974	1973
ASSETS												
Gold certificate account	11,652	11,460	311	391	3,413	3,231	614	817	662	827	907	1,283
Special Drawing Rights certif. acct	400	400	23	23	93	93	23	23	33	33	36	36
F.R. notes of other F.R. Banks	1,343	1,208	75	96	233	198	82	63	91	89	96	109
Other cash	240	271	14	15	14	19	10	2	31	32	17	28
Loans:												
Secured by U.S. Govt. and agency obligations	125	385	5	9	9	63	23	18	....	95	48	6
Other	173	872	....	2	82	422	....	1	....	....	2	47
Acceptances:												
Bought outright	579	68	....	....	579	68	....	....	....	....	....	....
Held under repurchase agreement	420	....	....	....	420	....	....	....	....	....	....	....
Federal agency obligations:												
Bought outright	4,702	1,937	212	91	1,044	477	266	106	399	149	374	147
Held under repurchase agreement	511	42	....	....	511	42	....	....	....	....	....	....
U.S. Govt. securities:												
Bought outright [1]	80,058	78,458	3,608	3,680	17,784	19,314	4,527	4,296	6,787	6,016	6,378	5,959
Held under repurchase agreement	443	58	....	....	443	58	....	....	....	....	....	....
Total loans and securities	87,011	81,820	3,825	3,782	20,872	20,444	4,816	4,421	7,186	6,260	6,802	6,159
Cash items in process of collection	9,752	9,852	388	361	1,456	2,575	343	394	528	445	1,082	790
Bank premises	263	223	65	44	12	10	31	10	26	27	14	14
Other assets:												
Denominated in foreign currencies	2	4	....	....	1	1	....	....	....	1	....	....
All other	2,930	925	47	39	2,028	207	67	48	79	65	104	67
Total assets	113,593	106,163	4,748	4,751	28,122	26,778	5,986	5,778	8,636	7,779	9,058	8,486

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LIABILITIES												
F.R. notes	72,259	65,470	3,441	3,257	17,980	16,082	4,468	4,092	6,234	5,243	6,493	5,844
Deposits:												
Member bank reserves	25,825	26,759	674	771	6,139	7,780	865	1,029	1,269	1,701	1,167	1,350
U.S. Treasurer—General account	3,113	2,542	116	188	1,080	394	152	139	377	151	162	365
Foreign	418	251	12	11	202	59	14	13	26	24	16	13
All other [2]	1,275	1,633	23	21	814	674	29	39	41	31	52	50
Total deposits	30,631	31,185	825	991	8,235	8,907	1,060	1,220	1,713	1,907	1,397	1,778
Deferred availability cash items	7,768	6,839	362	391	1,157	1,118	310	331	441	407	985	701
Other liabilities and accrued dividends	1,141	981	50	44	280	241	64	51	92	74	83	69
Total liabilities	111,799	104,475	4,678	4,683	27,652	26,348	5,902	5,694	8,480	7,631	8,958	8,392
CAPITAL ACCOUNTS												
Capital paid in	897	844	35	34	235	215	42	42	78	74	50	47
Surplus	897	844	35	34	235	215	42	42	78	74	50	47
Other capital accounts	....	....	....	....	....	....	....	....	....	....	....	....
Total liabilities and capital accounts	113,593	106,163	4,748	4,751	28,122	26,778	5,986	5,778	8,636	7,779	9,058	8,486
Contingent liability on acceptances purchased for foreign correspondents	981	581	40	24	249	152	48	29	87	53	55	30
F.R. NOTE STATEMENT												
F.R. notes:												
Issued to F.R. Bank by F.R. Agent and outstanding	75,116	68,161	3,552	3,393	18,545	16,698	4,555	4,174	6,435	5,464	6,729	6,033
Less held by issuing Bank, and forwarded for redemption	2,857	2,691	111	136	565	616	87	82	201	221	236	189
F.R. notes, net [3]	72,259	65,470	3,441	3,257	17,980	16,082	4,468	4,092	6,234	5,243	6,493	5,844
Collateral held by F.R. Agent for notes issued to Bank:												
Gold certificate account	3,055	2,555	150	175	400	....	450	400	330	350	520	750
Special Drawing Rights certif. acct.	93	....	....	....	93	....	....	....	....	....	....	....
Acceptances	550	....	....	....	550	....	....	....	....	....	....	....
U.S. Govt. securities	72,555	66,335	3,425	3,230	17,600	16,850	4,200	3,800	6,200	5,200	6,300	5,340
Total collateral	76,253	68,890	3,575	3,405	18,643	16,850	4,650	4,200	6,530	5,550	6,820	6,090

For notes see end of table.

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2. STATEMENT OF CONDITION OF EACH FEDERAL RESERVE BANK, DECEMBER 31, 1974 AND 1973—*Continued*

(In millions of dollars unless otherwise indicated)

Item	Atlanta		Chicago		St. Louis		Minneapolis		Kansas City		Dallas		San Francisco	
	1974	1973	1974	1973	1974	1973	1974	1973	1974	1973	1974	1973	1974	1973
ASSETS														
Gold certificate account	343	847	1,946	1,595	518	359	309	114	556	416	572	253	1,501	1,327
Special Drawing Rights certif. acct	22	22	70	70	15	15	7	7	15	15	14	14	49	49
F.R. notes of other F.R. Banks	192	189	78	69	48	49	27	27	50	62	92	86	279	171
Other cash	35	39	24	33	21	19	9	10	18	32	11	14	36	28
Loans:														
Secured by U.S. Govt. and agency obligations	9	59	13	38	2	3	2	10	2	16	12	15	....	53
Other	10	50	15	158	....	18	....	....	1	11	11	23	52	140
Acceptances:														
Bought outright	....	....	....	....	....	....	....	....	....	....	....	....	....	....
Held under repurchase agreement	....	....	....	....	....	....	....	....	....	....	....	....	....	....
Federal agency obligations:														
Bought outright	269	111	768	316	184	72	105	40	184	76	213	89	684	263
Held under repurchase agreement	....	....	....	....	....	....	....	....	....	....	....	....	....	....
U.S. Govt. securities:														
Bought outright[1]	4,574	4,506	13,074	12,781	3,130	2,935	1,785	1,631	3,130	3,091	3,629	3,593	11,652	10,656
Held under repurchase agreement	....	....	....	....	....	....	....	....	....	....	....	....	....	....
Total loans and securities	4,862	4,726	13,870	13,293	3,316	3,028	1,892	1,681	3,317	3,194	3,865	3,720	12,388	11,112
Cash items in process of collection	1,389	759	1,291	1,288	420	463	425	400	807	602	636	562	987	1,213
Bank premises	14	15	16	16	14	14	34	36	17	17	12	12	8	8
Other assets:														
Denominated in foreign currencies	....	....	1	1	....	....	....	....	....	....	....	....	....	1
All other	73	59	152	132	37	32	26	50	39	32	45	38	233	156
Total assets	6,930	6,656	17,448	16,497	4,389	3,979	2,729	2,325	4,819	4,370	5,247	4,699	15,481	14,065

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Item														
LIABILITIES														
F.R. notes	3,984	3,560	11,374	10,926	2,970	2,602	1,412	1,171	2,633	2,544	2,708	2,489	8,562	7,660
Deposits:														
Member bank reserves	1,727	1,819	4,196	3,516	829	771	682	619	1,202	1,067	1,745	1,496	5,330	4,840
U.S. Treasurer—General account	97	237	280	208	155	178	129	89	103	114	105	130	357	349
Foreign	21	18	46	41	10	9	7	6	11	11	16	14	37	32
All other [2]	48	247	90	438	18	15	11	9	24	16	30	22	95	71
Total deposits	1,893	2,321	4,612	4,203	1,012	973	829	723	1,340	1,208	1,896	1,662	5,819	5,292
Deferred availability cash items	849	584	1,015	953	306	311	419	368	731	511	498	413	695	751
Other liabilities and accrued dividends	66	67	171	151	41	35	25	23	41	37	47	43	181	146
Total liabilities	6,792	6,532	17,172	16,233	4,329	3,921	2,685	2,285	4,745	4,300	5,149	4,607	15,257	13,849
CAPITAL ACCOUNTS														
Capital paid in	69	62	138	132	30	29	22	20	37	35	49	46	112	108
Surplus	69	62	138	132	30	29	22	20	37	35	49	46	112	108
Other capital accounts	....	....	....	....	....	....	....	....	....	....	....	....	....	....
Total liabilities and capital accounts	6,930	6,656	17,448	16,497	4,389	3,979	2,729	2,325	4,819	4,370	5,247	4,699	15,481	14,065
Contingent liability on acceptances purchased for foreign correspondents	72	41	154	91	33	20	23	13	40	24	54	31	126	73
F.R. NOTE STATEMENT														
F.R. notes:														
Issued to F.R. Bank by F.R. Agent and outstanding	4,273	3,799	11,721	11,242	3,117	2,728	1,461	1,222	2,800	2,660	2,867	2,638	9,061	8,110
Less held by issuing Bank, and forwarded for redemption	289	239	347	316	147	126	49	51	167	116	159	149	499	450
F.R. notes, net [3]	3,984	3,560	11,374	10,926	2,970	2,602	1,412	1,171	2,633	2,544	2,708	2,489	8,562	7,660
Collateral held by F.R. Agent for notes issued to Bank:														
Gold certificate account	200	....	700	700	300	175	....	....	....	....	5	5	....	....
Special Drawing Rights certif. acct.	....	....	....	....	....	....	....	....	....	....	....	....	....	....
Acceptances	....	....	....	....	....	....	....	....	....	....	....	....	....	....
U.S. Govt. securities	4,150	3,900	11,200	10,600	2,860	2,620	1,530	1,240	2,900	2,700	2,890	2,655	9,300	8,200
Total collateral	4,350	3,900	11,900	11,300	3,160	2,795	1,530	1,240	2,900	2,700	2,895	2,660	9,300	8,200

[1] *Includes,* beginning 1969, securities loaned—fully guaranteed by U.S. Govt. securities pledged with F.R. Banks, and *excludes* (if any), securities sold and scheduled to be bought back under matched sale–purchase transactions.

[2] Beginning July 1973, includes certain deposits of domestic nonmember banks and foreign-owned banking institutions held with member banks and redeposited in full with F.R. Banks in connection with voluntary participation by nonmember institutions in the Federal Reserve System's program of credit restraint.

As of Dec. 12, 1974, the amount of voluntary nonmember bank and foreign agency and branch deposits at F.R. Banks that are associated with marginal reserves are no longer reported. However, deposits voluntarily held by agencies and branches of foreign banks operating in the United States as reserves on Euro-dollar liabilities are reported.

[3] Includes F.R. notes held by U.S. Treasury and by F.R. Banks other than the issuing Bank.

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3. FEDERAL RESERVE BANK HOLDINGS OF U.S. GOVERNMENT AND FEDERAL AGENCY SECURITIES, DECEMBER 31, 1972–74

(In millions of dollars)

Type of issue and date	Rate of interest (per cent)	December 31			Increase or decrease (−) during—	
		1974	1973	1972	1974	1973
Treasury bonds:						
1973—Aug.	4			331		−331
Nov.	4⅛			411		−411
1974—Feb.	4⅛		210	200	−210	10
May	4¼		337	304	−337	33
Nov.	3⅞		68	68	−68	
1975–85	4¼	156	140	132	16	8
1978–83	3¼	87	78	78	9	
1980—Feb.	4	151	150	145	1	5
Nov.	3½	74	74	74		
1981—Aug.	7	121	121	114		7
1982—Feb.	6⅜	355	348	270	7	78
1984—Aug.	6⅜	331	329	283	2	46
1985—May	3¼	47	47	47		
1986—Nov.	6⅛	310	301	292	9	9
1987–92	4¼	505	504	496	1	8
1988–93	4	24	24	24		
	7½	202	125		77	125
1989–94	4⅛	77	77	77		
1990—Feb.	3½	84	84	84		
1993—Feb.	6¾	49	23		26	23
1993–98	7	97	75		22	75
1994–99	8½	580			580	
1995—Feb.	3	2	2	2		
1998—Nov.	3½	31	31	31		
Total		3,283	3,149	3,462	134	−313
Treasury notes:						
Feb. 15, 1973—C	6½			122		−122
—D	4⅞			1,770		−1,770
May 15, 1973—A	7¾			2,626		−2,626
—E	4¾			2,513		−2,513
Aug. 15, 1973—B	8⅛			232		−232
Feb. 15, 1974—C	7¾		325	284	−325	41
May 15, 1974—D	7¼		999	963	−999	36
Aug. 15, 1974—B	5⅝		5,305	5,233	−5,305	72
Sept. 30, 1974—E	6		94		−94	94
Nov. 15, 1974—A	5¾		1,891	1,876	−1,891	15
Dec. 31, 1974—F	5⅞		34		−34	34
Feb. 15, 1975—A	5¾	1,129	1,095	1,087	34	8
—E	5⅞	114	106	90	8	16
May 15, 1975—B	6	3,810	3,780	3,728	30	52
—F	5⅞	127	119	67	8	52
Aug. 15, 1975—C	5⅞	2,518	2,388	2,372	130	16
Sept. 30, 1975—G	8⅜	23			23	
Nov. 15, 1975—D	7	474	464	462	10	2
Dec. 31, 1975—H	7	202	193		9	193
Feb. 15, 1976—A	6¼	2,507	2,507	2,507		
—F	5⅞	1,170	934	898	236	36
Mar. 31, 1976—H	8	5	345	345	−340	
May 15, 1976—B	6½	353	462	456	−109	6
—E	5¾	472			472	
June 30, 1976—I	8¾	680			680	
Aug. 15, 1976—C	7½	720	720	714		6
—G	6½	1,630	1,605		25	1,605
Sept. 30, 1976—J	8¼	259			259	
Nov. 15, 1976—D	6¼	87	49	47	38	2
Dec. 31, 1976—K	7¼	77			77	
Feb. 15, 1977—A	8	2,453	2,451	2,448	2	3
May 15, 1977—C	6⅞	417			417	
—D	9	2,950			2,950	
Aug. 15, 1977—B	7¾	807	805	336	2	469
Nov. 15, 1977—E	7¾	1,122			1,122	
Feb. 15, 1978—A	6¼	2,575	2,573	2,568	2	5
Aug. 15, 1978—C	8¾	615			615	
Nov. 15, 1978—B	6	2,430	2,440	2,425	−10	15
May 15, 1979—D	7⅞	30			30	
Aug. 15, 1979—A	6¼	590	512	512	78	
Nov. 15, 1979—B	6⅝	871	844		27	844
—C	7	302	220		82	220
May 15, 1980—A	6⅞	5,200	5,155		45	5,155
Aug. 15, 1980—B	9	2,268			2,268	
Feb. 15, 1981—A	7	243			243	
Nov. 15, 1981—B	7¾	780			780	
Total		40,009	38,412	36,681	1,597	1,731

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Type of issue and date	Rate of interest (per cent)	December 31			Increase or decrease (–) during—	
		1974	1973	1972	1974	1973
Treasury bills:						
Tax anticipation	....	....	344	11	–344	333
Fed. Financing Bank	....	259	....	....	259	....
Other, due—						
Within 3 mos	....	23,259	24,255	19,651	–996	4,604
3–6 mos	....	8,752	8,396	6,516	356	1,880
After 6 mos	....	4,495	3,903	3,486	592	417
Total	....	36,765	36,897	29,665	–132	7,232
Repurchase agreement	....	443	58	98	385	–40
U.S. Govt. securities—Total	....	**80,501**	**78,516**	**69,906**	**1,985**	**8,610**
Maturing—						
Within 90 days	....	25,204	24,847	21,671	357	3,176
91 days to 1 year	....	20,401	21,369	16,097	–968	5,272
1–5 years	....	23,120	23,035	24,484	85	–1,449
5–10 years	....	9,612	7,503	6,108	2,109	1,395
Over 10 years	....	2,164	1,762	1,546	402	216
Federal agency obligations:						
Held outright:						
Banks for coops	....	87	....	....	87	....
Export-Import Bank	....	155	108	106	47	2
Fed. home loan banks	....	1,163	263	156	900	107
Fed. intermediate credit banks	....	210	71	22	139	49
Federal land banks	....	532	246	141	286	105
Farmers Home Admin.	....	225	134	36	91	98
Fed. Natl. Mort. Assn.	....	2,143	1,011	785	1,132	226
Govt. Natl. Mort. Assn.—PC's	....	71	58	48	13	10
U.S. Postal Service	....	25	25	14	....	11
Wash. Metro. Area Transit Authority	....	82	21	4	61	17
General Services Admin.	....	9	1	....	8	1
Total	....	4,702	1,938	1,311	2,764	627
Held under Rp's	....	511	42	13	469	29

NOTE.—Details may not add to totals because of rounding.

4. FEDERAL RESERVE BANK HOLDINGS OF SPECIAL SHORT-TERM TREASURY CERTIFICATES PURCHASED DIRECTLY FROM THE UNITED STATES, 1969–74

(In millions of dollars)

Date	Amount	Date	Amount	Date	Amount	Date	Amount
1969		1969		1971		1973	
Apr. 8	151	Sept. 8	653	June 8	79	Aug. 15	351
9	519	9	830	9	582	Sept. 7	73
10	490	10	1,102	10	610	8	73
11	976	11	862	11	593	9[1]	73
12	976	12	759	12	593	10	42
13[1]	976	13	759	13[1]	593	11	485
14	514	14[1]	759	14	243	12	169
15	502	15	513	15	588	14	319
16	627	16	972	16	349	15	319
Sept. 5	322					16[1]	319
6	322			1972		1974	
7[1]	322	1970	none	Sept. 12	38	Nov. 6	131

[1] Sunday or holiday.
NOTE.—Under authority of Section 14(b) of the Federal Reserve Act.
Throughout the period shown the interest rate was ¼ per cent below prevailing discount rate of F.R. Bank of New York. For data for prior years, beginning with 1942, see previous ANNUAL REPORTS. No holdings on dates not shown.

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5. OPEN MARKET TRANSACTIONS OF THE FEDERAL RESERVE SYSTEM DURING 1974

(In millions of dollars)

Month	Outright transactions in U.S. Govt. securities, by maturity (excluding matched sale–purchase transactions)								
	Treasury bills			Others within 1 year [1]			1–5 years		
	Gross purchases	Gross sales	Redemptions	Gross purchases	Gross sales	Exch., maturity shifts, or redemptions	Gross purchases	Gross sales	Exch. or maturity shifts
January	1,340	335	1,402	9	....	....	93	....	....
February	768	391	410	....	....	687	30	....	−922
March	664	566	165	....	....	....	109	....	....
April	1,237	49	407	....	....	....	172	....	....
May	737	100	....	112	....	2,563	26	....	−2,663
June	614	954	204	48	....	....	34	....	....
July	988	211	....	27	....	....	53	....	....
August	1,652	850	....	....	....	−2,867	....	....	1,057
September	717	565	786	22	....	−200	65	....	200
October	547	1,110	1,063	....	....	....	....	....	....
November	1,422	273	107	148	....	−1,623	92	....	1,757
December	973	426	6	85	....	126	123	....	−126
Total	11,660	5,830	4,550	450	....	−1,314	797	....	−697

Month	Outright transactions (cont.)						Total outright			Matched sale–purchase transactions (U.S. Govt. securities)	
	5–10 years			Over 10 years							
	Gross purchases	Gross sales	Exch. or maturity shifts	Gross purchases	Gross sales	Exch. or maturity shifts	Gross purchases	Gross sales	Redemptions	Gross sales	Gross purchases
January	77	......	......	......	......	......	1,519	335	1,402	2,590	2,590
February	......	......	200	......	......	35	798	391	410	2,393	2,393
March	56	......	......	25	......	......	854	566	165	702	702
April	......	......	......	......	......	......	1,409	49	407	......	......
May	31	......	......	38	......	100	944	100	......	4,586	4,586
June	78	......	......	16	......	......	790	954	204	4,580	4,580
July	9	......	......	36	......	......	1,113	211	......	2,587	......
August	......	......	1,940	......	......	−130	1,652	850	......	9,061	11,287
September	53	......	......	37	......	......	893	565	786	9,420	9,782
October	......	......	......	......	......	......	547	1,110	1,063	12,574	12,516
November	78	......	−465	25	......	200	1,765	273	238	6,880	6,404
December	53	......	......	20	......	......	1,254	426	6	8,855	7,962
Total	434	......	1,675	196	......	205	13,537	5,830	4,682	64,229	62,801

Month	Repurchase agreements (U.S. Govt. securities)		Net change in U.S. Govt. securities	Federal agency obligations			Bankers' acceptances, net		Net change [2]
				Outright		Repurchase agreements, net			
	Gross purchases	Gross sales		Gross purchases	Sales or redemptions		Outright	Repurchase agreements	
January	4,442	4,500	−276	29	39	−42	....	....	−328
February	4,265	4,265	−3	120	46	....	1	....	72
March	6,248	5,124	1,246	170	48	185	4	223	1,780
April	8,069	8,498	524	360	48	33	8	−89	789
May	9,192	8,648	1,388	201	15	424	16	142	2,155
June	6,124	6,667	−911	309	72	−372	....	−70	−1,115
July	4,269	4,965	−2,381	761	35	−270	121	−207	−2,011
August	2,096	2,096	3,028	238	3	....	59	....	3,322
September	3,551	3,551	−96	207	16	....	40	187	322
October	4,618	4,618	−1,684	....	....	....	−100	−185	−1,970
November	6,990	6,121	1,647	331	....	369	174	218	2,739
December	11,470	11,895	−498	360	....	142	188	201	393
Total	71,333	70,947	1,984	3,087	322	469	511	420	6,149

[1] In November included 131 million of special certificates acquired when the Treasury borrowed directly from the Federal Reserve.

[2] Net change in U.S. Govt. securities, Federal agency obligations, and bankers' acceptances.

NOTE.—Sales, redemptions, and negative figures reduce System holdings; all other figures increase them. Details may not add to totals because of rounding.

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6. BANK PREMISES OF FEDERAL RESERVE BANKS AND BRANCHES, DECEMBER 31, 1974

(In dollars)

F.R. Bank or branch	Cost				Net book value
	Land	Buildings (including vaults)[1]	Fixed machinery and equipment	Total	
Boston	24,154,505	45,885,145	3,136,207	73,175,857	64,529,633
New York	6,364,095	16,165,469	9,069,931	31,599,495	8,874,527
Annex	592,679	1,491,116	716,472	2,800,267	477,863
Buffalo	673,076	2,562,224	1,565,400	4,800,700	2,384,363
Philadelphia	3,254,353	32,514,821	2,154,452	37,923,626	30,942,466
Cleveland	1,295,490	6,653,703	3,572,664	11,521,857	1,058,037
Cincinnati	1,479,874	13,532,143	7,518,690	22,530,707	20,485,683
Pittsburgh	1,848,152	4,373,632	2,930,886	9,152,670	4,791,493
Richmond	2,342,774	7,123,231	2,506,471	11,972,476	5,986,716
Annex 1	146,875	256,000	2,313	405,188	149,008
Annex 2	522,733	3,466,263	3,047,422	7,036,418	5,586,052
Baltimore	801,779	2,009,381	1,163,973	3,975,133	1,666,223
Charlotte	347,071	1,069,026	625,121	2,041,218	1,012,595
Atlanta	1,304,755	5,804,778	3,558,581	10,668,114	5,753,871
Birmingham	410,775	2,000,619	1,019,618	3,431,012	1,654,239
Jacksonville	164,004	1,706,794	778,871	2,649,669	1,145,434
Annex	107,925	76,236	15,843	200,004	168,024
Nashville	592,342	1,474,678	1,098,924	3,165,944	1,619,265
New Orleans	1,557,663	2,754,271	1,448,181	5,760,115	4,044,276
Chicago	6,275,490	17,816,840	10,791,468	34,883,798	13,170,297
Annex	50,000	173,197	58,282	281,479	258,655
Detroit	1,147,734	3,108,850	1,713,337	5,969,921	2,541,032
St. Louis	1,675,780	3,171,720	2,941,024	7,788,524	1,199,492
Little Rock	800,104	2,037,868	992,471	3,830,443	3,061,001
Louisville	700,075	2,859,819	1,056,659	4,616,553	2,618,505
Memphis	1,135,623	4,216,382	2,086,133	7,438,138	6,681,374
Minneapolis	1,394,384	23,555,629	10,928,091	35,878,104	33,923,202
Helena	15,709	126,401	62,977	205,087	41,691
Kansas City	1,340,561	9,094,846	3,343,136	13,778,543	6,595,594
Denver	2,997,746	3,203,270	2,307,214	8,508,230	6,805,975
Oklahoma City	647,686	1,581,492	853,051	3,082,229	1,725,720
Omaha	996,489	1,600,210	781,171	3,377,870	2,031,091
Dallas	3,723,160	4,861,622	3,570,804	12,155,586	6,380,793
El Paso	262,477	850,972	393,301	1,506,750	914,726
Houston	1,959,770	1,408,574	714,187	4,082,531	3,126,339
San Antonio	448,596	1,400,390	570,847	2,419,833	1,445,968
San Francisco	684,340	3,783,530	1,925,551	6,393,421	475,488
Annex	247,201	124,000	30,000	401,201	331,521
Los Angeles	1,022,696	4,103,844	1,608,576	6,735,116	2,526,849
Portland	207,380	1,678,512	649,432	2,535,324	1,091,397
Salt Lake City	480,222	1,972,068	707,575	3,159,865	1,851,165
Seattle	274,772	1,890,966	1,058,744	3,224,482	1,263,183
Total	76,448,915	245,540,532	95,074,051	417,063,498	262,390,826

OTHER REAL ESTATE ACQUIRED FOR BANKING-HOUSE PURPOSES

F.R. Bank or branch	Land	Buildings (including vaults)[1]	Fixed machinery and equipment	Total	Net book value
Boston	60,705			60,705	60,705
Cleveland	395,875			395,875	395,875
Richmond	326,403			326,403	326,403
Charlotte	1,625,012			1,625,012	1,625,012
Atlanta	478,327			478,327	478,327
Helena	131,739			131,739	131,739
Total	3,018,061			3,018,061	3,018,061

[1] Includes expenditures for construction at some offices pending allocation to appropriate accounts.

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7. EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS DURING 1974

(In dollars)

Item	Total	Boston	New York	Phila-delphia	Cleve-land	Rich-mond	Atlanta	Chicago	St. Louis	Minne-apolis	Kansas City	Dallas	San Francisco
CURRENT EARNINGS													
Loans	166,071,181	5,326,387	64,013,744	6,934,854	7,237,280	15,331,149	15,441,482	14,400,307	4,300,074	2,773,174	6,711,604	7,493,763	16,107,363
Acceptances	29,782,219	....	29,782,219	....	....	....	....	....	....	....	....	....	....
U.S. Govt. securities	6,043,574,972	274,123,162	1,559,494,345	328,474,022	460,596,897	448,313,740	327,835,311	957,845,827	225,240,678	125,726,545	233,507,713	265,390,908	837,025,824
Foreign currencies	7,533,830	279,668	2,451,117	334,213	600,280	381,877	498,217	1,071,903	231,909	156,875	279,668	375,117	872,986
All other	33,128,763	95,497	30,928,247	107,921	205,371	145,097	257,921	448,604	117,292	271,122	178,506	124,080	249,105
Total	6,280,090,965	279,824,714	1,686,669,672	335,851,010	468,639,828	464,171,863	344,032,931	973,766,641	229,889,953	128,927,716	240,677,491	273,383,868	854,255,278
CURRENT EXPENSES													
Salaries:													
Officers	19,263,555	1,266,230	4,160,351	1,122,580	1,045,589	1,787,556	1,674,925	1,781,779	1,332,643	995,747	1,314,765	1,135,828	1,645,562
Employees	253,213,339	16,566,663	62,354,294	12,929,961	14,746,342	20,200,840	22,634,858	32,994,794	14,707,326	9,496,159	14,296,698	11,718,967	20,566,437
Retirement and other benefits	45,638,036	3,161,080	10,558,371	2,356,578	2,760,163	3,586,509	3,907,846	5,813,691	2,738,027	1,669,041	2,744,324	2,156,493	4,185,913
Fees—Directors and others	4,297,661	158,328	1,493,042	231,223	241,289	162,605	218,957	408,140	168,871	185,037	132,532	124,033	773,604
Traveling expenses	4,649,188	355,458	858,188	171,745	331,530	347,275	496,285	496,136	265,735	261,766	286,215	256,693	522,162
Postage and expressage	67,150,817	3,695,044	9,172,306	2,762,928	6,048,277	7,041,004	7,743,027	8,487,571	5,220,668	2,609,847	3,990,235	3,555,268	6,824,642
Telephone and telegraph	7,617,920	388,460	1,665,858	307,556	419,357	655,877	869,094	943,132	373,178	303,074	603,902	506,002	582,430
Printing and supplies	24,549,244	1,502,169	4,481,925	1,109,265	1,240,193	2,381,565	3,046,161	3,268,318	1,750,872	925,460	1,622,821	1,084,118	2,136,377
Insurance	951,337	54,086	190,771	33,724	74,974	71,628	101,216	103,575	62,227	30,275	50,812	51,547	126,502
Taxes on real estate	11,644,304	2,522,650	1,966,215	271,610	725,705	367,634	522,814	1,537,754	443,754	1,564,171	561,558	419,100	741,339
Depreciation	6,791,504	143,662	464,436	76,596	1,237,844	601,638	429,509	484,619	573,369	1,565,942	660,008	314,681	239,200
Light, heat, power, and water	6,145,303	397,962	1,341,332	290,223	704,135	469,547	501,036	753,628	413,978	333,696	396,096	255,829	287,841
Maintenance and repairs	3,631,350	155,063	482,408	123,451	218,739	305,195	450,122	321,576	703,188	266,835	160,938	90,273	353,562
Rent	6,726,121	1,117,010	3,463,436	466,737	158,131	259,388	562,971	451,980	111,231	137	20,469	3,819	110,812
Furniture and equipment:													
Purchases	9,013,098	492,181	1,719,257	246,291	421,202	787,560	1,363,933	842,805	850,683	361,790	652,587	477,548	797,261
Rentals	38,027,730	3,154,647	5,376,328	2,486,795	2,749,572	3,349,353	3,434,241	4,915,900	2,542,181	1,495,878	2,587,142	2,617,556	3,318,137
All other	9,670,874	910,227	2,237,872	467,338	643,429	682,754	468,051	1,625,764	297,037	439,586	365,054	901,334	633,791
Inter-office expenses	....	82,432	−1,709,874	141,035	248,217	−327,168	236,800	465,164	115,822	75,845	130,917	168,068	371,379
Subtotal	518,981,381	36,123,352	110,276,516	25,595,636	34,014,688	42,730,760	48,661,846	65,696,326	32,670,790	22,580,286	30,577,073	25,837,157	44,216,951
F.R. currency	30,190,288	1,771,466	6,457,174	2,293,659	1,846,527	3,694,938	3,080,604	2,827,823	1,348,230	1,076,282	1,376,585	1,469,198	2,947,802
Assessments for Board of Governors:[1]													
Operating expenses	33,590,000	1,660,700	10,517,000	2,008,600	3,623,000	2,287,600	3,045,400	6,422,600	1,385,100	966,500	1,702,600	2,244,000	5,253,500
Construction expenses	7,526,600												
Total	590,288,269	39,555,518	127,250,690	29,897,896	39,484,215	48,713,298	54,787,850	74,946,749	35,404,120	24,623,068	33,656,258	29,550,355	52,418,253
Less reimbursement for certain fiscal agency and other expenses	42,746,795	2,468,201	9,024,014	1,924,181	3,266,796	2,839,432	3,907,911	6,574,313	2,672,075	1,183,229	2,716,089	1,382,209	4,788,345
Net expenses	547,541,474	37,087,317	118,226,676	27,973,715	36,217,419	45,873,866	50,879,939	68,372,436	32,732,045	23,439,839	30,940,169	28,168,146	47,629,908

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PROFIT AND LOSS

Current net earnings	5,732,549,488	242,737,397	1,568,442,996	307,877,294	432,422,408	418,297,997	293,152,992	905,394,205	197,157,908	105,487,877	209,737,322	245,215,722	806,625,370
Additions to current net earnings:													
All other	6,081,271	652,640	1,252,160	151,266	672,939	135,857	159,633	394,831	415,781	152,422	1,844,730	96,935	152,077
Total additions	6,081,271	652,640	1,252,160	151,266	672,939	135,857	159,633	394,831	415,781	152,422	1,844,730	96,935	152,077
Deductions from current net earnings:													
Losses on sales of U.S. Govt. securities	41,794,562	2,058,264	10,575,644	2,291,456	3,16[illegible],279	3,071,997	2,262,100	6,681,914	1,563,903	869,243	1,617,958	1,842,937	5,793,867
Losses on foreign exchange transactions	33,964,764	1,392,555	8,661,015	1,664,273	2,988,899	1,902,027	2,479,428	5,332,468	1,154,802	781,190	1,392,555	1,868,062	4,347,490
All other	8,809,179	519,243	1,598,928	2,253,557	434,655	471,146	441,915	1,905,001	111,426	207,304	129,893	162,691	573,420
Total deductions	84,568,505	3,970,062	20,835,587	6,209,286	6,588,833	5,445,170	5,183,443	13,919,383	2,830,131	1,857,737	3,140,406	3,873,690	10,714,777
Net deduction from (−) current net earnings	−78,487,234	−3,317,423	−19,583,427	−6,058,020	−5,915,894	−5,309,312	−5,023,810	−13,524,552	−2,414,350	−1,705,315	−1,295,676	−3,776,755	−10,562,700
Net earnings before payments to U.S. Treasury	5,654,062,254	239,419,975	1,548,859,569	301,819,274	426,506,514	412,988,684	288,129,182	891,869,653	194,743,558	103,782,562	208,441,646	241,438,967	796,062,670
Dividends paid	52,579,643	2,085,834	13,627,935	2,489,537	4,631,401	2,936,699	3,968,021	8,130,874	1,763,500	1,261,592	2,187,849	2,851,470	6,644,931
Payments to U.S. Treasury (interest on F.R. notes)	5,549,999,411	236,641,641	1,515,542,484	298,993,487	418,281,863	407,257,185	277,674,711	878,637,779	191,433,108	100,438,520	203,752,847	235,544,447	785,801,339
Transferred to surplus	51,483,200	692,500	19,689,150	336,250	3,593,250	2,794,800	6,486,450	5,101,000	1,546,950	2,082,450	2,500,950	3,043,050	3,616,400
Surplus, January 1	844,023,350	34,357,750	214,962,750	41,591,600	74,328,050	46,898,000	62,004,400	132,422,100	28,484,650	19,648,300	34,902,100	46,116,200	108,307,450
Surplus, December 31	895,506,550	35,050,250	234,651,900	41,927,850	77,921,300	49,692,800	68,490,850	137,523,100	30,031,600	21,730,750	37,403,050	49,159,250	111,923,850

[1] See pp. 286–88 for additional details.

NOTE.—Details may not add to totals because of rounding.

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8. EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, 1914–74

(In dollars)

Period or Bank	Current earnings	Current expenses	Net earnings before payments to U.S. Treasury [1]	Dividends paid	Payments to U.S. Treasury			Transferred to surplus (Sec. 13b)	Transferred to surplus (Sec. 7)
					Franchise tax	Under Sec. 13b	Interest on F.R. notes		
All F.R. Banks, by years:									
1914–15	2,173,252	2,320,586	−141,459	217,463	...	...	...	...	...
1916	5,217,998	2,273,999	2,750,998	1,742,775	...	...	...	...	...
1917	16,128,339	5,159,727	9,582,067	6,804,186	1,134,234	...	...	...	1,134,234
1918	67,584,417	10,959,533	52,716,310	5,540,684	...	...	...	...	48,334,341
1919	102,380,583	19,339,633	78,367,504	5,011,832	2,703,894	...	...	...	70,651,778
1920	181,296,711	28,258,030	149,294,774	5,654,018	60,724,742	...	...	...	82,916,014
1921	122,865,866	34,463,845	82,087,225	6,119,673	59,974,466	...	...	...	15,993,086
1922	50,498,699	29,559,049	16,497,736	6,307,035	10,850,605	...	...	...	−659,904
1923	50,708,566	29,764,173	12,711,286	6,552,717	3,613,056	...	...	...	2,545,513
1924	38,340,449	28,431,126	3,718,180	6,682,496	113,646	...	...	...	−3,077,962
1925	41,800,706	27,528,163	9,449,066	6,915,958	59,300	...	...	...	2,473,808
1926	47,599,595	27,350,182	16,611,745	7,329,169	818,150	...	...	...	8,464,426
1927	43,024,484	27,518,443	13,048,249	7,754,539	249,591	...	...	...	5,044,119
1928	64,052,860	26,904,810	32,122,021	8,458,463	2,584,659	...	...	...	21,078,899
1929	79,955,496	29,691,113	36,402,741	9,583,911	4,283,231	...	...	...	22,535,597
1930	36,424,044	28,342,726	7,988,182	10,268,598	17,308	...	...	...	−2,297,724
1931	29,701,279	27,040,664	2,972,066	10,029,760	...	...	...	...	−7,057,694
1932	50,018,817	26,291,381	22,314,244	9,282,244	2,011,418	...	...	...	11,020,582
1933	49,487,318	29,222,837	7,957,407	8,874,262	...	...	...	...	−916,855
1934	48,902,813	29,241,396	15,231,409	8,781,661	...	...	...	−60,323	6,510,071
1935	42,751,959	31,577,443	9,437,758	8,504,974	...	297,667	...	27,695	607,422
1936	37,900,639	29,874,023	8,512,433	7,829,581	...	227,448	...	102,880	352,524
1937	41,233,135	28,800,614	10,801,247	7,940,966	...	176,625	...	67,304	2,616,352
1938	36,261,428	28,911,600	9,581,954	8,019,137	...	119,524	...	−419,140	1,862,433
1939	38,500,665	28,646,855	12,243,365	8,110,462	...	24,579	...	−425,653	4,533,977
1940	43,537,805	29,165,477	25,860,025	8,214,971	...	82,152	...	−54,456	17,617,358
1941	41,380,095	32,963,150	9,137,581	8,429,936	...	141,465	...	−4,333	570,513
1942	52,662,704	38,624,044	12,470,451	8,669,076	...	197,672	...	49,602	3,554,101
1943	69,305,715	43,545,564	49,528,433	8,911,342	...	244,726	...	135,003	40,237,362
1944	104,391,829	49,175,921	58,437,788	9,500,126	...	326,717	...	201,150	48,409,795
1945	142,209,546	48,717,271	92,662,268	10,182,851	...	247,659	...	262,133	81,969,625
1946	150,385,033	57,235,107	92,523,935	10,962,160	...	67,054	...	27,708	81,467,013
1947	158,655,566	65,392,975	95,235,592	11,523,047	...	35,605	75,223,818	86,772	8,366,350
1948	304,160,818	72,710,188	197,132,683	11,919,809	...	...	166,690,356	...	18,522,518
1949	316,536,930	77,477,676	226,936,980	12,329,373	...	...	193,145,837	...	21,461,770

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1950	275,838,994	80,571,771	231,561,340	13,082,991	...	...	196,628,858	...	21,849,490
1951	394,656,072	95,469,086	297,059,097	13,864,750	...	...	254,873,588	...	28,320,759
1952	456,060,260	104,694,091	352,950,157	14,681,788	...	...	291,934,634	...	46,333,735
1953	513,037,237	113,515,020	398,463,224	15,558,377	...	...	342,567,985	...	40,336,862
1954	438,486,040	109,732,931	328,619,468	16,442,236	...	...	276,289,457	...	35,887,775
1955	412,487,931	110,060,023	302,162,452	17,711,937	...	...	251,740,721	...	32,709,794
1956	595,649,092	121,182,496	474,443,160	18,904,897	...	...	401,555,581	...	53,982,682
1957	763,347,530	131,814,003	624,392,613	20,080,527	...	...	542,708,405	...	61,603,682
1958	742,068,150	137,721,655	604,470,670	21,197,452	...	...	524,058,650	...	59,214,569
1959	886,226,116	144,702,706	839,770,663	22,721,687	...	...	910,649,768	...	−93,600,791
1960	1,103,385,257	153,882,275	963,377,684	23,948,225	...	...	896,816,359	...	42,613,100
1961	941,648,170	161,274,575	783,855,223	25,569,541	...	...	687,393,382	...	70,892,300
1962	1,048,508,335	176,136,134	872,316,422	27,412,241	...	...	799,365,981	...	45,538,200
1963	1,151,120,060	187,273,357	964,461,538	28,912,019	...	...	879,685,219	...	55,864,300
1964	1,343,747,303	197,395,889	1,147,077,362	30,781,548	...	...	1,582,118,614	...	−465,822,800
1965	1,559,484,027	204,290,186	1,356,215,455	32,351,602	...	...	1,296,810,053	...	27,053,800
1966	1,908,499,896	207,401,126	1,702,095,000	33,696,336	...	...	1,649,455,164	...	18,943,500
1967	2,190,403,752	220,120,846	1,972,376,782	35,027,312	...	...	1,907,498,270	...	29,851,200
1968	2,764,445,943	242,350,370	2,530,615,569	36,959,336	...	...	2,463,628,983	...	30,027,250
1969	3,373,360,559	274,973,320	3,097,829,686	39,236,599	...	...	3,019,160,638	...	39,432,450
1970	3,877,218,444	321,373,386	3,567,286,887	41,136,551	...	...	3,493,570,636	...	32,579,700
1971	3,723,369,921	377,184,800	3,440,451,196	43,488,074	...	...	3,356,559,873	...	40,403,250
1972	3,792,334,523	414,606,351	3,328,112,382	46,183,719	...	...	3,231,267,663	...	50,661,000
1973	5,016,769,328	495,117,376	4,440,998,464	49,139,682	...	...	4,340,680,482	...	51,178,300
1974	6,280,090,965	547,541,474	5,654,062,254	52,579,643	...	...	5,549,999,411	...	51,483,200
Total 1914–74	48,251,280,064	6,462,864,579	41,757,208,995	999,628,325	149,138,300	2,188,893	39,582,078,385	−3,657	1,024,178,749
Aggregate for each F.R. Bank, 1914–74:									
Boston	2,462,018,636	432,062,899	2,029,796,469	53,473,681	...	...	1,923,650,064	...	45,145,075
New York	12,421,323,968	1,395,983,168	11,022,012,966	292,105,183	...	...	10,390,057,343	...	271,908,471
Philadelphia	2,637,078,565	360,006,732	2,278,110,551	65,004,930	...	...	2,150,275,582	...	56,258,072
Cleveland	3,839,580,294	514,810,273	3,321,410,002	93,878,381	...	...	3,131,461,058	...	91,155,093
Richmond	3,363,572,755	481,469,154	2,882,108,785	47,532,613	...	...	2,772,702,394	...	55,572,608
Atlanta	2,585,694,098	465,019,929	2,114,767,001	52,912,546	...	...	1,979,061,747	...	73,757,390
Chicago	7,812,718,689	886,998,847	6,915,760,690	136,446,031	...	...	6,600,986,554	...	152,851,854
St. Louis	1,838,294,180	361,763,027	1,474,859,119	34,232,525	...	...	1,402,738,788	...	35,151,228
Minneapolis	1,031,705,619	239,757,449	792,273,399	23,286,782	...	...	738,055,270	...	25,607,963
Kansas City	1,959,925,312	370,324,926	1,589,481,162	39,627,516	...	...	1,501,316,008	...	41,543,000
Dallas	2,049,411,376	322,274,879	1,724,318,212	49,162,005	...	...	1,621,002,009	...	53,436,728
San Francisco	6,249,956,572	632,393,296	5,612,310,639	111,966,132	...	...	5,370,771,568	...	121,791,267
Total	48,251,280,064	6,462,864,579	41,757,208,995	999,628,325	149,138,300	2,188,893	39,582,078,385	−3,657	[2] 1,024,178,749

[1] Current earnings less current expenses, plus or minus adjustment for profit and loss items.

[2] The $1,024,178,749 transferred to surplus was reduced by direct charges of $500,000 for charge-off on Bank premises (1927), $139,299,557 for contributions to capital of the Federal Deposit Insurance Corporation (1934), and $3,657 net upon elimination of Sec. 13b surplus (1958), and was increased by $11,131,013 transferred from reserves for contingencies (1945), leaving a balance of $895,506,550, on Dec. 31, 1974.

NOTE.—Details may not add to totals because of rounding.

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9. VOLUME OF OPERATIONS IN PRINCIPAL DEPARTMENTS OF FEDERAL RESERVE BANKS, 1971–74

(Number in thousands; amounts in thousands of dollars)

Operation	1974	1973	1972	1971
NUMBER OF PIECES HANDLED [1]				
Loans	35	34	6	7
Currency received and counted	6,737,990	6,711,253	6,453,899	6,270,732
Currency verified and destroyed	2,712,718	2,613,765	2,246,740	2,446,244
Coin received and counted	15,089,449	15,877,724	14,716,546	13,736,840
Checks handled:				
U.S. Govt. checks	723,187	649,424	617,408	628,602
Postal money orders	169,109	168,116	177,257	181,054
All other [2]	10,820,006	9,976,962	r 8,451,176	7,704,742
Collection items handled:				
U.S. Govt. coupons paid	9,867	10,443	11,911	13,523
All other	28,002	25,764	25,720	26,928
Issues, redemptions, and exchanges of U.S. Govt. securities	283,313	r 278,053	258,947	258,152
Transfers of funds	14,513	11,633	9,494	8,148
Food stamps redeemed	2,512,927	2,038,092	1,849,647	1,842,026
AMOUNTS HANDLED				
Loans	361,231,396	245,074,209	61,620,130	85,254,860
Currency received and counted	61,942,629	56,837,822	51,535,480	48,783,022
Currency verified and destroyed	14,800,429	14,460,303	12,068,786	13,261,100
Coin received and counted	2,005,143	2,462,923	1,755,727	1,602,994
Checks handled:				
U.S. Govt. checks	318,983,924	263,439,104	235,163,523	211,996,633
Postal money orders	5,686,672	4,814,561	4,718,577	4,806,963
All other [2]	4,104,274,900	3,845,234,479	3,317,873,664	3,824,868,058
Collection items handled:				
U.S. Govt. coupons paid	6,336,902	6,322,475	5,825,599	6,239,761
All other	28,795,114	23,013,309	24,770,140	20,879,111
Issues, redemptions, and exchanges of U.S. Govt. securities	3,085,911,133	2,617,455,702	2,052,735,038	1,951,122,313
Transfers of funds	30,361,777,939	23,479,745,788	17,916,041,090	14,858,172,824
Food stamps redeemed	5,679,074	4,030,228	3,525,383	3,116,904

r Revised.
[1] Packaged items handled as a single item are counted as one piece.
[2] Exclusive of checks drawn on the F.R. Banks.

10. NUMBER AND SALARIES OF OFFICERS AND EMPLOYEES OF FEDERAL RESERVE BANKS, DECEMBER 31, 1974

Federal Reserve Bank (including branches)	President	Other officers		Employees [1]		Total	
	Annual salary	Number	Annual salaries	Number	Annual salaries	Number	Annual salaries
Boston	$ 60,250	46	$ 1,287,803	1,680	$ 16,878,522	1,727	$ 18,226,575
New York	90,000	118	4,303,750	5,330	60,843,290	5,449	65,237,040
Philadelphia	55,000	39	1,052,256	1,464	13,250,098	1,504	14,357,354
Cleveland	58,650	37	952,250	1,614	14,106,973	1,652	15,117,873
Richmond	50,000	68	1,788,300	2,438	21,278,125	2,507	23,116,425
Atlanta	60,000	66	1,685,250	2,865	23,201,216	2,932	24,946,466
Chicago	76,000	63	1,719,283	3,674	32,536,998	3,738	34,332,281
St. Louis	64,000	48	1,264,700	1,719	14,972,112	1,768	16,300,812
Minneapolis	56,500	32	927,400	970	9,166,700	1,003	10,150,600
Kansas City	65,000	49	1,214,500	1,684	14,195,970	1,734	15,475,470
Dallas	55,000	43	1,112,938	1,402	11,948,447	1,446	13,116,385
San Francisco	75,000	62	1,601,750	2,114	19,927,856	2,177	21,604,606
Total	$765,400	671	$18,910,180	26,954	$252,306,307	27,637	$271,981,887

[1] Includes 1,113 part-time employees.

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11. FEDERAL RESERVE BANK INTEREST RATES, DECEMBER 31, 1974

(Per cent per annum)

Federal Reserve Bank	Loans to member banks—			Loans to all others under last par. Sec. 13 [4]
	Under Secs. 13 and 13a [1]	Under Sec. 10(b) [2]		
		Regular rate	Special rate [3]	
Boston	7¾	8¼	9½	10
New York	↑	↑	↑	↑
Philadelphia				
Cleveland				
Richmond				
Atlanta				
Chicago				
St. Louis				
Minneapolis				
Kansas City				
Dallas	↓	↓	↓	↓
San Francisco	7¾	8¼	9½	10

[1] Discounts of eligible paper and advances secured by such paper or by U.S. Govt. obligations or any other obligations eligible for Federal Reserve Bank purchase.
[2] Advances secured to the satisfaction of the F.R. Bank. Advances secured by mortgages on 1- to 4-family residential property are made at the Section 13 rate.
[3] Applicable to special advances described in Section 201.2(e)(2) of Regulation A.
[4] Advances to individuals, partnerships, or corporations other than member banks secured by direct obligations of, or obligations fully guaranteed as to principal and interest by, the U.S. Govt. or any agency thereof.

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12. MEMBER BANK RESERVE REQUIREMENTS

(Per cent of deposits)

Through July 13, 1966

Effective date [1]	Net demand deposits [2]			Time deposits (all classes of banks)
	Central reserve city banks	Reserve city banks	Country banks	
1917—June 21	13	10	7	3
1936—Aug. 16	19½	15	10½	4½
1937—Mar. 1	22¾	17½	12¼	5¼
May 1	26	20	14	6
1938—Apr. 16	22¾	17½	12	5
1941—Nov. 1	26	20	14	6
1942—Aug. 20	24	...	...	...
Sept. 14	22	...	...	...
Oct. 3	20	...	...	...
1948—Feb. 27	22	...	...	...
June 11	24	...	...	...
Sept. 24, 16	26	22	16	7½
1949—May 5, 1	24	21	15	7
June 30, July 1	...	20	14	6
Aug. 1	...	...	13	...
Aug. 11, 16	23½	19½	12	5
Aug. 18	23	19	...	...
Aug. 25	22½	18½	...	...
Sept. 1	22	18	...	...
1951—Jan. 11, 16	23	19	13	6
Jan. 25, Feb. 1	24	20	14	...
1953—July 9, 1	22	19	13	...
1954—June 24, 16	21	...	...	5
July 29, Aug. 1	20	18	12	...
1958—Feb. 27, Mar. 1	19½	17½	11½	...
Mar. 20, Apr. 1	19	17	11	...
Apr. 17	18½	...	...	...
Apr. 24	18	16½	...	...
1960—Sept. 1	17½	...	...	...
Nov. 24	...	...	12	...
Dec. 1	16½	...	...	...
1962—July 28	[3]	...	...	...
Oct. 25, Nov. 1	...	...	...	4

July 14, 1966, through Nov. 8, 1972
(Deposit intervals are in millions of dollars)

Effective date [1]	Net demand deposits [2]				Time deposits [4] (all classes of banks)		
	Reserve city banks		Country banks		Savings	Other time	
	0–5	Over 5	0–5	Over 5		0–5	Over 5
1966—July 14, 21	[5] 16½		[5] 12		[5] 4	[5] 4	5
Sept. 8, 15	...		...		...	...	6
1967—Mar. 2	...		...		3½	3½	...
Mar. 16	...		...		3	3	...
1968—Jan. 11, 18	16½	17	12	12½	...	...	...
1969—Apr. 17	17	17½	12½	13	...	...	...
1970—Oct. 1	...	...	...	...	...	...	5

For notes see opposite page.

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Beginning Nov. 9, 1972
(Deposit intervals are in millions of dollars)

Effective date	Net demand deposits [2,6]					Time deposits [4]			
						Savings	Other time		
							0–5	Over 5 [7], maturing in—	
	0–2	2–10	10–100	100–400	Over 400			30–179 days	180 days and over
1972—Nov. 9	8	10	12	[8]16½	17½	[5]3	[5]3	[5]5	
Nov. 16				13					
1973—July 19		10½	12½	13½	18				
1974—Dec. 12					17½			6	3
In effect Dec. 31, 1974	8	10½	12½	13½	17½	3	3	6	3

Legal limits—Dec. 31, 1974:

	Minimum	Maximum
Net demand deposits:		
Reserve city banks	10	22
Other banks	7	14
Time deposits	3	10

[1] When two dates are shown, the first applies to the change at central reserve or reserve city banks and the second to the change at country banks.

[2] (a) Demand deposits subject to reserve requirements, which beginning with Aug. 23, 1935, have been total demand deposits minus cash items in process of collection and demand balances due from domestic banks (also minus war loan and Series E bond accounts during the period Apr. 13, 1943—June 30, 1947).

(b) All required reserves were held on deposit with F.R. Banks June 21, 1917, until late 1959. Since then, member banks have also been allowed to count vault cash as reserves, as follows: country banks—in excess of 4 and 2½ per cent of net demand deposits effective Dec. 1, 1959, and Aug. 25, 1960, respectively; central reserve city and reserve city banks—in excess of 2 and 1 per cent effective Dec. 3, 1959, and Sept. 1, 1960, respectively; all member banks were allowed to count all vault cash as reserves effective Nov. 24, 1960.

(c) When requirement schedules are graduated, each deposit interval applies to that part of the deposits of each bank.

(d) Since Oct. 16, 1969, member banks have been required under Regulation M to maintain reserves against (1) foreign branch deposits computed on the basis of net balances due from domestic offices to their foreign branches and (2) foreign branch loans to U.S. residents. Regulation D imposes a similar reserve requirement against (3) borrowings from foreign banks by domestic offices of a member bank. Originally these requirements were levied on amounts above specified bases, but the reserve-free bases were eliminated for (2) effective June 21, 1973, and for (1) and (3) they were gradually removed until eliminated effective Mar. 14, 1974. Beginning June 21, 1973, loans aggregating $100,000 or less to any U.S. resident have been excluded from computations, as have total loans of a bank to U.S. residents if not exceeding $1 million. The applicable reserve percentage, originally 10 per cent, was increased to 20 per cent on Jan. 7, 1971, and effective June 21, 1973, was reduced to 8 per cent. For details, see Regulations D and M as described in the Record of Policy Actions of the Board of Governors, on p. 97 of this REPORT and in previous ANNUAL REPORTS.

[3] Authority of the Board of Governors to classify or reclassify cities as central reserve cities was terminated effective July 28, 1962.

[4] Effective Jan. 5, 1967, time deposits such as Christmas and vacation club accounts became subject to the same requirements as savings deposits.

For other notes, see 2(b), 2(c), and 2(d) above.

[5] See columns above for earliest effective date of this rate.

[6] Effective Nov. 9, 1972, a new criterion was adopted to designate reserve cities, and on the same date requirements for reserves against net demand deposits of member banks were restructured to provide that each member bank will maintain reserves related to the size of its net demand deposits. The new reserve city designations are as follows: A bank having net demand deposits of more than $400 million is considered to have the character of business of a reserve city bank, and the presence of the head office of such a bank constitutes designation of that place as a reserve city. Cities in which there are F.R. Banks or branches are also reserve cities. Any banks, wherever located, having net demand deposits of $400 million or less are considered to have the character of business of banks outside of reserve cities and are permitted to maintain reserves at ratios set for banks not in reserve cities.

[7] From June 21, 1973, through Dec. 11, 1974, member banks, except as noted below, were subject to a marginal reserve requirement against increases in the aggregate of the following types of obligations: (a) outstanding time deposits of $100,000 or more, (b) outstanding funds obtained by the bank through issuance by a bank's affiliate of obligations subject to the existing reserve requirements on time deposits, and (c) beginning July 12, 1973, funds from sales of finance bills. For the period June 21 through Aug. 29, 1973, (a) included only single-maturity time deposits. The requirement applied to balances above a specified base, but was not applicable to banks having obligations of these types aggregating less than $10 million. Including the basic requirement (5 per cent during the entire period), requirements were: 8 per cent for (a) and (b) from June 21 through Oct. 3, 1973, and for (c) from July 12 through Oct. 3, 1973; 11 per cent from Oct. 4 through Dec. 26, 1973; and 8 per cent from Dec. 27, 1973, through Sept. 18, 1974. Beginning Sept. 19, the 8 per cent requirement applied to only those obligations in (a), (b), and (c) with initial maturities of less than 120 days, and effective Dec. 12, 1974, the remaining marginal reserve on this type of obligation issued to mature in less than 4 months, was removed. For details, see Record of Policy Actions of the Board of Governors on pp. 89 and 96 of this REPORT and on pp. 85, 94, 98, 102, 112, and 113 of the 1973 REPORT.

[8] The 16½ per cent requirement applied for 1 week, only to former reserve city banks. For other banks, the 13 per cent requirement was continued in this deposit interval.

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13. MAXIMUM INTEREST RATES PAYABLE ON TIME AND SAVINGS DEPOSITS

(Per cent per annum)

Nov. 1, 1933—July 19, 1966

Type of deposit	Effective date							
	Nov. 1, 1933	Feb. 1, 1935	Jan. 1, 1936	Jan. 1, 1957	Jan. 1, 1962	July 17, 1963	Nov. 24, 1964	Dec. 6, 1965
Savings deposits:								
12 months or more	3	2½	2½	3	4	4	4	4
Less than 12 months					3½	3½		
Postal savings deposits:[1]								
12 months or more	3	2½	2½	3	4	4	4	4
Less than 12 months					3½	3½		
Other time deposits:[2]								
12 months or more	3	2½	2½	3	4			
6–12 months					3½	4	4½	
90 days to 6 months	3	2½	2	2½	2½			5½
Less than 90 days (30–89 days)	3	2½	1	1	1	1	4	

July 20, 1966—June 30, 1973

Type of deposit	Effective date			
	July 20, 1966	Sept. 26, 1966	Apr. 19, 1968	Jan. 21, 1970
Savings deposits	4	4	4	4½
Other time deposits:[2]				
Multiple maturity:[3]				
30–89 days	4	4	4	4½
90 days to 1 year				5
1–2 years	5	5	5	5½
2 years or more				5¾
Single-maturity:				
Less than $100,000:				
30 days to 1 year				5
1–2 years	5½	5	5	5½
2 years or more				5¾
$100,000 or more:				
30–59 days			5	(4)
60–89 days			5¾	(4)
90–179 days	5½	5½	6	(4)
180 days to 1 year			6¼	(4)
1 year or more				(4)

Beginning July 1, 1973

Type of deposit	Effective date			
	July 1, 1973	Nov. 1, 1973	Nov. 27, 1974	Dec. 23, 1974
Savings deposits	5	5	5	5
Other time deposits (multiple- and single-maturity):				
Less than $100,000:				
30–89 days	5	5	5	5
90 days to 1 year	5½	5½	5½	5½
1–2½ years	6	6	6	6
2½ years or more	6½	6½	6½	6½
Minimum denomination of $1,000:				
4–6 years	(5)	7¼	7¼	7¼
6 years or more				7½
Governmental units	(6)	(6)	7½	7¾
$100,000 or more	(4)	(4)	(4)	(4)

[1] Closing date for the Postal Savings System was Mar. 28, 1966.
[2] For exceptions with respect to foreign time deposits, see ANNUAL REPORTS for 1962, p. 129; 1965, p. 233; and 1968, p. 69.
[3] Multiple-maturity time deposits include deposits that are automatically renewable at maturity without action by the depositor and deposits that are payable after written notice of withdrawal.
For additional notes see opposite page.

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14. MARGIN REQUIREMENTS

(Per cent of market value)

Period		For credit extended under Regulations T (brokers and dealers), U (banks), and G (others than brokers, dealers, or banks)						
Beginning date	Ending date	On margin stocks			On convertible bonds			On short sales (T)
		T	U	G	T	U	G	
1937—Nov. 1	1945—Feb. 4	40						50
1945—Feb. 5	July 4	50						50
July 5	1946—Jan. 20	75						75
1946—Jan. 21	1947—Jan. 31	100						100
1947—Feb. 1	1949—Mar. 29	75						75
1949—Mar. 30	1951—Jan. 16	50						50
1951—Jan. 17	1953—Feb. 19	75						75
1953—Feb. 20	1955—Jan. 3	50						50
1955—Jan. 4	Apr. 22	60						60
Apr. 23	1958—Jan. 15	70						70
1958—Jan. 16	Aug. 4	50						50
Aug. 5	Oct. 15	70						70
Oct. 16	1960—July 27	90						90
1960—July 28	1962—July 9	70						70
1962—July 10	1963—Nov. 5	50						50
1963—Nov. 6	1968—Mar. 10	70						70
1968—Mar. 11	June 7	70			50			70
June 8	1970—May 5	80			60			80
1970—May 6	1971—Dec. 3	65			50			65
1971—Dec. 6	1972—Nov. 22	55			50			55
1972—Nov. 24	1974—Jan. 2	65			50			65
Effective Jan. 3, 1974...........		50			50			50

NOTE.—Regulations G, T, and U, prescribed in accordance with the Securities Exchange Act of 1934, limit the amount of credit to purchase and carry margin stocks that may be extended on securities as collateral by prescribing a maximum loan value, which is a specified percentage of the market value of the collateral at the time the credit is extended; margin requirements are the difference between the market value (100 per cent) and the maximum loan value. The term margin stocks is defined in the corresponding regulation.

Regulation G and special margin requirements for bonds convertible into stocks were adopted by the Board of Governors effective Mar. 11, 1968.

For earlier data, see *Banking and Monetary Statistics*, 1943, Table 145, p. 504.

Notes to Table 13 on opposite page:

[4] Maximum rates on single-maturity time deposits in denominations of $100,000 or more have been suspended. Rates that were effective Jan. 21, 1970, and the dates when they were suspended are:

30–59 days	6¼ per cent	June 24, 1970
60–89 days	6½ per cent	June 24, 1970
90–179 days	6¾ per cent	May 16, 1973
180 days to 1 year	7 per cent	May 16, 1973
1 year or more	7½ per cent	May 16, 1973

Rates on multiple-maturity time deposits in denominations of $100,000 or more were suspended July 16, 1973, when the distinction between single- and multiple-maturity deposits was eliminated.

[5] Between July 1 and Oct. 31, 1973, there was no ceiling for certificates maturing in 4 years or more with minimum denominations of $1,000. The amount of such certificates that a bank could issue was limited to 5 per cent of its total time and savings deposits. Sales in excess of that amount were subject to the 6½ per cent ceiling that applies to time deposits maturing in 2½ years or more.

Effective Nov. 1, 1973, a ceiling rate of 7¼ per cent was imposed on certificates maturing in 4 years or more with minimum denominations of $1,000. There is no limitation on the amount of these certificates that banks may issue.

[6] Prior to Nov. 27, 1974, no distinction was made between the time deposits of governmental units and of other holders, insofar as Regulation Q ceilings on rates payable were concerned. Effective Nov. 27, 1974, governmental units were permitted to hold savings deposits and could receive interest rates on time deposits with denominations under $100,000, irrespective of maturity, as high as the maximum rate permitted on such deposits at any Federally insured depositary institution.

NOTE.—Maximum rates that may be paid by member banks are established by the Board of Governors under provisions of Regulation Q; however, a member bank may not pay a rate in excess of the maximum rate payable by State banks or trust companies on like deposits under the laws of the State in which the member bank is located. Beginning Feb. 1, 1936, maximum rates that may be paid by nonmember insured commercial banks, as established by the FDIC, have been the same as those in effect for member banks.

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15. FEES AND RATES UNDER REGULATION V ON LOANS GUARANTEED PURSUANT TO DEFENSE PRODUCTION ACT OF 1950, DECEMBER 31, 1974

Fees Payable to Guaranteeing Agency by Financing Institution on Guaranteed Portion of Loan

Percentage of loan guaranteed	Guarantee fee (percentage of interest payable by borrower)	Percentage of any commitment fee charged borrower
70 or less	10	10
75	15	15
80	20	20
85	25	25
90	30	30
95	35	35
Over 95	40–50	40–50

Maximum Rates Financing Institution May Charge Borrower

Interest rate	7½ per cent per annum [1]
Commitment rate	½ per cent per annum

[1] Except that the agency guaranteeing a particular loan may from time to time prescribe a higher rate if it determines the loan to be necessary in financing any contract or other operation deemed by such agency to be essential to the national defense.

NOTE.—In any case in which the rate of interest on the loan is in excess of 6 per cent, the guarantee fee shall be computed as though the interest rate were 6 per cent.

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16. PRINCIPAL ASSETS AND LIABILITIES, AND NUMBER OF COMMERCIAL AND MUTUAL SAVINGS BANKS, BY CLASS OF BANK, DECEMBER 31, 1974 AND 1973

(Asset and liability items shown in millions of dollars)

Item	All banks	Commercial banks							Mutual savings banks		
		Total	Member banks			Nonmember banks			Total	Insured	Noninsured
			Total	National[1]	State	Total	Insured	Noninsured			
December 31, 1974											
Loans and investments, total	849,056	744,387	568,852	428,479	140,373	175,536	165,555	9,981	104,669	91,093	13,576
Loans	628,192	549,490	429,832	321,486	108,346	119,658	111,197	8,461	78,702	68,408	10,294
Investments	220,864	194,897	139,020	106,993	32,027	55,878	54,358	1,520	25,967	22,685	3,282
U.S. Treasury securities	61,255	54,411	38,924	29,078	9,846	15,487	15,168	319	6,844	5,968	876
Other securities	159,609	140,486	100,096	77,915	22,181	40,391	39,190	1,201	19,123	16,717	2,406
Cash assets	130,205	128,015	107,008	76,535	30,473	21,007	18,340	2,667	2,190	2,050	139
Deposits, total	847,486	748,115	575,887	431,088	144,799	172,229	165,602	6,627	99,371	86,806	12,565
Interbank	53,136	53,136	49,541	29,537	20,004	3,595	2,077	1,518	....	....	....
Other demand	274,562	273,632	208,536	157,360	51,176	65,096	62,860	2,236	930	909	21
Other time	519,788	421,348	317,809	244,191	73,618	103,539	100,665	2,874	98,440	85,896	12,544
Total capital accounts	71,612	63,655	48,244	35,820	12,425	15,410	14,799	611	7,957	6,822	1,135
Number of banks	14,944	14,465	5,780	4,706	1,074	8,685	8,436	249	479	319	160
December 31, 1973											
Loans and investments, total	786,628	684,306	528,476	398,236	130,240	155,830	149,638	6,192	102,323	88,990	13,333
Loans	572,546	495,454	391,384	293,555	97,828	104,070	99,143	4,927	77,092	67,119	9,973
Investments	214,083	188,851	137,092	104,681	32,411	51,759	50,495	1,265	25,231	21,871	3,360
U.S. Treasury securities	65,271	58,277	41,494	30,962	10,531	16,783	16,467	316	6,994	5,971	1,022
Other securities	148,812	130,574	95,598	73,718	21,880	34,976	34,027	949	18,238	15,900	2,338
Cash assets	120,251	118,276	100,098	70,711	29,387	18,178	16,167	2,010	1,975	1,844	131
Deposits, total	779,513	682,353	527,188	395,767	131,421	155,165	150,170	4,996	97,159	84,883	12,276
Interbank	41,680	41,680	38,924	23,376	15,548	2,756	1,957	798	....	....	....
Other demand	275,401	274,511	211,905	159,189	52,716	62,606	60,636	1,970	890	881	8
Other time	462,431	366,162	276,359	213,202	63,157	89,803	87,576	2,227	96,269	84,001	12,268
Total capital accounts	65,719	58,127	44,741	33,125	11,617	13,386	12,862	524	7,591	6,512	1,078
Number of banks	14,652	14,171	5,735	4,659	1,076	8,436	8,229	207	481	321	160

[1] Excludes one national bank in the Virgin Islands and one in Puerto Rico, which are included in Table 18.
NOTE.—All banks in the United States. Details may not add to totals because of rounding.

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17. MEMBER BANK RESERVES, FEDERAL RESERVE BANK CREDIT, AND RELATED ITEMS—END OF YEAR 1918–74 AND END OF MONTH 1974

(In millions of dollars)

Period	Factors supplying reserve funds										
	F.R. Bank credit outstanding								Gold stock [5]	Special Drawing Rights certif. acct.	Treasury currency outstanding [6]
	U.S. Govt. securities [1]			Loans	Float [2]	All other [3]	Other F.R. assets [4]	Total			
	Total	Bought outright	Held under repurchase agreement								
1918...	239	239	......	1,766	199	294	......	2,498	2,873	......	1,795
1919...	300	300	......	2,215	201	575	......	3,292	2,707	......	1,707
1920...	287	287	......	2,687	119	262	......	3,355	2,639	......	1,709
1921...	234	234	......	1,144	40	146	......	1,563	3,373	......	1,842
1922...	436	436	......	618	78	273	......	1,405	3,642	......	1,958
1923...	134	80	54	723	27	355	......	1,238	3,957	......	2,009
1924...	540	536	4	320	52	390	......	1,302	4,212	......	2,025
1925...	375	367	8	643	63	378	......	1,459	4,112	......	1,977
1926...	315	312	3	637	45	384	......	1,381	4,205	......	1,991
1927...	617	560	57	582	63	393	......	1,655	4,092	......	2,006
1928...	228	197	31	1,056	24	500	......	1,809	3,854	......	2,012
1929...	511	488	23	632	34	405	......	1,583	3,997	......	2,022
1930...	729	686	43	251	21	372	......	1,373	4,306	......	2,027
1931...	817	775	42	638	20	378	......	1,853	4,173	......	2,035
1932...	1,855	1,851	4	235	14	41	......	2,145	4,226	......	2,204
1933...	2,437	2,435	2	98	15	137	......	2,688	4,036	......	2,303
1934...	2,430	2,430	......	7	5	21	......	2,463	8,238	......	2,511
1935...	2,431	2,430	1	5	12	38	......	2,486	10,125	......	2,476
1936...	2,430	2,430	......	3	39	28	......	2,500	11,258	......	2,532
1937...	2,564	2,564	......	10	19	19	......	2,612	12,760	......	2,637
1938...	2,564	2,564	......	4	17	16	......	2,601	14,512	......	2,798
1939...	2,484	2,484	......	7	91	11	......	2,593	17,644	......	2,963
1940...	2,184	2,184	......	3	80	8	......	2,274	21,995	......	3,087
1941...	2,254	2,254	......	3	94	10	......	2,361	22,737	......	3,247
1942...	6,189	6,189	......	6	471	14	......	6,679	22,726	......	3,648
1943...	11,543	11,543	......	5	681	10	......	12,239	21,938	......	4,094
1944...	18,846	18,846	......	80	815	4	......	19,745	20,619	......	4,131
1945...	24,262	24,262	......	249	578	2	......	25,091	20,065	......	4,339
1946...	23,350	23,350	......	163	580	1	......	24,093	20,529	......	4,562
1947...	22,559	22,559	......	85	535	1	......	23,181	22,754	......	4,562
1948...	23,333	23,333	......	223	541	1	......	24,097	24,244	......	4,589
1949...	18,885	18,885	......	78	534	2	......	19,499	24,427	......	4,598
1950...	20,778	20,725	53	67	1,368	3	......	22,216	22,706	......	4,636
1951...	23,801	23,605	196	19	1,184	5	......	25,009	22,695	......	4,709
1952...	24,697	24,034	663	156	967	4	......	25,825	23,187	......	4,812
1953...	25,916	25,318	598	28	935	2	......	26,880	22,030	......	4,894
1954...	24,932	24,888	44	143	808	1	......	25,885	21,713	......	4,985
1955...	24,785	24,391	394	108	1,585	29	......	26,507	21,690	......	5,008
1956...	24,915	24,610	305	50	1,665	70	......	26,699	21,949	......	5,066
1957...	24,238	23,719	519	55	1,424	66	......	25,784	22,781	......	5,146
1958...	26,347	26,252	95	64	1,296	49	......	27,755	20,534	......	5,234
1959...	26,648	26,607	41	458	1,590	75	......	28,771	19,456	......	5,311
1960...	27,384	26,984	400	33	1,847	74	......	29,338	17,767	......	5,398
1961...	28,881	28,722	159	130	2,300	51	......	31,362	16,889	......	5,585
1962...	30,820	30,478	342	38	2,903	110	......	33,871	15,978	......	5,567
1963...	33,593	33,582	11	63	2,600	162	......	36,418	15,513	......	5,578
1964...	37,044	36,506	538	186	2,606	94	......	39,930	15,388	......	5,405

For notes see last two pages of table.

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Factors absorbing reserve funds

Currency in circulation	Treasury cash holdings [7]	Deposits, other than member bank reserves, with F.R. Banks: Treasury	Foreign	Other [2]	Other F.R. accounts [4]	Other F.R. liabilities and capital [4]	Member bank reserves: With F.R. Banks	Currency and coin [8]	Required [9]	Excess [9]
4,951	288	51	96	25	118	....	1,636	....	1,585	51
5,091	385	31	73	28	208	....	1,890	....	1,822	68
5,325	218	57	5	18	298	....	1,781	....	....	....
4,403	214	96	12	15	285	....	1,753	....	1,654	99
4,530	225	11	3	26	276	....	1,934	....	....	....
4,757	213	38	4	19	275	....	1,898	....	1,884	14
4,760	211	51	19	20	258	....	2,220	....	2,161	59
4,817	203	16	8	21	272	....	2,212	....	2,256	−44
4,808	201	17	46	19	293	....	2,194	....	2,250	−56
4,716	208	18	5	21	301	....	2,487	....	2,424	63
4,686	202	23	6	21	348	....	2,389	....	2,430	−41
4,578	216	29	6	24	393	....	2,355	....	2,428	−73
4,603	211	19	6	22	375	....	2,471	....	2,375	96
5,360	222	54	79	31	354	....	1,961	....	1,994	−33
5,388	272	8	19	24	355	....	2,509	....	1,933	576
5,519	284	3	4	128	360	....	2,729	....	1,870	859
5,536	3,029	121	20	169	241	....	4,096	....	2,282	1,814
5,882	2,566	544	29	226	253	....	5,587	....	2,743	2,844
6,543	2,376	244	99	160	261	....	6,606	....	4,622	1,984
6,550	3,619	142	172	235	263	....	7,027	....	5,815	1,212
6,856	2,706	923	199	242	260	....	8,724	....	5,519	3,205
7,598	2,409	634	397	256	251	....	11,653	....	6,444	5,209
8,732	2,213	368	1,133	599	284	....	14,026	....	7,411	6,615
11,160	2,215	867	774	586	291	....	12,450	....	9,365	3,085
15,410	2,193	799	793	485	256	....	13,117	....	11,129	1,988
20,449	2,303	579	1,360	356	339	....	12,886	....	11,650	1,236
25,307	2,375	440	1,204	394	402	....	14,373	....	12,748	1,625
28,515	2,287	977	862	446	495	....	15,915	....	14,457	1,458
28,952	2,272	393	508	314	607	....	16,139	....	15,577	562
28,868	1,336	870	392	569	563	....	17,899	....	16,400	1,499
28,224	1,325	1,123	642	547	590	....	20,479	....	19,277	1,202
27,600	1,312	821	767	750	706	....	16,568	....	15,550	1,018
27,741	1,293	668	895	565	714	....	17,681	....	16,509	1,172
29,206	1,270	247	526	363	746	....	20,056	....	19,667	389
30,433	1,270	389	550	455	777	....	19,950	....	20,520	−570
30,781	761	346	423	493	839	....	20,160	....	19,397	763
30,509	796	563	490	441	907	....	18,876	....	18,618	258
31,158	767	394	402	554	925	....	19,005	....	18,903	102
31,790	775	441	322	426	901	....	19,059	....	19,089	−30
31,834	761	481	356	246	998	....	19,034	....	19,091	−57
32,193	683	358	272	391	1,122	....	18,504	....	18,574	−70
32,591	391	504	345	694	841	....	18,174	310	18,619	−135
32,869	377	485	217	533	941	....	17,081	2,544	18,988	637
33,918	422	465	279	320	1,044	....	17,387	2,823	20,114	96
35,338	380	597	247	393	1,007	....	17,454	3,262	20,071	645
37,692	361	880	171	291	1,065	....	17,049	4,099	20,677	471
39,619	612	820	229	321	1,036	....	18,086	4,151	21,663	574

For notes see last two pages of table.

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17. MEMBER BANK RESERVES, FEDERAL RESERVE BANK CREDIT, AND RELATED ITEMS—END OF YEAR 1918–74 AND END OF MONTH 1974—*Continued*

(In millions of dollars)

Period	Factors supplying reserve funds										
	F.R. Bank credit outstanding								Gold stock [5]	Special Drawing Rights certif. acct.	Treasury currency outstanding [6]
	U.S. Govt. securities [1]			Loans	Float [2]	All other [3]	Other F.R. assets [4]	Total			
	Total	Bought outright [10]	Held under repurchase agreement								
1965...	40,768	40,478	290	137	2,248	187	......	43,340	13,733	......	5,575
1966...	44,316	43,655	661	173	2,495	193	......	47,177	13,159	......	6,317
1967...	49,150	48,980	170	141	2,576	164	......	52,031	11,982	......	6,784
1968...	52,937	52,937	....	186	3,443	58	......	56,624	10,367	......	6,795
1969...	57,154	[10] 57,154	....	183	3,440	64	2,743	63,584	10,367	......	6,852
1970...	62,142	62,142	....	335	4,261	57	1,123	67,918	10,732	400	7,149
1971...	70,804	69,481	1,323	39	4,343	261	1,068	76,515	10,132	400	7,710
1972...	71,230	71,119	111	1,981	3,974	106	1,260	78,551	10,410	400	8,313
1973...	80,495	80,395	100	1,258	3,099	68	1,152	86,072	11,567	400	8,716
1974...	85,714	84,760	954	299	2,001	999	3,195	92,208	11,652	400	9,253
1974—											
Jan...	80,167	80,167	....	961	2,226	68	1,329	84,751	11,567	400	8,740
Feb..	80,238	80,238	....	720	2,412	69	958	84,397	11,567	400	8,775
Mar..	81,791	80,483	1,308	1,820	1,287	296	1,078	86,272	11,567	400	8,813
Apr..	82,661	81,749	912	1,747	1,736	216	1,313	87,673	11,567	400	8,844
May..	84,658	82,777	1,881	3,298	1,925	373	1,015	91,269	11,567	400	8,895
June..	83,612	82,646	966	3,210	2,297	304	1,264	90,687	11,567	400	8,924
July..	81,688	81,688	....	3,589	2,631	218	1,684	89,810	11,567	400	8,965
Aug..	84,951	84,951	....	4,320	1,522	277	1,268	92,338	11,567	400	9,017
Sept..	85,046	85,046	....	2,920	1,460	504	1,481	91,411	11,567	400	9,069
Oct...	83,362	83,362	....	1,122	2,335	218	3,442	90,479	11,567	400	9,125
Nov..	85,709	84,471	1,238	1,225	2,565	611	2,899	93,009	11,567	400	9,206
Dec..	85,714	84,760	954	299	2,001	999	3,195	92,208	11,652	400	9,253

[1] U.S. Govt. securities include Federal agency obligations held under repurchase agreement beginning Dec. 1, 1966, and Federal agency issues bought outright beginning Sept. 29, 1971.
[2] Beginning with 1960 reflects a minor change in concept; see Feb. 1961 Federal Reserve *Bulletin*, p. 164.
[3] Principally acceptances and industrial loans; authority for industrial loans expired Aug. 21, 1959.
[4] The total of F.R. Bank capital paid in, surplus, other capital accounts, and other liabilities and accrued dividends, less the sum of bank premises and other assets. Beginning Apr. 16, 1969, "Other F.R. assets," and "Other F.R. liabilities and capital" are shown separately; formerly, they were netted together and reported as "Other F.R. accounts."
[5] Before Jan. 30, 1934, included gold held by F.R. Banks and in circulation.
[6] Includes currency and coin—other than gold—issued directly by the Treasury. The largest components are fractional and dollar coins. For details see "Money in Circulation" in the *Treasury Bulletin*.
[7] Presently consists of the coin and paper currency held by the Treasury as well as Treasury gold holdings in excess of the gold that serves as security against gold certificates.
[8] Part allowed as reserves Dec. 1, 1959—Nov. 23, 1960; all allowed thereafter. From Jan. 1963 to Sept. 11, 1968, figures are estimated. Beginning Sept. 12, 1968, amount is based on close-of-business figures for reserve period 2 weeks previous to report date.
[9] These figures are estimated through 1958. Before 1929 available only on call dates (in 1920 and 1922, the call dates were Dec. 29). Beginning Sept. 12, 1968, amount is based on close-of-business figures for reserve period 2 weeks previous to report date.

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Factors absorbing reserve funds

Currency in circulation	Treasury cash holdings [7]	Deposits, other than member bank reserves, with F.R. Banks			Other F.R. accounts [2]	Other F.R. liabilities and capital [4]	Member bank reserves			
		Treasury	Foreign	Other [2]			With F.R. Banks	Currency and coin [8]	Required [9]	Excess [9, 11]
42,056	760	668	150	355	211	....	18,447	4,163	22,848	−238
44,663	1,176	416	174	588	−147	....	19,779	4,310	24,321	−232
47,226	1,344	1,123	135	653	−773	....	21,092	4,631	25,905	−182
50,961	695	703	216	747	−1,353	....	21,818	4,921	27,439	−700
53,950	596	1,312	134	807	....	1,919	22,085	5,187	28,173	−901
57,093	431	1,156	148	1,233	....	1,986	24,150	5,423	30,033	−460
61,068	460	2,020	294	999	....	2,131	27,788	5,743	32,496	1,035
66,516	345	1,855	325	840	....	2,143	25,647	6,216	32,044	[11] 98
72,497	317	2,542	251	[12] 1,419	....	2,669	27,060	6,781	35,268	−1,360
79,743	185	3,113	418	[12] 1,275	....	2,935	25,843	7,370	37,011	−3,798
69,880	344	2,844	392	657	....	3,101	28,241	6,984	35,351	−59
70,493	332	2,016	542	679	....	3,091	27,989	6,572	34,515	113
71,196	341	1,373	366	673	....	3,262	29,838	6,481	35,217	1,160
72,233	298	2,813	517	697	....	3,129	28,795	6,589	36,668	−1,226
73,199	296	3,133	429	667	....	3,395	31,012	6,661	36,062	1,669
73,833	274	2,919	384	762	....	3,319	30,086	6,815	36,905	−4
74,373	269	3,822	330	1,169	....	3,403	27,376	6,986	37,020	−2,658
74,926	287	3,303	372	654	....	3,532	30,247	6,823	36,918	152
74,856	304	3,209	411	718	....	3,685	29,266	7,069	37,077	−742
75,899	294	787	376	815	....	3,504	29,895	7,120	36,672	343
77,789	306	1,495	626	799	....	3,303	29,860	7,100	36,678	282
79,743	185	3,113	418	[12] 1,275	....	2,935	25,843	7,370	37,011	−3,798

[10] *Includes*, beginning 1969, securities loaned—fully guaranteed by U.S. Govt. securities pledged with F.R. Banks, and *excludes* (if any), securities sold and scheduled to be bought back under matched sale–purchase transactions.

[11] Beginning with week ending Nov. 15, 1972, includes $450 million of reserve deficiencies on which F.R. Banks are allowed to waive penalties for a transition period in connection with bank adaptation to Regulation J as amended, effective Nov. 9, 1972. Allowable deficiencies (beginning with first statement week of quarter) included are (in millions): 1973—Q1, $279; Q2, $172; Q3, $112; Q4, $84; and 1974—Q1, $67, and Q2, $58. The transition period ended after the second quarter of 1974.

[12] Beginning July 1973, includes certain deposits of domestic nonmember banks and foreign-owned banking institutions held with member banks and redeposited in full with F.R. Banks in connection with voluntary participation by nonmember institutions in the Federal Reserve System's program of credit restraint.

As of Dec. 12, 1974, the amount of voluntary nonmember bank and foreign agency and branch deposits at F.R. Banks that are associated with marginal reserves are no longer reported. However, deposits voluntarily held by agencies and branches of foreign banks operating in the United States as reserves on Euro-dollar liabilities are reported.

NOTE.—For description of figures and discussion of their significance, see "Member Bank Reserves and Related Items," Section 10 of *Supplement to Banking and Monetary Statistics*, Jan. 1962.

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18. CHANGES IN NUMBER OF BANKING OFFICES IN THE UNITED STATES DURING 1974 [1]

Type of office	Nature of change	All banks	Commercial banks (incl. stock savings banks and nondeposit trust companies)						Mutual savings banks	
			Total	Member			Nonmember			
				Total	National [1]	State	Insured	Noninsured	Insured	Noninsured
BANKS	**Dec. 31, 1973**	**14,653**	**14,172**	**5,737**	**4,661**	**1,076**	**8,229**	**206**	**321**	**160**
	Changes during 1974:									
	New banks [2]	406	405	132	97	35	231	42	1	....
	Ceased banking operations	−3	−3	....	....	....	....	−3	....	....
	Reopening of suspended bank	1	1	....	....	....	1	....	....	....
	Consolidations and absorptions:									
	Banks converted into branches	−106	−105	−53	−41	−12	−52	....	−1	....
	Other	−15	−13	−4	−2	−2	−7	−2	−2	....
	Interclass changes:									
	Nonmember to—									
	National	....	....	8	8	....	−8	....	....	....
	State member	....	....	10	....	10	−9	−1	....	....
	State member to—									
	National	....	....	....	7	−7	....	....	....	....
	Nonmember	....	....	−28	....	−28	28	....	....	....
	National to nonmember	....	....	−20	−20	....	20	....	....	....
	Noninsured to insured	....	....	....	....	....	5	−5	....	....
	Net change	**283**	**285**	**45**	**49**	**−4**	**209**	**31**	**−2**	....
	Dec. 31, 1974	**14,936**	**14,457**	**5,782**	**4,710**	**1,072**	**8,438**	**237**	**319**	**160**
BRANCHES AND ADDITIONAL OFFICES	**Dec. 31, 1973 [3]**	**27,743**	**26,251**	**18,798**	**14,760**	**4,038**	**7,407**	**46**	**1,241**	**251**
	Changes during 1974:									
	De novo	2,207	2,017	1,167	932	235	847	3	185	5
	Banks converted	106	106	67	57	10	39	....	....	....
	Discontinued	−181	−148	−116	−87	−29	−31	−1	−32	−1
	Sale of branch	−4	−4	−5	−1	−4	1	....	....	....

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	Interclass changes:									
	Nonmember to—									
	National	...	...	56	56	...	−56	...	...	...
	State member	...	...	114	...	114	−114	...	...	...
	State member to—									
	National	...	...	...	142	−142	...	...	...	...
	Nonmember	...	...	−52	...	−52	52	...	...	...
	National to—									
	State member	...	...	...	−26	26	...	...	...	...
	Nonmember	...	...	−261	−261	...	261	...	...	...
	Insured mutual to national	...	6	6	6	...	...	...	−6	...
	Facilities reclassified as branches	2	2	1	1	...	1	...	...	...
	Other	6	7	5	−1	6	2	...	−1	...
	Net change	**2,136**	**1,986**	**982**	**818**	**164**	**1,002**	**2**	**146**	**4**
	Dec. 31, 1974 [3]	**29,879**	**28,237**	**19,780**	**15,578**	**4,202**	**8,409**	**48**	**1,387**	**255**
BANKING FACILITIES	**Dec. 31, 1973** [4]	**203**	**203**	**168**	**156**	**12**	**35**	...	...	...
	Changes during 1974:									
	Discontinued	−4	−4	−2	−2	...	−2	...	...	...
	Interclass changes:									
	Nonmember to national	...	...	1	1	...	−1	...	...	...
	State member to national	...	...	...	2	−2	...	...	...	...
	Facilities reclassified as branches	−2	−2	−1	−1	...	−1	...	...	...
	Net change	**−6**	**−6**	**−2**	...	**−2**	**−4**	...	...	...
	Dec. 31, 1974 [4]	**197**	**197**	**166**	**156**	**10**	**31**	...	...	...

[1] Includes 1 national bank (7 branches) in the Virgin Islands and 1 national bank in Puerto Rico; other banks or branches located in the possessions are excluded.

[2] Exclusive of new banks organized to succeed operating banks.

[3] Excludes banking facilities.

[4] Provided at military and other Government establishments through arrangements made by the Treasury.

NOTE.—One noninsured member bank in the Chicago, Minneapolis and New York Districts not shown in above figures.

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19. NUMBER OF PAR AND NONPAR BANKING OFFICES, BY FEDERAL RESERVE DISTRICT, DECEMBER 31, 1974

F.R. district	Total		Par						Nonpar (nonmember)	
			Total		Member		Nonmember			
	Banks	Branches & offices	Banks	Branches & offices	Banks	Branches & offices	Banks	Branches & offices	Banks	Branches & offices
DISTRICT										
Boston	376	1,972	376	1,972	203	1,270	173	702	......	....
New York	484	4,405	484	4,405	322	3,826	162	579	......	....
Philadelphia	404	2,088	404	2,088	265	1,362	139	726	......	....
Cleveland	767	2,459	767	2,459	458	1,967	309	492	......	....
Richmond	787	4,088	782	4,088	401	2,459	381	1,629	5	....
Atlanta	1,941	2,396	1,900	2,353	645	1,362	1,255	991	41	43
Chicago	2,682	2,939	2,682	2,939	935	1,870	1,747	1,069	......	....
St. Louis	1,420	1,362	1,420	1,362	430	681	990	681	......	....
Minneapolis	1,394	371	1,394	371	504	196	890	175	......	....
Kansas City	2,169	571	2,169	571	821	300	1,348	271	......	....
Dallas	1,465	419	1,424	405	658	204	766	201	41	14
San Francisco	445	5,614	445	5,614	140	4,515	305	1,099	......	....
Total	**14,334**	**28,684**	**14,247**	**28,627**	**5,782**	**20,012**	**8,465**	**8,615**	**87**	**57**

20. NUMBER OF PAR AND NONPAR BANKING OFFICES, BY STATE AND OTHER AREA, DECEMBER 31, 1974

State, or other area	Total		Par						Nonpar (nonmember)	
			Total		Member		Nonmember			
	Banks	Branches & offices	Banks	Branches & offices	Banks	Branches & offices	Banks	Branches & offices	Banks	Branches & offices
STATE										
Alabama	293	417	293	417	112	291	181	126	......	....
Alaska	10	81	10	81	5	70	5	11	......	....
Arizona	17	425	17	425	4	292	13	133	......	....
Arkansas	259	281	259	281	83	162	176	119	......	....
California	186	3,485	186	3,485	63	2,995	123	490	......	....
Colorado	263	50	263	50	144	30	119	20	......	....
Connecticut	71	547	71	547	26	331	45	216	......	....
Delaware	17	130	17	130	5	4	12	126	......	....
District of Columbia	16	126	16	126	14	116	2	10	......	....
Florida	710	121	710	121	315	38	395	83	......	....
Georgia	447	656	447	656	73	393	374	263	......	....
Hawaii	8	148	8	148	2	10	6	138	......	....
Idaho	24	191	24	191	10	161	14	30	......	....
Illinois	1,197	193	1,197	193	491	110	706	83	......	....
Indiana	409	842	409	842	172	493	237	349	......	....
Iowa	664	385	664	385	146	115	518	270	......	....
Kansas	613	127	613	127	198	62	415	65	......	....
Kentucky	342	471	342	471	91	273	251	198	......	....
Louisiana	249	542	177	485	61	269	116	216	72	57
Maine	45	277	45	277	23	157	22	120	......	....

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State, or other area	Total: Banks	Total: Branches & offices	Par: Total: Banks	Par: Total: Branches & offices	Par: Member: Banks	Par: Member: Branches & offices	Par: Nonmember: Banks	Par: Nonmember: Branches & offices	Nonpar (nonmember): Banks	Nonpar (nonmember): Branches & offices
STATE—Cont.										
Maryland	114	703	114	703	47	428	67	275	......	....
Massachusetts	152	885	152	885	91	658	61	227	......	....
Michigan	347	1,481	347	1,481	210	1,191	137	290	......	....
Minnesota	744	32	744	32	230	18	514	14	......	....
Mississippi	181	502	181	502	45	231	136	271	......	....
Missouri	696	262	696	262	175	84	521	178	......	....
Montana	152	14	152	14	99	9	53	5	......	....
Nebraska	448	83	448	83	129	45	319	38	......	....
Nevada	8	105	8	105	5	89	3	16	......	....
New Hampshire	80	98	80	98	48	80	32	18	......	....
New Jersey	218	1,335	218	1,335	145	1,130	73	205	......	....
New Mexico	76	189	76	189	41	115	35	74	......	....
New York	299	3,087	299	3,087	224	2,913	75	[1] 174	......	....
North Carolina	91	1,547	91	1,547	28	761	63	786	......	....
North Dakota	170	80	170	80	47	20	123	60	......	....
Ohio	498	1,613	498	1,613	331	1,337	167	276	......	....
Oklahoma	456	96	456	96	208	60	248	36	......	....
Oregon	49	420	49	420	8	290	41	130	......	....
Pennsylvania	403	2,192	403	2,192	265	1,513	138	679	......	....
Rhode Island	16	214	16	214	5	114	11	100	......	....
South Carolina	91	582	86	582	24	299	62	283	5	....
South Dakota	158	115	158	115	58	82	100	33	......	....
Tennessee	337	727	337	727	90	399	247	328	......	....
Texas	1,312	123	1,302	123	607	31	695	92	10	....
Utah	54	186	54	186	16	132	38	54	......	....
Vermont	33	131	33	131	17	46	16	85	......	....
Virginia	288	1,112	288	1,112	174	843	114	269	......	....
Washington	92	661	92	661	28	542	64	119	......	....
West Virginia	214	26	214	26	129	16	85	10	......	....
Wisconsin	620	326	620	326	161	104	459	222	......	....
Wyoming	74	2	74	2	57	1	17	1	......	....
OTHER AREA										
American Samoa [2]	......	2	......	2	......	....	......	2	......	....
Guam [2]	1	15	1	15	......	9	1	6	......	....
Puerto Rico [3]	14	214	14	214	1	22	13	192	......	....
Virgin Islands [3]	8	29	8	29	1	28	7	1	......	....

[1] Includes 19 New York City branches of 3 insured nonmember Puerto Rican banks.

[2] American Samoa and Guam assigned to the San Francisco District for check clearing and collection purposes. All member branches in Guam are branches of California and New York banks.

[3] Puerto Rico and the Virgin Islands assigned to the New York District for check clearing and collection purposes. All member branches in Puerto Rico and all except 7 in the Virgin Islands are branches of banks located in California, New York, and Pennsylvania. Certain branches of Canadian banks (2 in Puerto Rico and 5 in the Virgin Islands) are included above as nonmember banks; and nonmember branches in Puerto Rico include 8 other branches of Canadian banks.

NOTE.—Comprises all commercial banking offices on which checks are drawn, including 197 banking facilities. Number of banks and branches differs from that in Table 18 because this table includes banks in Puerto Rico and the Virgin Islands but excludes banks and trust companies on which no checks are drawn.

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Federal Reserve Bank of St. Louis

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1974

CONTENTS

Applicant Bank	Other Bank	*Page*
AIB Bank, Mount Pleasant, Mich.	**American Security Bank,** Mount Pleasant, Mich.	340
Atlanta Interim Bank, Atlanta, Ga.	**Trust Company of Georgia,** Atlanta, Ga.	336
Bank of East Moline, East Moline, Ill.	**State Bank of East Moline,** East Moline, Ill.	327
Bank of Edinburg, Inc., Edinburg, Va.	**Farmers Bank of Edinburg, Incorporated,** Edinburg, Va.	323
Bank of Utah, Ogden, Utah	**Bank of Ben Lomond,** Ogden, Utah	324
Bankers Trust Company of Rochester, Rochester, N.Y.	**Briggs Bank of Clyde,** Clyde, N.Y.	327
Barclays Bank of New York, New York, N.Y.	**First Westchester National Bank,** New Rochelle, N.Y.	333
Brownsville Commerce Bank, Brownsville, Tex.	**Pan American Bank,** Brownsville, Tex.	342
Cape Cod Bank and Trust Company, Barnstable, Mass.	**Buzzards Bay National Bank,** Bourne, Mass.	330
Central Trust Company Rochester, N.Y., Rochester, N.Y.	**First National Bank of Marion,** Marion, N.Y.	328
Chemung Canal Trust Company, Elmira, N.Y.	**Montour National Bank in Montour Falls,** Montour Falls, N.Y.	325
Commerce Union Bank of Rutherford County, Murfreesboro, Tenn. **Commerce Union Bank of Sumner County,** Gallatin, Tenn. **Commerce Union Bank of Lawrence County,** Lawrenceburg, Tenn.	**Commerce Union Bank,** Nashville, Tenn.	341

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Federal Reserve Bank of St. Louis

CONTENTS—*Continued*

Applicant Bank	Other Bank	*Page*
Connecticut Bank and Trust Company, Hartford, Conn.	**Clinton National Bank,** Clinton, Conn.	331
Euclid Street State Bank, San Antonio, Tex.	**Main Bank and Trust,** San Antonio, Tex.	336
First Virginia Bank of Roanoke Valley, Roanoke, Va.	**Farmers National Bank of Salem,** Salem, Va.	338
HBT Bank of Canton, Canton, Ohio	**Harter Bank & Trust Company,** Canton, Ohio	339
Hamilton State Bank of Memphis, Memphis, Tenn.	**First American Bank,** Memphis, Tenn.	335
Hamilton State Bank of Woodbury, Woodbury, Tenn.	**Peoples Bank,** Woodbury, Tenn.	335
Oystermen's Bank and Trust Company, Sayville, N.Y.	**Sayville Bank and Trust Co.,** Sayville, N.Y.	338
PBT Bank, Henrico County, Va.	**Peoples Bank and Trust Company,** Henrico County, Va.	337
Portsmouth Bank, Portsmouth, Va.	**Merchants and Farmers Bank,** Portsmouth, Va.	325
Valley Bank of New York, Valley Stream, N.Y.	**United National Bank of Long Island,** Forest Hills, N.Y.	322

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Federal Reserve Bank of St. Louis

Name of bank, and type of transaction[2] (in chronological order of determination)	Assets (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 1—**Valley Bank of New York,** Valley Stream, N.Y., *to merge with*	211	24	28
United National Bank of Long Island, Forest Hills, N.Y.	33	4	

SUMMARY REPORT BY THE ATTORNEY GENERAL (1-29-74)

Although the nearest offices of the parties are separated by only about 6 miles, the community of Jamaica, with a number of banking offices, lies in that intervening area. Thus, while there may be some overlap between the service areas of the parties (including other subsidiaries of The Bank of New York Company [Applicant is a subsidiary of this holding company]), it does not appear that the proposed acquisition would eliminate substantial existing competition.

As of December 31, 1973, United National Bank of Long Island (hereinafter United Bank) ranked 17th among the 19 banks in Queens County and held approximately 1 per cent of county deposits. In view of United Bank's relatively small absolute size and modest market position, we conclude that the proposed transaction would not eliminate substantial potential competition.

Therefore, we conclude that the proposed merger would not have a substantial competitive impact.

BASIS FOR APPROVAL BY FEDERAL RESERVE BANK ON BEHALF OF BOARD OF GOVERNORS UNDER DELEGATED AUTHORITY (2-4-74)

Both Valley Bank of New York (hereinafter Applicant) and United National Bank of Long Island (hereinafter United Bank) operate in the eastern part of the Metropolitan New York market. Applicant, a subsidiary of The Bank of New York Company, Inc., New York, New York (hereinafter Holding Company), has deposits of $183.5 million and operates 24 offices in New York State's First Banking District. The aggregate deposits of Applicant and the 2 other banking subsidiaries of Holding Company operating in the Metropolitan New York market are $2.8 billion, or 2.9 per cent of all commercial bank deposits in the market. Holding Company is the 9th largest banking organization in the State and in the market. The deposits of Applicant alone are 0.1 per cent of the commercial bank deposits in the market.

United Bank has deposits of $30.1 million and operates 4 offices in Queens County in New York City. United Bank's deposits equal 0.03 per cent of those in the market; in size of deposits, United Bank ranks 17th of the 19 commercial banks with offices in Queens County and 74th in the market. Consummation of the proposed merger would not signifi-

For notes see p. 342.

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Federal Reserve Bank of St. Louis

Name of bank, and type of transaction[2] (in chronological order of determination)	Assets (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY FEDERAL RESERVE BANK ON BEHALF OF BOARD OF GOVERNORS UNDER DELEGATED AUTHORITY—*Continued*

cantly increase the concentration of banking resources in any relevant area.

The nearest offices of the merging banks are approximately 6.2 miles apart, and their service areas do not overlap. An insignificant amount of competition between the merging banks would be eliminated by the proposal. However, by increasing the competitive capabilities of United Bank, consummation of the proposal is likely to result in increased future competition among banks in its service area.

While Applicant could branch *de novo* into the service area of United Bank under New York law, the loss of potential competition does not appear significant in view of the large number of competitors in the service area and in the market. And, although United Bank could branch into the area served by Applicant, the chance of its doing so is slight because it has never opened a *de novo* branch.

The financial and managerial resources of Applicant and United Bank are satisfactory, and the prospects for the resulting bank are favorable. Consequently, banking factors are consistent with approval of the application. Consummation of the proposed merger would improve the present banking services available to customers of United Bank by increasing lending capabilities and adding to the banking services offered by United Bank —such services as credit cards, trust services, overdraft checking, and certificates of deposit. None of these services are now offered by United Bank although all are available at other banking offices in United Bank's service area. Thus, considerations relating to the convenience and needs of the area to be served lend some weight toward approval of the application.

No. 2—**Bank of Edinburg, Inc.,** Edinburg, Va.,	(Newly organized bank; not in operation)		
to merge with **The Farmers Bank of Edinburg, Incorporated,** Edinburg, Va.	10	2	2

SUMMARY REPORT BY THE ATTORNEY GENERAL
(No report received.)

BASIS FOR APPROVAL BY FEDERAL RESERVE BANK ON BEHALF OF BOARD OF GOVERNORS UNDER DELEGATED AUTHORITY (3-1-74)

The proposal is a transaction to facilitate the acquisition of The Farmers Bank of Edinburg, Incorporated, by Valley of Virginia Bankshares, Inc., Harrisonburg, Virginia, a bank holding company.

For notes see p. 342.

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Federal Reserve Bank of St. Louis

Name of bank, and type of transaction[2] (in chronological order of determination)	Assets (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY FEDERAL RESERVE BANK ON BEHALF OF BOARD OF GOVERNORS UNDER DELEGATED AUTHORITY—*Continued*

The proposed merger would, in itself, have no adverse competitive effects. The banking and convenience and needs factors are consistent with approval of the application.

No. 3—**Bank of Utah,** Ogden, Utah,	50	5	7
to merge with			
Bank of Ben Lomond, Ogden, Utah	10	2	

SUMMARY REPORT BY THE ATTORNEY GENERAL
(No report received.)

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (3-15-74)

Bank of Utah (hereinafter Utah Bank), a subsidiary of Tennessee Homestead Company, Ogden, Utah, operates 5 offices in the Ogden, Utah, banking market, wherein it is the 3rd largest of the 6 banks with 15.8 per cent of the total commercial bank deposits represented in the market. Bank of Ben Lomond (hereinafter Lomond Bank) operates its main office in Ogden and a branch in the nearby community of Pleasant View, and holds 3.2 per cent of total deposits of the Ogden banking market. The 2 largest competing banks, in terms of deposits, hold 39 and 36 per cent, respectively, of total market deposits. The closest offices of Utah Bank and Lomond Bank are 4 miles apart. The banks have been closely affiliated since the Lomond Bank was organized in 1957 by stockholders of the Utah Bank. At the present time stockholders owning 88 per cent of Utah Bank also own 76 per cent of the stock of Lomond Bank. There are 9 common directors who represent a majority on the board of directors of each bank. There is no meaningful existing competition between the banks, and, in view of their common ownership, it is unlikely that any significant amount of potential competition would be foreclosed by the merger of the 2 institutions. It further appears that the proposed merger would effect only a corporate reorganization of the 2 banks without having any adverse effects on competition in the relevant areas.

The financial and managerial resources of Utah Bank and Lomond Bank are generally satisfactory, and prospects for the resulting bank appear favorable. Banking factors, therefore, are consistent with approval of the application. Consummation of the proposed merger would enable customers of Lomond Bank to benefit from larger credit lines and the expansion of other banking services.

For notes see p. 342.

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Federal Reserve Bank of St. Louis

Name of bank, and type of transaction[2] (in chronological order of determination)	Assets (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 4—**Portsmouth Bank,** Portsmouth, Va., *to merge with*	(Newly organized bank; not in operation)		
Merchants and Farmers Bank, Portsmouth, Va.	52	7	7

SUMMARY REPORT BY THE ATTORNEY GENERAL (1-29-74)

The proposed merger is part of a plan through which Merchants and Farmers Bank would become a subsidiary of Dominion Bankshares Corporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Dominion Bankshares Corporation, it would have no effect on competition.

BASIS FOR APPROVAL BY FEDERAL RESERVE BANK ON BEHALF OF BOARD OF GOVERNORS UNDER DELEGATED AUTHORITY (3-19-74)

The proposal is a transaction to facilitate the acquisition of Merchants and Farmers Bank by Dominion Bankshares Corporation, Roanoke, Virginia, a bank holding company.

The proposed merger would, in itself, have no adverse competitive effects. The banking and convenience and needs factors are consistent with approval of the application.

Name of bank	Assets	In operation	To be operated
No. 5—**Chemung Canal Trust Company,** Elmira, N.Y., *to merge with*	98	6	7
Montour National Bank in Montour Falls, Montour Falls, N.Y.	8	1	

SUMMARY REPORT BY THE ATTORNEY GENERAL (2-4-74)

Chemung Canal Trust Company's (hereinafter Canal Trust) office nearest Montour National Bank in Montour Falls (hereinafter Montour Bank) is located in Horseheads, Chemung County, about 14 miles southeast of Montour Falls. Although there are no intervening competitive alternatives, the application indicates that neither bank derives a substantial amount of deposits from the service area of the other. While the proposed merger may eliminate some existing competition between the parties, it does not appear that concentration would be substantially increased in any relevant banking market.

For notes see p. 342.

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Name of bank, and type of transaction[2] (in chronological order of determination)	Assets (in millions of dollars)	Banking offices	
		In operation	To be operated

SUMMARY REPORT BY THE ATTORNEY GENERAL—*Continued*

Although Canal Trust could legally establish a *de novo* office in Schuyler County, the relatively small absolute size of Montour Bank, the nature of its service area, and the existence of other potential entrants diminish the effect of the proposed merger on potential competition.

Therefore, we conclude that the proposed transaction would not have a substantial competitive impact.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (3-20-74)

Chemung Canal Trust Company (hereinafter Canal Trust) operates in the Elmira-Corning banking market, which is comprised of Schuyler and Chemung Counties and the southern quarter of Steuben County. It controls 23.2 per cent of the market deposits and in this respect is the 2nd largest of 9 banking organizations competing in the market.

Montour National Bank in Montour Falls (hereinafter Montour Bank) is also located in the Elmira-Corning banking market and controls 2.2 per cent of the total deposits therein as the market's 8th largest bank.

Approval of the transaction would result in the merged institution controlling 25.4 per cent of market deposits. However, the largest banking organization in the Elmira-Corning market—Marine Midland Banks, Inc.—controls 37 per cent of total market deposits, representing the largest share of such deposits. Other large organizations represented in the market are Charter New York Corporation and Lincoln First Banks. Whereas this proposal represents a slight increase in the concentration of deposits in the area, it appears that deconcentration of the area's deposits through acquisition of Montour Bank by an organization outside the market is not a likely possibility in view of the market's poor economic prospects.

The closest banking office of Canal Trust to Montour Bank's office is 14 miles away, and the areas served by each are neither contiguous nor overlapping. There is no significant existing competition between the offices of the 2 banks, and although each of the banks could branch into the other's service area, it is unlikely that such competition would arise in view of Montour Bank's limited resources and the poor economic conditions of the area.

The financial and managerial resources of Canal Trust and Montour Bank are satisfactory, and the prospects for the resulting bank are favorable. Consequently, banking factors are consistent with approval of the application. Consummation of the proposed merger would improve the present banking services available to customers of Montour Bank by increasing lending capabilities and by offering new services that would include credit cards, fiduciary services, and investment counseling. Considerations relating to the convenience and needs of the area to be served lend weight toward approval of the application.

For notes see p. 342.

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Name of bank, and type of transaction[2] (in chronological order of determination)	Assets (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 6—**Bank of East Moline,** East Moline, Ill., *to merge with*	(Newly organized bank; not in operation)		
State Bank of East Moline, East Moline, Ill.	52	1	1

SUMMARY REPORT BY THE ATTORNEY GENERAL (3-4-74)

The proposed merger is part of a plan through which State Bank of East Moline would become a subsidiary of Mid-America Bancorporation, Inc., a proposed bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Mid-America Bancorporation, Inc., it would have no effect on competition.

BASIS FOR APPROVAL BY FEDERAL RESERVE BANK ON BEHALF OF BOARD OF GOVERNORS UNDER DELEGATED AUTHORITY (3-29-74)

The proposal is a transaction to facilitate the acquisition of State Bank of East Moline by Mid-America Bancorporation, Inc., East Moline, Illinois, a proposed bank holding company.

The proposed merger would, in itself, have no adverse competitive effects. The banking and convenience and needs factors are consistent with approval of the application.

Name of bank, and type of transaction	Assets (in millions of dollars)	In operation	To be operated
No. 7—**Bankers Trust Company of Rochester,** Rochester, N.Y., *to merge with*	56	6	7
Briggs Bank of Clyde, Clyde, N.Y.	8	1	

SUMMARY REPORT BY THE ATTORNEY GENERAL (3-8-74)

The nearest offices of the parties are approximately 30 miles apart, with several competitive alternatives in the intervening area. Thus, it does not appear that the proposed transaction would eliminate substantial existing competition. Although Bankers Trust Company of Rochester or its parent, Bankers Trust New York Corporation, could expand *de novo* into southeastern Wayne County, the relatively small absolute size of Briggs Bank of Clyde and the existence of other significant potential entrants diminish the effects of this merger on potential competition.

Therefore, we conclude that the proposed transaction would not have a substantial competitive impact.

For notes see p. 342.

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Name of bank, and type of transaction[2] (in chronological order of determination)	Assets (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (4-2-74)

Bankers Trust Company of Rochester (hereinafter Applicant) is a subsidiary of Bankers Trust New York Corporation, New York, New York, and operates 6 offices in the Rochester banking market, where it is the 5th largest of 16 banks and holds 1.7 per cent of the total deposits in commercial banks. Briggs Bank of Clyde (hereinafter Briggs Bank), which is also located in the Rochester banking market, holds 0.3 per cent of total deposits in commercial banks in the market and thereby ranks as the 15th largest bank therein. The resulting bank would rank 5th in the market. The nearest offices of the merging banks are approximately 30 miles apart and their service areas do not overlap. Although both banks operate in the same market, there appears to be no meaningful competition between the two institutions. Since Briggs Bank has not established a branch in more than 100 years of operation and its financial resources are limited, it is unlikely that this bank would open a branch in the service area of Applicant Bank. Applicant is capable of branching into Briggs Bank's service area; however, home office protection laws presently prohibit any branching into the town of Clyde. Further, since the 4 largest banks in the market control approximately 93 per cent of the deposits, it is expected that the proposed merger would enable the resulting bank to compete more effectively with the larger institutions.

The financial and managerial resources of Applicant and Briggs Bank are generally satisfactory, and future prospects for the resulting bank appear favorable. Thus, the banking factors are consistent with approval of the application.

Applicant proposes to introduce services for personal and business trusts, as well as for investments in the Clyde area. These services are not currently available there. In addition, Applicant plans to lower charges on special checking accounts and to expand business loans at the Briggs Bank office. Therefore, considerations relating to the convenience and needs of the communities to be served lend weight toward approval of the application.

No. 8—**Central Trust Company Rochester, N.Y.,** Rochester, N.Y.,	419	16	
to merge with			17
The First National Bank of Marion, Marion, N.Y.	10	1	

SUMMARY REPORT BY THE ATTORNEY GENERAL (2-21-74)

Although Central Trust Company Rochester, N.Y. (hereinafter Central Trust), does not maintain an office in Wayne County, several of its

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Name of bank, and type of transaction[2] (in chronological order of determination)	Assets (in millions of dollars)	Banking offices	
		In operation	To be operated

SUMMARY REPORT BY THE ATTORNEY GENERAL—*Continued*

Monroe County offices are located within 25 miles of The First National Bank of Marion. Thus, it appears that the proposed transaction may eliminate some existing competition between the parties. However, it does not appear that the proposed merger would substantially increase concentration in commercial banking in any relevant geographic market.

Central Trust could legally establish a branch office in Wayne County and Central Trust's parent, Charter New York Corporation, could establish a *de novo* bank in that area. However, in view of the modest size of the bank to be acquired through this proposed merger, we conclude that the transaction would not eliminate substantial potential competition.

Therefore, we conclude that the proposed merger would not have a substantial competitive impact.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (4-2-74)

Central Trust Company Rochester, N.Y. (hereinafter Central Trust), a subsidiary of Charter New York Corporation, New York City, New York, has 16 offices in the Rochester banking market and is the 4th largest of the 16 commercial banks within the market, controlling 14.3 per cent of the area's total commercial bank deposits. The First National Bank of Marion (hereinafter Marion Bank), a unit bank, is also located in the Rochester banking market and controls 0.4 per cent of the total deposits therein as the market's 13th largest bank.

Approval of the proposed transaction would result in the merged institution controlling 14.7 per cent of market deposits. By comparison, the 2 largest banking organizations in the market hold 36.2 and 26.3 per cent, respectively, of total market deposits. The closest offices of Central Trust and Marion Bank are 16 miles apart. Because the service areas of each institution are in separate counties that are neither overlapping nor contiguous, there exists only minimal competition between the 2 banks.

With respect to future competition, Marion Bank, on the basis of its history as a unit bank with limited resources, is unlikely to expand to other areas within the market. Although Central Trust has both the financial and managerial resources to expand into Marion Bank's service area, such expansion appears unlikely due to the unattractive prospects of that portion of the market.

The financial and managerial resources and future prospects of Central Trust and Marion Bank are regarded as generally satisfactory. Thus, considerations relating to the banking factors are consistent with approval.

Consummation of the proposed merger would enable customers of Marion Bank to benefit from personal and corporate trust services, free checking accounts, and traveler's checks, none of which are provided currently. Considerations relating to the convenience and needs of the community to be served lend weight toward approval of the application.

For notes see p. 342.

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Name of bank, and type of transaction[2] (in chronological order of determination)	Assets (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 9—**Cape Cod Bank and Trust Company,** Barnstable, Mass., *to merge with*	63	8	11
The Buzzards Bay National Bank, Bourne, Mass.	16	3	

SUMMARY REPORT BY THE ATTORNEY GENERAL (2-4-74)

Cape Cod Bank and Trust Company (hereinafter Cape Cod Bank) and The Buzzards Bay National Bank (hereinafter Buzzards Bay Bank) are headquartered approximately 20 miles apart. Cape Cod Bank has, however, 4 offices within 15 road miles of both of Buzzards Bay Bank's 2 branch offices. The application indicates that the parties draw limited deposits and loans from each other's service area. As of June 30, 1973, Cape Cod Bank was the largest of the 9 banks operating in Barnstable County, with 28.4 per cent of total county deposits. Buzzards Bay Bank was the 6th largest, with 7.9 per cent of total county deposits as of that date. Thus, this proposed acquisition will eliminate a limited amount of existing competition for deposits and loans between the 2 institutions, particularly in central Barnstable County, and it will increase banking concentration in Barnstable County from the 67.7 per cent of total county deposits presently held by the county's 4 largest banks to 75.6 per cent.

Although Cape Cod Bank does not now operate a branch office in western Barnstable County, it possesses the capability to branch into that area. Since Massachusetts law restricts branching to those banks already located within the county, Cape Cod Bank is the largest of a small group of potential entrants into the area via branching. There are, however, several large holding companies in the State with the capability and incentive to enter this attractive market *de novo.*

Therefore, we conclude that the proposed transaction would have some adverse competitive effects.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (4-12-74)

The Buzzards Bay National Bank (hereinafter Buzzards Bay Bank) operates all 3 of its offices in Barnstable County, which approximates the relevant market, and thereby ranks as the 6th largest of 9 commercial banks in the market. Of the remaining 7 commercial banks in the market, 3 are affiliated with large bank holding companies. Each of Cape Cod Bank and Trust Company's (hereinafter Cape Cod Bank) offices is also located in the relevant market. Cape Cod Bank holds 28.5 per cent of the market deposits in commercial banks and is the largest bank therein. Although both institutions are located in the same banking market, the service areas of the 2 banks do not overlap significantly and there appears

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Name of bank, and type of transaction[2] (in chronological order of determination)	Assets (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS—*Continued*

to be little existing competition between them. Buzzards Bay Bank's offices are situated in the extreme western portion of the market and derive an estimated 2.3 per cent of total deposits and 6.2 per cent of total loans from Cape Cod Bank's service area. Cape Cod Bank's offices are located throughout the remainder of the county and derive an estimated 1 per cent of total deposits and 2.8 per cent of total loans from the service area of Buzzards Bay Bank. The closest offices of Cape Cod Bank and Buzzards Bay Bank are located 16 miles apart. Moreover, in view of the existing relationship between the 2 banks through common ownership, it seems unlikely that competition would develop in the future by either bank opening branches in the other's service area. The Board concludes that consummation of the proposed merger would have only a slightly adverse effect upon competition in the market.

The financial and managerial resources of Cape Cod Bank are considered satisfactory. Buzzards Bay Bank has experienced some difficulty in maintaining a strong capital position. Consummation of the proposed merger should eliminate this problem, while at the same time maintaining the capital adequacy of the resulting bank and providing it with greater depth in management. Thus, the banking factors lend weight toward approval of the application.

Although there is no evidence in the record to indicate that the major banking needs of the residents of the area are not currently being met, Cape Cod Bank plans to provide both trust and computer services for Buzzards Bay Bank to enable it to serve more efficiently its present and future customers. Therefore, considerations relating to the convenience and needs of the communities to be served lend some weight toward approval of the transaction.

No. 10—**Connecticut Bank and Trust Company**, Hartford, Conn.,	1,889	73	77
to merge with			
Clinton National Bank, Clinton, Conn.	22	4	

SUMMARY REPORT BY THE ATTORNEY GENERAL (2-19-74)

Clinton National Bank (hereinafter Clinton Bank) operates 4 of the 7 existing commercial banking offices in the towns of Clinton, Killingworth, Westbrook, and Madison, and holds the 2nd largest share of total deposits held by the 6 commercial banks operating in the larger estuary area, 29.6 per cent.

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Name of bank, and type of transaction[2] (in chronological order of determination)	Assets (in millions of dollars)	Banking offices	
		In operation	To be operated

SUMMARY REPORT BY THE ATTORNEY GENERAL—*Continued*

There appears to be little existing competition between Connecticut Bank and Trust Company (hereinafter Connecticut Bank) and Clinton Bank, but the merger would combine one of the most significant potential entrants into the area served by Clinton Bank and one of the leading banks therein, thereby eliminating potential competition between them. Factors which somewhat diminish this effect on potential competition are the existence of other large banks in Connecticut which could branch into this area and the relatively small size of Clinton Bank.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (4-15-74)

Connecticut Bank and Trust Company (hereinafter Connecticut Bank), with deposits of approximately $1.2 billion, is a subsidiary of CBT Corporation, Hartford, Connecticut, and operates 73 offices throughout the State. Connecticut Bank controls 19.2 per cent of total deposits in commercial banks in Connecticut and ranks as the 2nd largest of 66 commercial banks in the State. The proposed merger would increase the total deposits controlled by Connecticut Bank by 0.3 of 1 percentage point.

Clinton National Bank (hereinafter Clinton Bank) holds total deposits of $19.6 million and operates a total of 4 offices, 3 of which are located within the New Haven Standard Metropolitan Statistical Area (SMSA), which approximates the relevant banking market, and a 4th office located in the town of Westbrook, which is in a separate but adjacent market. Within the relevant market, the 3 offices of the Clinton Bank hold an aggregate of $16.5 million in deposits, representing 2.3 per cent of total market deposits, and Clinton Bank thereby ranks as the 6th largest of 15 commercial banks in the market. Connecticut Bank operates 7 offices in the New Haven SMSA, with deposits of $56 million, representing about 7.9 per cent of market deposits, and is the 4th largest commercial bank in the market. The deposit shares of the 3 largest banks in the relevant market are approximately 33, 26, and 18 per cent, respectively. Affiliation of Clinton Bank with Connecticut Bank is expected to exert a procompetitive effect on the relationships between Connecticut Bank and the 3 other banks with larger shares of deposits in the New Haven market.

Connecticut Bank proposes to introduce bank credit-card services, trust services, student loans, lock boxes, financial analysis, and specialized business lending services at the Clinton Bank offices, which do not presently offer these services. At the same time, Connecticut Bank plans to lower the rates on instalment loans, reduce certain service charges on checking accounts, and increase the availability of funds for loans offered by Clinton Bank. These increased services should benefit the residents of the areas served by Clinton Bank, particularly in Clinton, Killingworth, and Westbrook, where Clinton Bank is the only commercial bank operating. Therefore, considerations relating to the convenience and needs of

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Federal Reserve Bank of St. Louis

Name of bank, and type of transaction[2] (in chronological order of determination)	Assets (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS—*Continued*

the communities to be served lend weight toward approval of the proposed merger.

The financial and managerial resources of Connecticut Bank and Clinton Bank are satisfactory and future prospects for the resulting bank appear favorable.

Name of bank, and type of transaction	Assets (in millions of dollars)	In operation	To be operated
No. 11—**Barclays Bank of New York,** New York, N.Y.,	56	4	23
to merge with			
First Westchester National Bank, New Rochelle, N.Y.	214	19	

SUMMARY REPORT BY THE ATTORNEY GENERAL (4-12-74)

Barclays Bank of New York (hereinafter BBNY) operates 2 branches in Westchester County. Its White Plains office is within 10 miles of most of First Westchester National Bank's (hereinafter Westchester Bank) offices. Thus, some existing competition between the 2 banks would be eliminated by the merger. Both BBNY offices, however, were opened *de novo* since the bank was formed in 1971 (the most recent, the Yorktown Heights office in January of 1974). Neither now holds a significant amount of deposits. Thus, the effect of the merger on existing competition and concentration in commercial banking would not be significant.

BBNY, as part of a large, international banking organization, is clearly capable of further *de novo* expansion in Westchester County on a significant scale. Thus, the merger would eliminate the potential for increased competition between BBNY and Westchester Bank. Westchester Bank is the 3rd largest bank headquartered in Westchester County and held the 4th largest share (7.0 per cent) of total county deposits on June 30, 1972. The 2 largest banks in the county together account for more than 50 per cent of total county deposits.

In view of the relatively modest share of county deposits held by Westchester Bank and the presence of a number of other large New York City banks that are also expanding into Westchester County, we conclude that the effect of the merger on potential competition would not be significantly adverse.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (4-24-74)

Barclays Bank of New York (hereinafter BBNY) is a subsidiary of Barclays Bank International Limited, London, England (hereinafter BBIL), which, in turn, is a subsidiary of Barclays Bank Limited, London,

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Federal Reserve Bank of St. Louis

Name of bank, and type of transaction[2] (in chronological order of determination)	Assets (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS—*Continued*

England (hereinafter BBL). BBL, with total assets of approximately $24 billion as of December 31, 1972, is the 7th largest commercial bank in the Western World. BBIL has total assets of about $9 billion. Both BBL and BBIL are registered bank holding companies through their control of BBNY and of Barclays Bank of California (assets of $249 million).

BBNY is the 70th largest of 112 banking organizations located in the Metropolitan New York banking market and controls less than 0.1 percentage point of the market's total deposits. BBNY is engaged primarily in wholesale banking services on local, national, and international levels, but it also provides some retail banking services through 3 branches in the market. BBIL also maintains 2 branches in New York City that provide primarily international banking services. These offices hold approximately $159 million in deposits.

First Westchester National Bank (hereinafter Westchester Bank), which is also located in the Metropolitan New York banking market, holds deposits representing 0.2 per cent of the total deposits in commercial banks in the market and thereby ranks as the 33rd largest banking organization therein. The resulting bank would rank 28th in the market and hold approximately 0.3 per cent of market deposits. Due to the contrast between BBNY's banking business and Westchester Bank's banking business it does not appear that any significant existing competition would be eliminated upon consummation of this proposal.

BBNY is engaged predominantly in international wholesale operations, whereas Westchester Bank is essentially a local institution serving consumers and businesses in the areas surrounding its 18 offices in Westchester County. Although BBNY, with financial assistance from its parent companies, could expand its retail operations and establish additional offices in Westchester County, the amount of additional future competition would not be significant in the context of the Metropolitan New York market.

The financial and managerial resources of BBNY and Westchester Bank are satisfactory, and the prospects for the resulting bank are favorable. Consequently, banking factors are consistent with approval of the application.

BBNY intends to increase interest rates on 4-year certificates of deposit to more competitive levels, introduce daily compounding of interest on time and savings deposits, implement a lower schedule of checking account service charges at Westchester Bank's offices, and offer traveler's checks without a service charge. In addition, BBNY would offer international banking services at Westchester Bank's offices. Thus, convenience and needs factors lend slight weight toward approval of the application.

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Federal Reserve Bank of St. Louis

Name of bank, and type of transaction[2] (in chronological order of determination)	Assets (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 12—**Hamilton State Bank of Memphis,** Memphis, Tenn., *to merge with*	(Newly organized bank; not in operation)		
First American Bank, Memphis, Tenn.	33	5	5

SUMMARY REPORT BY THE ATTORNEY GENERAL (5-15-74)

The proposed merger is part of a plan through which First American Bank would become a subsidiary of Hamilton Bancshares, Inc., a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Hamilton Bancshares, Inc., it would have no effect on competition.

BASIS FOR APPROVAL BY FEDERAL RESERVE BANK ON BEHALF OF BOARD OF GOVERNORS UNDER DELEGATED AUTHORITY (5-17-74)

The proposal is a transaction to facilitate the acquisition of First American Bank by Hamilton Bancshares, Inc., Chattanooga, Tennessee, a bank holding company.

The proposed merger would, in itself, have no adverse competitive effects. The banking and convenience and needs factors are consistent with approval of the application.

Name of bank, and type of transaction	Assets (in millions of dollars)	In operation	To be operated
No. 13—**Hamilton State Bank of Woodbury,** Woodbury, Tenn., *to merge with*	(Newly organized bank; not in operation)		
Peoples Bank, Woodbury, Tenn.	4	1	1

SUMMARY REPORT BY THE ATTORNEY GENERAL (5-6-74)

The proposed merger is part of a plan through which Peoples Bank would become a subsidiary of Hamilton Bancshares, Inc., a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Hamilton Bancshares, Inc., it would have no effect on competition.

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21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1974[1]—*Continued*

Name of bank, and type of transaction[2] (in chronological order of determination)	Assets (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY FEDERAL RESERVE BANK ON BEHALF OF BOARD OF GOVERNORS UNDER DELEGATED AUTHORITY (6-4-74)

The proposal is a transaction to facilitate the acquisition of Peoples Bank by Hamilton Bancshares, Inc., Chattanooga, Tennessee, a bank holding company.

The proposed merger would, in itself, have no adverse competitive effects. The banking and convenience and needs factors are consistent with approval of the application.

No. 14—**Euclid Street State Bank,** San Antonio, Tex., *to merge with*	(Newly organized bank; not in operation)		
Main Bank and Trust, San Antonio, Tex.	107	1	1

SUMMARY REPORT BY THE ATTORNEY GENERAL (5-3-74)

The proposed merger is part of a plan through which Main Bank and Trust would become a subsidiary of First International Bancshares, Inc., a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by First International Bancshares, Inc., it would have no effect on competition.

BASIS FOR APPROVAL BY BOARD OF GOVERNORS (6-7-74)

The proposal is a transaction to facilitate the acquisition of Main Bank and Trust by First International Bancshares, Inc., Dallas, Texas, a bank holding company.

The proposed merger would, in itself, have no adverse competitive effects. The banking and convenience and needs factors are consistent with approval of the application.

No. 15—**Atlanta Interim Bank,** Atlanta, Ga., *to merge with*	(Newly organized bank; not in operation)		
Trust Company of Georgia, Atlanta, Ga.	1,243	33	33

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Federal Reserve Bank of St. Louis

Name of bank, and type of transaction[2] (in chronological order of determination)	Assets (in millions of dollars)	Banking offices	
		In operation	To be operated

SUMMARY REPORT BY THE ATTORNEY GENERAL (7-15-74)

The proposed merger is a part of a plan through which Trust Company of Georgia would become a subsidiary of TCG Corporation, a proposed bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by TCG Corporation, it would have no effect on competition.

BASIS FOR APPROVAL BY FEDERAL RESERVE BANK ON BEHALF OF BOARD OF GOVERNORS UNDER DELEGATED AUTHORITY (7-10-74)

The proposal is a transaction to facilitate the acquisition of Trust Company of Georgia by TCG Corporation, Atlanta, Georgia, a proposed bank holding company.

The proposed merger would, in itself, have no adverse competitive effects. The banking and convenience and needs factors are consistent with approval of the application.

Name of bank, and type of transaction	Assets	In operation	To be operated
No. 16—**PBT Bank,** Henrico County (Richmond), Va.,	(Newly organized bank; not in operation)		
to merge with			
Peoples Bank and Trust Company, Henrico County (Richmond), Va.	5	1	1

SUMMARY REPORT BY THE ATTORNEY GENERAL (7-5-74)

The proposed merger is part of a plan through which Peoples Bank and Trust Company would become a subsidiary of NB Corporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such and without regard to the acquisition of the surviving bank by NB Corporation, it would have no effect on competition.

BASIS FOR APPROVAL BY FEDERAL RESERVE BANK ON BEHALF OF BOARD OF GOVERNORS UNDER DELEGATED AUTHORITY (8-6-74)

The proposal is a transaction to facilitate the acquisition of Peoples Bank and Trust Company by NB Corporation, Charlottesville, Virginia, a bank holding company.

The proposed merger would, in itself, have no adverse competitive effects. The banking and convenience and needs factors are consistent with approval of the application.

For notes see p. 342.

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Name of bank, and type of transaction[2] (in chronological order of determination)	Assets (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 17—**The Oystermen's Bank and Trust Company**, Sayville, N.Y.,	53	5	5
to merge with			
Sayville Bank and Trust Co., Sayville, N.Y.	(Newly organized bank; not in operation)		

SUMMARY REPORT BY THE ATTORNEY GENERAL
(No report received.)

BASIS FOR APPROVAL BY FEDERAL RESERVE BANK ON BEHALF OF BOARD OF GOVERNORS UNDER DELEGATED AUTHORITY (8-6-74)

The proposal is a transaction to facilitate the acquisition of The Oystermen's Bank and Trust Company by First Commercial Banks, Inc., Albany, New York, a bank holding company.

The proposed merger would, in itself, have no adverse competitive effects. The banking and convenience and needs factors are consistent with approval of the application.

Name of bank, and type of transaction	Assets (in millions of dollars)	In operation	To be operated
No. 18—**First Virginia Bank of Roanoke Valley**, Roanoke, Va.,	4	3	10
to merge with			
The Farmers National Bank of Salem, Salem, Va.	42	7	

SUMMARY REPORT BY THE ATTORNEY GENERAL (7-29-74)

The nearest offices of the parties are separated by less than ½ mile, and 2 of the offices of First Virginia Bank of Roanoke Valley (hereinafter First Virginia Bank) are within 1 mile of the nearest office of The Farmers National Bank of Salem (hereinafter Farmers Bank). Thus, it appears that the proposed merger would eliminate some existing competition and the potential for increased competition between the parties, as First Virginia Bank can be expected to increase its competitive efforts in the Roanoke-Salem area. However, First Virginia Bank is a recent entrant into this market and holds an insubstantial share of its deposit and loan business. Accordingly, the proposed merger would not significantly increase concentration in commercial banking in the area.

BASIS FOR APPROVAL BY FEDERAL RESERVE BANK ON BEHALF OF BOARD OF GOVERNORS UNDER DELEGATED AUTHORITY (8-22-74)

The relevant banking market for purposes of the proposed merger is the Roanoke Standard Metropolitan Statistical Area (SMSA), which includes

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Name of bank, and type of transaction[2] (in chronological order of determination)	Assets (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY FEDERAL RESERVE BANK ON BEHALF OF BOARD OF GOVERNORS UNDER DELEGATED AUTHORITY—*Continued*

the cities of Roanoke and Salem and the counties of Roanoke, Craig, and Botetourt. First Virginia Bank of Roanoke Valley (Applicant) was established in this market in late 1972 as a wholly owned, *de novo* subsidiary of First Virginia Bankshares Corporation, Falls Church, Virginia, a bank holding company. As of December 31, 1973, the latter controlled 20 banks with aggregate deposits of approximately $813 million and was ranked 6th in size among Virginia banking organizations. The closest of such banks to Applicant is 18 miles south of Salem beyond the Appalachian Mountains. In the Roanoke market, Applicant operates 3 offices and is the smallest of 14 competing banks.

The Farmers National Bank of Salem (hereinafter Farmers Bank) competes with Applicant in the relevant market through 4 offices in Salem and 3 in Roanoke County. These offices, as of June 30, 1973, held total deposits of approximately $35 million, representing 5.3 per cent of the total market deposits.

The proposed merger would result in Applicant and its parent company holding only 5.4 per cent of total market deposits. Applicant would replace Farmers Bank as the 5th largest Roanoke bank, while the relative position of its parent, First Virginia Bankshares Corporation, in the State (6th) would be unchanged. In view of this and the small market shares of each bank, the Reserve Bank finds that the merger would not have any significant effects on competition in the banking market. Moreover, the merger would result in a bank that should be a more vigorous competitor for the larger banks, which apparently dominate the market.

The financial and managerial resources and the future prospects of the 2 banks proposing to merge and the resulting institution have been considered. Both banks appear to be capably managed; however, Farmers Bank's earnings have not been strong and its present capital is not considered to be adequate. First Virginia Bankshares Corporation intends to provide capital funds for the resulting bank, and, therefore, the financial and managerial aspects of the merger and the future prospects of the resulting bank are regarded as lending support toward approval.

Applicant offers a full line of banking services to the Roanoke market; however, Farmers Bank does not. To the extent that such full services will be available at all offices of the resulting bank, public benefit considerations weigh in favor of approval of the application.

No. 19—**HBT Bank of Canton,** Canton, Ohio, *to merge with*	(Newly organized bank; not in operation)		
The Harter Bank & Trust Company, Canton, Ohio	296	13	13

For notes see p. 342.

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Name of bank, and type of transaction[2] (in chronological order of determination)	Assets (in millions of dollars)	Banking offices	
		In operation	To be operated

SUMMARY REPORT BY THE ATTORNEY GENERAL (8-19-74)

The proposed merger is part of a plan through which The Harter Bank & Trust Company would become a subsidiary of Harter BanCorp, a proposed bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Harter BanCorp, it would have no effect on competition.

BASIS FOR APPROVAL BY FEDERAL RESERVE BANK ON BEHALF OF BOARD OF GOVERNORS UNDER DELEGATED AUTHORITY (8-29-74)

The proposal is a transaction to facilitate the acquisition of The Harter Bank & Trust Company by Harter BanCorp, a proposed bank holding company.

The proposed merger would, in itself, have no adverse competitive effects. The banking and convenience and needs factors are consistent with approval of the application.

Name of bank, and type of transaction	Assets (in millions of dollars)	In operation	To be operated
No. 20—**AIB Bank,** Mount Pleasant, Mich.,	(Newly organized bank; not in operation)		
to consolidate with			
American Security Bank, Mount Pleasant, Mich.	27	4	4

SUMMARY REPORT BY THE ATTORNEY GENERAL (8-19-74)

The proposed consolidation is part of a plan through which American Security Bank would become a wholly owned subsidiary of Peoples Banking Corporation, a bank holding company. The instant transaction, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Peoples Banking Corporation, it would have no effect on competition.

BASIS FOR APPROVAL BY FEDERAL RESERVE BANK ON BEHALF OF BOARD OF GOVERNORS UNDER DELEGATED AUTHORITY (9-19-74)

The proposal is a transaction to facilitate the acquisition of American Security Bank by Peoples Banking Corporation, Bay City, Michigan, a bank holding company.

The proposed consolidation would, in itself, have no adverse competitive effects. The banking and convenience and needs factors are consistent with approval of the application.

For notes see p. 342.

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Name of bank, and type of transaction[2] (in chronological order of determination)	Assets (in millions of dollars)	Banking offices	
		In operation	To be operated
Nos. 21, 22, and 23—**Commerce Union Bank of Rutherford County,** Murfreesboro, Tenn., *and*	(Newly organized bank; not in operation)		
Commerce Union Bank of Sumner County, Gallatin, Tenn., *and*	(Newly organized bank; not in operation)		
Commerce Union Bank of Lawrence County, Lawrenceburg, Tenn., *to acquire certain assets of and assume certain liabilities of*	(Newly organized bank; not in operation)		
Commerce Union Bank, Nashville, Tenn.	([3])	[3] 3	[3] 3

Summary Report by the Attorney General (8-20-74)

Commerce Union Bank of Rutherford County, Commerce Union Bank of Sumner County, and Commerce Union Bank of Lawrence County are nonoperating institutions. These banks are being organized by Tennessee Valley Bancorp, Inc., Nashville, Tennessee, a bank holding company that is separately seeking Board approval to acquire them, for the purpose of acquiring the assets of and assuming liability to pay deposits in the Murfreesboro, Gallatin, and Lawrenceburg branches of Commerce Union Bank, Nashville, a subsidary of Tennessee Valley Bancorp, Inc. As such, the proposed transactions are part of a plan of corporate reorganization and would have no effect on competition.

Basis for Approval by the Board of Governors (10-7-74)

The proposed acquisition is part of a plan of corporate reorganization whereby Tennessee Valley Bancorp, Inc., Nashville, a bank holding company, would own all of the capital stock (exclusive of directors' qualifying shares) of Commerce Union Bank of Rutherford County, Commerce Union Bank of Sumner County, and Commerce Union Bank of Lawrence County.

At the present time, Tennessee banks may open *de novo* branches in the county in which the bank is headquartered. By virtue of a grandfather clause, Commerce Union Bank, Nashville, has branches in a number of counties in addition to its home office county of Davidson. By converting the Murfreesboro, Gallatin, and Lawrenceburg branches of Commerce Union Bank into one bank, the holding company will have a vehicle

For notes see p. 342.

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Name of bank, and type of transaction[2] (in chronological order of determination)	Assets (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS—*Continued*

through which to establish additional offices in Rutherford, Sumner, and Lawrence Counties. However, any additional offices would require prior approval of the State banking department and of the Board of Governors.

The proposed acquisitions by Commerce Union Bank would not have adverse competitive effects nor significantly affect the convenience and needs of the area. There are currently 3 banks headquartered in Murfreesboro, with deposits of $9 million, $18 million, and $56 million; 3 banks headquartered in Gallatin, with deposits of $8 million, $16 million, and $18 million; and 2 banks headquartered in Lawrenceburg, with deposits of $11 million and $26 million.

No. 24—**Brownsville Commerce Bank,** Brownsville, Tex.,	(Newly organized bank; not in operation)		
to merge with			
Pan American Bank, Brownsville, Tex.	67	1	1

SUMMARY REPORT BY THE ATTORNEY GENERAL (10-1-74)

The proposed merger is part of a plan through which Pan American Bank would become a subsidiary of Texas Commerce Bancshares, Inc., a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Texas Commerce Bancshares, Inc., it would have no effect on competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (12-6-74)

The proposal is a transaction to facilitate the acquisition of Pan American Bank by Texas Commerce Bancshares, Inc., Houston, Texas, a bank holding company.

The proposed merger would, in itself, have no adverse competitive effects. The banking and convenience and needs factors are consistent with approval of the application.

[1] During 1974 the Board disapproved 1 merger application. However, under Section 18(c) of the Federal Deposit Insurance Act only those transactions approved by the Board must be described in its ANNUAL REPORT to Congress.

[2] Each transaction was proposed to be effected under the charter of the first-named bank.

[3] Although the Commerce Union Bank, Nashville, actually has $1 billion in assets and 29 offices in operation, only the following assets are to be acquired by the new banks: Commerce Union Bank of Rutherford County, $43 million; Commerce Union Bank of Sumner County, $23 million; and Commerce Union Bank of Lawrence County, $24 million. Each new bank is to acquire 1 office already in operation and to continue to operate 1 office after the acquisition.

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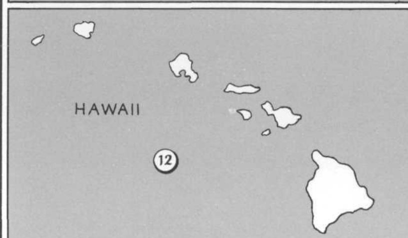
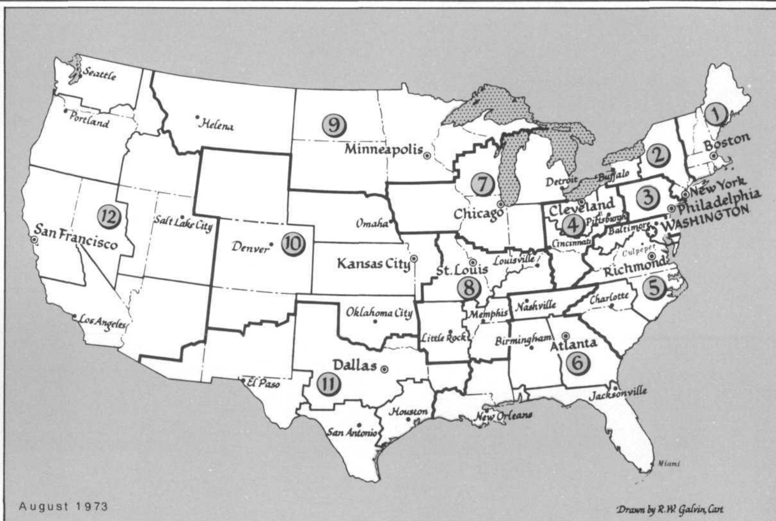
★ THE FEDERAL RESERVE SYSTEM ★

BOUNDARIES OF FEDERAL RESERVE DISTRICTS AND THEIR BRANCH TERRITORIES





Legend

- ▬ Boundaries of Federal Reserve Districts
- — Boundaries of Federal Reserve Branch Territories
- ✪ Board of Governors of the Federal Reserve System
- ⊙ Federal Reserve Bank Cities
- • Federal Reserve Branch Cities
- · Federal Reserve Bank Facilities

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Federal Reserve Directories and Meetings

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BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM

(December 31, 1974)

Term expires

ARTHUR F. BURNS, of New York, *Chairman** ....January 31, 1984
GEORGE W. MITCHELL, of Illinois, *Vice Chairman** ....January 31, 1976
ROBERT C. HOLLAND, of Nebraska ....January 31, 1978
PHILIP E. COLDWELL, of Texas ....January 31, 1980
JOHN E. SHEEHAN, of Kentucky ....January 31, 1982
JEFFREY M. BUCHER, of California ....January 31, 1986
HENRY C. WALLICH, of Connecticut ....January 31, 1988

DANIEL M. DOYLE, *Managing Director for Operations*
J. CHARLES PARTEE, *Managing Director for Research and Economic Policy*
THOMAS J. O'CONNELL, *Counsel to the Chairman*
ROBERT SOLOMON, *Adviser to the Board*
JOSEPH R. COYNE, *Assistant to the Board*
JOHN S. RIPPEY, *Assistant to the Board*
JOHN J. HART, *Special Assistant to the Board*
FRANK O'BRIEN, JR., *Special Assistant to the Board*
DONALD J. WINN, *Special Assistant to the Board*

OFFICE OF MANAGING DIRECTOR FOR OPERATIONS

DANIEL M. DOYLE, *Managing Director (Operations)*
JOHN M. DENKLER, *Deputy Managing Director*
GORDON B. GRIMWOOD, *Assistant Director and Program Director for Contingency Planning*
WILLIAM W. LAYTON, *Director of Equal Employment Opportunity*
BRENTON C. LEAVITT, *Program Director for Banking Structure*
PETER E. BARNA, *Program Director for Bank Holding Company Analysis*
ROBERT S. PLOTKIN, *Associate Program Director for Bank Holding Company Analysis*

OFFICE OF MANAGING DIRECTOR FOR RESEARCH AND ECONOMIC POLICY

J. CHARLES PARTEE, *Managing Director (Research and Economic Policy)*
STEPHEN H. AXILROD, *Adviser to the Board*
SAMUEL B. CHASE, JR., *Adviser to the Board*
ARTHUR L. BROIDA, *Assistant to the Board*
MURRAY ALTMANN, *Special Assistant to the Board*

OFFICE OF THE SECRETARY

THEODORE E. ALLISON, *Secretary*
NORMAND R. V. BERNARD, *Assistant Secretary*
ELIZABETH L. CARMICHAEL, *Assistant Secretary*
GRIFFITH L. GARWOOD, *Assistant Secretary*

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JOHN NICOLL, *Deputy General Counsel*
BALDWIN B. TUTTLE, *Assistant General Counsel*
CHARLES R. MCNEIL, *Assistant to the General Counsel*
ALLEN L. RAIKEN, *Adviser*

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LYLE E. GRAMLEY, *Director*
JAMES L. PIERCE, *Associate Director*
PETER M. KEIR, *Adviser*
JAMES L. KICHLINE, Adviser
STANLEY J. SIGEL, *Adviser*
MURRAY S. WERNICK, *Adviser*
KENNETH B. WILLIAMS, *Adviser*

*The designations as the Chairman and the Vice Chairman expire January 31, 1978, and April 30, 1977, respectively, unless the services of these members of the Board shall have terminated sooner.

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EDWARD C. ETTIN, *Associate Adviser*
ROBERT J. LAWRENCE, *Associate Adviser*
ELEANOR J. STOCKWELL, *Associate Adviser*
JOSEPH S. ZEISEL, *Associate Adviser*
STEPHEN P. TAYLOR, *Assistant Adviser*
LOUIS WEINER, *Assistant Adviser*
HELMUT F. WENDEL, *Assistant Adviser*
LEVON H. GARABEDIAN, *Assistant Director*

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JOHN E. REYNOLDS, *Associate Director*
PAUL WONNACOTT, *Associate Director*
ROBERT F. GEMMILL, *Adviser*
REED J. IRVINE, *Adviser*
BERNARD NORWOOD, *Adviser*
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GEORGE B. HENRY, *Associate Adviser*
HELEN B. JUNZ, *Associate Adviser*
CHARLES J. SIEGMAN, *Assistant Adviser*
EDWIN M. TRUMAN, *Assistant Adviser*

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JAMES R. KUDLINSKI, *Associate Director*
E. MAURICE MCWHIRTER, *Associate Director*
WALTER A. ALTHAUSEN, *Assistant Director*
HARRY A. GUINTER, *Assistant Director*
THOMAS E. MEAD, *Assistant Director*
P. D. RING, *Assistant Director*
WILLIAM H. WALLACE, *Assistant Director*

DIVISION OF BANKING SUPERVISION AND REGULATION

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FREDERICK R. DAHL, *Assistant Director*
JACK M. EGERTSON, *Assistant Director*
JOHN N. LYON, *Assistant Director*
JOHN T. MCCLINTOCK, *Assistant Director*
THOMAS A. SIDMAN, *Assistant Director*
WILLIAM W. WILES, *Assistant Director*

OFFICE OF SAVER AND CONSUMER AFFAIRS

FREDERIC SOLOMON, *Assistant to the Board and Director*
JANET O. HART, *Deputy Director*

DIVISION OF PERSONNEL

KEITH D. ENGSTROM, *Director*
CHARLES W. WOOD, *Assistant Director*

DIVISION OF ADMINISTRATIVE SERVICES

WALTER W. KREIMANN, *Director*
DONALD E. ANDERSON, *Assistant Director*
JOHN D. SMITH, *Assistant Director*

OFFICE OF THE CONTROLLER

JOHN KAKALEC, *Controller*

DIVISION OF DATA PROCESSING

CHARLES L. HAMPTON, *Director*
HENRY W. MEETZE, *Associate Director*
GLENN L. CUMMINS, *Assistant Director*
WARREN N. MINAMI, *Assistant Director*
ROBERT J. ZEMEL, *Assistant Director*

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FEDERAL OPEN MARKET COMMITTEE

(December 31, 1974)

MEMBERS

ARTHUR F. BURNS, *Chairman* (Board of Governors)
ALFRED HAYES, *Vice Chairman* (Elected by Federal Reserve Bank of New York)
ROBERT P. BLACK (Elected by Federal Reserve Banks of Boston, Philadelphia, and Richmond)
JEFFREY M. BUCHER (Board of Governors)
GEORGE H. CLAY (Elected by Federal Reserve Banks of Minneapolis, Kansas City, and San Francisco)
PHILIP E. COLDWELL (Board of Governors)
ROBERT C. HOLLAND (Board of Governors)
MONROE KIMBREL (Elected by Federal Reserve Banks of Atlanta, St. Louis, and Dallas)
GEORGE W. MITCHELL (Board of Governors)
JOHN E. SHEEHAN (Board of Governors)
HENRY C. WALLICH (Board of Governors)
WILLIS J. WINN (Elected by Federal Reserve Banks of Cleveland and Chicago)

OFFICERS

ARTHUR L. BROIDA, *Secretary*

MURRAY ALTMANN, *Deputy Secretary*

NORMAND R. V. BERNARD, *Assistant Secretary*

THOMAS J. O'CONNELL, *General Counsel*

EDWARD G. GUY, *Deputy General Counsel*

JOHN NICOLL, *Assistant General Counsel*

J. CHARLES PARTEE, *Senior Economist*

STEPHEN H. AXILROD, *Economist* (Domestic Finance)

ROBERT SOLOMON, *Economist* (International Finance)

HARRY BRANDT, *Associate Economist*

RALPH C. BRYANT, *Associate Economist*

RICHARD G. DAVIS, *Associate Economist*

RAYMOND J. DOLL, *Associate Economist*

LYLE E. GRAMLEY, *Associate Economist*

WILLIAM J. HOCTER, *Associate Economist*

JAMES PARTHEMOS, *Associate Economist*

JAMES L. PIERCE, *Associate Economist*

JOHN E. REYNOLDS, *Associate Economist*

ALAN R. HOLMES, *Manager, System Open Market Account*
CHARLES A. COOMBS, *Special Manager, System Open Market Account*
PETER D. STERNLIGHT, *Deputy Manager, System Open Market Account*

During 1974 meetings of the Federal Open Market Committee were generally held at monthly intervals. (See Record of Policy Actions taken by the Committee in 1974 on pp. 119–227 of this REPORT.)

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FEDERAL ADVISORY COUNCIL

(December 31, 1974)

MEMBERS

District No. 1—JAMES F. ENGLISH, JR., Chairman of the Board, The Connecticut Bank and Trust Company, Hartford, Conn.

District No. 2—GABRIEL HAUGE, Chairman of the Board, Manufacturers Hanover Trust Company, New York, N.Y.

District No. 3—JAMES F. BODINE, President and Chief Operating Officer, First Pennsylvania Corporation and First Pennsylvania Bank, N.A., Philadelphia, Pa.

District No. 4—CLAIR E. FULTZ, Chairman and Chief Executive Officer, Huntington Bancshares, Inc., Columbus, Ohio

District No. 5—THOMAS I. STORRS, Chairman of the Board, NCNB Corporation, Charlotte, N.C.

District No. 6—LAWRENCE A. MERRIGAN, President, The Bank of New Orleans and Trust Company, New Orleans, La.

District No. 7—ALLEN P. STULTS, Chairman of the Board, American National Bank and Trust Company of Chicago, Chicago, Ill.

District No. 8—DONALD E. LASATER, Chairman of the Board and Chief Executive Officer, Mercantile Trust Company National Association, St. Louis, Mo.

District No. 9—GEORGE H. DIXON, Chairman of the Board and President, First National Bank of Minneapolis, Minneapolis, Minn.

District No. 10—EUGENE H. ADAMS, Chairman of the Board, The First National Bancorporation, Denver, Colo.

District No. 11—LEWIS H. BOND, Chairman of the Board and Chief Executive Officer, The Fort Worth National Bank, Fort Worth, Tex.

District No. 12—HAROLD A. ROGERS, President, Peoples National Bank of Washington, Seattle, Wash.

OFFICERS

THOMAS I. STORRS, *President* JAMES F. ENGLISH, JR., *Vice President*

HERBERT V. PROCHNOW, *Secretary*

WILLIAM J. KORSVIK, *Associate Secretary*

EXECUTIVE COMMITTEE

THOMAS I. STORRS, *ex officio* JAMES F. ENGLISH, JR., *ex officio*

GABRIEL HAUGE ALLEN P. STULTS

LEWIS H. BOND

Meetings of the Federal Advisory Council were held on January 31–February 1, May 2–3, September 5–6, and October 31–November 1, 1974. The Board of Governors met with the Council on February 1, May 3, September 6, and November 1. The Council, which is composed of 12 leading bankers, one from each Federal Reserve district, is required by law to meet in Washington at least four times each year and is authorized by the Federal

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Reserve Act to consult with and advise the Board on all matters within the jurisdiction of the Board.

On September 16, 1974, the Board of Governors released a statement on bank lending policies that had been received from the Federal Advisory Council (FAC), a statutory body established under the Federal Reserve Act. The statement, which stemmed from a discussion of bank lending policies during an FAC meeting with the Board, suggests how banks can effectively adapt lending policies in the current period of credit restraint.

The Board believes the Council's statement can be helpful to commercial banks in formulating their lending policies under current circumstances.

The Board regards restraint in lending policies as essential to the national effort to control inflation. Restraint best serves the public interest when limited credit resources are used in ways that encourage expansion of productive capacity, sustain key sectors of national and local economies, provide liquidity for sound businesses in temporary difficulty, and take account of the legitimate needs of individuals and of small as well as large businesses.

The Board noted particularly that the Council in its statement recognized "the special vulnerability of the homebuilding industry." An active homebuilding industry is vital to the well-being of local communities as well as of the Nation as a whole, and it is to the interest of banks and other financial institutions to give reasonable support to the financial needs of that industry.

The FAC statement, which, together with the Board's covering statement, was mailed to all member banks in the Federal Reserve System, is as follows:

> The members of the Federal Advisory Council firmly believe that inflation remains our most acute domestic problem and that the effort to reduce it deserves the full dedication of all Americans. We have been pleased recently to observe the renewed efforts of the administration and other segments of our national government, in consultation with a broad representation of interested groups in the private sector, to identify appropriate and effective policies to deal with this problem.
>
> As bankers we are acutely aware of the disproportionate role that a restrictive monetary policy has had to bear thus far in the fight against inflation. We are particularly hopeful that fiscal and other measures will be adopted that will soon alleviate this excessive reliance on monetary restraint and high interest rates, because government spending and budget deficits are a major cause of inflation.
>
> We recognize, however, that regardless of the measures adopted, money and credit will necessarily remain limited in supply as long as inflationary pressures persist. We are confident that sufficient money will be made available to assure orderly operation of credit markets and to provide for the resumption of real growth in the economy. However, we foresee a period of considerable duration when the supply of lendable funds will be limited, and when, therefore, it will be necessary for banks to restrict the growth in their loan portfolios by selecting carefully and responsibly the uses to which they put their loanable funds.
>
> It is also clear that this process contributes to the very desirable objective of reducing interest rates, a development banks welcome. Relief from the present unprecedentedly high rates would be particularly beneficial to those segments of the economy that are by their nature heavily dependent on borrowed money, such as housing and public utilities.

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In view, therefore, of the extreme importance of bank lending policies in today's environment, we should like to describe those policies that we believe are appropriate in present circumstances and that, we feel, are already being followed by many banks.

The basic credit needs for normal operations of all established business customers should, of course, be met to assure the production and distribution of goods and services.

Loans to finance capital investment by business are also appropriate, where access to capital markets is not available and where the investment is reasonable in size and necessary to maintain or improve productivity or to increase capacity to meet existing or clearly anticipated demand. In considering such loans, banks should weigh the relative importance of the particular business with respect to such factors as the nature of its product or service and its significance as an employer in the local area.

Particular consideration should be given to the needs of established businesses that are basically sound but that suffer a temporary lack of liquidity because of present conditions.

Loans for purely financial activities, such as acquisitions or the purchase of a company's own shares, would normally not be appropriate uses of limited bank funds.

Loans for speculative purposes, such as purchasing securities or commodities other than in the ordinary course of business, excessive inventory accumulation, or investing in land without well-defined plans for its useful development, are not generally suitable.

A regrettable aspect of restrictive monetary policy is that it tends to produce an uneven impact, bearing more heavily on some sectors of the economy than others. Therefore, banks should make an effort to utilize their limited funds equitably, giving consideration, for instance, to the special vulnerability of the homebuilding industry.

Similarly, consumer credit should receive its share of bank funds. The basic requirements of individuals for household needs and automobiles should be accommodated, but discretionary spending that might be deferred should not be encouraged.

Loans to foreigners that are funded from domestic sources should also be weighed against the above criteria. In addition, banks should give careful consideration to the diversion of loan funds from U.S. customers through such loans.

Implicit in these policies is a need for close communication and counseling between bankers and their customers to agree on ways to reduce or defer borrowing needs or to identify alternate sources of financing.

The Council recognizes that it is impossible to prescribe a precise and particular list of priorities for proper bank lending. We do feel, however, that the policies outlined describe a responsible posture that is appropriate to present circumstances. We believe that governmental credit allocations are not needed and that they would be counterproductive.

We are confident that the Nation's banks will continue to cooperate with our Government and all sectors of the economic community in implementing sound and necessary national policy.

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FEDERAL RESERVE BANKS AND BRANCHES

(December 31, 1974)

CHAIRMEN AND DEPUTY CHAIRMEN OF BOARDS OF DIRECTORS

Federal Reserve Bank of—	Chairman and Federal Reserve Agent	Deputy Chairman
Boston	James S. Duesenberry	Louis W. Cabot
New York	Roswell L. Gilpatric	Frank R. Milliken
Philadelphia	John R. Coleman	Edward J. Dwyer
Cleveland	Horace A. Shepard	Robert E. Kirby
Richmond	Robert W. Lawson, Jr.	E. Craig Wall
Atlanta	H. G. Pattillo	C. M. Kirtland, Jr.
Chicago	William H. Franklin	Peter B. Clark
St. Louis	Edward J. Schnuck	Sam Cooper
Minneapolis	Bruce B. Dayton	James P. McFarland
Kansas City	Robert W. Wagstaff	Robert T. Person
Dallas	John Lawrence	Charles T. Beaird
San Francisco	O. Meredith Wilson	Joseph F. Alibrandi

CONFERENCE OF CHAIRMEN

The Chairmen of the Federal Reserve Banks are organized into a Conference of Chairmen that meets from time to time to consider matters of common interest and to consult with and advise the Board of Governors. Such meetings, attended also by Deputy Chairmen of the Reserve Banks, were held in Washington on June 7 and December 5 and 6, 1974.

Mr. Robert W. Wagstaff, Chairman of the Federal Reserve Bank of Kansas City, who was elected Chairman of the Conference and of its Executive Committee in December 1973, served in that capacity until the close of the 1974 meetings. Mr. Roswell L. Gilpatric, Chairman of the Federal Reserve Bank of New York, and Mr. William H. Franklin, Chairman of the Federal Reserve Bank of Chicago, served with Mr. Wagstaff as members of the Executive Committee; Mr. Gilpatric also served as Vice Chairman of the Conference.

On December 6, 1974, Mr. Gilpatric was elected Chairman of the Conference and of its Executive Committee to serve for the succeeding year; Mr. H. G. Pattillo, Chairman of the Federal Reserve Bank of Atlanta, was elected Vice Chairman of the Conference and a member of the Executive Committee; and Mr. John Lawrence, Chairman of the Federal Reserve Bank of Dallas, was elected as the other member of the Executive Committee.

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DIRECTORS

Class A and Class B directors are elected by the member banks of the district. Class C directors are appointed by the Board of Governors of the Federal Reserve System.

The Class A directors are chosen as representatives of member banks and, as a matter of practice, are active officers of member banks. The Class B directors may not, under the law, be officers, directors, or employees of banks. At the time of their election they must be actively engaged in their district in commerce, agriculture, or some other industrial pursuit.

The Class C directors may not, under the law, be officers, directors, employees, or stockholders of banks. They are appointed by the Board of Governors as representatives not of any particular group or interest, but of the public interest as a whole.

Federal Reserve Bank branches have either five or seven directors, of whom a majority are appointed by the Board of Directors of the parent Federal Reserve Bank, and the others are appointed by the Board of Governors of the Federal Reserve System.

District 1—BOSTON

DIRECTORS		*Term expires Dec. 31*
Class A:		
Mark C. Wheeler	President, New England National Bank, Boston, Mass.	1974
William M. Honey	President, The Martha's Vineyard National Bank, Vineyard Haven, Mass.	1975
Francis N. Southworth	Chairman of the Board and President, Concord National Bank, Concord, N.H.	1976
Class B:		
W. Gordon Robertson	General Trustee, Bangor, Maine	1974
Alfred W. Van Sinderen	President, The Southern New England Telephone Company, New Haven, Conn.	1975
G. William Miller	President, Textron Inc., Providence, R.I.	1976
Class C:		
James S. Duesenberry	Chairman, Department of Economics, Harvard University, Cambridge, Mass.	1974
Louis W. Cabot	Chairman of the Board, Cabot Corporation, Boston, Mass.	1975
Kenneth I. Guscott	President, Ken Guscott Associates, Boston, Mass.	1976

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DIRECTORS—*Cont.*	District 2—NEW YORK	*Term expires Dec. 31*
Class A:		
Norman Brassler	Chairman of the Board and Chief Executive Officer, New Jersey Bank, N.A., Paterson, N.J.	1974
Newman E. Wait, Jr.	President, Adirondack Trust Company, Saratoga Springs, N.Y.	1975
David Rockefeller	Chairman of the Board, The Chase Manhattan Bank, N.A., New York, N.Y.	1976
Class B:		
William S. Sneath	President, Union Carbide Corporation, New York, N.Y.	1974
Jack B. Jackson	President, J. C. Penney Co., Inc., New York, N.Y.	1975
Maurice F. Granville	Chairman of the Board, Texaco, Inc., New York, N.Y.	1976
Class C:		
Roswell L. Gilpatric	Partner, Cravath, Swaine and Moore, Attorneys, New York, N.Y.	1974
Frank R. Milliken	President, Kennecott Copper Corporation, New York, N.Y.	1975
Alan Pifer	President, Carnegie Corporation of New York, New York, N.Y.	1976

BUFFALO BRANCH

Appointed by Federal Reserve Bank:		
Theodore M. McClure	President, The Citizens National Bank and Trust Company, Wellsville, N.Y.	1974
Claude F. Shuchter	Chairman and Chief Executive Officer, Manufacturers and Traders Trust Company, Buffalo, N.Y.	1975
J. Wallace Ely	President, Security Trust Company of Rochester, Rochester, N.Y.	1976
Daniel G. Ransom	President, The Wm. Hengerer Co., Buffalo, N.Y.	1976
Appointed by Board of Governors:		
Norman F. Beach	Vice President and General Manager, Kodak Park Division, Eastman Kodak Company, Rochester, N.Y.	1974
Donald Nesbitt	Owner-Operator, Silver Creek Farms, Albion, N.Y.	1975
Rupert Warren	Former President, Trico Products Corporation, Buffalo, N.Y.	1976

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District 3—PHILADELPHIA

DIRECTORS—*Cont.*

		Term expires Dec. 31
Class A:		
John C. Tuten	Chairman of the Board and Chief Executive Officer, National Central Bank and National Central Financial Corporation, Lancaster, Pa.	1974
John H. Hassler	President, The City National Bank and Trust Company of Salem, Salem, N.J.	1975
Thomas L. Miller	President, Upper Dauphin National Bank, Millersburg, Pa.	1976
Class B:		
C. Graham Berwind, Jr.	President and Chief Executive Officer, Berwind Corporation, Philadelphia, Pa.	1974
Bernard D. Broeker	Executive Vice President, Bethlehem Steel Corporation, Bethlehem, Pa.	1975
William S. Masland	President, C. H. Masland & Sons, Carlisle, Pa.	1976
Class C:		
E. W. Robinson, Jr.	President, Provident Home Industrial Mutual Life Insurance Company, Philadelphia, Pa.	1974
Edward J. Dwyer	Chairman of the Board, ESB Incorporated, Philadelphia, Pa.	1975
John R. Coleman	President, Haverford College, Haverford, Pa.	1976

District 4—CLEVELAND

		Term expires Dec. 31
Class A:		
A. Bruce Bowden	Retired Vice Chairman, Mellon Bank, N.A., Pittsburgh, Pa.	1974
David L. Brumback, Jr.	President, Van Wert National Bank, Van Wert, Ohio	1975
Edward W. Barker	Chairman of the Board, First National Bank of Middletown, Middletown, Ohio	1976
Class B:		
Donald E. Noble	Chairman of the Board and Chief Executive Officer, Rubbermaid Incorporated, Wooster, Ohio	1974
Rene C. McPherson	Chairman of the Board and Chief Executive Officer, Dana Corporation, Toledo, Ohio	1975
Charles Y. Lazarus	Chairman of the Board, The F. & R. Lazarus Co., Columbus, Ohio	1976

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DIRECTORS—*Cont.* District 4—CLEVELAND—Continued		*Term expires Dec. 31*
Class C:		
Horace A. Shepard	Chairman of the Board and Chief Executive Officer, TRW Inc., Cleveland, Ohio	1974
Otis A. Singletary	President, University of Kentucky, Lexington, Ky.	1975
Robert E. Kirby	Vice Chairman—Operations, Westinghouse Electric Corporation, Pittsburgh, Pa.	1976

CINCINNATI BRANCH

Appointed by Federal Reserve Bank:		
E. Paul Williams	Chairman of the Board, The Second National Bank of Ashland, Ashland, Ky.	1974
Paul W. Christensen, Jr.	President, The Cincinnati Gear Company, Cincinnati, Ohio	1975
Robert E. Hall	President, The First National Bank & Trust Company, Troy, Ohio	1975
Joseph F. Rippe	President, The Provident Bank, Cincinnati, Ohio	1976
Appointed by Board of Governors:		
Graham E. Marx	President and General Manager, The G. A. Gray Company, Cincinnati, Ohio	1974
Phillip R. Shriver	President, Miami University, Oxford, Ohio	1975
Clair F. Vough	Vice President, Office Products Division, IBM Corporation, Lexington, Ky.	1976

PITTSBURGH BRANCH

Appointed by Federal Reserve Bank:		
Charles F. Ward	President, Gallatin National Bank, Uniontown, Pa.	1974
Robinson F. Barker	Chairman and Chief Executive Officer, PPG Industries, Inc., Pittsburgh, Pa.	1975
Jerry A. Halverson	President, The First National Bank and Trust Company of Wheeling, Wheeling, W. Va.	1975
M. E. Lambing, Jr.	President and Chief Executive Officer, The First National Bank of Pennsylvania, Erie, Pa.	1976

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DIRECTORS—*Cont.* District 4—CLEVELAND—Continued		*Term expires Dec. 31*

PITTSBURGH BRANCH—*Continued*

Appointed by Board of Governors:

Richard M. Cyert	President, Carnegie-Mellon University, Pittsburgh, Pa.	1974
Robert J. Buckley	President, Allegheny-Ludlum Industries, Inc., Pittsburgh, Pa.	1975
G. Jackson Tankersley	President, Consolidated Natural Gas Company, Pittsburgh, Pa.	1976

District 5—RICHMOND

Class A:

Edward N. Evans	President, Farmers and Merchants National Bank of Cambridge, Cambridge, Md.	1974
John H. Lumpkin	Chairman and Chief Executive Officer, The South Carolina National Bank, Columbia, S.C.	1975
Plato P. Pearson, Jr.	President, Citizens National Bank in Gastonia, Gastonia, N.C.	1976

Class B:

Henry Clay Hofheimer	Chairman, Virginia Real Estate Investment Trust, Norfolk, Va.	1974
Osby L. Weir	Retired General Manager, Metropolitan Washington-Baltimore Area, Sears, Roebuck and Company, Bethesda, Md.	1975
Andrew L. Clark	President, Andy Clark Ford, Inc., Princeton, W. Va.	1976

Class C:

E. Craig Wall, Sr.	Chairman of the Board, Canal Industries, Inc., Conway, S.C.	1974
Robert W. Lawson, Jr.	Senior Partner, Charleston Office, Steptoe and Johnson, Attorneys, Charleston, W. Va.	1975
E. Angus Powell	Chairman of the Board, Lea Industries, Inc., Richmond, Va.	1976

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DIRECTORS—*Cont.* District 5—RICHMOND—Continued		*Term expires Dec. 31*
BALTIMORE BRANCH		
Appointed by Federal Reserve Bank:		
J. Pierre Bernard	Chairman of the Board, The Annapolis Banking and Trust Company, Annapolis, Md.	1974
J. R. Chaffinch, Jr.	President, The Denton National Bank, Denton, Md.	1975
J. Stevenson Peck	Chairman of the Board, Union Trust Company of Maryland, Baltimore, Md.	1976
Lacy I. Rice, Jr.	President, The Old National Bank of Martinsburg, Martinsburg, W. Va., and President, Suburban National Bank of Martinsburg, Martinsburg, W. Va.	1976
Appointed by Board of Governors:		
James G. Harlow	President, West Virginia University, Morgantown, W. Va.	1974
David W. Barton, Jr.	President, The Barton-Gillet Company, Baltimore, Md.	1975
I. E. Killian	Manager, Eastern Region, Exxon Company, U.S.A., Baltimore, Md.	1976
CHARLOTTE BRANCH		
Appointed by Federal Reserve Bank:		
L. D. Coltrane, III	President, The Concord National Bank, Concord, N.C.	1974
William W. Bruner	Chairman of the Board and President, First National Bank of South Carolina, Columbia, S.C.	1975
Thomas L. Benson	President, The Conway National Bank, Conway, S.C.	1976
W. B. Apple, Jr.	President, First National Bank of Reidsville, Reidsville, N.C.	1976
Appointed by Board of Governors:		
Charles F. Benbow	Senior Vice President, R. J. Reynolds Industries, Inc., Winston-Salem, N.C.	1974
Robert C. Edwards	President, Clemson University, Clemson, S.C.	1975
Charles W. DeBell	General Manager, North Carolina Works, Western Electric Company, Inc., Winston-Salem, N.C.	1976

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District 6—ATLANTA

DIRECTORS—*Cont.*

Name	Position	Term expires Dec. 31
Class A:		
Jack P. Keith	President, First National Bank of West Point, West Point, Ga.	1974
Sam I. Yarnell	Chairman, American National Bank and Trust Company, Chattanooga, Tenn.	1975
John T. Oliver, Jr.	President, First National Bank of Jasper, Jasper, Ala.	1976
Class B:		
Ulysses V. Goodwyn	Executive Vice President, Southern Natural Resources, Inc., Birmingham, Ala.	1974
George W. Jenkins	Chairman, Publix Super Markets, Inc., Lakeland, Fla.	1975
Robert T. Hornbeck	Manager, Tennessee Operations, Aluminum Company of America, Alcoa, Tenn.	1976
Class C:		
H. G. Pattillo	President, Pattillo Construction Company, Inc., Decatur, Ga.	1974
F. Evans Farwell	President, Milliken & Farwell, Inc., New Orleans, La.	1975
C. M. Kirtland, Jr.	President, Cox Broadcasting Corporation, Atlanta, Ga.	1976

BIRMINGHAM BRANCH

Name	Position	Term expires Dec. 31
Appointed by Federal Reserve Bank:		
W. Eugene Morgan	President and Chief Executive Officer, The First National Bank of Huntsville, Huntsville, Ala.	1974
John Alexander, Jr.	President, City National Bank of Birmingham, Birmingham, Ala.	1975
Clarence L. Turnipseed	President, First National Bank of Brewton, Brewton, Ala.	1976
John Maples, Jr.	Executive Vice President, Union Bank & Trust Company, Montgomery, Ala.	1976
Appointed by Board of Governors:		
William C. Bauer	President, South Central Bell, Birmingham, Ala.	1974
Frank P. Samford, Jr.	Chairman of the Board, Liberty National Life Insurance Company, Birmingham, Ala.	1975
David Mathews	President, University of Alabama, University, Ala.	1976

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DIRECTORS—*Cont.* District 6—ATLANTA—Continued	*Term expires Dec. 31*
JACKSONVILLE BRANCH	
Appointed by Federal Reserve Bank:	
Guy W. Botts..........Vice Chairman of the Board, Barnett Bank of Jacksonville, N.A., Jacksonville, Fla........	1974
Michael J. Franco......Chairman of the Board, City National Bank of Miami, Miami, Fla......................	1975
William K. de Veer.....President, First National Bank in Palm Beach, Palm Beach, Fla.........................	1976
Richard A. Cooper.....Chairman of the Board, First National Bank of New Port Richey, New Port Richey, Fla...	1976
Appointed by Board of Governors:	
Gert H. W. Schmidt....President, TeLeVision 12 of Jacksonville, Jacksonville, Fla............................	1974
James E. Lyons........President, Lyons Industrial Corporation, Winter Haven, Fla......................	1975
Egbert R. Beall........President, Beall's Department Stores, Bradenton, Fla...............................	1976
NASHVILLE BRANCH	
Appointed by Federal Reserve Bank:	
W. Bryan Woodard.....Chairman of the Board, First Tennessee National Bank, Kingsport, Tenn.............	1974
Robert E. Curry........President, First National Bank of Pulaski, Pulaski, Tenn..........................	1975
T. Scott Fillebrown, Jr...President, First American National Bank of Nashville, Nashville, Tenn................	1976
Fred R. Lawson........President, Blount National Bank of Maryville, Maryville, Tenn........................	1976
Appointed by Board of Governors:	
Edward J. Boling.......President, The University of Tennessee, Knoxville, Tenn............................	1974
John C. Tune..........Partner, Butler, Tune, and Entrekin, Attorneys, Nashville, Tenn.........................	1975
James W. Long........President, Robertson County Farm Bureau, Springfield, Tenn.......................	1976

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DIRECTORS—*Cont.* **District 6—ATLANTA—Continued**

NEW ORLEANS BRANCH

Name	Position	*Term expires Dec. 31*
Appointed by Federal Reserve Bank:		
Archie R. McDonnell	President, Citizens National Bank, Meridian, Miss.	1974
Ernest F. Ladd, Jr.	Chairman, The Merchants National Bank, Mobile, Ala.	1975
James H. Jones	Chairman of the Board and Chief Executive Officer, First National Bank of Commerce, New Orleans, La.	1976
Charles W. McCoy	Chairman of the Board and President, Louisiana National Bank, Baton Rouge, La.	1976
Appointed by Board of Governors:		
Fred Adams, Jr.	President, Cal-Maine Foods, Inc., Jackson, Miss.	1974
Edwin J. Caplan	President, Caplan's Men's Shops, Inc., Alexandria, La.	1975
Floyd W. Lewis	President and Chief Executive Officer, Middle South Utilities, Inc., New Orleans, La	1976

District 7—CHICAGO

Name	Position	*Term expires Dec. 31*
Class A:		
Floyd F. Whitmore	President, The Okey-Vernon National Bank, Corning, Iowa	1974
Edward Byron Smith	Chairman of the Board, The Northern Trust Company, Chicago, Ill.	1975
Jay J. DeLay	President, Huron Valley National Bank, Ann Arbor, Mich.	1976
Class B:		
John T. Hackett	Executive Vice President, Cummins Engine Company, Inc., Columbus, Ind.	1974
Oscar G. Mayer	Chairman of the Executive Committee, Oscar Mayer & Co., Inc., Madison, Wis.	1975
Paul V. Farver	President, Rolscreen Company, Pella, Iowa	1976
Class C:		
William H. Franklin	Chairman of the Board, Caterpillar Tractor Company, Peoria, Ill.	1974
Peter B. Clark	Chairman and President, The Evening News Association, Detroit, Mich.	1975
Robert H. Strotz	President, Northwestern University, Evanston, Ill.	1976

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DIRECTORS—*Cont.* **District 7—CHICAGO—Continued** *Term expires Dec. 31*

DETROIT BRANCH

Appointed by Federal Reserve Bank:

Name	Position	Term expires Dec. 31
Harold A. Elgas	President, Gaylord State Bank, Gaylord, Mich.	1974
Joseph B. Foster	President, Ann Arbor Bank and Trust Company, Ann Arbor, Mich.	1975
Roland A. Mewhort	Director and Consultant, Manufacturers National Bank of Detroit, Detroit, Mich.	1975
Robert M. Surdam	Chairman of the Board, National Detroit Corporation, Detroit, Mich.	1976

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
Tom Killefer	Vice President–Finance and General Counsel, Chrysler Corporation, Detroit, Mich.	1974
W. M. Defoe	Chairman of the Board, Defoe Shipbuilding Company, Bay City, Mich.	1975
Jordan B. Tatter	District Horticultural Agent, Cooperative Extension Service, Michigan State University, Paw Paw, Mich.	1976

District 8—ST. LOUIS

Class A:

Name	Position	Term expires Dec. 31
Edwin S. Jones	Chairman of the Board, First National Bank in St. Louis, St. Louis, Mo	1974
Wm. E. Weigel	Executive Vice President, First National Bank and Trust Company, Centralia, Ill.	1975
Raymond C. Burroughs	President, The City National Bank of Murphysboro, Murphysboro, Ill.	1976

Class B:

Name	Position	Term expires Dec. 31
James M. Tuholski	President, Mead Johnson and Company, Evansville, Ind.	1974
Tom K. Smith	Group Vice President, Monsanto Company, St. Louis, Mo.	1975
Fred I. Brown, Jr.	President, Arkansas Foundry Company, Little Rock, Ark.	1976

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DIRECTORS—*Cont.* **District 8—ST. LOUIS—Continued** *Term expires Dec. 31*

Class C:

Name	Position	Term expires Dec. 31
Edward J. Schnuck	Chairman of the Board, Schnuck Markets, Inc., Bridgeton, Mo.	1974
Sam Cooper	President, Humko Products, Division of Kraftco Corporation, Memphis, Tenn.	1975
Harry M. Young, Jr.	Melrose Farm, Herndon, Ky.	1976

LITTLE ROCK BRANCH

Appointed by Federal Reserve Bank:

Name	Position	Term expires Dec. 31
Thomas E. Hays, Jr.	President, First National Bank of Hope, Hope, Ark.	1974
Thomas G. Vinson	President, First National Bank, Batesville, Ark.	1975
Field Wasson	President, First National Bank, Siloam Springs, Ark.	1975
Herbert H. McAdams, II.	Chairman of the Board and Chief Executive Officer, Union National Bank of Little Rock, Little Rock, Ark.	1976

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
Al Pollard	President, Al Pollard and Associates, Little Rock, Ark.	1974
W. M. Pierce	President, Arkansas Business Development Corporation, Little Rock, Ark.	1975
Roland R. Remmel	Chairman of the Board, Southland Building Products Co., Little Rock, Ark.	1976

LOUISVILLE BRANCH

Appointed by Federal Reserve Bank:

Name	Position	Term expires Dec. 31
Hugh M. Shwab	Chairman of the Boards, First National Bank of Louisville and First Kentucky Trust Company, Louisville, Ky.	1974
Herbert J. Smith	President, The American National Bank and Trust Company of Bowling Green, Bowling Green, Ky.	1975
Tom G. Voss	President, The Seymour National Bank, Seymour, Ind.	1975
Harold E. Jackson	President, The Scott County State Bank, Scottsburg, Ind.	1976

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DIRECTORS—*Cont.* **District 8—ST. LOUIS—Continued** *Term expires Dec. 31*

LOUISVILLE BRANCH—*Continued*

Appointed by Board of Governors:

James C. Hendershot	President and Chief Operating Officer, Reliance Universal, Inc., Louisville, Ky.	1974
James H. Davis	Chairman and Chief Executive Officer, Porter Paint Co., Louisville, Ky.	1975
William H. Stroube	Associate Dean, College of Science and Technology, Western Kentucky University, Bowling Green, Ky.	1976

MEMPHIS BRANCH

Appointed by Federal Reserve Bank:

Garner L. Hickman	Chairman and President, The First National Bank of Oxford, Oxford, Miss.	1974
Ridley Alexander	Chairman, The Second National Bank of Jackson, Jackson, Tenn.	1975
C. Bennett Harrison	Chairman of the Board, Union Planters National Bank of Memphis, Memphis, Tenn.	1975
William M. Campbell	Chairman and Chief Executive Officer, First National Bank of Eastern Arkansas, Forrest City, Ark.	1976

Appointed by Board of Governors:

C. Whitney Brown	President, S. C. Toof and Company, Memphis, Tenn.	1974
Jeanne L. Holley	Associate Professor of Business Education, University of Mississippi, University, Miss.	1975
Robert E. Healy	Partner-in-Charge of the Mid-South Area, Price Waterhouse & Co., Memphis, Tenn.	1976

District 9—MINNEAPOLIS

Class A:

Roy H. Johnson	President, The First National Bank of Negaunee, Negaunee, Mich.	1974
David M. Smith	President, The First National Bank of River Falls, River Falls, Wis.	1975
Charles T. Undlin	President, First National Bank of the Black Hills, Rapid City, S. Dak.	1976

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DIRECTORS—*Cont.* District 9—MINNEAPOLIS—Continued

		Term expires Dec. 31
Class B:		
John H. Bailey	President, The Cretex Companies, Elk River, Minn.	1974
David M. Heskett	President, Montana-Dakota Utilities Company, Bismarck, N. Dak.	1975
Warren B. Jones	Secretary-Treasurer and General Manager, Two Dot Land & Livestock Co., Harlowton, Mont.	1976
Class C:		
Bruce B. Dayton	Chairman of the Board, Dayton Hudson Corporation, Minneapolis, Minn.	1974
James P. McFarland	Chairman of the Board, General Mills, Inc., Minneapolis, Minn.	1975
Howard R. Swearer	President, Carleton College, Northfield, Minn.	1976

HELENA BRANCH

Appointed by Federal Reserve Bank:		
Robert I. Penner	President, Citizens First National Bank, Wolf Point, Mont.	1974
John Reichel	President, First National Bank in Bozeman, Bozeman, Mont.	1974
Donald E. Olsson	President, Ronan State Bank, Ronan, Mont.	1975
Appointed by Board of Governors:		
David G. Drum	Chairman of the Board and President, Montana Beef Industries and T-Bone Feeders, Billings, Mont.	1974
William A. Cordingley	Publisher and President, Great Falls Tribune, Great Falls, Mont.	1975

District 10—KANSAS CITY

Class A:		
John A. O'Leary	Chairman of the Board, The Peoples State Bank, Luray, Kans.	1974
Roger D. Knight, Jr.	Chairman of the Board, United Banks of Colorado, Inc., Denver, Colo.	1975
Philip Hamm	President, First National Bank and Trust Company, El Dorado, Kans.	1976

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DIRECTORS—*Cont.* District 10—KANSAS CITY—Continued

		Term expires Dec. 31
Class B:		
Frank C. Love	Of Counsel, Crowe, Dunlevy, Thweatt, Swinford, Johnson and Burdick, Attorneys, Oklahoma City, Okla.	1974
Cecil O. Emrich	President, C. O. Emrich Enterprises, Norfolk, Nebr.	1975
Donald J. Hall	President, Hallmark Cards, Inc., Kansas City, Mo.	1976
Class C:		
Robert W. Wagstaff	Chairman of the Board and President, Coca-Cola Bottling Company of Mid-America, Kansas City, Mo.	1974
Harold W. Andersen	President, World Publishing Company, Omaha World Herald, Omaha, Nebr.	1975
Robert T. Person	Chairman and President, Public Service Co. of Colorado, Denver, Colo.	1976

DENVER BRANCH

Appointed by Federal Reserve Bank:		
(Vacancy)		1974
Dale R. Hinman	Chairman of the Board, The Greeley National Bank, Greeley, Colo.	1974
Felix Buchenroth, Jr.	President, The Jackson State Bank, Jackson, Wyo.	1975
Appointed by Board of Governors:		
Edward R. Lucero	President and Chairman, Colorado Economic Development Association, Denver, Colo.	1974
Maurice B. Mitchell	Chancellor, University of Denver, Denver, Colo.	1975

OKLAHOMA CITY BRANCH

Appointed by Federal Reserve Bank:		
Marvin Millard	Retired Chairman of the Board, National Bank of Tulsa, Tulsa, Okla.	1974
Hugh C. Jones	Executive Vice President, The Bank of Woodward, Woodward, Okla.	1974
W. H. McDonald	Chairman of the Executive Committee, The First National Bank and Trust Company of Oklahoma City, Oklahoma City, Okla.	1975

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DIRECTORS—*Cont.* **District 10—KANSAS CITY—Continued** *Term expires Dec. 31*

OKLAHOMA CITY BRANCH—*Continued*

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
Harley Custer	General Manager, Oklahoma Livestock Marketing Association, Oklahoma City, Okla.	1974
Joseph H. Williams	President and Chief Operating Officer, The Williams Companies, Tulsa, Okla.	1975

OMAHA BRANCH

Appointed by Federal Reserve Bank:

Name	Position	Term expires Dec. 31
Edward W. Lyman	Retired Chairman, The United States National Bank of Omaha, Omaha, Nebr.	1974
Glenn Yaussi	Vice Chairman of the Board, National Bank of Commerce, Trust & Savings, Lincoln, Nebr.	1975
Roy G. Dinsdale	Chairman of the Board, Farmers National Bank of Central City, Central City, Nebr.	1975

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
Edward F. Owen	President, Paxton & Vierling Steel Company, Omaha, Nebr.	1974
Durward B. Varner	President, University of Nebraska, Lincoln, Nebr.	1975

District 11—DALLAS

Class A:

Name	Position	Term expires Dec. 31
A. W. Riter, Jr.	Chairman of the Executive Committee and President, The Peoples National Bank of Tyler, Tyler, Tex.	1974
Robert H. Stewart, III	Chairman of the Board, First International Bancshares, Dallas, Tex.	1975
Gene D. Adams	President, The First National Bank of Seymour, Seymour, Tex.	1976

Class B:

Name	Position	Term expires Dec. 31
Hugh F. Steen	President, El Paso Natural Gas Company, Houston, Tex.	1974
Thomas W. Herrick	President, Gaines Cattle Company, Inc., Amarillo, Tex.	1975
Stewart Orton	President, Foley's, Inc., Houston, Tex.	1976

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DIRECTORS—*Cont.* **District 11—DALLAS—Continued** *Term expires Dec. 31*

Class C:

Name	Position	Term expires Dec. 31
Irving A. Mathews	Chairman of the Board and Chief Executive Officer, Frost Bros., Inc., San Antonio, Tex.	1974
Charles T. Beaird	Chairman of the Board, Beaird-Poulan Division, Emerson Electric Co., Shreveport, La.	1975
John Lawrence	Chairman of the Board, Dresser Industries, Inc., Dallas, Tex.	1976

EL PASO BRANCH

Appointed by Federal Reserve Bank:

Name	Position	Term expires Dec. 31
Wayne Stewart	President, First National Bank in Alamogordo, Alamogordo, N. Mex.	1974
Reed H. Chittim	President, First National Bank of Lea County, Hobbs, N. Mex.	1975
Sam D. Young, Jr.	President, El Paso National Bank, El Paso, Tex.	1975
C. J. Kelly	President and Chairman of the Board, The First National Bank of Midland, Midland, Tex.	1976

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
Gage Holland	Owner, Gage Holland Ranch, Alpine, Tex.	1974
J. Luther Davis	President and Chairman of the Board, Tucson Gas & Electric Company, Tucson, Ariz.	1975
Herbert M. Schwartz	President, Popular Dry Goods Co., Inc., El Paso, Tex.	1976

HOUSTON BRANCH

Appointed by Federal Reserve Bank:

Name	Position	Term expires Dec. 31
Seth W. Dorbandt	Chairman and President, First National Bank in Conroe, Conroe, Tex.	1974
Bookman Peters	President, The City National Bank of Bryan, Bryan, Tex.	1975
Nat S. Rogers	President, First City National Bank of Houston, Houston, Tex.	1975
P. K. Stubblefield	President, Victoria Bank & Trust Company, Victoria, Tex.	1976

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
(Vacancy)		1974
Alvin I. Thomas	President, Prairie View A & M University, Prairie View, Tex.	1975
Thomas J. Barlow	President and Chief Executive Officer, Anderson, Clayton & Co., Houston, Tex.	1976

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DIRECTORS—*Cont.* **District 11—DALLAS—Continued** *Term expires Dec. 31*

SAN ANTONIO BRANCH

Appointed by Federal Reserve Bank:

Leon Stone	President, The Austin National Bank, Austin, Tex.	1974
Richard W. Calvert	President, National Bank of Commerce of San Antonio, San Antonio, Tex.	1975
W. O. Roberson	Chairman of the Board, First National Bank at Brownsville, Brownsville, Tex.	1975
Ben R. Low	President, First National Bank of Kerrville, Kerrville, Tex.	1976

Appointed by Board of Governors:

Marshall Boykin, III	Senior Partner, Wood, Boykin & Wolter, Lawyers, Corpus Christi, Tex.	1974
Pete J. Morales, Jr.	President and General Manager, Morales Feed Lots, Inc., Devine, Tex.	1975
Margaret S. Wilson	Chairman of the Board and Chief Executive Officer, Scarbroughs Department Store, Austin, Tex.	1976

District 12—SAN FRANCISCO

Class A:

Carl E. Schroeder	President, The First National Bank of Orange County, Orange, Calif.	1974
James E. Phillips	President, First National Bank in Port Angeles, Port Angeles, Wash.	1975
A. W. Clausen	President and Chief Executive Officer, Bank of America, NT & SA, San Francisco, Calif.	1976

Class B:

Charles R. Dahl	President and Chief Executive Officer, Crown Zellerbach Corporation, San Francisco, Calif.	1974
Joseph Rosenblatt	Honorary Chairman of the Board, The Eimco Corporation, Salt Lake City, Utah	1975
Clair L. Peck	Chairman of the Board, C. L. Peck Contractor, Los Angeles, Calif.	1976

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DIRECTORS—*Cont.* **District 12—SAN FRANCISCO—Continued**

		Term expires Dec. 31
Class C:		
Mas Oji	President, Oji Brothers Farm, Inc., Yuba City, Calif.	1974
Joseph F. Alibrandi	President and Chief Executive Officer, Whittaker Corporation, Los Angeles, Calif.	1975
O. Meredith Wilson	President and Director, Center for Advanced Study in the Behavioral Sciences, Stanford, Calif.	1976

LOS ANGELES BRANCH

Appointed by Federal Reserve Bank:		
Rayburn S. Dezember	Chairman of the Board and President, American National Bank, Bakersfield, Calif.	1974
W. Gordon Ferguson	President, National Bank of Whittier, Whittier, Calif.	1975
Linus E. Southwick	President, Valley National Bank, Glendale, Calif.	1976
Robert A. Barley	President, United California Bank, Los Angeles, Calif.	1976
Appointed by Board of Governors:		
Joseph R. Vaughan	President, Knudsen Corporation, Los Angeles, Calif.	1974
Leland D. Pratt	President, Kelco Company, San Diego, Calif.	1975
Armando M. Rodriguez	President, East Los Angeles College, Los Angeles, Calif.	1976

PORTLAND BRANCH

Appointed by Federal Reserve Bank:		
Frank L. Servoss	President, Crater National Bank of Medford, Medford, Oreg.	1974
James H. Stanard	Executive Vice President, First National Bank of McMinnville, McMinnville, Oreg.	1974
LeRoy B. Staver	Director, United States National Bank of Oregon, Portland, Oreg.	1975
Appointed by Board of Governors:		
John R. Howard	President, Lewis and Clark College, Portland, Oreg.	1974
Loran L. Stewart	President, Bohemia Inc., Eugene, Oreg.	1975

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DIRECTORS—*Cont.* District 12—SAN FRANCISCO—Continued		*Term expires Dec. 31*
SALT LAKE CITY BRANCH		
Appointed by Federal Reserve Bank:		
Roderick H. Browning	President, Bank of Utah, Ogden, Utah	1974
Roy W. Simmons	President, Zions First National Bank, Salt Lake City, Utah	1974
Joseph Bianco	Chairman of the Board and President, Bank of Idaho, N.A., Boise, Idaho	1975
Appointed by Board of Governors:		
Sam H. Bennion	President, V-1 Oil Company, Idaho Falls, Idaho	1974
Theodore C. Jacobsen	Partner, Jacobsen Construction Company, Inc., Salt Lake City, Utah	1975
SEATTLE BRANCH		
Appointed by Federal Reserve Bank:		
Harry S. Goodfellow	Chairman of the Board and President, Old National Bank of Washington, Spokane, Wash.	1974
Robert C. Whitwam	President, American National Bank of Edmonds, Edmonds, Wash.	1974
Joseph C. Baillargeon	Chairman of the Board and Chief Executive Officer, Seattle Trust and Savings Bank, Seattle, Wash.	1975
Appointed by Board of Governors:		
C. Henry Bacon, Jr.	President, C. H. B. Company, Seattle, Wash.	1974
Thomas T. Hirai	President and Director, Quality Growers Company, Woodinville, Wash.	1975

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PRESIDENTS AND VICE PRESIDENTS

(December 31, 1974)

Federal Reserve Bank or branch	President First Vice President	Vice Presidents	
Boston	Frank E. Morris James A. McIntosh	D. Harry Angney* R. W. Eisenmenger* Niels O. Larsen* Bruce W. Bean Norman S. Fieleke Jay W. Kim Richard E. Randall Walter T. Sullivan James T. Timberlake	Daniel Aquilino* T. F. Hunt, Jr.* Lee J. Aubrey F. K. Cummings Luther M. Hoyle, Jr. D. A. Pelletier Laurence H. Stone J. M. Thayer, Jr. Richard A. Walker
New York	Alfred Hayes Richard A. Debs	Charles A. Coombs* T. M. Timlen, Jr.* W. H. Braun, Jr. Karl L. Ege Edward G. Guy John T. Keane Robert E. Lloyd, Jr. Fred W. Piderit, Jr. F. C. Schadrack, Jr. F. L. Smedley H. David Willey	Alan R. Holmes* Thomas O. Waage* Richard G. Davis George Garvy P. B. Henderson, Jr. Leonard Lapidus Scott E. Pardee A. M. Puckett Thomas C. Sloane Peter D. Sternlight
Buffalo		Angus A. MacInnes, Jr.	
Philadelphia	David P. Eastburn Mark H. Willes	Hugh Barrie* A. A. Kudelich* Joseph M. Case D. Russell Connor Richard W. Epps W. Lee Hoskins G. William Metz William E. Roman	Edward G. Boehne* Robert R. Swander* Hugh Chairnoff Thomas K. Desch Hiliary H. Holloway Donald J. McAneny L. C. Murdoch, Jr. Kenneth M. Snader
Cleveland	Willis J. Winn W. H. MacDonald	W. H. Hendricks* George E. Booth, Jr. R. Joseph Ginnane Harry W. Huning T. E. Ormiston, Jr. Harold J. Swart Virginia L. Whitmer	John E. Birky Paul Breidenbach William J. Hocter R. Thomas King Lester M. Selby Donald G. Vincel
Cincinnati		Charles A. Cerino Robert E. Showalter	
Pittsburgh		Robert D. Duggan* Samuel G. Campbell	
Richmond	Robert P. Black George C. Rankin	Welford S. Farmer* James Parthemos* R. E. Sanders, Jr.* John G. Deitrick A. V. Myers, Jr. Aubrey N. Snellings James F. Tucker	John L. Nosker* John F. Rand* L. W. Bostian, Jr. William C. Glover C. D. Porter, Jr. Andrew L. Tilton Joseph F. Viverette

For notes see p. 374.

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Federal Reserve Bank of St. Louis

PRESIDENTS AND VICE PRESIDENTS—*Continued*

Federal Reserve Bank or branch	President First Vice President	Vice Presidents	
Richmond—Cont.			
Baltimore		Jimmie R. Monhollon*	
		William E. Pascoe, III	
		Gerald L. Wilson	
Charlotte		Stuart P. Fishburne*	
		Boyd Z. Eubanks	
Culpeper[1]		J. Gordon Dickerson, Jr.	
		Albert D. Tinkelenberg	
Atlanta	Monroe Kimbrel Kyle K. Fossum	R. P. Forrestal*	Billy H. Hargett*
		Arthur H. Kantner*	Brown R. Rawlings*
		Harry Brandt	W. R. Caldwell
		F. J. Craven, Jr.	Charles D. East
		Delmar Harrison	Robert E. Heck
		William G. Pfaff	Pierre M. Viguerie
Birmingham		Hiram J. Honea	
Jacksonville		Edward C. Rainey*	
		Vestus L. Crow	
Miami[1]		W. M. Davis	
Nashville		Jeffrey J. Wells	
New Orleans		George C. Guynn	
Chicago	Robert P. Mayo (Temporarily vacant)	Carl E. Bierbauer*	Ward J. Larson*
		James R. Morrison*	Karl A. Scheld*
		Harry S. Schultz*	Bruce L. Smyth*
		George W. Cloos	Robert P. Cornelisen
		LeRoy A. Davis	F. S. Dominick
		Rudolph W. Dybeck	Joseph G. Kvasnicka
		Richard A. Moffatt	William T. Newport
		Dorothy M. Nichols	Louis J. Purol
		William Rooney	R. M. Scheider
		Roby L. Sloan	Jack P. Thompson
		Carl E. VanderWilt	Allen G. Wolkey
Detroit		William C. Conrad	
		Ronald L. Zile	
St. Louis	Darryl R. Francis Eugene A. Leonard	L. C. Andersen*	D. W. Moriarty, Jr.*
		F. G. Russell, Jr.*	Charles E. Silva*
		Ruth A. Bryant	J. P. Garbarini
		W. W. Gilmore	Jerry L. Jordan
		James R. Kennedy	John F. Otting, Jr.
		Harold E. Uthoff	
Little Rock		John F. Breen	
Louisville		Donald L. Henry*	
Memphis		L. Terry Britt	

For notes see p. 374.

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PRESIDENTS AND VICE PRESIDENTS—*Continued*

Federal Reserve Bank or branch	President First Vice President	Vice Presidents	
Minneapolis .	Bruce K. MacLaury	Thomas E. Gainor*	Roland D. Graham*
	Clement A. Van Nice	J. A. MacDonald*	Melvin L. Burstein
		F. J. Cramer	R. J. Dreitzler
		L. W. Fernelius	Lester G. Gable
		D. R. Hellweg	David R. McDonald
		Clarence W. Nelson	John P. Olin
		R. W. Worcester	
Helena		Howard L. Knous	
Kansas City .	George H. Clay	W. T. Billington*	H. R. Czerwinski*
	John T. Boysen	Raymond J. Doll*	James R. Guffey*
		Donald G. Barnes	Thomas E. Davis
		Joseph R. Euans	Wayne W. Martin
		G. H. Miller, Jr.	M. L. Mothersead
		Sheldon W. Stahl	Robert E. Thomas
		John F. Zoellner	
Denver		J. David Hamilton*	
Oklahoma City		William G. Evans	
Omaha		Robert D. Hamilton	
Dallas	Ernest T. Baughman	Robert H. Boykin*	Tony J. Salvaggio*
	T. W. Plant	G. C. Cochran, III	Leon W. Cowan
		Ralph T. Green	Larry T. Higgins
		W. M. Pritchett	Harry E. Robinson
		Thomas R. Sullivan	E. W. Vorlop, Jr.
El Paso		Fredric W. Reed	
Houston		James L. Cauthen*	
		Rasco R. Story	
San Antonio		Carl H. Moore	
San Francisco . .	John J. Balles	Wesley G. DeVries*	Donald V. Masten*
	John B. Williams	Kent O. Sims*	James M. Brundy
		Angelo S. Carella	Robert C. Dietz
		Richard C. Dunn	Gordon Hammond
		Warren H. Hutchins	Henry B. Jamison
		Thomas E. Judge	Rix Maurer, Jr.
		Louis E. Reilly	William J. Sumner
Los Angeles		Gerald R. Kelly*	
		James M. Davis	
Portland		William M. Brown	
Salt Lake City		A. Grant Holman	
Seattle		Paul W. Cavan*	
		James J. Curran	

* Indicates Senior Vice President.
[1] Facility; not considered a branch.

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CONFERENCE OF PRESIDENTS

The Presidents of the Federal Reserve Banks are organized into a Conference of Presidents that meets from time to time to consider matters of common interest and to consult with and advise the Board of Governors. At a meeting on March 19, 1973, Mr. Philip E. Coldwell and Mr. Frank E. Morris, Presidents of the Federal Reserve Banks of Dallas and Boston, were elected Chairman and Vice Chairman, respectively, for the forthcoming Conference year, ending with the March 1974 meeting. At the meeting on March 18, 1974, Mr. Morris and Mr. David P. Eastburn, President of the Federal Reserve Bank of Philadelphia, were elected Chairman and Vice Chairman, respectively, for the forthcoming Conference year, ending with the March 1975 meeting.

At the March 1973 meeting, Mr. Robert Smith, III, and Mr. Herbert F. Wass, of the Federal Reserve Banks of Dallas and Boston, were appointed Secretary and Assistant Secretary, respectively. Mr. Wass and Mr. Peter M. DiPlacido, of the Federal Reserve Bank of Philadelphia, were appointed Secretary and Assistant Secretary, respectively, at the March 1974 meeting.

CONFERENCE OF FIRST VICE PRESIDENTS

The Conference of First Vice Presidents of the Federal Reserve Banks was organized in 1969 to meet from time to time, primarily for the consideration of operational matters. On May 1, 1973, Mr. T. W. Plant, First Vice President of the Federal Reserve Bank of Dallas, was elected as Chairman; and Mr. Earle O. Latham, First Vice President of the Federal Reserve Bank of Boston until his retirement, as Vice Chairman of the Conference, to be succeeded by Mr. James A. McIntosh, upon his appointment as First Vice President of the Federal Reserve Bank of Boston, effective June 15, 1973. Mr. Robert Smith, III, and Mr. Herbert F. Wass were appointed Secretary and Assistant Secretary, respectively.

On May 8, 1974, the Conference elected Mr. McIntosh as Chairman and Mr. Mark H. Willes, First Vice President of the Federal Reserve Bank of Philadelphia, as Vice Chairman; and appointed Mr. Wass and Mr. Peter M. DiPlacido, as Secretary and Assistant Secretary, respectively, for the forthcoming Conference year.

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Federal Reserve Bank of St. Louis

Index

Page

Acceptances, bankers':
Authority to purchase and to enter into repurchase
agreements **120–21, 153–56, 189, 213**
Federal Reserve Bank earnings **281, 300**
Federal Reserve Bank holdings **281, 290, 292, 294**
Open market—
Operations in, regulations and rules relating to **78–79, 153**
Transactions during 1974 .... **298**
Repurchase agreements **121, 290, 292, 294, 298**
System guarantee on foreign official account purchases, end **98**
Assets and liabilities:
Banks, by classes **311**
Board of Governors **285**
Federal Reserve Banks **290–95**

Balance of payments (*See* U.S. balance of payments)
Bank Examination Schools **267**
Bank examiners, loans to, legislative recommendation **242**
Bank holding companies:
Board and Reserve Bank actions with respect to **259**
Delegation by Board of certain authority to Federal Reserve
Banks regarding, amendment of rules **72, 83, 103**
Legislation **237**
Legislative recommendations **238, 241**
Litigation **246–55, 257**
Regulation Y, amendments **72, 75, 77, 79, 80, 86**
Bank mergers and consolidations **263, 266, 320–42**
Bank premises, Federal Reserve Banks and branches **290, 292, 294, 299**
Bank supervision and regulation by Federal Reserve System **259–67**
Bankers' acceptances (*See* Acceptances, bankers')
Banking offices:
Number, changes **316**
Par and nonpar, number **318**
Board of Governors:
Audit of accounts **284**
Delegation of certain authority:
Actions under **259, 266**
Amendment of rules **72, 83, 103**
Foreign credit restraint program **74, 230**
Income and expenses **284–88**
Legislative recommendations **238–45**
Litigation **246–58**

Digitized for FRASER
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Federal Reserve Bank of St. Louis

Page

Board of Governors—Continued
Martin Building, completion **284**
Members and officers, list **346**
Office of Saver and Consumer Affairs **86, 233**
Policy actions **71–118**
Regulations and rules (*See* Regulations and rules, Board of Governors)
Report to Congress on Truth in Lending **244, 268–77**
Salaries **286**
Branch banks:
Banks, by classes, changes in number **316**
Federal Reserve:
Bank premises **283, 299**
Buildings, construction cost limit **232**
Directors **353–71**
Vice Presidents in charge **372–74**
Foreign branches of member banks:
Number and location **264**
Reserve requirements on Euro-dollar borrowings **82, 97**
Budget, Federal **235, 236**

Capital accounts:
Banks, by classes **311**
Federal Reserve Banks **291, 293, 295**
Chairmen and Deputy Chairmen of Federal Reserve Banks **352**
Check clearing and collection:
Electronic fund transfers **232**
Payments mechanism developments **278**
Regulation J, litigation **255**
Volume of operations **282, 304**
Commercial banks (*See also* Foreign banks):
Assets and liabilities **311**
Banking offices, changes in number **316**
Foreign credit restraint program **74, 230**
Investment Certificates, establishment, amendment of
Regulation Q **102**
Number, by class of bank **311**
Reserve requirements, legislative recommendation **243**
Commodity Futures Trading Commission Act **234**
Condition statement of Federal Reserve Banks **290–95**
Consumer affairs (*See also* Truth in Lending):
Legislation **232**
Legislative recommendations **244, 245**
Office of Saver and Consumer Affairs **86, 233**

Digitized for FRASER
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Federal Reserve Bank of St. Louis

Page

Credit (*See also* Loans):
Federal Reserve Banks, advances by **91, 93, 237, 243**
Stocks (*See* Stock market credit)
Truth in Lending (*See* Truth in Lending)

Defense production loans **237, 282, 310**
Demands for goods and services **12–26**
Depositary institutions, legislation **232, 234**
Deposits:
Banks, by classes **311**
Federal Reserve Banks **291, 293, 295, 313, 315**
Interest rates (*See* Interest on deposits)
Reserve requirements (*See* Reserve requirements)
Time and savings, increase in Federal insurance on,
and inclusion of public units **232**
Deputy Chairmen of Federal Reserve Banks **352**
Directors, Federal Reserve Banks and branches **353–71**
Discount rates at Federal Reserve Banks (*See* Interest rates)
Discounts and advances by Federal Reserve Banks (*See* Loans)
Dividends, Federal Reserve Banks **280, 301, 302**

Earnings of Federal Reserve Banks **280, 300, 302**
Electronic fund transfers **232**
Employment, wages, and labor costs **27–32**
Euro-dollar borrowings, amendment of regulations **82, 97**
Examinations:
Federal Reserve Banks **279**
Foreign banking and financing corporations **266**
Member banks **260**
State member banks **260**
Executive officers of member banks, loans to **238, 254, 262**
Expenses:
Board of Governors **284–88**
Federal Reserve Banks **280, 300, 302**

Federal Advisory Council **349**
Federal agency obligations:
Authority to purchase and to enter into repurchase
agreements **120–21, 135, 151–52**
Federal Reserve Bank holdings and earnings **281, 290, 292, 294, 296**
Guidelines for operations in, revision **190**
Open market transactions of Federal Reserve System during 1974 .... **298**
Repurchase agreements **121, 290, 292, 294, 297, 298**

Digitized for FRASER
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Federal Reserve Bank of St. Louis

Page

Federal Financing Bank **152, 154**
Federal Open Market Committee:
  Audit of System Account **279**
  Bankers' acceptances, regulations and rules relating to **78–79, 153**
  Continuing authorizations, review **150**
  Foreign currencies, review of operations **228**
  Meetings **119, 348**
  Members and officers **348**
  Policy actions **119–227**
Federal Reserve Act:
  Section 10(b), advances to member banks on security of
    residential mortgages, amendment of law and
    Regulation A **93, 237**
  Section 24, real estate loans by national banks,
    amendment **236**
Federal Reserve Agents **352**
Federal Reserve Banks:
  Advances by **91, 93, 237, 243**
  Assessment for expenses of Board of Governors **286, 300**
  Authority to lend and to buy Treasury obligations directly ... **121, 151, 232**
  Bank premises **283, 290, 292, 294, 299**
  Branches (*See* Branch banks)
  Capital accounts **291, 293, 295**
  Chairmen and Deputy Chairmen **352**
  Check clearing and collection, Regulation J, litigation **255**
  Condition statement **290–95**
  Delegation by Board of certain authority to **72, 83, 103, 259, 266**
  Directors **353–71**
  Discount rates (*See* Interest rates)
  Dividends **280, 301, 302**
  Earnings and expenses **280, 300, 302**
  Examination **279**
  Foreign and international accounts **283**
  Gold, communications regarding private ownership **100**
  Officers and employees, number and salaries **304**
  Payments mechanism developments **278**
  Presidents and Vice Presidents **372–75**
  Profit and loss **301**
  U.S. Govt. securities (*See* U.S. Govt. securities)
  Volume of operations **282, 304**
Federal Reserve notes:
  Condition statement data **290–95**

Digitized for FRASER
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Federal Reserve Bank of St. Louis

Page

Federal Reserve notes—Continued
Cost of printing, issue, and redemption **286**
Interest paid to Treasury **280, 301, 302**
Federal Reserve System:
Bank Examination Schools **267**
Bank supervision and regulation by **259–67**
Foreign credit restraint program **74, 230**
Foreign currency operations (*See* Foreign currency operations)
Map of Federal Reserve districts **343**
Membership **262**
Payments mechanism developments **278**
Financial markets and monetary policy **39–56**
Foreign and international accounts of Federal Reserve Banks **283**
Foreign banking and financing corporations, examination and
operation **266**
Foreign banks, regulation, legislative recommendations **239**
Foreign branches of member banks (*See* Branch banks)
Foreign credit restraint program **74, 230**
Foreign currency operations:
Authorization and directive **120, 123–27, 135, 150, 156**
Federal Reserve earnings on foreign currencies **300**
Review **228**
Special authorization **205**
Foreign official accounts, termination of System guarantee on
acceptances purchased for **98**
Franklin National Bank **205**
Freedom of Information Act amendments **235**

Gold:
Federal Reserve communications regarding private ownership **100**
Legislation **234–35**
Tables showing gold certificate accounts of Reserve Banks
and gold stock **290, 292, 293, 294, 295, 312, 314**

Insured commercial banks:
Assets and liabilities **311**
Banking offices, changes in number............................ **316**
Governmental unit deposits, amendment of Regulations
D and Q **99**
Investment Certificates, establishment, amendment of
Regulation Q **102–03**

Digitized for FRASER
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Federal Reserve Bank of St. Louis

Page

Interest on deposits (*See also* Interest rates):
  Rates, extension of flexible authority to set **232**
  Time and savings deposits:
    Governmental unit deposits, amendment of Regulation Q to include **99**
    Investment Certificates, establishment, amendment of
      Regulation Q **102**
    Litigation **256**
    Negotiable orders of withdrawal (NOW's), amendment of
      Regulation Q **93**
    Table **308**
Interest rates (*See also* Interest on deposits):
  Defense production loans **310**
  Federal Reserve Banks:
    Advances by **91, 93, 237, 243**
    Changes **106–18**
    Table **305**
Interlocking bank relationships, changes in Regulations L and Y
  and legislative recommendation **79, 242**
International developments **57–68**
Interpretations, Board of Governors:
  Bank holding companies **75, 79, 86**
  Due bills, uncollateralized, that are outstanding after 3 business days **90**
Investment Certificates, establishment, amendment of Regulation Q.... **102**
Investments:
  Banks:
    By classes **311**
    For community development, legislative recommendation **245**
  Federal Reserve Banks **290, 292, 294**

Labor costs, employment, and wages **27–32**
Legislation:
  Bank holding companies **232, 234, 237, 238, 241, 242**
  Commodity Futures Trading Commission Act **234**
  Congressional Budget and Impoundment Control Act **236**
  Defense Production Act amendments **237**
  Electronic fund transfers **232**
  Emergency Home Purchase Assistance Act **237**
  Federal deposit insurance, increase and inclusion of public units **232**
  Federal Reserve Banks:
    Advances by **237, 243**
    Authority to buy Treasury obligations directly **151, 232**
    Branch buildings, construction cost limit **232**

Digitized for FRASER
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Federal Reserve Bank of St. Louis

Page

Legislation—Continued
Federal Trade Commission Improvements Act **233**
Foreign banks, regulation, recommendations **239**
Freedom of Information Act, amendments and litigation **235, 256**
Housing and Community Development Act **236**
Interest rate ceilings on certain loans **234**
Interest rate control, extension of flexible authority **232**
Interlocking bank relationships, recommendation **242**
Internal Revenue Code amendments **234**
International Development Association Act amendments **235**
Investment for community development, recommendation **245**
Loans:
Bank examiners, recommendation **242**
Executive officers, recommendation **242**
One-cent piece, authorization to change composition **237**
Real Estate Settlement Procedures Act **236**
Reserve requirements, recommendation **243**
Second Liberty Bond Act amendment **234**
Security regulations, bank **232**
State usury ceilings **234**
Truth in Lending Act, amendments and recommendation **232, 244**
Litigation:
Bank holding companies, antitrust actions and review of
Board's actions **246–55**
Involving challenges to Board procedures and regulations **257**
Loans (*See also* Credit):
Bank examiners, legislative recommendation **242**
Banks, by classes **311**
Defense production **237, 282, 310**
Executive officers of member banks **242, 262**
Federal Reserve Banks:
Advances by **91, 93, 237, 243**
Holdings and earnings **281, 300**
Interest rates **305**
Volume **282, 290, 292, 294, 304, 312, 314**
Flood-hazard areas, amendment of Regulation H **74, 91**
Real estate, legislation **236, 237**
Stocks (*See* Stock market credit)

Margin requirements (Regulations G, T, and U):
Loan value of stocks, maximum, decrease **71**
Over-the-counter stocks, amendment of regulations **85**

Digitized for FRASER
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Federal Reserve Bank of St. Louis

Page

Margin requirements—Continued
Same-day credit restriction for stock, suspension **94**
Table **309**
Member banks (*See also* National banks):
Assets, liabilities, and capital accounts **311**
Banking offices, changes in number **316**
Borrowing from Reserve Banks, legislative recommendation **243**
Credit (*See* Credit)
Examination **260**
Executive officers, loans to, legislative recommendation and reporting requirements **242, 262**
Foreign branches, number and location **264**
Gold, Federal Reserve communications regarding private ownership **100**
Governmental unit deposits, amendment of Regulations D and Q **99**
Interlocking relationships, amendment and interpretation of Regulation L and legislative recommendation **79, 242**
Investment Certificates, establishment, amendment of Regulation Q **102**
Investment for community development, legislative recommendation **245**
Litigation concerning Federal tax depositories **256**
Number **262, 311**
Reserve requirements (*See* Reserve requirements)
Reserves and related items **312**
State member banks (*See* State member banks)
Membership in Federal Reserve System **262**
Mergers and consolidations **263, 266, 320–42**
Monetary policy, review of 1974 .... **3–68**
Monetary policy and financial markets **39–56**
Mortgages (*See also* Real estate):
Emergency Home Purchase Act of 1974, amendment of Regulation A to conform to legislation **93, 237**
Guarantee insurance, underwriting by bank holding companies, interpretation **86**
Mutual savings banks **99, 102–03, 311, 316**

National banks (*See also* Member banks):
Assets and liabilities **311**
Banking offices, changes in number **316**
Foreign branches, number **266**
Number **263, 311**
Real estate loans, legislation **236**
Reserve requirements on Euro-dollar borrowings **82, 97**
Negotiable orders of withdrawal (NOW's) **93**

Digitized for FRASER
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Federal Reserve Bank of St. Louis

Page

Nonmember banks:
- Assets and liabilities **311**
- Banking offices, changes in number **316**
- Borrowing from Reserve Banks, legislative recommendation **243**
- Investment Certificates, establishment **102–03**
- Reserve requirements, legislative recommendation **243**

Par and nonpar banking offices, number **318**
Payments mechanism developments **278**
Policy actions:
- Board of Governors:
  - Discount rates at Federal Reserve Banks **106–18**
  - Foreign credit restraint program guidelines, termination **74**
  - Gold, communications regarding private ownership **100**
  - Office of Saver and Consumer Affairs, establishment **86**
  - Regulations and rules (*See* Regulations and rules, Board of Governors)
  - System guarantee on foreign official account purchases, termination **98**
- Federal Open Market Committee:
  - Authority to effect transactions in System Open Market Account:
    - Domestic operations ... **120–22, 128, 137, 144, 151, 158, 166, 174, 182, 189, 193, 200, 207, 213, 215, 222**
    - Foreign currency operations **120, 123–27, 135, 156, 205**
    - Review **150**
  - Guidelines for operations in Federal agency obligations, revision .. **190**

Presidents and Vice Presidents of Federal Reserve Banks:
- Conference of Presidents and Conference of First Vice Presidents.... **375**
- List **372–74**
- Salaries of Presidents **304**

Price developments **33–38**
Profit and loss, Federal Reserve Banks **301**

Real estate:
- Leasing of both real and personal property, amendment of Regulation Y **77**
- Loans **236, 237**

Real Estate Settlement Procedures Act **236**
Record of policy actions (*See* Policy actions)
Regulations and rules, Board of Governors:
- A, Extensions of Credit by Federal Reserve Banks:
  - Member bank in exceptional circumstances, amendment **91**
  - Residential mortgages, advances on security of, amendment to conform to legislation **93, 237**

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Federal Reserve Bank of St. Louis

Page

Regulations and rules, Board of Governors—Continued
B, Open Market Purchases of Bills of Exchange, Trade Acceptances, Bankers' Acceptances:
Revocation **78, 153**
C, Acceptance by Member Banks of Drafts or Bills of Exchange:
Revocation **78**
D, Reserves of Member Banks:
Due bills, uncollateralized, that are outstanding after 3 business days, amendment and interpretation **90**
Euro-dollar borrowings, amendment **82, 97**
Governmental unit deposits, amendment to include **99**
Marginal requirement against certain time deposits, amendment.... **89**
Restructuring, amendment **95**
Delegation of authority, amendment of rules **72, 83, 103**
F, Securities of State Member Banks:
Standby letters of credit and ineligible acceptances, disclosure on financial statements, amendment **87**
G, Securities Credit by Persons Other Than Banks, Brokers, or Dealers:
Loan value of stocks, maximum, decrease in margin, amendment.. **71**
Over-the-counter margin stocks, amendment **85**
Same-day restriction for stocks, suspension, amendment **94**
H, Membership of State Banking Institutions in the Federal Reserve System:
Loans in flood-hazard areas, amendments **74, 91**
Standby letters of credit and ineligible acceptances, disclosure on financial statements, amendment **87**
J, Collection of Checks and Other Items by Federal Reserve Banks:
Litigation **255**
L, Interlocking Bank Relationships Under the Clayton Act:
Banks in low income areas, amendment and interpretation **79**
M, Foreign Activities of National Banks:
Reserve requirements on Euro-dollar borrowings, amendments **82, 97**
Q, Interest on Deposits:
Governmental unit deposits, amendment to include and increase in rate ceilings........ **99**
Investment Certificates, establishment **102**
Legislation extending flexible features **232**
Litigation **256**
Negotiable orders of deposit (NOW's), amendment **93**
T, Credit by Brokers and Dealers:
Investment contract securities, postponement of amendment **82, 103**

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Page

Regulations and rules, Board of Governors—Continued
T, Credit by Brokers and Dealers—Continued
Loan value of stocks, maximum, decrease in margin, amendment .. **71**
Over-the-counter margin stocks, amendment **85**
Same-day restriction for stocks, suspension, amendment **94**
U, Credit by Banks for the Purpose of Purchasing or Carrying Margin Stocks:
Loan value of stocks, maximum, decrease in margin, amendment .. **71**
Over-the-counter margin stocks, amendment **85**
Same-day restriction for stocks, suspension, amendment **94**
Y, Bank Holding Companies:
Bank stock acquired in fiduciary capacity, amendment **72**
Leasing of real and personal property, amendments **77**
Management consulting advice to nonaffiliated banks, amendments . **75, 79**
Trust company subsidiaries, clarification of deposit-taking and lending activites, amendment **80**
Underwriting of real estate mortgage guarantee insurance, interpretation **86**
Z, Truth in Lending, amendment **73**
Repurchase agreements:
Authority to purchase and to enter into **120–21, 153–56**
Bankers' acceptances **121, 153–56, 290, 292, 294, 298**
Federal agency obligations **121, 290, 292, 294, 297, 298**
U.S. Govt. securities **121, 290, 292, 294, 297, 298, 312, 314**
Reserve requirements:
Legislative recommendation **243**
Member banks:
Changes, amendment of Regulation D (*See* Regulations and rules, Board of Governors)
National banks, Euro-dollar borrowings **82, 97**
Table **306**
Reserves, member banks:
Reserve requirements (*See* Reserve requirements)
Reserves and related items **312**

Salaries:
Board of Governors **286**
Federal Reserve Banks **304**
Savings and loan associations **99, 102–03**
Securities (*See* specific types)
Special Drawing Rights **290, 292, 294, 312, 314**

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Page

State member banks (*See also* Member banks):
Assets and liabilities **311**
Banking offices, changes in number **316**
Control, changes, reporting requirements **261**
Examination **260**
Foreign branches, number **266**
Gold, Federal Reserve communications regarding private ownership.. **100**
Loans in flood-hazard areas, amendment of Regulation H **74, 91**
Mergers and consolidations **263, 266, 320–42**
Number **263, 311**
Securities, amendment of Regulations F and H **87**
Stock market credit:
Investment contract securities, postponement of amendment of Regulation T **82, 103**
Legislation relating to commodities **234**
Loan value of stocks, maximum, decrease in margin, amendment of Regulations G, T, and U **71**
Over-the-counter margin stocks, amendment of Regulations G, T, and U **85**
Same-day credit restriction for stocks, suspension, amendment of Regulations G, T, and U **94**
System Open Market Account:
Audit **279**
Authority to effect transactions in—
Domestic operations **120, 128, 137, 144, 150, 151, 156, 158, 166, 174, 182, 189, 193, 200, 207, 213, 215, 222**
Foreign currency operations **120, 123–27, 135, 150, 156, 205**
Foreign currencies, review of operations **228**

Training activities **267**
Truth in Lending (*See also* Consumer affairs):
Legislation **232**
Legislative recommendation **244**
Regulation Z, amendment **73**
Report to Congress **268–77**

U.S. balance of payments:
Foreign credit restraint program **74, 230**
Review of 1974 .... **57–68**
U.S. Govt. securities:
Authority to purchase and to enter into repurchase agreements **120–21, 135, 151–52**

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Page

U.S. Govt. securities—Continued
Bank holdings, by class of bank **311**
Federal agency obligations (*See* Federal agency obligations)
Federal Reserve Bank—
Authority to lend and to purchase directly from the
United States **121, 151, 232**
Earnings **280, 300**
Holdings **281, 290, 292, 294, 296, 312, 314**
Open market operations **119–227, 298**
Repurchase agreements **290, 292, 294, 297, 298, 312, 314**
Special certificates purchased directly from United States **297**
U.S. Govt. agency obligations (*See* Federal agency obligations)

V loans **310**
Voluntary foreign credit restraint program **74, 230**

Wages, employment, and labor costs **27–32**

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis