69th Annual Report 1982

Board of Governors of the Federal Reserve System

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Letter of Transmittal

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM
Washington, D.C., April 15, 1983

THE SPEAKER OF
THE HOUSE OF REPRESENTATIVES

Pursuant to the requirements of section 10 of the Federal Reserve Act, I am pleased to submit the Sixty-Ninth Annual Report of the Board of Governors of the Federal Reserve System.

This report covers operations of the Board during calendar year 1982.

Sincerely,

Paul A. Volcker, *Chairman*

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Part 1

Monetary Policy and the U.S. Economy in 1982

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Introduction

Production and employment in the United States declined appreciably during 1982 as the economy continued the difficult transition from inflation to price stability. Most broad price indexes rose less than 5 percent over the year, about half the increase in 1981. The improved price performance was attributable in part to generally weak product markets, exceptionally good harvests, and a surplus of oil in world markets. But more fundamental improvement was evident also as underlying trends in wages began to reflect more fully the progress on the price front as well as domestic and international competitive pressures; with businesses aggressively acting to strengthen productivity, unit labor costs in the nonfarm business sector rose only about 4¾ percent. The rise in the foreign exchange value of the dollar contributed to the moderation in inflation by reducing import prices, but the effect on export and import volume of the decline in the competitive position of the United States in world markets was a source of weakness in domestic economic activity.

Real disposable income edged up over the four quarters of the year, despite a decline in real gross national product. The tax cut in mid-1982 and the increase in transfer payments more than offset the weakness in wages and salaries. Purchases of homes, automobiles, and other durable goods were constrained by the high cost of financing as well as by the limited improvement in spendable real income. In addition, faced with reduced sales volume, low profit margins, and high rates of unused capacity, businesses cut investment spending and liquidated inventories. Industrial production fell sharply in 1982, forcing widespread layoffs, and employment dropped throughout the year. The overall rate of civilian unemployment reached a postwar high of 10.8 percent at the end of the year.

The principal objectives for monetary policy in 1982 were to maintain the financial discipline necessary to achieve further progress toward price stability and, at the same time, to foster conditions conducive to the development of a sustained recovery in economic activity. Accordingly, the Federal Open Market Committee adopted target ranges that provided for some slowing in the underlying growth of the monetary aggregates from their rates of expansion in 1981. As the year progressed, however, the necessity arose to tolerate growth above the upper limits of those ranges to accommodate unusual demands for liquid assets; to have maintained growth within the original targets in such circumstances would have exacerbated recessionary tendencies in the economy. Over the four quarters of 1982, each of the aggregates did, in fact, exceed its targeted range. The overshoot for M1 was especially large; the bulk of the increase was in other checkable deposits, which rose 34 percent over the year. In the fourth quarter, substantial inflows from maturing all savers certificates were superimposed on already strong demands for liquidity, and M1 rose at an annual

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rate of 13 percent. In anticipation of this development and of distortions that would be associated with the introduction of money market deposit accounts in December, the Committee in October shifted its focus to the broader aggregates in implementing its policy objectives.

Credit flows increased in 1982, as stepped-up borrowing by all levels of government more than offset reductions in financing by the private sector. Interest rates remained relatively high, but declined significantly in the third quarter. By the end of the year, nominal interest rates across the maturity spectrum had in most cases reached the lowest levels in more than two years. Mounting evidence of a slowing in underlying inflation might well have produced still larger declines in long-term rates but for the threat of widening federal deficits.

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The Economy in 1982

Economic activity declined in 1982, as real gross national product dropped 1.1 percent, continuing the recession that began in mid-1981.[1] The current downturn came on the heels of a sharp drop in GNP in the second quarter of 1980 and a short-lived recovery in the second half of 1980 and early 1981. As a result, by the end of 1982 real GNP had fallen below its level three years earlier. The sharp drop in industrial production in 1982 was associated with widespread layoffs and plant closings. And, with limited job opportunities in other sectors as well, the unemployment rate rose to a postwar high of 10¾ percent by the end of the year. The economic downturn, after the prolonged period of little or no growth, brought about a significant slowing of inflation, with most broad price measures rising less than 5 percent.

Declines in activity were particularly large for business investment and exports, which in real terms fell 8 and 13½ percent respectively in 1982. Consumption expenditures rose over the year, as real disposable income increased slightly, reflecting a cut in federal taxes and the effects of automatic countercyclical income stabilizers. In addition, defense purchases increased rapidly. At the same time, the large and growing federal budget deficit weighed heavily on the credit markets and, in the context of continued efforts by the Federal Reserve to maintain monetary discipline, tended to hold long-term interest rates at high levels relative to the prevailing rate of inflation.

Inflation slowed dramatically in 1982. The price index for the gross domestic business product rose only 4½ percent after an advance of 9 percent in 1981. The deceleration of prices was not only sizable, but also widespread: the rates of inflation for consumer goods and services and capital equipment were all appreciably lower. The slowdown in prices was reinforced by progress in retarding the rate of increase of labor costs. Slack labor markets, as well as lower inflation and expectations of inflation, contributed to the deceleration of wages. The improvement was apparent across all major labor market groups: wage increases in manufacturing and services and for white-collar and blue-collar workers all moderated from the previous year. In addition, wage concessions were negotiated in a number of large collective bargaining settlements.

Household Sector

Personal consumption expenditures increased 2½ percent in 1982, with much of this rise reflecting an upswing in motor vehicle purchases at the end of the year. Outside the auto sector, the increase in outlays was more moderate, as real disposable income rose less than 1 percent during 1982. In particular, the July cut in personal taxes, which followed

1. Throughout the discussion of the economy in 1982, annual growth rates reported measure the changes from the fourth quarter of 1981 to the fourth quarter of 1982 unless indicated otherwise.

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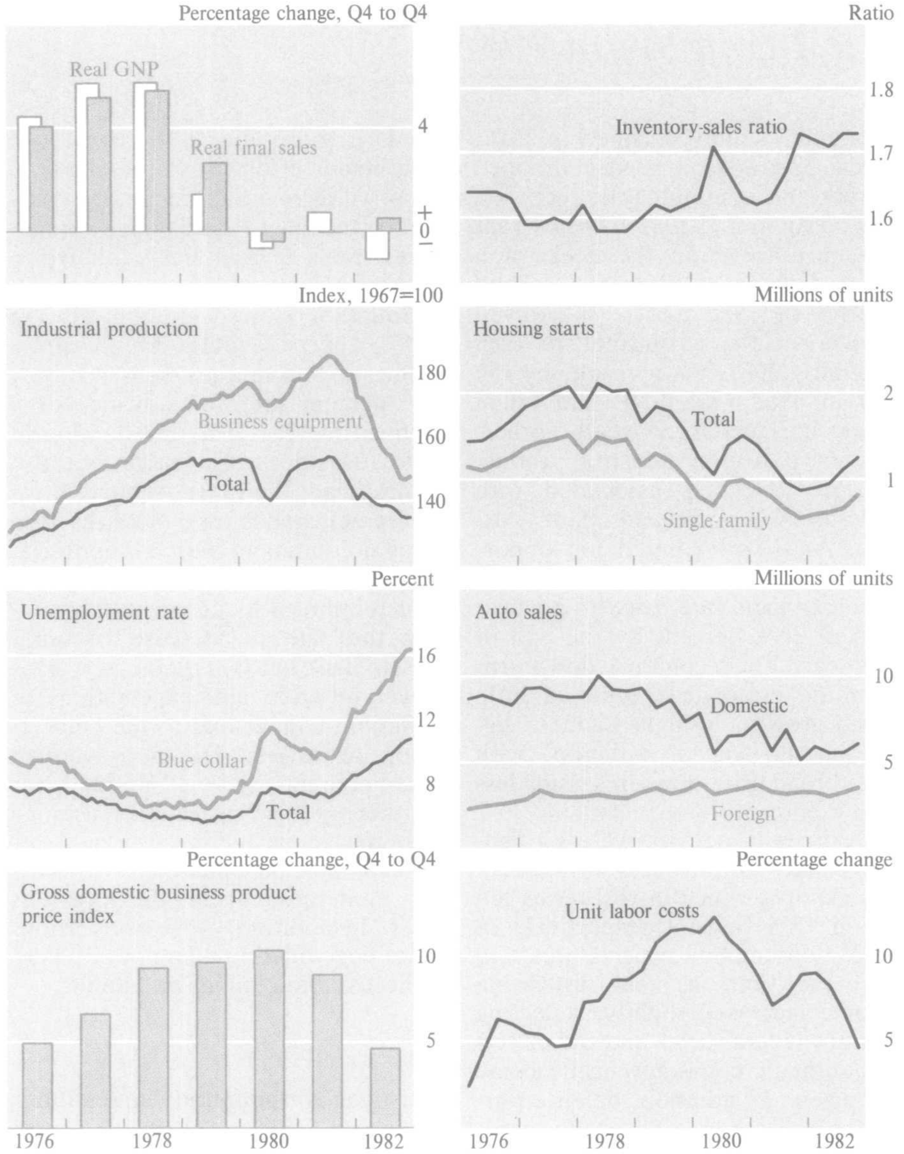
Indicators of Economic Performance



All data are seasonally adjusted at annual rates. The industrial production indexes (monthly) are Federal Reserve data; the unemployment rate (monthly) and the change in unit labor costs are U.S. Department of Labor data; auto sales are from the Motor Vehicle Manufacturers' Association. All other data are from the U.S. Department of Commerce. Real GNP and real final sales are in terms of 1972 dollars.

The inventory–sales ratio is based on real (1972 dollars) manufacturing and total trade sales and inventories. Prices are measured by the fixed-weight price index for gross domestic business product (1972 weights). Unit labor costs are for the nonfarm business sector; percentage change is from four quarters earlier.

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the earlier reduction in October 1981, served only to offset a sharp decline in real wages and salaries. With income growth sluggish and employment and income prospects uncertain, consumers appeared reluctant to reduce saving and to acquire big-ticket durable goods. The saving rate averaged 6.6 percent for the year as a whole, about the same as in 1981.

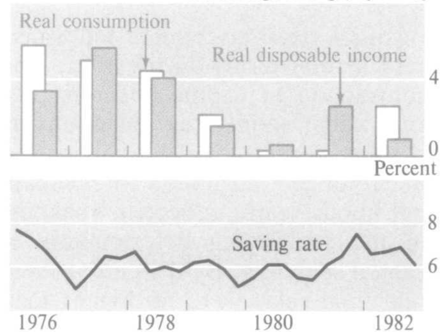
The demand for new domestic automobiles was poor in 1982: sales have declined dramatically since early 1979 and last year averaged only 5.8 million units, the lowest level since 1961. The pattern of auto sales fluctuated considerably during the year as consumers reacted to incentives such as rebates. In the most successful program, in the fourth quarter, auto makers offered concessions on interest rates coupled with end-of-year price discounts on 1982 models, and the rate of sales was sustained above 6 million units for two consecutive months for the first time since the middle of 1981. Purchases of foreign cars held up well in 1982; at 2.2 million units for the year as a whole, they accounted for a record 28 percent of total car sales. Sales of Japanese cars, which made up about 80 percent of foreign auto sales, rose at the end of the year despite export restrictions on most models.

Excluding motor vehicles, real personal consumption expenditures rose 1¾ percent during 1982, in part because of an increase of nearly 2½ percent in spending for services. Real outlays for food and gasoline also grew over the year, although a smaller portion of household budgets than in recent years was devoted to gasoline purchases because of favorable price trends. Sales of all durable goods other than cars fell ¾ percent in real terms, mostly because of a 4 percent drop in purchases of furniture and appliances.

Activity in the housing sector picked up last year, with housing starts rising 45 percent from the postwar record lows reached in late 1981. Residential construction put in place, which lags starts, was up 1 percent in real terms over 1982. The improvement stemmed primarily from a marked decline in mortgage interest rates: the interest rate on new commitments for fixed-rate conventional home mortgages at savings and loan associations dropped from a high of 18½ percent in the autumn of 1981 to 13½ percent by the end of 1982.

Construction of both single- and multifamily units experienced gains. In the multifamily sector, starts rose about 40 percent over the year to an annual rate of 460,000 units in the fourth quarter. The strength during the year resulted partly from an increase in units initiated under the expiring section 8 subsidy program administered by the Department of Housing and Urban Development. Starts of unsubsidized rental units also appeared to pick up as vacancy

Income, Consumption, and Saving



Based on U.S. Department of Commerce data, seasonally adjusted at annual rates. Real consumption and real disposable income are in terms of 1972 dollars.

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rates remained quite low despite some increase at year-end, and rents rose more rapidly than the general rate of inflation.

Much of the improvement in the single-family sector came toward the end of the year, when the cost of mortgage credit had fallen to affordable levels for many homebuyers. Starts of single-family homes jumped to an annual rate of 800,000 units in the fourth quarter, almost 50 percent above the year-earlier pace. Sales, which had remained depressed through the summer, revived toward year-end, with sharp gains in sales of new homes. Reflecting mainly the unusually weak market conditions during the first three quarters of the year, the average price of homes sold rose moderately in 1982. Measured without regard to concessionary financing or to changes in quality, the average price of existing homes sold was up 3 percent over the year, and the increase in average sales price of new homes sold slowed to about 1 percent, both because of a moderation in construction costs and because of continued movement toward smaller models.

Business Sector

Business fixed investment fell 8 percent in real terms during 1982. The contraction in capital spending last year came soon after the relatively shallow decline in 1980. This period of prolonged stagnation for the capital goods sector reflected weakness in the underlying determinants of capital spending. By the end of 1982, real final sales were no higher than in mid-1979; the rate of capacity utilization in manufacturing declined throughout 1982, slumping to a postwar low at year-end. Profit margins, as measured by the share of before-tax profits in the gross domestic product for the nonfinancial sector, also dropped to a postwar low, and the number of business failures reached postwar highs. In addition, interest rates remained high relative to the pace of inflation last year, exacerbating financial pressures.

Virtually all of the decline in fixed investment last year was in equipment rather than in structures. Real spending for producers' durable equipment fell 10¾ percent over the year, and reductions were widespread. The steepest declines occurred in outlays for heavy industrial machinery such as engines, and for construction machinery and farm equipment. Purchases of most types of transportation equipment, including aircraft and railroad equipment, also fell sharply. Reductions in outlays for office and store machinery, communications equipment, and instruments were relatively small.

Real outlays for nonresidential structures declined only 2 percent in 1982. Reductions were concentrated in petroleum and mining activity, which dropped nearly 12½ percent over the year as energy markets softened. Spending on new factories and commercial structures such as shopping malls and retail stores also fell. In contrast, real outlays for construction of office buildings and institutional structures continued to increase.

The outlook for business fixed investment continues to be weak. Both private and public surveys of capital spending plans indicate further reductions in the capital goods sector into 1983. Forward-looking indicators suggest that outlays for producers' durable equipment are likely to fall slightly in early 1983;

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these outlays are likely to stabilize once a recovery in final demand is well under way. But expenditures for nonresidential buildings could decline substantially given the large drop in the real value of contracts for new construction and rising vacancy rates during 1982.

Business inventories increased over the second half of 1981, and by the beginning of 1982, manufacturing and trade inventories, in real terms, were exceptionally high relative to sales. As a result, businesses cut output further and liquidated stocks at a rapid pace in the first quarter. The reduction continued at manufacturers, but stocks in the trade sector accumulated. During the summer the inventory correction stalled as shipments and sales fell, and by the autumn significant overhangs reemerged, with imbalances especially severe among durable goods. A second round of aggressive liquidation began in the fourth quarter. By the end of the year inventory imbalances were reduced, but stocks remained high relative to sales in several key sectors, such as primary metals and nonelectrical machinery.

Foreign Sector

The foreign sector also contributed significantly to the 1982 decline in real GNP. Exports of goods and services fell 13½ percent over the year as foreign demand was limited by the continued strength of the dollar (which reduced the price competitiveness of U.S. goods), by low levels of economic activity in other nations, and by financial constraints in some developing countries. The volume of imports of goods and services increased during much of 1982 but dropped sharply in the fourth quarter; imports ended the year nearly 7 percent below their level at the end of 1981. The decline in the fourth quarter of last year appears to have been associated in part with the sharp liquidation in inventories at that time. The strength of imports that developed earlier in the year, despite the weak domestic economic situation, was greatly influenced by the increased price competitiveness of foreign goods brought about by the appreciation of the dollar.

Government Sector

Total government purchases of goods and services rose 2¾ percent in real terms during 1982. All of the increase came from the federal sector; spending by state and local governments was about unchanged.

The budget deficit for the federal government on a national income accounts basis increased from an annual rate of $102 billion in the fourth quarter of 1981 to a rate of about $200 billion at the end of last year. This marked widening of the deficit resulted from a drop in receipts coupled with continued growth of expenditures. Tax receipts fell about 1½ percent in nominal terms, compared with increases of 9 to 12 percent in recent years, as both the recession and the tax reductions enacted in 1981 cut into revenues from personal income and corporate profit taxes. In addition, the weak oil market meant a reduction in receipts from the windfall profits tax; and the growth of contributions to social security slowed markedly because of weak income growth.

Total federal expenditures grew about 12 percent in nominal terms, down only slightly from the average

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rise of 13 percent during the preceding five years. About half of the increase in 1982 reflected a 14½ percent rise in transfer payments that would have been even greater if increases in expenditures had not been slowed by smaller cost-of-living adjustments in social security payments and cuts in unemployment compensation. The growth of net interest payments, at about 12 percent, was considerably slower last year than in 1981, as the effect of declining interest rates partly offset a record volume of financing. Federal purchases for defense, measured in real terms, rose 6¾ percent, about matching the administration's target growth rate. Nondefense purchases also increased in real terms; most of the rise reflected a sharp increase in payments for the federal agricultural support program in the fourth quarter that was only partly offset by reductions in discretionary spending and purchases for the strategic petroleum reserve. Grants to states and localities fell more than 4¾ percent in nominal terms for the year as a whole because of budget cuts in a broad range of programs, from medicaid to mass transit; the reductions in grants in both 1981 and 1982 came after steady increases for two decades.

The state and local sector experienced increasing fiscal problems in 1982. In addition to the cuts in federal grants, growth in own-source revenues slowed, partly because of smaller increases in personal tax collections. On the expenditure side, real purchases of goods and services were little changed last year; they have been relatively flat since the late seventies after decades of steady increases. The recent reduction in the growth of state and local purchases can be attributed to both budgetary pressures arising from slower revenue growth and cuts in outlays for education resulting from the decline in the school-age population. Transfer payments increased, in nominal terms, in 1982 as state and local governments attempted to compensate for some of the reductions imposed at the federal level. As a result, total expenditures rose more than 5½ percent last year, and the sector's operating budget (total balance without social insurance funds) was in significant deficit for the first time since 1974.

Labor Market Developments

Employment fell throughout 1982 as the recession continued to force widespread layoffs. The reduction in employment was concentrated in the goods-producing sector, in which employment has now fallen for three consecutive years; but even the service-producing sector, the primary source of employment growth in recent years, experienced declining payrolls. By the end of 1982, total nonfarm payroll employment reached a level nearly 3 million below its July 1981 peak, a reduction of more than 3 percent.

The job losses last year were concentrated in manufacturing, in which monthly declines averaged nearly 130,000. The cyclically sensitive durable goods industries experienced the largest reductions. Especially sharp declines were registered in the metals, machinery, and transportation equipment industries, in which inventory imbalances were most severe. Payrolls in nondurable manufacturing industries were reduced 350,000 over the year, and nearly all major industries were affected. Layoffs continued at construction sites, despite gradual improvement in

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homebuilding during the year, and mining employment was reduced substantially. Employment in the service-producing sector turned down in 1982 after a year of relatively slow growth in 1981. Reacting to sluggish sales, trade establishments reduced their staffs by 225,000. In the public sector, budget restraint led to reductions in employment at all levels of government.

These employment cutbacks were reflected in a marked increase in the unemployment rate. The overall rate of unemployment reached a postwar high of 10.8 percent in December, well above the 7.2 percent level that prevailed before the current contraction began. Nearly all of the increase in the unemployment rate was among those who previously had held jobs; the inability of new entrants and reentrants to the labor force to find jobs accounted for only a small fraction of the addition to the rolls of the unemployed. The increase was particularly large for adult men, who hold a disproportionate number of jobs in the durable goods and construction industries; the rate of unemployment for this group rose from a low of 5.8 percent in July 1981 to 10.1 percent in December 1982.

Growth in the labor force slowed markedly during 1982, reflecting both cyclical factors and longer-term trends. The 1¾ percent rate of growth of the civilian labor force last year was substantially below the 2½ percent rate that had prevailed over the previous decade. The acute deterioration of the labor market in 1982, after two years of diminished employment opportunities, discouraged entry into the labor force. With adult women failing to join the labor force at the rate typical of the 1970s, the overall labor force participation rate remained virtually flat last year. A decline in the teenage population, which meant fewer young jobseekers, was another factor that retarded growth in the labor force in 1982.

Last year, productivity registered its strongest advance since 1977. Aggregate hours worked were reduced throughout the year, with particularly sharp declines in the second half of the year. The cut in hours was greater than the reduction in output, and productivity in the nonfarm business sector increased sharply over the final two quarters of 1982 and for the year as a whole was up 1¾ percent. The growth in productivity was larger than is usual near the trough of a business cycle; this development reflects greater efforts on the part of firms to trim work forces and to concentrate production in efficient plants during an unusually long period of slack. It may lead to some improvement in the underlying trend rate of growth of productivity.

The signs of declining increases in wage rates observed in 1981 were confirmed in 1982 by a pervasive slowing in all measures of wages and labor costs. Weak demand for labor and continued progress in reducing the rate of price inflation were the major contributors to this slowdown. The rate of wage increase for production workers declined from 8½ percent in 1981 to less than 6 percent in 1982, the smallest advance since 1967. Wage gains for white-collar workers, as measured by the employment cost index, had failed to slow in 1981, but decelerated nearly 2½ percentage points last year to an increase of less than 6½ percent. The slowdown in wages and the improvement in productivity combined to hold the increase in unit labor costs

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in the nonfarm business sector to 4¾ percent in 1982, down substantially from a peak rate of 11½ percent over the four quarters of 1979.

The moderation in wage increases was particularly notable in new contracts negotiated under collective bargaining agreements. For the 3¼ million workers covered by new settlements, first-year increases averaged 3¾ percent in 1982, compared with 8 percent the last time these same workers negotiated new contracts. Important wage concessions were negotiated during the heavy bargaining schedule early in the year: the auto, trucking, airline, and apparel industries departed significantly from traditional settlements by deferring or eliminating scheduled pay increases, cost-of-living adjustments, or both. Concession bargaining continued for a wide range of contracts for smaller unions in the second half of the year. Several factors were responsible for the prevalence of concessions. First, high relative labor costs left firms in some industries in precarious financial condition as demand slackened. Second, deregulation and intensified competition from both foreign firms and domestic nonunion producers generated additional pressure in some industries.

Prices

Inflation declined significantly further in 1982, with the deceleration apparent in most types of goods and services. The fixed-weight price index for gross domestic business product increased 4½ percent last year, after a 9 percent gain in 1981 and a 10¼ percent rise in 1980. Consumer prices exhibited similar improvement: the consumer price index rose just 4½ percent in 1982, compared with a peak increase of 12¾ percent in 1979. In addition, producer prices at the intermediate and crude stages of processing were about unchanged over the year. Although food and energy prices contributed to the slowdown, price inflation excluding these items also declined sharply. The price index for the gross domestic business product excluding food and energy decelerated from a 9¼ percent rate of increase in 1981 to a 5 percent pace in 1982.

Food prices at the retail level advanced just 3¼ percent in 1982. This was the fourth consecutive year in which food prices rose less than the overall rate of inflation. To a large extent, the same factors that had restrained price increases in 1981 were present in 1982. For a second year large harvests and mounting grain stocks supplied ample crops. In addition, weak income growth, both at home and abroad, and the strong value of the dollar limited the demand for farm products. However, not all of the deceleration in food prices was due to transistory factors; labor costs in the food sector also slowed substantially last year.

Despite an erratic quarterly pattern, changes in energy prices reflected the considerable weakness evident in world petroleum markets in 1982. Prices for refined petroleum products plummeted in the first half of last year. A portion of this decline was retraced in the second half, but prices were generally lower at the close of 1982 than they had been at its opening. Besides holding down prices of gasoline and fuel oil, lower petroleum prices helped to halve the rate of increase in electricity prices. In contrast, natural gas prices continued their steep ascent as deregulation

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proceeded under the Natural Gas Policy Act of 1978.

In 1981, progress in reducing inflation outside of the volatile food and energy sectors was small and confined to a limited number of sectors. In contrast, the slowing in 1982 was both more substantial and more evenly balanced. Weak demand, decelerating labor costs, declining inflation expectations, and a strong dollar all acted to slow prices. Inflation for consumer commodities excluding food, energy, and homeownership fell from 8¼ percent in 1981 to 5¼ percent in 1982. Similarly, prices of capital goods, as measured by the producer price index, rose only 4¼ percent last year, less than half the 1981 pace. Prices of consumer services excluding energy, which had failed to slow in 1981, decelerated from a 10¾ percent rate of increase in 1981 to a 7½ percent pace in 1982. Medical care and education were the only major categories in which inflation showed no sign of abating.

The pervasive slowing in labor costs and prices has created a climate in which continued progress in lowering inflation is likely. Reductions in wage inflation and in price inflation tend to be mutually reinforcing when accompanied by persistent monetary discipline. Decelerating labor costs relieve pressure on prices, while the improved price performance can, in turn, reduce inflation expectations and formal or informal cost-of-living adjustments, and thus lead to a further slowing of labor costs. An important aspect of the 1982 experience was that each of the elements in this process was evident in the substantially lower rates of inflation.

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Monetary Policy and Financial Markets

Monetary policy in 1982 continued to aim at moderating inflationary pressures and, in the process, to provide a basis for sustainable growth in real economic activity. Early in the year the Federal Open Market Committee adopted target ranges for growth in the monetary aggregates believed to be consistent with these objectives. Those ranges were reaffirmed at midyear, with the proviso that growth above the targets might have to be tolerated for a time if unusual demands for money and liquidity emerged, as seemed possible in light of prevailing economic and financial uncertainties. In the second half of the year, demands for highly liquid assets did prove to be appreciably greater than had been anticipated, leading, for the year as a whole, to growth in the aggregates above the upper limits of their respective target ranges. Indeed, over the year the income velocities of the monetary aggregates (defined as the ratio of nominal gross national product to money) declined at the sharpest rates of the postwar period.

The conduct of monetary policy in 1982 was complicated by financial developments that greatly hindered the interpretation of movements in narrow money, M1. Specifically, the component consisting of other checkable deposits (OCDs), which includes NOW accounts and similar interest-bearing checking balances, dominated the growth of M1 during the year. OCDs are probably quite sensitive to changes in the proportion of savings that households want to hold in highly liquid form for precautionary purposes; transaction motives are likely to be not so telling for OCDs as for demand deposits. Moreover, shifts of funds associated with the maturation of a substantial volume of all savers certificates and with the introduction of money market deposit accounts distorted the behavior of M1 in the fourth quarter. Because the extent of these distortions could not be anticipated, the FOMC at its meeting in early October decided to deemphasize M1, at least temporarily, as an operating guide for monetary policy, and instead, to place greater emphasis on M2 and M3 in the expectation that these measures would be less affected by developments in the fourth quarter.

Interest rates declined substantially on balance over 1982, mostly after midyear. Yields on short-term market instruments generally ended the year 3 to 5 percentage points below their levels of late 1981, and long-term rates declined 3 to 4 percentage points. Although the weakness in private credit demands associated with slumping household and business spending freed funds to finance the government, a growing federal deficit tended to hold long-term rates up. Thus, concerns with the burgeoning deficit tended to offset the effects on long-term rates of diminishing inflation expectations. Risk premiums in the interest rate structure widened at times as problems of financial and industrial firms sparked concerns about the safety of investments.

In the aggregate, net borrowing by nonfinancial sectors of the economy increased somewhat in 1982. The

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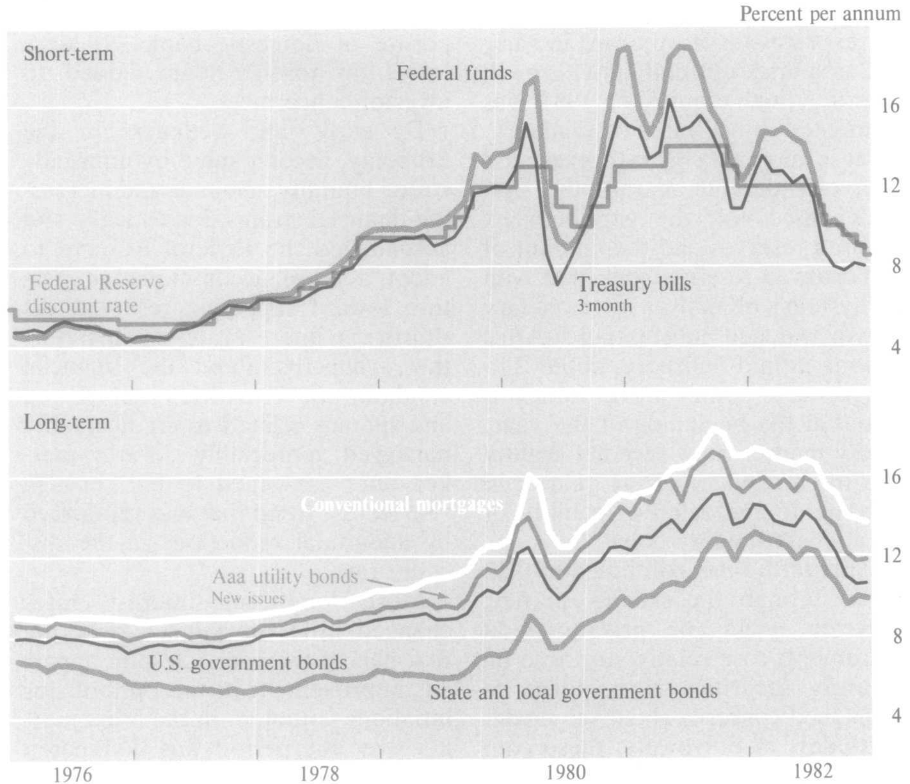
Interest Rates



Monthly averages except for Federal Reserve discount rate and conventional mortgages (based on quotations for one day each month). Yields: U.S. Treasury bills, market rate on three-month issues, discount basis; conventional mortgages, rates on first mortgages in primary markets, unweighted and rounded to nearest 5 basis points, from U.S. Department 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 Aaa utility basis by Federal Reserve; U.S. government bonds, market yields adjusted to 20-year constant maturity by U.S. Treasury; state and local government bonds (20 issues, mixed quality), *Bond Buyer*.

federal government's demands on the credit markets were up roughly 85 percent from the previous year, and state and local government units borrowed more than twice as much as in 1981. In contrast, households greatly curtailed additions to their installment and mortgage debt while they increased their acquisitions of liquid assets. Business borrowing remained relatively strong during the first three quarters of the year, but dropped off sharply in the fourth. Short-term debt fell even more sharply toward the end of the year as lower long-term interest rates allowed many firms to repay short-term debt with the proceeds of long-term security issues.

Monetary Aggregates and Interest Rates

Money market conditions during 1982 were influenced by changes in demands for and supplies of bank reserves, and by investor concerns about the effects of protracted weak-

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ness in the economy on the creditworthiness of borrowers. Short-term interest rates turned upward in early 1982 as a brisk uptrend in M1 growth over the final months of 1981 was augmented by a burst in January. Because monetary growth exceeded by a considerable margin the System's objectives, the gap between required reserves and the amount of nonborrowed reserves consistent with the System's objectives for monetary growth widened substantially. After peaking in mid-February, about 2 to 3 percentage points above the levels posted at the beginning of the year, money market rates receded slightly over the remainder of the quarter in response to the relative stability of M1 after its January bulge.

Short-term rates continued to drift lower through the second quarter. However, yields on private credit instruments rose relative to those on Treasury securities in response to heightened concerns about the creditworthiness of borrowers; these concerns were stirred by filings by several large firms under chapter 11 of the federal bankruptcy laws, the bankruptcies of two relatively small securities dealers, and rising business failures in general.

During the summer, weakness in narrow money lowered reserve demands relative to the supply of nonborrowed reserves, and short-term interest rates fell markedly. Further downward movements in rates accompanied several reductions of ½ percentage point each in the discount rate in July and August. Spreads between yields on lower- and higher-rated private money market instruments, as well as between yields on private and U.S. government securities, widened considerably over the third quarter as loan losses suffered by several large banks and the exposure of domestic banks to large losses on foreign loans added to investor concerns.

By early fall, weakness in the economy, accompanied by unusually strong liquidity demands and increasing financial strains domestically and abroad, led the Federal Reserve to adopt a more accommodative posture toward supplying reserves. As short-term interest rates declined further, concerns about the financial condition of borrowers diminished and spreads related to credit quality narrowed appreciably. Money market rates continued to fall through year-end, a trend that was reinforced by additional reductions in the discount rate.

Most long-term interest rates changed little on balance over the first half of the year. Despite apparent improvement in the outlook for inflation, sentiment in the bond market over the period was dominated by the impact of large prospective federal deficits and the possibility that, as the economy began to recover, demands for money and credit would press harder against restricted supplies. In the second half, bond yields moved downward despite such concerns, reflecting further progress against inflation and a spreading view among market participants that the depth of the economic contraction and international financial tensions would preclude an early reversal of the easing in money market conditions.

The relative growth and composition of the monetary aggregates in 1982 reflected the introduction of new types of deposit accounts, uncertainties related to the weak econ-

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Reserves and Monetary Aggregates

Annual rates of change based on seasonally adjusted data unless otherwise noted, percent[1]

Item	1980	1981	1982	1981	1982			
				Q4	Q1	Q2	Q3	Q4
Member bank reserves[2]								
Total	6.7	4.3	7.1	3.1	7.5	.6	4.8	14.8
Nonborrowed	7.5	7.1	7.9	10.9	-0.9	4.2	11.2	16.5
Required	6.4	4.7	6.8	3.5	7.1	1.1	4.6	13.9
Monetary base[3]	8.5	4.9	7.7	4.1	7.9	6.6	6.7	8.5
Concepts of money[4]								
M1	7.2	5.1(2.3)[5]	8.5	3.2	10.5	3.2	6.1	13.2
Currency and traveler's checks	9.2	5.9	7.8	5.1	7.9	8.3	6.9	7.3
Demand deposits	3.1	-12.5	.9	-2.5	.6	-5.4	-.1	8.5
Other checkable deposits	58.1	181.7	33.8	19.6	46.3	19.6	21.6	33.7
M2	9.0	9.4	9.2	9.6	8.7	7.0	10.9	9.2
Nontransaction component	9.6	10.9	9.5	11.7	8.0	8.3	12.4	8.0
Small-denomination time deposits[6]	14.2	15.6	5.3	14.2	3.1	9.4	12.0	-3.7
Savings deposits and money market deposit accounts	-4.4	-16.4	9.2	-12.2	3.7	-.6	.8	32.4
General purpose and broker/dealer money market mutual fund assets (n.s.a.)[7]	101.5	133.6	29.8	74.3	35.4	22.4	35.0	15.2
Overnight RPs and Eurodollars (n.s.a.)	25.5	20.1	30.2	-17.9	56.3	2.4	27.9	25.2
M3	9.7	11.7	10.1	10.6	8.6	8.5	12.5	9.4
Non-M2 component	14.0	24.3	14.3	15.4	8.2	16.0	20.0	10.4
Large-denomination time deposits	12.7	21.3	11.9	6.0	10.7	17.5	13.4	4.3
Institution-only money market mutual fund assets (n.s.a.)	76.8	115.0	44.6	125.2	8.7	10.8	109.7	32.7
Large term RPs (n.s.a.)	8.0	7.5	8.0	16.8	-6.6	16.8	-12.6	35.2

1. Changes are calculated from the average amounts outstanding in each quarter.

2. Annual rates of change in reserve measures have been adjusted for regulatory changes in reserve requirements.

3. Consists of total reserves (reserve balances of depository institutions in the current week plus vault cash held two weeks earlier), currency in circulation (currency outside the U.S. Treasury, Federal Reserve Banks, and the vaults of depository institutions), and surplus vault cash at depository institutions.

4. M1 consists of currency in circulation, traveler's checks of nonbank issuers, demand deposits at all commercial banks other than those due to domestic banks, the U.S. government, and foreign banks, and official institutions less cash items in the process of collection and Federal Reserve float, and other checkable deposits (OCD). OCD consists of negotiable order of withdrawal and automatic transfer service accounts at depository institutions, credit union share draft accounts, and demand deposits at mutual savings banks. M2 is M1 plus overnight repurchase agreements (RPs) issued by commercial banks, overnight Eurodollar deposits held by U.S. nonbank residents at Caribbean branches of U.S. banks, taxable and tax-exempt money market mutual fund shares other than institution-only fund shares, savings deposits, money market deposit accounts, and small time deposits (including retail RPs) at all depository institutions. M3 is M2 plus large time deposits at all depository institutions, large term RPs issued by commercial banks and thrift institutions, and assets of institution-only money market mutual funds.

5. Number in parenthesis is adjusted for the effects of shifts from non-M1 sources into other checkable deposits.

6. Balances in individual retirement accounts (IRAs) and Keogh accounts at commercial banks and thrift institutions are subtracted from small time deposits.

7. Excludes balances in IRA and Keogh accounts.

n.s.a. Not seasonally adjusted.

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omy, and interest rate movements. M1 increased 8½ percent over the year, 3 percentage points above the upper bound of the FOMC's target range. M1 surged despite the sharp reduction in income growth; and, as a result, M1 velocity fell roughly 5 percent, the largest drop in any four-quarter span since World War II.

The changing character of M1 made its behavior in 1982 difficult to interpret. In particular, the bulk of the growth in narrow money was accounted for by OCDs, which not only serve as a means of payment but also, like savings deposits, are used by many households as a repository of liquid assets. Because OCDs have this savings feature, it was difficult during the year to determine whether movements in M1 reflected mainly changes in the demand for transaction balances, or instead, general changes in the demand for liquid assets. On the whole, the latter seems to have dominated: the substantial inflows to OCDs in 1982 appear to have been part of a broadly based buildup of liquid assets by households, which may have reflected mounting concerns about employment and income prospects as well as the effects of declining open market interest rates.

Growth in M2, at 9¼ percent, was associated with a decline of 5½ percent in velocity, also a postwar record.[2] The most rapid expansion within the nontransaction part of M2 occurred in its most liquid components, including passbook savings deposits, shares of money market mutual funds, and overnight repurchase agreements (RPs) and Eurodollars.

Three new highly liquid deposit accounts authorized by the Depository Institutions Deregulation Committee in 1982—the 91-day and 7- to 31-day small-denomination time deposit accounts, and the money market deposit account (MMDA)—also registered sizable inflows. The 91-day and 7- to 31-day small time accounts (authorized effective May 1 and September 1) required minimum balances of $7,500 and $20,000 respectively, and paid interest rates whose ceilings were tied to recent yields on 91-day Treasury bills.[3] By year-end deposits in these two accounts totaled $30 billion, only a fraction of which apparently represented new funds for depository institutions; substantial amounts placed in these accounts are thought to have been shifted from other, longer-maturity, small time deposits.

Unlike the new small time accounts, MMDAs (authorized effective December 14) have no fixed minimum maturity and require only a $2,500 average minimum balance to qualify for the payment of unregulated interest rates. Moreover, up to six automatic, preauthorized, telephone, or check-writing transfers can be made from an MMDA each month (but no more than three transfers by check), making these accounts competitive with shares of money market mutual funds. Depos-

2. The growth rates for M2 and M3 reported in the text and in the table reflect minor changes made to the definitions of these aggregates in February 1983. Under these new definitions, M2 and M3 include shares of tax-exempt money market mutual funds and exclude balances in IRA and Keogh accounts. Under the previous definition, M2 growth in 1982 would have been 9¾ percent.

3. Effective January 5, 1983, the interest rate ceiling on 7- to 31-day small time deposits was removed, and minimum-balance requirements for both 91-day and 7- to 31-day small time deposits were lowered to $2,500.

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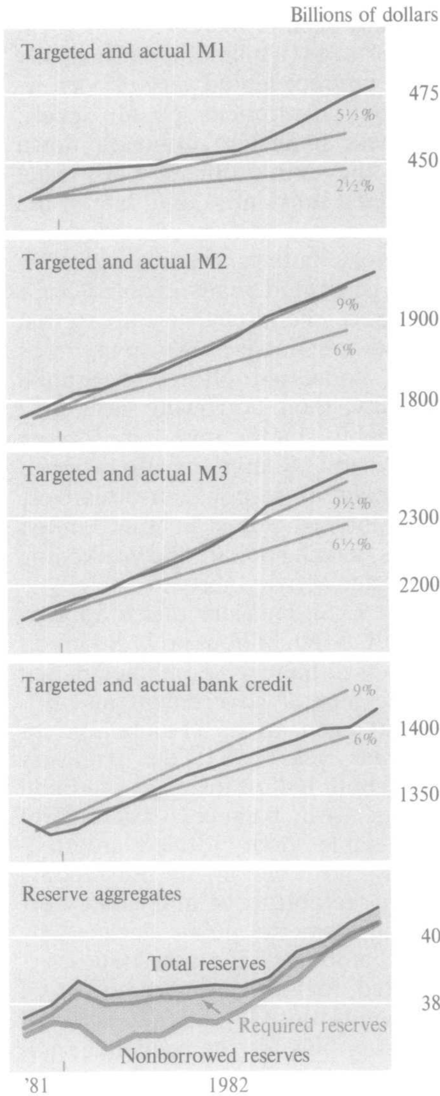
Monetary, Bank Credit, and Reserve Aggregates



Targets are ranges adopted by the FOMC for 1981 Q4 to 1982 Q4.

Target ranges for bank credit reflect the use of a December 1981–January 1982 base to minimize the effects of asset shifts into international banking facilities.

The reserve aggregate series have been adjusted to remove discontinuities associated with changes in reserve requirement ratios. Nonborrowed reserves include extended credit.

itory institutions promoted MMDAs heavily, and by the end of the year balances in MMDAs stood at $87 billion, approximately three-fifths of which were at commercial banks (the remainder were at thrift institutions). Although most of these balances apparently were reallocated from within M2, funds also were shifted from large-denomination time deposits and term RPs, as well as from sources outside M3.

Despite the large inflows to these new types of accounts, overall expansion in the nontransaction component of M2 moderated in 1982 as inflows to total small time deposits and to money market mutual funds abated sharply. Growth in the money market mutual funds, though still substantial, dropped to only one-fourth of the 1981 pace, reflecting to some extent an inevitable deceleration in the number of accounts as the pace of the public's learning about this instrument slowed. At the same time, growth in small time deposits declined by two-thirds: sizable runoffs of six-month money market certificates and all savers certificates (ASCs) more than offset rapid expansion of retail RPs, 2½-year small savers certificates, and balances in the new 91-day and 7- to 31-day accounts. Small time deposits were especially weak in the fourth quarter; they were depressed by lower open market rates after midyear, which apparently encouraged many investors to place significant amounts of maturing ASC funds in OCDs and savings deposits, as well as by runoffs of balances accumulated in anticipation of MMDAs.

M3 increased 10 percent in 1982, compared with 11¾ percent in 1981, as markedly slower expansion of both large-denomination time depos-

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its and assets of institution-only money market mutual funds more than offset the uptick in M2 growth.[4] The reduced issuance of large-denomination time deposits by commercial banks reflected stronger expansion of core deposits in combination with somewhat slower growth in bank credit.

From a base calculated as the average for December 1981 and January 1982, bank credit expanded at a 7 percent rate, about the same as it had over the previous year, although the pace of expansion slowed considerably after the first quarter.[5] Much of the deceleration during the year occurred in business loans, reflecting weak economic activity and, in the second half of the year, steeply declining interest rates that encouraged many firms to refinance short-term indebtedness with longer-term bonds. Real estate lending also slowed noticeably in the second half. Lending to consumers remained depressed until late in the year, when bank financing of consumer auto purchases spurted. In addition, acquisitions of securities—mainly Treasury obligations—surged in 1982, in response to heavy Treasury borrowing and strong inflows of core deposits relative to loan demands. U.S. banking offices again made substantial advances to their foreign affiliates as the interest costs on domestic liabilities, compared with Eurodollar rates, continued to favor such funding of bank assets.

4. Under the previous definition, the growth rate of M3 in 1982 would have been 10¼ percent.

5. Unlike the monetary aggregates, the base for the FOMC's target for bank credit was specified as the December–January average to reduce the distorting effects of shifts of assets to international banking facilities.

Aggregate Credit Flows

Total funds raised by domestic nonfinancial sectors increased 9 percent in 1982 to $412 billion, led principally by an unprecedented pace of borrowing by government at all levels. Business financing, although down from the extraordinary 1981 pace, remained substantial until late in the year, when reductions in capital and inventory outlays relative to internally generated funds enabled firms to reduce their reliance on external sources of finance. As households made concerted efforts to rebuild liquidity, their borrowing weakened noticeably. Funds raised by foreign entities in U.S. markets also dropped markedly in response to relatively high interest rates in the United States, a rising dollar, and weakening economic activity abroad.

The U.S. Treasury raised approximately $160 billion in U.S. credit markets to finance a combined deficit of the federal government and off-budget agencies of $146 billion for calendar year 1982; the Treasury used about half of the excess to build up its cash balance. Issuance of marketable debt totaled approximately $163 billion, as outstanding nonmarketable debt and other borrowing from the public declined by small amounts. Coupon issues accounted for roughly three-fifths of the funds raised, and net sales of Treasury bills for the remainder. As in 1981, money market mutual funds acquired a substantial part of the net issuance of short-term Treasury debt. State and local governments also were major purchasers of Treasury securities, likely using such investments as a temporary repository for funds raised through accelerated bond sales. Households and commercial banks bought most of the remainder.

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Net Funds Raised and Supplied in Credit and Equity Markets

Billions of dollars

Sector	1980	1981	1982[1]	1981[2] H1	1981[2] H2	1982[2] H1	1982[2] H2[1]
	Net funds raised						
Total, all sectors	**466**	**496**	**515**	**534**	**459**	**492**	**538**
Domestic nonfinancial	368	379	412	404	356	365	459
U.S. government	79	87	161	82	93	99	223
State and local government	27	22	47	25	20	42	53
Private	262	270	203	297	244	224	182
Business	144	150	118	156	144	141	96
Household	118	120	85	141	100	84	87
Domestic financial	68	89	86	96	83	110	62
Private intermediaries	25	44	25	53	35	51	1
Sponsored credit agencies	24	30	13	27	33	21	5
Mortgage pool securities	19	15	47	16	15	38	57
Foreign	29	27	18	35	20	17	18
	Net funds supplied						
Total, all sectors	**466**	**496**	**515**	**534**	**459**	**492**	**538**
Domestic nonfinancial	115	95	136	102	87	113	160
U.S. government	21	24	19	27	21	14	24
State and local government	22	20	47	20	20	32	63
Private	70	51	70	55	46	67	73
Business	−2	8	13	7	8	5	21
Household	72	43	57	48	37	62	52
Domestic financial	322	379	352	393	367	353	349
Private intermediaries	273	324	280	352	297	299	260
Commercial banking	100	103	99	108	99	121	77
Thrift institutions	54	24	24	43	5	29	18
Insurance and pension funds	93	95	106	98	93	106	106
Other[3]	26	102	51	103	100	43	59
Sponsored credit agencies	25	31	15	29	33	23	7
Mortgage pool securities	19	15	47	16	15	37	57
Federal Reserve System	5	9	10	−4	22	−6	26
Foreign	29	22	28	39	6	26	30

1. Includes preliminary data for the fourth quarter.
2. Seasonally adjusted annual rates.
3. Includes finance companies, money market funds, real estate investment trusts, open-end investment companies, and security brokers and dealers.

State and local governmental units issued both general-obligation and revenue bonds in large amounts throughout most of 1982, in part because of continued pressures on tax revenues. Net of retirements, funds raised by state and local governments more than doubled between 1981 and 1982, while the issuance of industrial revenue bonds (included in borrowing by the corporate sector) recorded a smaller but nevertheless substantial rise as eligible private borrowers availed themselves of the lower rates on tax-exempt obligations. Offerings of state and local debt surged to record levels in the final months of the year in response to declining interest rates; at the same time, a provision of the Tax Equity and Fiscal Responsibility Act (passed in August), requiring all municipal bonds to be issued in registered form beginning in 1983, evidently prompted many issuers to advance the marketing of bonds planned for that year. The effective date for the new registration requirement was, in fact, postponed six months in mid-December, but most of this accelerated financing had been accomplished by that time.

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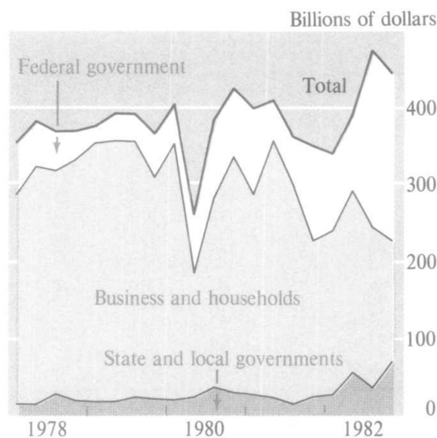
Funds Raised by Domestic Nonfinancial Sectors



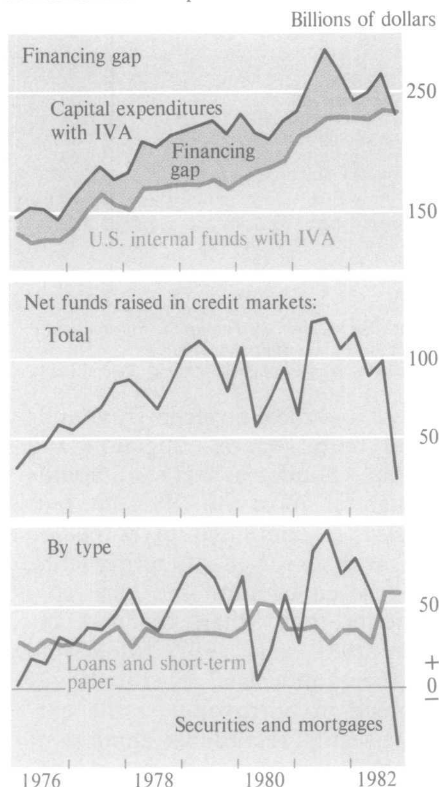
Includes equities. Data are quarterly totals at seasonally adjusted annual rates.

For the second year in a row, a large slate of municipal bonds met with weakening demand from the traditional institutional buyers in this market. Commercial banks and property and casualty insurance companies on net acquired virtually no tax-exempt securities in 1982; these investors provided almost 30 percent of the net funds raised in the municipal market in 1981 and 60 percent the year before that. Commercial banks evidently found other ways to shelter their income, while many property and casualty insurance companies, suffering continued heavy underwriting losses, had no need for tax-exempt income. Thus households purchased nearly all of the record volume of offerings by state and local governments, for the most part directly but also through mutual funds and unit investment trusts. Reflecting the reduced investments by institutional investors and the unusually heavy issuance, the ratio of tax-exempt to taxable yields remained near the record high level reached late in 1981.

Faced with low profits, nonfinancial corporations continued to rely heavily on external sources of funds during much of 1982. Toward the end of the year, however, their financing needs dropped off sharply as they made substantial cuts in both inventories and expenditures for plant and equipment. For the year as a whole, corporate business financing in debt and equity markets combined was about 20 percent less than in 1981.

The sharp decline in interest rates that began in July and the subsequent strong rally in stock prices brought

Financing Pattern of Nonfinancial Corporations



Excludes equities. Data are seasonally adjusted quarterly totals at annual rates.

IVA, inventory valuation adjustment.

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about a marked shift in the composition of business financing. Through the first half of the year, high long-term rates of interest induced businesses to rely mainly on bank loans and commercial paper, as they had done so extensively in 1981. As a result, the ratio of short-term to total debt on the balance sheets of U.S. companies reached a record level. From July through December, however, yields on long-term corporate bonds fell approximately 4 percentage points to about 12 percent for top-rated issues, and stock prices rose 35 to 45 percent. Taking advantage of the lower yields, businesses floated substantial quantities of long-term debt and equity, using much of the proceeds to pay down commercial paper and bank loans. Even with these shifts, however, only a massive, sustained restructuring effort could restore debt ratios to the levels of a few years ago.

Stimulated by the midyear tax cut as well as by growing concerns about employment and income prospects, households increased their savings in 1982; they concentrated heavily on accumulating financial assets, many of which bore extraordinarily high real rates of return. Despite some pickup in mortgage borrowing late in the year as interest rates declined, the addition to home mortgage debt was the smallest since 1976 and less than half the record amount in 1979. Growth in installment debt was sluggish through most of 1982, reflecting in part continued restrictive lending standards as well as reluctance by consumers to assume debt for the purchase of major durable goods; toward year-end, however, such lending picked up appreciably when car makers offered concessionary financing.

Growth in the value of financial assets held by households during 1982 was nearly twice the pace of 1981, and with the slowdown in debt accumulation, household net worth expanded much more rapidly than it had the year before. At the same time, delinquency rates on consumer loans fell during the year—an unusual occurrence during a period of slack economic activity.

In contrast, mortgage loan delinquencies and defaults increased sharply, as households that lost income found it difficult to meet the large monthly payments on high-interest-rate loans. The rise in mortgage delinquencies and defaults also may have reflected the effects on homeowners' equity of softness in house prices in some parts of the country. On balance, however, households by year-end had made considerable progress in strengthening their balance sheets and in reducing their exposure to financial stresses.

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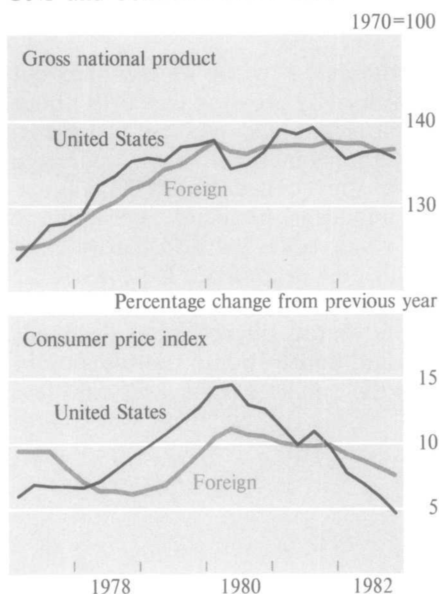
International Developments

Worldwide economic activity continued to stagnate in 1982. The generally expected upturn from the slow pace of 1981 did not occur, and activity in nearly all countries slowed further. For foreign industrial countries, real growth (measured fourth quarter to fourth quarter) was negative, while for developing countries—especially those in Latin America—there was an abrupt deceleration from the substantial growth rates of recent years. The lack of buoyancy in the world economy since 1979 reflects a concerted effort in industrial countries to contain the high rates of inflation that resulted in part from the second steep increase in oil prices late in 1979. During 1982, foreign industrial countries continued to aim at fiscal discipline, and also generally maintained restrictive monetary policies. To some extent the policy stance of other countries was influenced by the high real interest rates experienced in the United States, which tended to raise the value of the dollar in the market and aggravate inflation abroad.

By late 1982, however, the outlook began to brighten. Inflation rates were generally subsiding, with the help of moderating wage settlements and a lower level of commodity prices, especially for oil. Responding to this easing of inflationary pressures and the steep slide in demand, nominal interest rates in the United States and other industrial countries declined considerably. Still, real interest rates remained exceptionally high, blunting the revival of consumer spending and business investment. Pervasive weakness of private investment and mounting unemployment were the most telling indicators of the extent of the world economic slowdown.

Certain features of the slowdown in activity and the disinflationary atmosphere of 1982 assumed special importance. One of these was the resurgence of protectionist forces in the United States and elsewhere. Such a development was especially dangerous because it hampered a renewal of growth in the volume of world exports, which has declined for two successive years. Over the

GNP and Consumer Price Index



Foreign is multilaterally weighted average of the Group of Ten (G-10) countries plus Switzerland, using 1972–76 total trade weights.

Data for the United States are from the U.S. Department of Commerce.

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years, growth in foreign trade has been one of the major supports of gains in general economic welfare. A second significant feature was the emergence of severe liquidity problems for developing countries that had been financing rapid growth by borrowing large amounts from commercial banks. The burden of servicing this debt, much of it of relatively short maturity, became heavier very rapidly when export proceeds fell, the cost of oil and other imports remained high, and real dollar interest rates rose sharply.

Lending to developing countries other than members of the Organization of Petroleum Exporting Countries (OPEC), by U.S.-chartered banks, including their foreign branches, has expanded greatly in recent years—from about $50 billion outstanding at the end of 1978 to about $105 billion by September 1982. Of that total, about half was accounted for by Mexico, Argentina, and Brazil. During 1982, severe pressure had developed on the Mexican peso, forcing the government of Mexico to allow its value to depreciate several times during the year and to seek external financial assistance in dealing with a critical erosion of liquidity. Bank lending to Mexico and other debtors, especially in Latin America, threatened to dry up. Working with the International Monetary Fund (IMF), Mexico, Argentina, and Brazil agreed to change their economic policies sufficiently to qualify for financial assistance from that institution. In conjunction with those agreements, commercial banks undertook to provide some new financing, and special short-term bridge financing was arranged with U.S. monetary authorities, in some cases acting with other monetary authorities through the Bank for International Settlements (BIS). As a further measure to help stabilize the international financial system, the United States supported an adequate increase in quotas in the IMF, as well as an enlargement and extension to all members of a borrowing facility built on the General Arrangements to Borrow, for use by the IMF in emergency situations that threatened the stability of the international monetary system.

The U.S. dollar resumed a strong upward trend in exchange markets early in 1982, and by the end of the year its weighted average value had risen 13 percent. However, the dollar's value peaked early in November and declined moderately thereafter. From the beginning of the upsurge in the second half of 1980 through the end of 1982, the weighted average value of the dollar rose more than 40 percent, to about 20 percent above its level when generalized floating began in March 1973. As discussed later, there is no simple explanation for the extent of the dollar's rise in this period, but the effects on prices and activity in the United States, as well as on the U.S. balance of international transactions, were significant.

U.S. International Transactions

Under the influence of slack economic activity abroad and of a greatly appreciated dollar, the U.S. current account slid from a moderate surplus in 1981 to a growing deficit during 1982. The trade deficit rose to about $36 billion for the year and was near a $50 billion annual rate in the second half. Export volume dropped about 15 percent from the fourth quarter of 1981 to the fourth quarter

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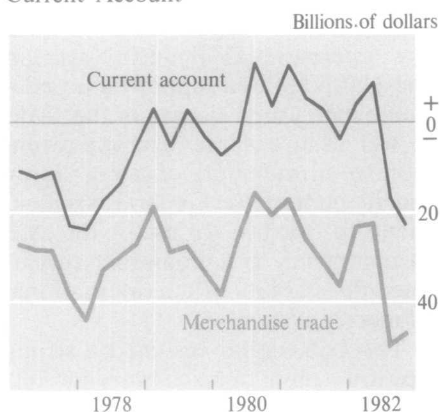
U.S. Balances on Trade and Current Account



Data are from the U.S. Department of Commerce and are seasonally adjusted at annual rates.

of 1982, with export prices changing only slightly. That decline in export volume was considerably greater than the average for other industrial countries. Imports declined about 9 percent in volume, including a sharp drop in imports of petroleum. In 1982, weak activity abroad and a strong dollar reduced U.S. net receipts from abroad of investment income and for services. In particular, earnings of U.S. direct investments abroad dropped more than one-fourth.

The decline in real U.S. exports of goods and services in 1982 represented more than one-third of the total decline in U.S. gross national product in that year. This sector was also a negative factor in 1981. Such prolonged weakness in the export sector contrasts with the generally supportive behavior of exports in earlier periods of slack in the U.S. economy. At the same time, the rise in the value of the dollar over the past two years probably reduced the inflation rate nearly 1½ percentage points during 1982.

Net outflows of private capital, as recorded in the international accounts, declined considerably in 1982. Flows through banking channels accounted for much of the reduction, reflecting in part a slowdown in lending to some developing countries after midyear. The authorization by the Federal Reserve of international banking facilities (IBFs) at the end of 1981 resulted in a sizable shift of eligible foreign assets and liabilities to these offices from both U.S. and offshore affiliates of banks, but had no net effect on U.S. international capital flows.

A considerable net inflow resulted from heightened interest by foreign investors in U.S. Treasury obligations and especially in U.S. corporate bonds offered in offshore markets. Those offerings rose from about $6 billion in 1981 to more than $14 billion in 1982. Nearly all of these issues are sold by the offshore financial affiliates of U.S. companies, and most of the proceeds are accounted for as direct investment inflows when passed on to the U.S. parent company. These transfers, together with the lower reinvested earnings of U.S. companies abroad, account for the net inflows from U.S. direct investments abroad. A contrasting development was a drop in foreign direct investment in the United States from the peak 1981 amount. The persistence of a large positive statistical discrepancy in the international accounts suggests a continuing demand for dollar assets that is operating through channels that are not well covered in the reporting system.

In official capital flows, foreign official assets in the United States rose only slightly in 1982 despite a record level of intervention sales of dollars by foreign monetary authori-

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ties. A substantial portion of those sales apparently were financed from current earnings, borrowing, or assets held outside the United States. Assets of OPEC countries held in the United States increased moderately. U.S. official reserves rose somewhat during the year; the U.S. reserve position with the IMF increased as that institution used dollars to provide liquidity to other members, and reserve gains also reflected swap agreements with Mexico and Brazil.

Foreign Currency Operations

The weighted average exchange value of the dollar rose sharply further in 1982, recording a net increase of 13 percent from December to December. The dollar's rise reflected, in part, a perceived improvement in U.S. price performance, both actual and prospective, relative to that abroad. Nominal interest differentials shifted slightly against the dollar over the year, but differentials in real interest rates may have moved

U.S. International Transactions[1]

Billions of dollars

Transaction	Year		Quarter				
	1981	1982	1981	1982			
			Q4	Q1	Q2	Q3	Q4[2]
Current account[3]	**4.5**	**−6.7**	**−.9**	**1.1**	**2.2**	**−4.2**	**−5.6**
Merchandise trade balance	−27.9	−36.1	−9.2	−5.9	−5.8	−12.5	−11.9
Exports	236.3	211.2	57.6	55.6	55.0	52.3	48.2
Imports	264.1	247.3	66.8	61.5	60.8	64.8	60.1
Investment income (net)[4]	33.0	28.2	8.5	6.9	7.7	7.4	6.2
Other services	5.9	8.9	1.6	2.1	2.0	2.5	2.4
Unilateral transfers, private and government	−6.6	−7.7	−1.9	−2.0	−1.7	−1.7	−2.3
Private capital flows	**−25.8**	**−22.2**	**−16.0**	**−1.0**	**−7.5**	**−8.2**	**−5.5**
Bank-reported capital, net (outflows, −)	−43.3	−42.5	−22.2	−7.3	−14.4	−10.8	−10.0
U.S. net purchases (−) of foreign securities	−5.4	−7.5	−2.8	−.5	−.4	−3.1	−3.5
Foreign net purchase (+) of U.S. Treasury securities	2.9	6.7	1.2	1.3	2.1	1.3	2.0
Foreign net purchase of other U.S. securities	7.1	5.9	.4	1.3	2.5	.1	2.0
U.S. direct investment abroad[4]	−8.7	5.5	−1.0	−.1	2.6	1.0	2.0
Foreign direct investment in United States[4]	21.3	8.3	9.3	1.2	2.8	2.3	2.0
Other corporate capital flows, net	.2	1.5	−1.0	3.1	−2.6	1.1	...
Foreign official assets in United States (increase, +)	**4.8**	**3.0**	**8.1**	**−3.1**	**2.0**	**2.1**	**2.0**
U.S. government foreign assets, net (increase, −)	**−10.3**	**−12.5**	**−.7**	**−2.0**	**−2.7**	**−3.2**	**−4.7**
Reserve position in IMF	−2.5	−2.5	−.4	−.5	−.8	−.5	−.7
Convertible currencies and other reserve assets	−.9	−2.1	.7	−.5	−.3	−.3	−1.0
U.S. government foreign credits and other claims, net	−7.0	−7.9	−.9	−1.0	−1.5	−2.4	−3.0
Allocation of special drawing rights	**1.1**	...	...	...	...	...	...
Seasonal adjustment discrepancy	...	...	**2.5**	**−.9**	**.6**	**−2.0**	**2.3**
Statistical discrepancy	**25.8**	**38.3**	**7.0**	**5.9**	**5.4**	**15.5**	**7.5**

1. Details may not add to totals because of rounding.
2. Data for fourth quarter are partial and preliminary, and include Federal Reserve staff estimates.
3. Current account seasonally adjusted; other accounts not seasonally adjusted.
4. Includes reinvested earnings.

SOURCE. U.S. Department of Commerce, Bureau of Economic Analysis.

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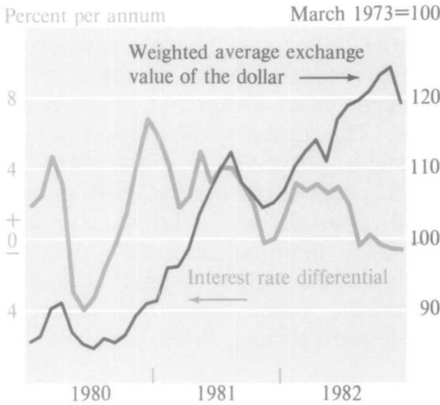
Weighted Average Exchange Value and Interest Rate Differential



Exchange value of U.S. dollar is the index of weighted average exchange value of the U.S. dollar against currencies of the other G-10 countries plus Switzerland, using 1972–76 total trade weights.

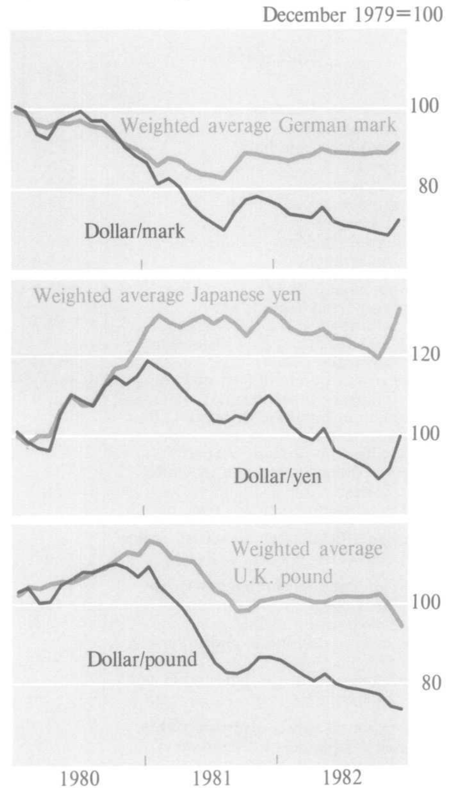
Interest rate differential is the interest rate on three-month U.S. certificates of deposit minus the weighted average foreign three-month interest rate for other G-10 countries plus Switzerland using 1972–76 total trade weights.

slightly in favor of dollar assets. A substantial part of the strength of the dollar appeared to be related to "safe haven" considerations—concerns about political uncertainties abroad and about strains on the international banking system, particularly in the wake of the Mexican debt crisis of midsummer. Developments in the U.S. current account seemingly had little effect on the dollar until November, when public forecasts by U.S. officials of very large trade and current account deficits in 1983 may have contributed to a 4 percent decline in the dollar.

Over the year, the dollar rose against all major foreign currencies; gains ranged from 5¼ percent against the Canadian dollar to 20 percent against the French franc. Against the mark, yen, and sterling the dollar advanced 7, 10½, and 17¾ percent respectively. Calculated on their weighted averages, the mark held fairly steady through the year; the yen weakened during the first nine months, in part because of political uncertainties, then advanced sharply at year-end; and sterling held fairly steady till late in the year, when it fell sharply as concern mounted that oil prices could drop significantly.

Major foreign central banks sold, net, some $40 billion in official intervention operations, after sales of nearly $30 billion in 1981. U.S. monetary authorities sold $132 million against foreign currencies, inter-

Selected Exchange Rate Indexes



The weighted average value for each currency is its exchange value against the currencies of the other G-10 countries plus Switzerland, using 1972–76 total trade weights.

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vening on five days during the year. Of this total, $30 million was sold in the second quarter, $11 million in the third quarter, and $91 million in the fourth quarter. The Federal Reserve's share of U.S. purchases of foreign currencies amounted to $43 million equivalent of yen and $33 million equivalent of marks.

The Federal Reserve's holdings of foreign currencies at year-end were valued at $4,437 million, mostly in marks. Mexico had $483 million outstanding on its regular swap line with the System ($700 million drawn in August, $217 million repaid in December) and an additional $286 million outstanding on the special swap line with the System (part of the $1.85 billion package arranged through the BIS in August). In addition, the Federal Reserve held, under warehousing agreement, some $1,292 million equivalent of foreign currencies for the Treasury. The Federal Reserve incurred foreign exchange translation losses of $150 million on its foreign exchange position at year-end, reflecting the dollar's appreciation during the year.

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Monetary Policy Reports to Congress

Given below are reports submitted to the Congress by the Federal Reserve on February 10, 1982, and on July 20, 1982, pursuant to the Full Employment and Balanced Growth Act of 1978.

Report on February 10, 1982

Monetary Policy and the Performance of the Economy in 1981

The economy was growing rapidly as 1981 began, continuing the sharp cyclical rebound that had started in mid-1980. Activity leveled out during the spring and summer, however, and it fell in the final quarter of the year. As a result, the rate of production of goods and services—real gross national product—was only slightly higher at the end of 1981 than it had been a year earlier. With the weakening of output late in the year, the margin of unutilized plant capacity widened and the unemployment rate rose sharply to near postwar record levels.

While economic activity was disappointing last year, signs of progress in reducing inflationary pressures were emerging. The rate of price inflation slowed from the extremely rapid pace of the preceding two years, and as 1981 progressed there also were indications of an easing in the rate of wage increases, particularly in some key pattern-setting industries.

Confidence in the restoration of reasonable overall price stability is needed if economic growth is to be resumed on a sustained basis. The accelerating inflation of earlier years had been eroding the foundations of the nation's economy: capital formation had slowed; productivity was sagging; the functioning of basic market mechanisms was being impaired; and inequitable and capricious transfers of wealth were harming many of the weakest among us. The task of reversing the inflationary trend of earlier years was made more difficult because a decade of escalating prices and unsuccessful anti-inflation policies had led to firmly held expectations of continued high—if not accelerating—rates of inflation. Thus, it was recognized that reducing inflation would take time and that anti-inflation policies would have to be applied with persistence if they were to be effective in altering expectations and slowing the rate of increases in prices.

While fiscal policy and decisions made in the private sector have much to do with the course of economic developments, economic theory and experience alike indicate that progress toward price stability cannot be obtained without adequate restraint on the growth of money and credit. Monetary policy was conducted in 1981 with this crucial fact in mind. The Federal Reserve set objectives for the growth of the monetary aggregates that it believed would help to damp inflation and would lead to movement over time toward trend rates of monetary expansion consistent with the growth of potential output at stable prices.

Short-term market rates of interest began 1981 at record levels, as rapid growth of economic activity in the

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second half of 1980 had pushed up the demand for money and credit faster than could be accommodated within the target ranges for growth of the monetary aggregates and bank reserves. Early in 1981 these demands began to subside, pressures on bank reserve positions were relieved, and money market rates declined for a time. A bulge in money demand early in the second quarter was steadily resisted by restraining the supply of reserves, and in the process short-term interest rates moved back to their earlier highs. By midsummer, short-term interest rates were declining, as demands for money and credit slackened while the Federal Reserve expanded nonborrowed reserves in an effort to maintain adequate monetary growth. Those declines in interest rates accelerated in October and November as the recession took hold.

On balance, short-term interest rates—although volatile—moved down considerably over the course of 1981. In contrast, long-term rates rose substantially over the period, despite declines in the last quarter of the year. The pressure on long-term rates appeared to reflect a combination of factors. Of continuing strong investor concern were anticipations that continued large federal budget deficits would clash with private credit demands particularly as the economy expanded and put strong pressures on credit markets. Despite reductions in the growth of many federal spending programs, federal borrowing in calendar year 1981 siphoned off roughly a quarter of the total funds available to domestic nonfinancial borrowers. In the background were continuing doubts and skepticism that anti-inflation programs would be carried through. Moreover, the volatility of the markets may have inhibited aggressive buying of longer-term securities.

The tensions in credit markets in 1981 had their greatest impact on capital formation by businesses and households. Housing construction fell to its lowest level in the postwar period; only 1.1 million new housing units were started in 1981. The weakness in real estate markets last year reflected a number of influences. Of paramount importance in the short run was the cost of mortgage funds. The average rate on mortgages closed for new homes was 15.3 percent in the fourth quarter of 1981, up from 12.6 percent a year earlier. But it was not higher mortgage rates alone that cut into housing demand: high prices also adversely affected the ability of those seeking new homes to afford the monthly payments. Although house prices changed little in 1981, over the preceding five years prices of new and existing homes had risen half again as fast as the overall rate of inflation. As a result, the share of average family disposable income needed to service the monthly payment on a typical new mortgage rose from 21 percent in 1976 to nearly 40 percent last year.

Slow income growth and rising unemployment, along with the increased cost of credit, combined to damp consumer spending in 1981—particularly for more discretionary, large-ticket items such as autos, furniture, and appliances. Since the mid-1970s, household real after-tax income has only been rising at an annual rate of ½ percent, compared with a long-run trend of 2 percent. At the same time, the prices of essential items such as food, gasoline, heating fuel, utilities, and medical services—as a group—have been

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rising faster than the overall inflation rate, and the share of disposable income devoted to these items has been increasing. The resulting squeeze on family budgets led many households to overextend themselves during the second half of the 1970s, taking on more and more debt to finance their purchases.

With household balance sheets debt-laden and credit costs rising, a retrenchment in consumer borrowing began in 1980, and continued through 1981. As the year progressed, household balance sheets appeared to be improving. Consumer debt burdens (the ratio of monthly debt repayment obligations to income) declined to their lowest level in more than five years. Moreover, partly in response to the higher after-tax income after the tax cut on October 1, the saving rate rose from about 5 percent in the first three quarters of 1981 to 6 percent in the fourth quarter.

In real terms, personal consumption expenditures rose 1¼ percent over the four quarters of 1981. The gain was concentrated in the early months of the year as real consumer spending fell, on balance, over the final three quarters of 1981. Purchases of new automobiles were hardest hit. Sales of domestically produced cars totaled 6.2 million units in 1981, the poorest performance in 20 years. The depressed conditions in the auto sector were related, in part, to the typical cyclical volatility in the demand for motor vehicles and to credit market conditions, which affected the cost of financing new car and truck purchases. However, the current problems in the industry appear to be related mainly to longer-term trends in the demand for automobiles. These include the rapid increase in the price of new cars, high gasoline and other operating costs, sluggish growth of real income, intense foreign competition, and government regulations that have necessitated large investments to comply with emission control standards and to improve fuel efficiency. As 1981 was ending, the auto industry appeared to be taking aggressive actions to reduce costs and to improve the competitiveness of its products.

Business firms, like households, restrained their spending on investment goods in 1981. Demand was damped by a substantial degree of excess capacity and by the rising trend in corporate bond rates throughout much of the year, which boosted the real cost of capital. In real terms, expenditures for new plant and equipment rose only 1½ percent over the four quarters of 1981. Although spending for new structures increased during the year, real equipment outlays fell for the second year in a row; the biggest declines were for electrical machinery and transportation equipment, while spending for most other capital goods remained weak.

In contrast to fixed investment outlays, sizable unintended inventory accumulation boosted business financing requirements. As the year went on, unexpectedly weak demand led to a buildup of excess stocks in several industries. The most pronounced problem was in autos, but other manufacturers and retailers also found their inventory levels uncomfortably high relative to sales. On balance, total nominal business capital spending—fixed investment and inventories—rose about 20 percent above the 1980 average.

Early in 1981, strong economic growth helped boost corporate inter-

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nal funds, greatly reducing corporate needs for external financing. But as the economy slowed, corporate profits turned sluggish and businesses were forced to rely more heavily on credit markets to satisfy their rising capital needs. The bulk of business borrowing last year was in short-term markets, as most firms felt it best to defer making long-run commitments in the current financial environment. With the accumulation of additional short-term debt, however, corporate balance sheet positions deteriorated further, and the ratio of short-term to total debt of the nonfinancial corporate sector rose to a record high.

Real purchases of goods and services at all levels of government rose only moderately during 1981 as a sharp increase in purchases by the federal government was partly offset by curtailed spending at the state and local level. The rise in federal spending on goods and services reflected another large increase in defense purchases, while federal payroll reductions helped to contain increases in nondefense outlays. At the state and local level, real purchases fell 2 percent owing to a combination of the withdrawal of federal support for many activities, the continued impact of tax limitation measures, and the effects of a sluggish economy on tax revenues.

The weighted-average value of the dollar against major foreign currencies rose nearly one-fourth during the period from January to August. The dollar eased somewhat in the last part of 1981, but at the end of the year still remained well above its year-earlier level. The improvement in the inflation outlook in the United States was a factor in the appreciation of the dollar. Moreover, at various times during the year changes in the differential between interest rates on dollar assets and rates of return on foreign currency assets also had a noticeable impact on exchange rates.

Real exports of goods and services increased in the first quarter of 1981, in part because of strong growth of GNP in one of our major trading partners, Canada. But for the next three quarters, real exports declined in response to a slowing of economic growth abroad and the effect of the appreciation of the dollar in 1980 and 1981. The volume of imports, other than oil, rose fairly steadily throughout the year. The current account, reflecting this weakened trade performance, shifted from a surplus in the first quarter to a deficit by the fourth quarter.

Employment grew at a moderate rate during the first three quarters of 1981 and the unemployment rate edged down. Job increases were strongest in the service and trade sectors. As economic activity began to contract in the autumn, the demand for labor fell sharply and the unemployment rate climbed to 8.8 percent in December—only fractionally below its postwar high. Layoffs in the durable goods and construction industries accounted for much of the drop in employment. As a result, the unemployment rate of adult men—who tend to be more heavily employed in these industries—jumped to a postwar record of 7.9 percent in December 1981.

Labor productivity (output per hour worked) showed considerable fluctuation during 1981, reflecting the course of economic activity. Productivity rose at an annual rate of 1¼ percent in the first three quarters of 1981. However, as often happens at

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the beginning of a cyclical downturn, output fell more than employment in the fourth quarter and productivity declined, offsetting the gains earlier in the year. Averaging across short-run cyclical movements, productivity has shown little improvement in recent years, and thus has provided virtually no offset to the impact of rapidly rising compensation on unit labor costs.

Compensation and wage increases did decelerate during 1981—with continuing progress observed throughout the year. But the slowing was moderate, reflecting the basic inertia of the wage-determination process, in which many union contracts last three years or more and nonunion wage agreements usually are set annually. By the second half of 1981, however, some changes in those traditional wage-setting practices were under way in several important industries: management and workers alike began to reconsider planned wage adjustments; some expiring contracts were renegotiated well in advance of termination dates; and labor agreements at a number of firms were modified in an effort to ease cost pressures and to enable firms to compete more effectively. These adjustments, coupled with the progress seen in reducing inflation during 1981, suggest that the nation's anti-inflation policies have set the stage for a sustained unwinding of wage and price increases.

The trend in inflation improved noticeably during 1981, and by year-end virtually all aggregate price indexes were advancing well below double-digit rates for the first time since 1978. The consumer price index rose 8.9 percent over the course of 1981, down from the average rate of nearly 13 percent in 1979 and 1980. Important factors in the slowing of inflation were exceptionally favorable agricultural supplies and declines, after the first quarter, in world oil prices. Inflation in areas other than food and energy—particularly consumer commodities and capital equipment—also began to abate, although price pressures persisted in the consumer service sector, notably for medical care. As the year progressed, surveys of consumer expectations suggested that the inflationary psychology, which had increasingly permeated many aspects of economic behavior in earlier years, appeared to be subsiding.

The Growth of Money and Credit in 1981

The Board of Governors in its report to the Congress last February indicated that the System intended to maintain restraint in the expansion of money and credit in 1981. The specific ranges chosen by the Federal Open Market Committee (FOMC) for the various monetary aggregates anticipated a deceleration in monetary growth that would encourage further improvement in price performance. Measured from the fourth quarter of 1980 to the fourth quarter of 1981, and abstracting from the effects on deposit structure of the authorization of negotiable order of withdrawal (NOW) accounts nationwide, the ranges adopted were as follows: for M1-A, 3 to 5½ percent; for M1-B, 3½ to 6 percent; for M2, 6 to 9 percent; and for M3, 6½ to 9½ percent. The associated range for commercial bank credit was 6 to 9 percent.

In formulating its objectives for 1981, the FOMC knew that the growth rates of the narrow aggre-

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gates would be affected markedly by shifts into NOW accounts, which for the first time became available nationwide in January. Transfers into NOW accounts, which are included in M1-B, from savings deposits and other asset holdings not included in M1 were expected to be particularly large in the early months of the year. Thus, in order to avoid confusion about the intent of policy and to facilitate comparisons with previous years, the objectives announced for M1-B abstracted from such shifts.[1] Even after accounting for such shifts, however, the FOMC anticipated that the growth rates of the various aggregates were likely to diverge more than usual, reflecting the rapid pace of institutional change in financial markets. The FOMC indicated that if M1-B growth (adjusted for shifts into new NOW accounts and other checkable deposits) was about in the middle of its annual range, the growth of M2 was likely to be in the upper part of its range, given the popularity of the nontransaction components of M2 that pay market-related interest rates. It also was noted that the relationship of M3 and bank credit to their respective ranges would be influenced in an important way by the pattern of credit flows that would emerge, and particulary by whether financial conditions would be conducive for corporations to refinance short-term borrowing in the bond and equity markets.

It soon became apparent as 1981 unfolded that the behavior of the aggregates was turning out to be even more divergent than had been anticipated. Growth rates of the shift-adjusted narrow aggregates were low in the opening months of the year, a development that was welcome following rapid growth in the latter part of 1980. A strong surge in April was offset by weakness over the remainder of the second quarter. On the whole, average growth in adjusted M1-B over the first half of 1981 was well below the growth that would have been expected on the basis of historical relationships among money, GNP, and interest rates. On the other hand, despite the weakness in M1-B, the broader aggregates expanded quite rapidly in early 1981. Growth in M2 over the first half was near the upper end of its annual range, while the expansion of M3 placed this aggregate above the upper bound of its range at midyear.

After reassessing its objectives for 1981 at midyear, the FOMC elected to leave unchanged the previously established ranges for the aggregates over the remainder of the year. However, in light of the reduced growth in M1-type balances over the first half of the year, indications that this weakness might reflect a lasting change in cash management practices of individuals and businesses related to the growth of alternative means of holding highly liquid funds, and given the relatively strong growth of the broader aggregates, the FOMC anticipated that growth of the narrow aggregates might likely and desirably end the year near the lower bounds of their annual ranges. Even so, given the sluggishness early in the year, this decision implied that growth of M1-A and of M1-B would accelerate over the balance of the year. At the same time, the FOMC indicated that M2 and M3 might well end the year around the upper ends of their ranges. This expectation also

1. The shift adjustments were estimated on the basis of survey evidence and were published regularly over the past year.

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reflected in part the possibility that regulatory and legislative actions as well as the popularity of money market mutual funds might intensify the public's preference to hold the type of assets encompassed in the broader aggregates.

Although growth of narrow money in the second half of the year was on average about the same as in the first half, M1-B strengthened appreciably in the final two months of the year. This acceleration appeared to reflect in part a lagged response to large short-term interest rate declines in the summer and fall and in part a shift to preferences for very liquid assets in an environment of heightened economic and financial uncertainty. Similarly, M2 growth in the second half was about in line with expansion in the first half, although growth in this measure also picked up at the end of the year. The expansion in M3, on the other hand, decelerated from the rapid pace of the first half, as sales of large certificates of deposit slowed in concert with a slackening in growth of bank credit and stronger growth in core deposits.

Measuring growth for the year from the fourth quarter of 1980 to the fourth quarter of 1981, growth in M1-B adjusted for shifts into NOW accounts was about 2¼ percent—1¼ percentage points below the lower end of its targeted range.[2] Growth rates, of course, are affected by the particular pattern of variation that develops over the course of the year. Measuring expansion from December to December, growth in adjusted M1-B in 1981 was at a rate of 3½ percent. On a yearly average basis, which reflects movements through the year as a whole relative to the level of the previous year, the increase was at a rate of 4¾ percent. At the same time, measured from the fourth quarter of 1980 to the fourth quarter of 1981, growth of M2 was 9.4 percent, 0.4 percentage point above the upper limit of its range. Also, growth of M3 exceeded the upper end of its range by 1.9 percentage points, while bank credit growth was just inside the upper end of its annual range.

The table puts the performance of the aggregates during 1981 into a somewhat longer-term perspective, showing two measures of annual growth. No matter which of the measures of annual growth is used, a marked deceleration in M1-B since 1978 is apparent. The table also clearly illustrates that growth rates for the broader aggregates have been maintained around a higher level, and larger divergences have developed from growth of M1-B. In considerable part, these differences can

2. Unadjusted for shifts into NOW accounts, M1-B increased 5.0 percent from the fourth quarter of 1980 to the fourth quarter of 1981.

Growth of Money and Bank Credit

Percentage changes

Period	M1-B[1]	M2	M3	Bank credit[2]
Fourth quarter to fourth quarter				
1978	8.3	8.3	11.3	13.3
1979	7.5	8.4	9.8	12.6
1980	6.6	9.1	9.9	8.0
1981	2.3	9.4	11.4	8.8
Annual average to annual average				
1978	8.2	8.8	11.8	12.4
1979	7.7	8.5	10.3	13.5
1980	5.9	8.3	9.3	8.5
1981	4.7	9.7	11.5	9.4

1. Growth rates for 1980 and 1981 adjusted for shifts to other checkable deposit accounts since the end of the preceding year.

2. The December level used for calculating these 1981 growth rates incorporates an adjustment to abstract from the shifting of assets from domestic banking offices to international banking facilities.

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be explained by structural changes in financial markets.

As noted earlier, it was already obvious last February when the FOMC was meeting to set its objectives for 1981 that shifts into NOW accounts after their nationwide authorization at the beginning of 1981 would alter the behavior of the narrow aggregates. Data for early January had pointed to a very large movement of funds at the beginning of the year. However, the pattern and magnitude of subsequent movements could not be predicted with any certainty. As events unfolded, the shifts into NOW accounts were more concentrated in the early part of 1981 than was anticipated by the working assumptions of the Board's staff. Through June, the adjustments made to the aggregates to correct for such shifts had the effect of raising M1-A by $28 billion and lowering M1-B by $9½ billion. Over the second half of 1981, further adjustments for shifts into NOW accounts raised M1-A by only another $6 billion and lowered M1-B by about $2½ billion more. While these adjustments are imprecise and based on evidence from a variety of sources, data on the number of NOW accounts coupled with other available information confirm that the shifting of funds from demand deposits to new interest-bearing checking accounts tapered off considerably by the fall. A surge in NOW account balances near the end of the year and early in 1982 appeared to reflect primarily the precautionary savings behavior already noted rather than shifting of funds into new accounts.

As already indicated, the growth of the narrow aggregates adjusted for shifts into NOW accounts was low in 1981 compared with the other aggregates and also relative to past relationships with income and interest rates. Continued high interest rates provided a substantial incentive for businesses to intensify efforts to pare narrow money balances and to make increasingly widespread use of sophisticated cash management techniques. At the same time, explosive growth of money market mutual funds (MMMFs), many of which offer check-writing or other third-party-payment services comparable with conventional checking accounts, appeared to induce some households to minimize checking account balances. Also, the broader availability of NOW accounts may have stimulated households to reconsider in a more general way their habits of cash management.

Likewise, the strong growth of M2 over the past few years reflected changing financial practices. Money market funds and instruments offered by depository institutions that pay market-related interest rates have been accounting for an increasing proportion of M2, as such assets have become much more competitive with open market instruments. Indeed, the attractiveness of small time deposits was enhanced last year by the liberalization of the interest rate ceilings on small savers certificates and to a limited extent by the introduction of all savers certificates. Even so, three-fourths of the increase in the nontransaction components of M2 was accounted for by MMMFs, which grew 140 percent last year.

The distortions in the aggregates resulting from the expansion in MMMFs are difficult to quantify. Surveys of household behavior and data on account turnover suggest that most shareholders of money

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funds have made little or no use of their accounts for transaction purposes. Thus, the direct substitution effect of MMMFs on the growth of M1 has appeared small, perhaps on the order of 1 percentage point on the rate of growth for the year. However, indirect effects may have been larger as the potential availability of such a highly liquid asset may facilitate holding less funds in demand and NOW accounts.

The direct effect of MMMFs on M2 appears more substantial in dollar terms. Presumably, the great bulk of the inflow of $20 billion in 1981 to MMMFs catering only to institutional investors was funds that otherwise would have been invested in assets not included in M2. In addition, it seems likely that a small portion of the growth of $90 billion in other types of MMMFs also reflected diversions from assets not in M2.

In light of the sizable distortions created by the growth of institution-only MMMFs, such funds have been excluded from the revised M2, but they will continue to be a component of M3. In addition, M2 has been revised to include retail repurchase agreements (RPs). Retail RPs, which previously had been a component only of M3, were promoted on a substantial scale in 1981, likely attracting funds mainly from household small-denomination time deposits and MMMF holdings and thus resulting in a downward bias on M2 growth. The net effect on M2 growth of reclassifying institution-only MMMFs and retail RPs, along with other minor revisions, was small.

M3 increased more rapidly than M2 last year largely because of the substantial expansion in large CDs, particularly over the first half of the year. With growth of core deposits weak on balance over the year, depository institutions increased their managed liabilities to support expansion in loans and investments.

Growth in bank credit accelerated somewhat in 1981 but stayed just within the upper end of its annual target range. The pickup in bank credit growth was concentrated in business loans. Growth in this category was bolstered by the high level of corporate bond rates through most of the year, which tended to focus business credit demands on short-term borrowing such as bank loans and commercial paper. Although merger activity contributed significantly to the growth of loan commitments over the year, actual takedowns for this purpose influenced loan growth only slightly. Real estate loans at banks in 1981 grew at about the same moderate pace as in 1980, while consumer lending strengthened a little from 1980. Security holdings at banks grew somewhat more slowly than loans in 1981.

The bank credit data in December were affected by the shifting of assets to accounts in the newly authorized international banking facilities (IBFs). About $22 billion of loans to foreign customers are estimated to have shifted from U.S. offices to IBFs in December. The data presented in this report are adjusted for this shift. Without this adjustment, the increase in bank credit from the fourth quarter of 1980 to the fourth quarter of 1981 was 8¼ percent, ½ percentage point less than shown by the adjusted data.

Broader measures of credit flows reflected the slowing pace of production and income in 1981 and the effects of high interest rates. Households and businesses continued to

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increase their borrowing over the first three quarters, but their use of credit contracted in the fourth quarter in response to the weakening of the economy. In view of the high level of long-term interest rates during most of 1981, virtually all of the increase in funds raised was in short-term debt instruments. Overall, net funds raised by nonfinancial sectors rose 7 percent in 1981 and continued to fall relative to GNP for the third consecutive year.

The Federal Reserve's Objectives for the Growth of Money and Credit

The Federal Reserve remains committed to restraint on the growth of money and credit in order to exert continuing downward pressure on the rate of inflation. Such a policy is essential if the groundwork is to be laid for sustained economic expansion.

A distinct slowing of inflation occurred during 1981, and the prospects for further progress are good. Failure to persist in the effort to maintain the improvement would have long-lasting and damaging consequences. Once again, underlying expectations would deteriorate, with potentially adverse effects on financial markets, particularly long-term rates. The result would be to embed inflation even more deeply into the nation's economic system—with the attendant debilitating consequences for the performance of the economy. A failure to continue on the current path would mean that the next effort would be associated with still greater hardship.

Progress toward price stability can be achieved most effectively and with the least amount of economic disruption by the concerted application of monetary, fiscal, regulatory, and other economic policies. But quite clearly inflation cannot persist over an extended period unless financed by excessive growth of money. Thus, a policy of restraint on the growth of the monetary aggregates is a key element in an anti-inflation strategy.

Targets for the monetary aggregates have been set with the aim of slowing the expansion of money over time to rates consistent with the needs of an economy growing in line with its productive potential at reasonably stable prices. The speed with which the trend of monetary growth can be lowered without unduly disturbing effects on short-run economic performance depends, in part, on the credibility of anti-inflation policies and their effects on price expectations as well as on other forces influencing interest rates and credit market demands, including importantly the fiscal position of the federal government. More technically, financial innovation or other factors affecting the demand for specific forms of money need to be monitored.

In its deliberations concerning the target ranges for 1982, the Committee recognized that the recent rapid increase in M1 placed the measure in January well above the average level during the fourth quarter of 1981, the conventional base for the new target. Experience has shown that, from time to time, M1 growth can fluctuate rather sharply over short periods, and these movements may be at least partially reversed fairly quickly. The available analysis suggested that the recent increase reflected in part some temporary factors of that kind, rather than signaling a basic change in the amount

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of money needed to finance growth in nominal GNP.

In light of all these considerations, the FOMC reaffirmed the following ranges of monetary expansion—tentatively set out in mid-1981—for the year ending in the fourth quarter of 1982: for M1, 2½ to 5½ percent; for M2, 6 to 9 percent, and for M3, 6½ to 9½ percent.[3] The FOMC also adopted a corresponding range of 6 to 9 percent for commercial bank credit. These ranges are the same as those agreed to in July and reaffirm the Federal Reserve's commitment to reduce inflationary forces. As has been typical in the past, these changes are measured from actual fourth-quarter levels from the previous year.[4]

During 1981, M1-B (shift-adjusted) rose slowly in relation to nominal GNP.[5] On the assumption that the relationship between growth of M1 and the rise of nominal GNP is likely to be more normal in 1982, and given the relatively low base for the range of M1-B, the Committee contemplated that growth in M1 this year may well be in the upper part of its range. At the same time, the FOMC elected to retain the lower bound of 2½ percent for growth of M1 that was tentatively set last July in recognition of the possibility that financial innovations—especially techniques for economizing on the use of checking account balances included in M1—could accelerate, with restraining effects on growth of M1.

The actual and potential effects on M1 of ongoing changes in financial technology and the greater availability of a wide variety of moneylike instruments and near-monies strongly suggest the need for also giving careful attention to developments with respect to broader money measures in the implementation of monetary policy. The range for growth of M2 is the same as in 1981 when actual growth slightly exceeded the upper bound of the range. The Committee contemplated that M2 growth in 1982 would be somewhat below the 1981 pace, although probably in the upper part of the range. However, should personal saving, responding to recent changes in tax law or other influences, grow much more rapidly in relation to income than now anticipated, or should depository institutions attract an exceptionally large inflow to individual retirement accounts from sources outside measured M2, growth of M2 might appropriately reach—or even slightly exceed—the upper end of the range. The ability of depository institutions to compete for the public's

3. The objective for growth of narrowly defined money over 1982 is set in terms of M1 only. Last February, when the FOMC set its targets for narrow money, it recognized that regulatory changes allowing for the establishment of nationwide NOW accounts would distort the observed behavior of M1-A and M1-B. Accordingly, the targets were set on a basis that abstracted from the shifting of funds into interest-bearing checkable deposits. Based on a variety of evidence suggesting that the bulk of the shift to NOW accounts had occurred by late 1981, the Federal Reserve reaffirmed in December its previously announced intention that starting in January 1982 shift adjustments would no longer be published and only a single M1 figure would be released with the same coverage as M1-B.

4. Because of the introduction of IBFs, the bank credit data after December 1981 are not comparable with earlier data. The targets for 1982 are in terms of growth from an average of December 1981 and January 1982 to the average level in the fourth quarter of 1982.

5. M1-B velocity, before shift adjustment, rose at a rate closer to historical experience. However, the shift of funds from savings accounts or other sources of funds not included in measures of the narrow money supply temporarily depressed that velocity figure, particularly early in the year.

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savings will, of course, also be affected in part by deregulatory decisions that may be made by the Depository Institutions Deregulation Committee.

The 1982 ranges for M3 and bank credit were left unchanged from those for 1981. These aggregates again will be influenced importantly by the degree to which credit demands tend to be focused on short-term borrowing and are funded at home or abroad.

The Outlook for the Economy in 1982

Economic activity still appears to be contracting; industrial production and employment certainly declined further in January, with the extent of the fall worsened by exceptionally bad winter storms. Demand in the key sectors that had led the decline—housing and consumer spending—showed some signs of leveling off as the year began, and the recent cuts in production likely have helped to relieve some of the remaining inventory imbalances. Recent weather-related disruptions may affect the incoming data for a time, but the economy appears to be in the process of bottoming out, and a perceptible recovery in business activity seems likely before midyear.

One element supporting final demands in the economy is the federal government. Part of the recent expansion in the deficit reflects the cushioning effects of reduced taxes and increased government expenditures that result from declining income growth and rising unemployment. In addition, however, the buildup in defense spending is a continuing source of stimulus. The second phase of the tax reductions that occurs in July will provide another expansionary impetus to the economy. At the same time, the deficit—particularly if expected to continue at exceptionally high levels in later years—adversely influences current financial market conditions.

The Federal Reserve's objectives for money growth in 1982 are consistent with recovery in economic activity. The expansion is likely to be concentrated initially in consumer spending. Given the substantial margin of excess capacity, outlays for business fixed investment may remain weak, particularly if long-term interest rates continue to fluctuate near their current high levels. A continuation of high levels of long-term rates also would inhibit the recovery in residential housing, although demographic factors will continue to buttress demands in that sector.

The effort to deal with inflation is at a critical juncture. The upward trend in inflation clearly has been halted and the process of reversal is under way. There are signs that price setting, wage bargaining, and personal spending decisions are beginning to be made and that these decisions over time will serve to moderate, rather than to intensify, inflationary pressures. Nonetheless, the behavior of financial markets and other evidence strongly suggests the continued existence of considerable skepticism that progress in reducing inflation will be maintained. Lasting improvement in financial markets—particularly for longer-term instruments—is dependent on confidence that progress against inflation will continue; looming federal deficits have served to shake that confidence. Prospects for lower interest rates and for sustaining recovery over a long

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period—indeed for the timing of recovery—are thus tied to prospects for a more stable price level.

How we emerge from the current recession will be crucial to curtailing inflation further. The recovery phases that have followed recent recessions have sometimes been associated with an acceleration of inflation. However, if monetary and fiscal policies are appropriately disciplined, this pattern need not recur; and recovery from the current recession will be consistent with further progress toward achieving sustainable growth, price stability, and lower levels of interest rates.

Given the current circumstances and in light of the objectives for the monetary aggregates for the coming year, the individual members of the FOMC have formulated projections for economic performance in 1982 that generally fall within the ranges indicated in the table. The members of the FOMC expect inflation to continue to moderate in 1982. At the same time, real activity is expected to accelerate with most of the growth coming in the second half of the year. With inflation continuing to be substantial and the prospect of the federal budget deficit remaining large even as the recovery gathers momentum, demands for credit should intensify as the year progresses. In these circumstances, the recovery is likely to be somewhat restrained, with the result that unemployment probably still will be substantial at year-end.

Economic Projections for 1982

Percent

Period	Actual 1981	Projected for 1982	
		FOMC members	Administration
Changes, fourth quarter to fourth quarter			
Nominal GNP	9.3	8 to 10½	10.4
Real GNP	.7	½ to 3	3.0
GNP deflator	8.6	6½ to 7¾	7.2
Average level in the fourth quarter			
Unemployment rate	8.3	8¼ to 9½	8.4

The FOMC members' projections generally encompass those that underlie the administration's recent budget proposals. The consensus view of the FOMC anticipates an improvement in inflation during 1982 comparable with the administration's as well as a similar outlook for the labor market. The administration's projection for real growth falls at the high end of the FOMC consensus. In the event prices and wages should respond more rapidly to anti-inflation policies than historical experience would suggest or should more favorable productivity trends develop, then the recovery could be faster without adverse pressures developing on prices, wages, and interest rates.

Report on July 20, 1982

Performance of the Economy in the First Half of 1982

The contraction in economic activity that began in mid-1981 continued into the first half of 1982, although at a diminished pace. Declines in production and employment slowed, while sales of automobiles improved. Real gross national product fell at an annual rate of 4 percent between the third quarter of 1981 and the first quarter of 1982. With output declining, the margin of unused plant capacity widened and the unemployment rate rose to a postwar record.

By mid-1982, however, the recession seemed to be drawing to a close. Inventory positions had improved substantially, home building was beginning to revive, and consumer

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spending appeared to be rising. Nonetheless, business investment showed signs of increased weakness. Although final demands apparently fell during the second quarter, the rate of inventory liquidation slowed, and on balance, real GNP apparently changed little. If, in fact, this spring or early summer is determined to have been the cyclical trough, both the depth and the duration of the decline in activity will have been about the same as in other postwar recessions.

The progress in reducing inflation that began during 1981 continued in the first half of 1982. The greatest improvement was in prices of food and energy—which benefited from favorable supply conditions—but increases in price measures that exclude these volatile items also have slowed markedly. Moreover, increases in employment costs, which carry forward the momentum of inflation, have diminished considerably. Not only have wage increases eased for union workers in hard-pressed industries as a result of contract concessions, but wage and fringe benefit increases also have slowed for nonunion and white-collar workers in a broad range of industries. In addition there has been increasing use of negotiated workrule changes as well as other efforts by business to enhance productivity and trim costs. At the same time, purchasing power has been rising; real compensation per hour increased 1 percent during 1981 and rose at an annual rate of about 3 percent over the first half of 1982.

Interest Rates

As the recession developed in the autumn of 1981, short-term interest rates moved down substantially. However, part of this decline was retraced at the turn of the year as the demand for money bulged and reserve positions tightened. After the middle of the first quarter, short-term rates fluctuated but generally trended downward, as money—particularly the narrow measure, M1—grew slowly on average and the weakness in economic activity continued. In mid-July, short-term rates were distinctly below the peak levels reached in 1980 and 1981. Nonetheless, short-term rates were still quite high relative to the rate of inflation.

Long-term interest rates also remained high during the first half of 1982. In part, this reflected doubts by market participants that the improved price performance would be sustained over the longer run. This skepticism was related to the fact that, during the past two decades, episodes of reduced inflation have been short-lived, followed by reacceleration to even faster rates of price increase. High long-term rates also have been fostered by the prospect of huge deficits in the federal budget even as the economy recovers. Fears of deepening deficits have affected expectations of future credit market pressures, and perhaps also have sustained inflation expectations. The resolution on the 1983 fiscal year budget that was adopted by the Congress represents a beginning effort to deal with the prospect of widening deficits; and the passage of implementing legislation should work in the direction of reducing market pressures on interest rates.

Domestic Credit Flows

Aggregate credit flows to private nonfinancial borrowers increased somewhat in the first half of 1982 from the reduced pace in the second half of 1981, according to very preliminary estimates. Business borrow-

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ing rose while households reduced further their use of credit. Borrowing by the federal government increased sharply in late 1981, after the 5 percent cut in personal income tax rates, and remained near the new higher level on a seasonally adjusted basis during the first half of 1982. Reflecting uncertainties about the future economic and financial environment, both lenders and borrowers have shown a strong preference for short-term instruments.

Much of the slackening in credit flows to nonfinancial sectors in the last part of 1981 was accounted for by households, particularly by household mortgage borrowing. Since then, mortgage credit flows have picked up slightly. The advance was encouraged in part by the gradual decline in mortgage rates from the peaks of last fall. In addition, households have made widespread use of adjustable-rate mortgages and "creative" financing techniques—including relatively short-term loans made by sellers at below-market interest rates and builder "buydowns." About two-fifths of all conventional mortgage loans closed recently were adjustable-rate instruments, and nearly three-fourths of existing home transactions reportedly involved some sort of creative financing.

Business borrowing dropped sharply during the last quarter of 1981, primarily reflecting reduced inventory financing needs. However, use of credit by nonfinancial corporations rose significantly in the first half of 1982, despite a further drop in capital expenditures. The high level of bond rates has discouraged corporations from issuing long-term debt, and a relatively large share of business borrowing this year has been accomplished in short-term markets—at banks and through sales of commercial paper. The persistently large volume of business borrowing suggests an accumulation of liquid assets as well as an intensification of financial pressures on at least some firms. Signs of corporate stress continue to mount, including increasing numbers of dividend reductions or suspensions, a rising fraction of business loans at commercial banks with interest or principal past due, and relatively frequent downgradings of credit ratings.

After raising a record volume of funds in U.S. credit markets in 1981, the federal government continued to borrow at an extraordinary pace during the first half of 1982 as receipts (national income and product accounts basis) fell while expenditures continued to rise. Owing to the second phase of the tax cut that went into effect on July 1 and the effects on tax revenues of the recession and reduced inflation, federal credit demands will expand further in the period ahead.

Consumption

Personal consumption expenditures (adjusted for inflation) fell sharply in the fourth quarter of 1981, but turned up early in 1982 and apparently strengthened further during the second quarter. The weakness in consumer outlays during the fourth quarter was concentrated in the auto sector, as total sales fell to an annual rate of 7.4 million units—the lowest quarterly figure in more than a decade—and sales of domestic models plummeted to a rate of 5.1 million units.

Price rebates and other sales promotion programs during the early months of 1982 provided a fillip to auto demand, and sales climbed to a

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rate of 8.1 million units. Auto markets remained firm into the spring, boosted in part by various purchase incentives. But as has generally occurred when major promotions have ended, auto purchases fell sharply in June. Outside the auto sector, retail sales at most types of stores were up significantly for the second quarter as a whole. Even purchases at furniture and appliance outlets, which had been on a downtrend since last autumn, increased during the spring.

Real after-tax income has continued to edge up, despite the sharp drop in output during the recession. The advance reflects not only typical cyclical increases in transfer payments but also the reduction in personal income tax rates on October 1. Households initially saved a sizable proportion of the tax cut, boosting the personal saving rate from 5¼ percent in mid-1981—about equal to the average of the late 1970s and early 1980s—to 6.1 percent in the fourth quarter of 1981. During early 1982, however, consumers increased spending, partly to take advantage of price markdowns for autos and apparel, and so the saving rate fell.

Business Investment

As typically occurs during a recession, the contraction in business fixed investment has lagged behind the decline in overall activity. Indeed, even though real GNP dropped substantially during the first quarter of 1982, real spending for fixed business capital actually rose a bit. An especially buoyant element of the investment sector has been outlays for nonfarm buildings—most notably, commercial office buildings, for which appropriations and contracts often are set a year or more in advance.

In contrast to investment in structures, business spending for new equipment showed little advance during 1981 and weakened considerably in the first half of 1982. Excluding business purchases of new cars, which also were buoyed by rebate programs, real investment in producers' durable equipment fell at an annual rate of 2 percent in the first quarter. The decline evidently accelerated in the second quarter. In April and May, shipments of nondefense capital goods, which account for about 80 percent of the spending on producers' durable equipment, averaged nearly 3 percent below the first-quarter level in nominal terms. Moreover, sales of heavy trucks dropped during the second quarter to a level more than 20 percent below the already depressed first-quarter average.

Businesses liquidated inventories at a rapid rate during late 1981 and in the first half of 1982. The adjustment of stocks followed a sizable buildup during the summer and autumn of last year that accompanied the contraction of sales. The most prominent inventory overhang by the end of 1981 was in the automobile sector as sales fell precipitously. However, with a combination of production cutbacks and sales promotions, the days' supply of unsold cars on dealers lots had improved considerably by spring.

Manufacturers and nonauto retailers also found their inventories rising rapidly last autumn. Since then, manufacturers as a whole have liquidated the accumulation that occurred during 1981, although some problem areas still exist—particularly in primary metals. Stocks held by nonauto retailers have been brought down from their cyclical peak, but they remain above prerecession levels.

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Residential Construction

Housing activity thus far in 1982 has picked up somewhat from the depressed level in late 1981. Housing starts during the first five months of 1982 were up 10 percent on average from the fourth quarter of 1981. The improvement in home building has been supported by strong underlying demand for housing services in most markets and by the continued adaptation of real estate market participants to nontraditional financing techniques that facilitate transactions.

The turnaround in housing activity has not occurred in all areas of the country. In the south, home sales increased sharply in the first part of 1982, and housing starts rose 25 percent from the fourth quarter of 1981. In contrast, housing starts declined further, on average, during the first five months of 1982 in both the west and the industrial north central states.

Government

Federal government purchases of goods and services, measured in constant dollars, declined over the first half of 1982. The decrease occurred entirely in the nondefense area, primarily reflecting a sharp drop in the rate of inventory accumulation by the Commodity Credit Corporation during the spring quarter. Purchases by the Commodity Credit Corporation had reached record levels during the previous two quarters, owing to last summer's large harvests and weak farm prices. Other nondefense outlays fell slightly over the first half of the year as a result of cuts in employment and other expenditures under many programs. Real defense spending apparently rose over the first half of the year, and the backlog of unfilled orders grew further. The federal deficit on a national income and product account basis widened from $100 billion at the end of 1981 to about $130 billion during the spring of this year. Much of this increase in the deficit reflects the effects of the recession on federal expenditures and receipts.

At the state and local government level, real purchases of goods and services fell further over the first half of 1982 after having declined 2 percent during 1981. Most of the weakness this year has been in construction outlays as employment levels have stabilized after large reductions in the federally funded program (under the Comprehensive Employment and Training Act) led to sizable layoffs last year. The declines in state and local government activity in part reflect fiscal strains associated with the withdrawal of federal support for many activities and the effects of cyclically sluggish income growth on tax receipts. Because of the serious revenue problems, several states have increased sales taxes and excise taxes on gasoline and alcohol.

International Payments and Trade

The weighted-average value of the dollar, after having declined about 10 percent from its peak last August, began to strengthen sharply again around the beginning of the year, and since then it has appreciated nearly 15 percent on balance. The appreciation of the dollar has been associated to a considerable extent with the declining inflation rate in the United States and the rise in dollar interest rates relative to yields on assets denominated in foreign currencies.

Reflecting the effects of the strengthening dollar, as well as the slowing of economic growth abroad, real exports of goods and services

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have been decreasing since the beginning of 1981. The volume of imports other than oil, which rose fairly steadily throughout last year, dropped sharply in the first half of 1982, owing to the weakness of aggregate demand—especially for inventories—in the United States. In addition, both the volume and the price of imported oil fell during the first half of the year. The current account, which was in surplus for 1981 as a whole, recorded another surplus in the first half of this year as the value of imports fell more than the value of exports.

Labor Markets

Employment has declined nearly 1½ million since the peak reached in mid-1981. As usually happens during a cyclical contraction, the largest job losses have been in durable goods manufacturing industries—such as autos, steel, and machinery—as well as at construction sites. The job losses in manufacturing and construction during this recession follow a limited recovery from the 1980 recession; as a result, employment levels in these industries are more than 10 percent below their 1979 highs. In addition, declines in aggregate demand have tempered the pace of hiring at service industries and trade establishments over the past year. As often happens near a business-cycle trough, employment fell faster than output in early 1982 and labor productivity showed a small advance after having declined sharply during the second half of 1981.

Since mid-1981 the overall unemployment rate has risen 2¼ percentage points to a postwar record of 9½ percent. The effects of the recession have been most severe in the durable goods and construction industries, and the burden of rising unemployment has been relatively heavy on adult men who tend to be more concentrated in these industries. At the same time, joblessness among young and inexperienced workers remains extremely high; hardest hit have been black male teenagers who experienced an unemployment rate of nearly 60 percent in June 1982.

Reflecting the persistent slack in labor markets, most indicators of labor supply also show a significant weakening. For example, the number of discouraged workers—that is, persons who report that they want work but are not looking for jobs because they believe they cannot find any—has increased nearly a half million over the past year, continuing an upward trend that began before the 1980 recession. In addition, the labor force participation rate—the proportion of the working-age population that is employed or actively seeking jobs—has been essentially flat for the last two years after rising about ½ percentage point annually between 1975 and 1979.

Prices and Labor Costs

A slowing in the pace of inflation, which was evident during 1981, continued through the first half of this year. During the first five months of 1982 (the latest data available), the consumer price index (CPI) increased at an annual rate of 3.5 percent, sharply lower than the 8.9 percent rise during 1981. Much of the improvement was in energy and food prices as well as in the volatile CPI measure of homeownership costs. But even excluding these items, the annual rate of increase in consumer prices has slowed to 5½ percent this year compared with 9½ percent last year.

The moderation of price increases also was evident at the producer

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level. Prices of capital equipment have increased at an annual rate of 4¼ percent thus far this year—well below the 9¼ percent pace of 1981. In addition, the decline in raw materials prices, which occurred throughout last year, has continued in the first half of 1982.

Gasoline prices at the retail level, which had remained virtually flat over the second half of 1981, fell substantially during the first four months of 1982. Slack domestic demand and an overhang of stocks on world petroleum markets precipitated the decline in prices. However, gasoline prices began to rise again in May in reflection of rising consumption, reduced stocks, and lower production schedules by major crude oil suppliers.

The rate of increase in employment costs decelerated considerably during the first half of 1982. The index of average hourly earnings, a measure of wage trends for production and non-supervisory personnel, rose at an annual rate of 6¼ percent over the first half of this year, compared with an increase of 8¼ percent during 1981. Part of the slowing was due to early negotiation of expiring contracts and renegotiation of existing contracts in a number of major industries. These wage concessions are expected to relieve cost pressures and to enhance the competitive position of firms in these industries. Increases in fringe benefits, which generally have risen faster than wages over the years, also are being scaled back. Because wage demands, not to mention direct escalator provisions, are responsive to price performance, the progress made in reducing the rate of inflation should contribute to further moderation in labor cost pressures.

The Growth of Money and Credit in the First Half of 1982

The annual targets for the monetary aggregates announced in February were chosen to be consistent with continued restraint on the growth of money and credit in order to exert sustained downward pressure on inflation. At the same time, these targets were expected to result in sufficient money growth to support an upturn in economic activity. Measured from the fourth quarter of 1981 to the fourth quarter of 1982, the growth ranges for the aggregates adopted by the Federal Open Market Committee (FOMC) were as follows: for M1, 2½ to 5½ percent; for M2, 6 to 9 percent; and for M3, 6½ to 9½ percent. The corresponding range specified by the FOMC for bank credit was 6 to 9 percent.[6]

When the FOMC was deliberating on its annual targets in February, the Committee was aware that M1 already had risen well above its average level in the fourth quarter of 1981. In light of the financial and economic backdrop against which the bulge in M1 had occurred, the Committee believed it likely that there had been an upsurge in the public's demand for liquidity. It also seemed probable that this strengthening of money demand would unwind in the months ahead. Thus, under these

6. Because of the authorization of international banking facilities (IBFs) on December 3, 1981, the bank credit data starting in December 1981 are not comparable with earlier data. The target for bank credit was put in terms of annualized growth measured from the average of December 1981 and January 1982 to the average level in the fourth quarter of 1982 so that the shift of assets to IBFs that occurred at the turn of the year would not have a major impact on the pattern of growth.

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circumstances and given the relatively low base for the M1 range for 1982, it did not appear appropriate to seek an abrupt return to the annual target range, and the FOMC indicated its willingness to permit M1 to remain above the range for a while. At the same time, the FOMC agreed that the expansion in M1 for the year as a whole might appropriately be in the upper part of its range, particularly if available evidence suggested the persistence of unusual desires for liquidity that had to be accommodated to avoid undue financial stringency.

In setting the annual target for M2, the FOMC indicated that M2 growth for the year as a whole probably would be in the upper part of its annual range and might slightly exceed the upper limit. The Committee anticipated that demands for the assets included in M2 might be enhanced by new tax incentives such as the broadened eligibility for individual retirement and Keogh accounts, or by further deregulation of deposit rates. The Committee expected that M3 growth again would be influenced importantly by the pattern of business financing and, in particular, by the degree to which borrowing would be focused in markets for short-term credit.

As anticipated—and consistent with the FOMC's short-run targets—the surge in M1 growth in December and January was followed by appreciably slower growth. After January, M1 increased at an annual rate of only 1¼ percent on average, and the level of M1 in June was only slightly above the upper end of the Committee's annual growth range. From the fourth quarter of 1981 to June, M1 increased at a 5.6 percent annual rate. M2 growth so far this year also has run a bit above the FOMC's annual range; from the fourth quarter of 1981 through June, M2 increased on average at an annual rate of 9.4 percent. From a somewhat longer perspective, M1 has increased at an annual rate of 4.7 percent, measuring growth from the first half of 1981 to the first half of 1982 and abstracting from the shift into NOW accounts in 1981; and M2 has grown at a 9.7 percent annual rate on a half-year over half-year basis.

Although M1 growth has been moderate on balance thus far this year, that growth has considerably exceeded the pace of increase in nominal GNP. Indeed, the first-quarter decline in the income velocity of M1—that is, GNP divided by M1—was extraordinarily sharp. Similarly, the velocity of the broader aggregates has been unusually weak. Given the persistence of high interest rates, this pattern of velocity behavior suggests a heightened demand for M1 and M2 over the first half.

The unusual demand for M1 has been focused on its negotiable order of withdrawal account component. After the nationwide authorization of NOW accounts at the beginning of 1981, the growth of such deposits surged. When the aggregate targets were reviewed this past February, a variety of evidence indicated that the major shift from conventional checking and savings accounts into NOW accounts was over; in particular, the rate at which new accounts were being opened had dropped off considerably. As a result of that shift, however, NOW accounts and other interest-bearing checkable deposits had grown to account for almost 20 percent of M1 by the beginning of 1982. Subsequently, it has become increasingly apparent that M1 is more

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sensitive to changes in the public's desire to hold highly liquid assets.

M1 is intended to be a measure of money balances held primarily for transaction purposes. However, in contrast to the other major components of M1—currency and conventional checking accounts—NOW accounts also have some characteristics of traditional savings accounts. Apparently reflecting precautionary motives to a considerable degree, NOW accounts and other interest-bearing checkable deposits grew surprisingly rapidly in the fourth quarter of last year and the first quarter of this year. Although growth in this component has slowed recently, its growth from the fourth quarter of last year to June has been 30 percent at an annual rate. The other components of M1 increased at an annual rate of less than 1 percent over this same period.

Looking at the components of M2 not also included in M1, the so-called nontransaction components, these items grew at a 10¾ percent annual rate from the fourth quarter of 1981 to June. General-purpose and broker-dealer money market mutual funds were an especially strong component of M2, increasing at an annual rate of almost 30 percent this year. Compared with last year, however, when the assets of such money funds more than doubled, this year's increase represents a sharp deceleration.

Perhaps the most surprising development affecting M2 has been the behavior of conventional savings deposits. After declining in each of the past four years—falling 16 percent last year—savings deposits have increased at an annual rate of about 4 percent thus far this year. This turnaround in savings deposit flows, taken together with the strong increase in NOW accounts and the still substantial growth in money funds, suggests that stronger preferences to hold safe and highly liquid financial assets in the current recessionary environment are bolstering the demand for M2 as well as for M1.

M3 increased at an annual rate of 9.7 percent from the fourth quarter of 1981 to June, just above the upper end of the FOMC's annual growth target. Early in the year, growth of M3 was relatively moderate as a strong rise in large-denomination CDs was offset by declines in term RPs and in money market mutual funds restricted to institutional investors. During the second quarter, however, M3 showed a larger increase; the weakness in its term RP and money fund components subsided and heavy issuance of large CDs continued. With growth of "core deposits" relatively weak on average, commercial banks borrowed heavily in the form of large CDs to fund the increase in their loans and investments.

Commercial bank credit grew at an annual rate of 8.3 percent over the first half of the year, in the upper part of the FOMC's range for 1982. Bank loans have increased on average at an annual rate of about 9½ percent, with loans to nonfinancial businesses expanding at an annual rate of 14 percent. In past economic downturns, business loan demand at banks has tended to weaken, but consistently high long-term interest rates in the current recession have induced corporations to meet the bulk of their external financing needs through short-term borrowing. Real estate loans have increased at an annual rate of 7¼ percent this year, somewhat slower than the growth in each of the past two years. Consumer

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loans outstanding during the first half of the year have grown at the same sluggish pace of 3 percent experienced last year. The investment portfolios of banks have expanded at an annual rate of about 5 percent, with the rate of increase in U.S. government obligations about twice as large as the growth in holdings of other types of securities.

The Federal Reserve's Objectives for Growth of Money and Credit

There is a clear need today to promote higher levels of production and employment in our economy. The objective of Federal Reserve policy is to create an environment conducive to sustained recovery in business activity while maintaining the financial discipline needed to restore reasonable price stability. The experience of the past two decades has amply demonstrated the destructive impact of inflation on economic performance. Because inflation cannot persist without excessive monetary expansion, appropriately restrained growth of money and credit over the longer run is critical to achieving lasting prosperity.

The policy of firm restraint on monetary growth has contributed importantly to the recent progress toward reducing inflation. But when inflationary cost trends remain entrenched, the process of slowing monetary growth can entail economic and financial stresses, especially when so much of the burden of dealing with inflation rests on monetary policy. These strains—reflected in reduced profits, liquidity problems, and balance sheet pressures—place particular hardships on industries, such as construction, business equipment, and consumer durables, that depend heavily on credit markets.

Unfortunately, these stresses cannot be easily remedied through accelerated money growth. The immediate effect of encouraging faster growth in money might be lower interest rates, especially in short-term markets. In time, however, the attempt to drive interest rates lower through a substantial reacceleration of money growth would founder, for the result would be to embed inflation and expectations of inflation even more deeply into the nation's economic system. It would mean that this recession was another wasted, painful episode instead of a transition to a sustained improvement in the economic environment. The present and prospective pressures on financial markets urgently need to be eased not by relaxing discipline on money growth, but by adopting policies that will ensure a lower and declining federal deficit. Moreover, a return to financial health will require the adoption of more prudent credit practices on the part of private borrowers and lenders alike.

In reviewing its targets for 1982 and setting tentative targets for 1983, the FOMC had as its basic objective the maintenance of the longer-range thrust of monetary discipline in order to reduce inflation further, while providing sufficient money growth to accommodate exceptional liquidity pressures and support a sustainable recovery in economic activity. At the same time, the Committee recognized that regulatory actions or changes in the public's financial behavior might alter the implications of any quantitative monetary goals in ways that cannot be fully predicted.

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In light of all these considerations, the Committee concluded that a change in the previously announced targets was not warranted at this time. Because of the tendency for the demand for money to run strong on average in the first half, and also responding to the congressional budget resolution, careful consideration was given to the question of whether some raising of the targets was in order. However, the available evidence did not suggest that a large increase in the ranges was justified, and a small change in the ranges would have represented a degree of "fine tuning" that appeared inconsistent with the degree of uncertainty surrounding the precise relationship of money to other economic variables at this time. However, the Committee concluded, based on current evidence, that growth this year around the top of the ranges for the various aggregates would be acceptable.

The Committee also agreed that possible shifts in the demand for liquidity in current economic circumstances might require more than ordinary elements of flexibility and judgment in assessing appropriate needs for money in the months ahead. In the near term, measured growth of the aggregates may be affected by the income tax reductions that occurred on July 1, by cost-of-living increases in social security benefits, and by the ongoing difficulties of accurately accounting for seasonal movements in the money stock. But more fundamentally, it is unclear to what degree businesses and households may continue to wish to hold unusually large precautionary liquid balances. To the extent the evidence suggests that relatively strong precautionary demands for money persist, growth of the aggregates somewhat above their targeted ranges would be tolerated for a time and still would be consistent with the FOMC's general policy thrust.

Looking ahead to 1983 and beyond, the FOMC remains committed to restraining money growth in order to achieve sustained noninflationary economic expansion. At this point, the FOMC feels that the ranges now in effect can appropriately remain as preliminary targets for 1983. Because monetary aggregates in 1982 more likely than not will be close to the upper ends of their ranges, or perhaps even somewhat above them, the preliminary 1983 targets would be fully consistent with a reduction in the actual growth of money in 1983.

In light of the unusual uncertainty surrounding the economic, financial, and budgetary outlook, the FOMC stressed the tentative nature of its 1983 targets. On the one hand, postwar cyclical experience strongly suggests that some reversal of this year's unusual shift in the asset-holding preferences of the public could be expected; with economic activity on an upward trend, any lingering precautionary motives for holding liquid balances should begin to fade, thus contributing to a rapid rise in the velocity of money. Moreover, regulatory actions by the Depository Institutions Deregulation Committee that increase the competitive appeal of deposit instruments—as well as the more widespread use of innovative cash management techniques, such as "sweep" accounts—also could reduce the demand for money relative to income and interest rates. On the other hand, factors exist that should increase the attractiveness of holding cash balances.

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The long upward trend in the velocity of money since the 1950s took place in an environment of rising inflation and higher nominal interest rates—developments that provide incentives for economizing on money holdings. As these incentives recede, it is possible that the attractiveness of cash holdings will be enhanced and that more money will be held relative to the level of business activity.

The Outlook for the Economy

The economy at midyear appears to have leveled off after sizable declines last fall and winter. Consumption has strengthened with retail sales up significantly in the second quarter. New and existing home sales have continued to fluctuate at depressed levels, but housing starts nonetheless have edged up. In the business sector, substantial progress has been made in working off excess inventories, and the rate of liquidation appears to have declined. On the negative side, however, plant and equipment spending, which typically lags an upturn in overall activity, is still depressed. And the trend in export demand continues to be a drag on the economy, reflecting the dollar's strength and weak economic activity abroad.

An evaluation of the balance of economic forces indicates that an upturn in economic activity is highly likely in the second half of 1982. Monetary growth along the lines targeted by the FOMC should accommodate this expansion in real GNP, given the increases in velocity that typically occur early in a cyclical recovery and absent an appreciable resurgence of inflation. The 10 percent cut in income tax rates that went into effect July 1 is boosting disposable personal income and should reinforce the growth in consumer spending. Given the improved inventory situation, any sizable increase in consumer spending should, in turn, be reflected in new orders and a pickup in production. Another element supporting growth in real GNP will be the continuing rise in defense spending and the associated private investment outlays needed for the production of defense equipment.

At least during the initial phase, the expansion is likely to be more heavily concentrated in consumer spending than in past business cycles, as current pressures in financial markets and liquidity strains may inhibit the recovery in investment activity. With mortgage interest rates high, residential construction does not seem likely to contribute to the cyclical recovery to the extent that it has in the past. Likewise, the high level of corporate bond rates, and the cumulative deterioration in corporate balance sheets resulting from reliance in recent years on short-term borrowing, may restrain capital spending, especially given the considerable margin of unutilized capacity that now exists.

The excellent price performance so far this year has been helped by slack demand and by exceptionally favorable energy and food supply developments. For that reason, the recorded rate of inflation may be higher in the second half. However, prospects appear excellent for continuing the downtrend in the underlying rate of inflation. As noted earlier, significant progress has been made in slowing the rise in labor compensation, and improvement in underlying cost pressures should con-

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tinue over the balance of the year. Unit labor costs also are likely to be held down by a cyclical rebound in productivity growth as output recovers. Moreover, lower inflation will contribute to smaller cost-of-living wage adjustments, which will moderate cost pressures further.

The Federal Reserve's objectives for money growth through the end of 1983 are designed to be consistent with continuing recovery in economic activity. A critical factor influencing the composition and strength of the expansion will be the extent to which pressures in financial markets moderate. This, in turn, depends importantly on the progress made in further reducing inflationary pressures. A marked decrease in inflation will take pressure off financial markets in two ways. First, slower inflation will lead to a reduced growth in transaction demands for money, given any particular level of real activity. It follows that a given target for money growth can be achieved with less pressure on interest rates and accordingly less restraint on real activity, the greater is the reduction in inflation. Second, further progress in curbing inflation will help lower long-term interest rates by reducing the inflation premium contained in nominal interest rates. The welcome relief in inflation seen recently apparently is assumed by many to represent a cyclical rather than a sustained drop in inflation. But the longer that improved price performance is maintained, the greater will be the confidence that a decisive downtrend in inflation is being achieved. Such a change should be reflected in lower long-term interest rates and stronger activity in the interest-sensitive sectors of the economy.

Another crucial influence on financial markets and thus on the nature of the expansion in 1983 will be the federal budgetary decisions that are made in coming months. The budget resolution that was recently passed by the House and the Senate is a constructive first step in reducing budget deficits as the economy recovers. However, much remains to be done in appropriation and revenue legislation to implement this resolution. How the budgetary process unfolds will be an important factor in determining future credit demands by the federal government and thus the extent to which deficits will preempt the net savings generated by the private economy. A strong program of budget restraint would minimize pressures in financial markets and thereby enhance the prospects for a more vigorous recovery in home building, business fixed investment, and other credit-dependent sectors.

In assessing the economic outlook, the individual members of the FOMC have formulated projections for several key measures of economic performance that fall generally within the ranges in the accompanying table. In addition to the monetary aggre-

Economic Projections of FOMC Members

Item	Actual	Projected	
	1981	1982	1983
Changes, fourth quarter to fourth quarter, percent			
Nominal GNP	9.8	5½ to 7½	7 to 9½
Real GNP	.9	½ to 1½	2½ to 4
GNP deflator	8.9	4¾ to 6	4 to 5¾
Average level in fourth quarter, percent			
Unemployment rate	8.3	9 to 9¾	8½ to 9½

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gate objectives discussed earlier, these projections assume that the federal budget will be put on a course that over time will result in significant reductions in the federal deficit.

Revised administration forecasts for the economy were not available at the time of the Committee's deliberation. Our understanding, however, is that the administration's midyear budgetary review will be presented within the framework of the economic assumptions used in the first budget resolution. For the remainder of 1982, those assumptions imply somewhat more rapid recovery than the range now thought most likely by members of the FOMC, but are consistent with the monetary targets outlined in this report on the assumption of growth in velocity characteristic of the early stages of a number of past recoveries. Looking further ahead, the Committee members, like the administration and the Congress, foresee continued economic expansion in 1983, but currently anticipate a less rapid rate of price increase and somewhat slower real growth than the assumptions underlying the budget. The monetary targets tentatively set for 1983, which will be reviewed early next year, would imply, under the budgetary assumptions, relatively high growth in velocity.

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Part 2

Records, Operations, and Organization

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Record of Policy Actions of the Board of Governors

Regulation B (Equal Credit Opportunity)

October 7, 1982—Interpretations and Withdrawal of Amendments

The Board adopted two interpretations of Regulation B, effective April 1, 1983, dealing with the treatment of income in judgmental and credit-scoring systems and the selection and disclosure of reasons for adverse credit actions. The Board also withdrew proposed amendments to provisions in the regulation dealing with business credit.

Votes for these actions: Messrs. Martin, Wallich, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against these actions: None. Absent and not voting: Messrs. Volcker and Partee.

One interpretation specifies how creditors should treat income from sources such as alimony, child support, part-time employment, retirement benefits, or public assistance in order to comply with the requirement not to discount or exclude such income when evaluating credit applications. The second interpretation describes how creditors should select and disclose the principal reasons for denying credit or other adverse credit actions.

The Board also withdrew several proposed amendments to the business credit provisions of Regulation B. The amendments related only to the mechanical requirements of the regulation and not to the prohibitions against discrimination in any aspect of a business credit transaction.

Regulation D (Reserve Requirements of Depository Institutions)

March 24, 1982—Amendment

The Board amended Regulation D, effective April 28, 1982, to make permanent a temporary rule adopted in 1981 to ensure that the phase-in of reserve requirements for new institutions was not used for reserve avoidance.

Votes for this action: Messrs. Volcker, Wallich, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None. Absent and not voting: Mr. Gramley.[1]

In November 1981, the Board adopted a temporary amendment to Regulation D to change the manner in which reserve requirements of certain institutions are phased in. The regulation previously had allowed newly established institutions to phase in reserve requirements over two years. This allowance was designed to reduce the start-up problems that new institutions typically experience.

In connection with recent actions by Delaware and South Dakota to permit out-of-state holding companies to establish subsidiaries in those states, a number of large banking organizations outside those states announced plans to establish such subsidiaries and to transfer a significant volume of deposits to them. The Board

1. On this and subsequent pages, footnote 1 indicates that there was a vacancy on the Board at the time the action was taken.

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believed these new institutions would not experience the typical start-up problems and should not be eligible for the two-year phase-in provision. The Board, therefore, decided that an institution that began operations after November 17, 1981, would lose its eligibility for the phase-in provision after its reservable liabilities exceeded $50 million.

April 26, 1982—Amendment

The Board amended Regulation D, effective April 29, 1982, to establish reserve requirements for a recently authorized time deposit.

> Votes for this action: Messrs. Volcker, Martin, Wallich, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None. Absent and not voting: Mr. Gramley.

Beginning May 1, 1982, the Depository Institutions Deregulation Committee (DIDC) authorized a 3½-year time deposit not subject to interest rate ceilings. Under existing provisions of Regulation D, nonpersonal time deposits with maturities of four years or more are subject to a zero percent reserve requirement; those with shorter maturities have a 3 percent reserve requirement, after completion of the phase-in periods. The Board, therefore, amended the regulation by changing from four years to three and one-half years the minimum maturity of time deposits subject to the zero percent reserve requirement. The Board noted, however, that this action should not be interpreted as a commitment to continue to shorten deposit maturities in conjunction with the phase-out of interest rate ceilings proposed by the DIDC. Any subsequent decision on reserve requirements will reflect experience, prevailing monetary and economic conditions, and implications for Treasury revenues.

The amendment was effective April 29, and was applicable to the reserve maintenance period beginning May 13, 1982.

August 20, 1982—Amendment

The Board amended Regulation D, effective September 1, 1982, to define as a time deposit the new deposit instrument authorized by the Depository Institutions Deregulation Committee.

> Votes for this action: Messrs. Martin, Wallich, Partee, Rice, and Gramley. Votes against this action: None. Absent and not voting: Mr. Volcker and Mrs. Teeters.

Regulation D had defined a time account as a deposit that has an initial maturity or a notice period of 14 days or more; accounts with shorter maturities are considered demand deposits. The Depository Institutions Deregulation Committee authorized federally insured institutions to offer a new deposit instrument with a maturity of 7 to 31 days, a minimum balance of $20,000, and a ceiling rate tied to the rate on 91-day Treasury bills. The Board amended Regulation D to define the new instrument as a time deposit that is eligible for the lower reserve requirements applicable to time deposits.

The amendment was effective September 1, and was applicable to the reserve maintenance period beginning September 9, 1982.

September 29, 1982—Amendments

The Board amended Regulation D, effective February 2, 1984, to implement a contemporaneous accounting

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system for assessing and maintaining reserve requirements for transaction accounts at depository institutions.

Votes for these actions: Messrs. Volcker, Martin, Wallich, Partee, and Rice. Votes against these actions: Mrs. Teeters and Mr. Gramley.

Under the current system of lagged reserve accounting, an institution's reserve requirements are assessed on the basis of deposit levels averaged over a seven-day period; required reserves are maintained for a seven-day period two weeks later. The contemporaneous system for transaction accounts shortens to two days the lag between the end of the reserve calculation period and the beginning of the reserve maintenance period. Reserves will be computed and maintained, however, on the basis of deposits averaged over a two-week period. Required reserves on nonpersonal time deposits will continue to be maintained on a lagged basis. The Board also adopted certain technical amendments to Regulation D to adjust the reserve maintenance periods of institutions that are not on a weekly reserve maintenance schedule to coincide with the contemporaneous system.

Governors Teeters and Gramley opposed adoption of the contemporaneous accounting system. They were not persuaded that the system would significantly improve monetary control, and they believed it would increase the short-run volatility of interest rates because institutions would need to adjust their reserve positions more promptly. They also thought the cost of implementing the system, both for the Federal Reserve and the affected institutions, would not be offset by sufficient public benefits. The other Board members, however, believed the benefits resulting from improved monetary control would outweigh the costs.

The Board set February 2, 1984, as the effective date of the amendments to ensure that the Reserve Banks and financial institutions would have time to adjust their procedures.

October 4, November 3, and December 22, 1982—Amendments

The Board adopted a temporary amendment to Regulation D, effective October 5, 1982, that defined as a transaction account a time deposit linked to a line of credit against which third-party transfers can be made. The Board later revised the rule, and on December 22 made the amendment permanent, effective January 22, 1983.

Votes for the October and November actions: Messrs. Volcker, Martin, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against these actions: None.

Votes for the December action: Messrs. Martin, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Mr. Volcker.

In October, the Board amended Regulation D to impose the reserve requirements of transaction accounts on any time deposit linked to a line of credit that can be used for writing checks or for making other third-party transfers. The Board acted to discourage the use of these complex arrangements designed to avoid regulatory requirements. The temporary amendment was effective immediately for time deposits issued after October 4 and for deposits that matured and were renewed after that date. The Board also requested comment on the effects of its action, with

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the understanding that a permanent rule would be adopted later.

After adoption of the temporary amendment, the Board was informed that some institutions were having difficulties terminating certain deposit contracts. To ensure that those institutions would not be adversely affected by later Board action, and to allow a convenient transition to the new money market deposit account authorized beginning December 14, the Board exempted from the amendment time deposits issued before October 5 and renewed automatically before December 31, 1982.

In December, the Board made the amendment permanent, effective January 22, 1983. It also clarified that time deposits pledged as collateral for incidental overdrafts in a checking account were not covered by the amendment.

October 27, 1982—Amendment

The Board amended Regulation D, effective October 28, 1982, to implement recent statutory changes in reserve requirements for former member banks.

> Votes for this action: Messrs. Volcker, Martin, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Mr. Wallich.

The Monetary Control Act of 1980 required banks that withdrew from membership in the Federal Reserve System on or after July 1, 1979, to maintain reserves in amounts equal to the reserve requirements of member banks. The Garn–St Germain Depository Institutions Act of 1982 modified the reserve requirements for member banks that withdrew between July 1, 1979, and March 31, 1980, to provide for the gradual removal of reserve requirements through October 1985. The Board, therefore, amended Regulation D to provide a phased reduction in reserve requirements for these former member banks, effective with the reserve maintenance period beginning October 28, 1982.

November 24, 1982—Amendments

The Board adopted three amendments to Regulation D that (1) increased the amount of transaction balances to which the lower reserve requirement applied; (2) effectively exempted small institutions from reserve requirements; and (3) established reserve requirements for a newly authorized money market deposit account.

> Votes for these actions: Messrs. Martin, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against these actions: None. Absent and not voting: Mr. Volcker.

Under the Monetary Control Act of 1980, depository institutions, Edge and Agreement corporations, and U.S. agencies and branches of foreign banks are subject to reserve requirements set by the Board. The reserve requirements initially imposed under the act were 3 percent on the first $25 million of an institution's transaction balances and 12 percent on balances above that level. The act further directed the Board to adjust that level annually to reflect changes in the level of transaction balances in the banking system nationwide. The amount was increased to $26 million for 1982, and recent growth in such balances indicated that a further increase of $0.3 million was warranted. Accordingly, the Board amended Regulation D to increase to $26.3 million the amount

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of transaction balances subject to the lower reserve requirement. The amendment was effective December 30, 1982, and applicable to the reserve maintenance period that begins January 13, 1983.

In a second action, the Board implemented provisions of the Garn–St Germain Depository Institutions Act of 1982 that reduced to zero percent the reserve requirements on the first $2 million of an institution's reservable liabilities. That act also provided that, beginning in 1982, the Board shall increase the amount of the exemption annually based on deposit growth nationwide over a 12-month period ending June 30. Accordingly, the Board amended Regulation D, effective December 9, 1982, to incorporate provisions of the Garn–St Germain act and to establish the exemption at $2.1 million.

In a third action, the Board established reserve requirements for a new money market deposit account, effective December 14, 1982, the date on which the Depository Institutions Deregulation Committee authorized federally insured institutions to begin offering the new account. The Board determined that money market deposit accounts that permit no more than six transfers from the account per month, of which no more than three may be by check, will have the same reserve requirements as savings accounts. Accounts that permit a depositor to make more than six transfers or draw more than three checks per month are subject to the reserve requirements on transaction accounts.

Regulation D (Reserve Requirements of Depository Institutions) and Regulation Q (Interest on Deposits)

December 22, 1982—Amendments

The Board adopted technical amendments to Regulations D and Q, effective January 5, 1983, to incorporate changes approved by the Depository Institutions Deregulation Committee in the rules governing the payment of interest on deposits.

Votes for these actions: Messrs. Martin, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against these actions: None. Absent and not voting: Mr. Volcker.

The Depository Institutions Deregulation Act of 1980 transferred to the DIDC the authority to prescribe rules governing the payment of interest on deposits that previously had been held by the Board and the other federal regulators of financial institutions. To conform to recent actions by the DIDC, the Board amended Regulation D and Regulation Q as follows: (1) reduced to $2,500 the minimum denomination of 26-week money market deposits, 91-day time deposits, and 7- to 31-day time deposits; (2) removed the interest rate ceilings on 7- to 31-day time deposits; (3) established money market deposit accounts; and (4) removed the interest rate ceilings on negotiable order of withdrawal (NOW) accounts of $2,500 or more.

Regulation E (Electronic Fund Transfers)

September 29, 1982—Amendments

The Board adopted four amendments to Regulation E, effective October 12, 1982, relating to exemp-

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tions for certain preauthorized transfers, terminal receipts, periodic statements, and procedures for certain foreign transactions.

Votes for the preauthorized transfer amendment: Messrs. Volcker, Martin, Wallich, Partee, Rice, and Gramley. Vote against this action: Mrs. Teeters.

Votes for the other three amendments: Messrs. Volcker, Martin, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against these actions: None.

The Board amended Regulation E to exempt institutions with assets of $25 million or less from the requirements governing participation in preauthorized credit and debit programs of the federal and private sectors. Governor Teeters opposed these changes because she preferred that private-sector payments not be exempt from the regulation. She believed that the notices and disclosures required by the regulation provided appropriate safeguards and that customers of small institutions should have the same protections as those of larger institutions.

The other Board members noted that smaller institutions are governed by the operating rules of the clearinghouse associations to which they belong. Moreover, institutions would have difficulty separating other recurring payments from private-sector transfers to take advantage of the exemption. For these reasons, the other Board members approved the amendment.

Another amendment expanded an exemption governing receipts given for transfers initiated at electronic terminals; it provided that institutions need not indicate on the terminal receipt the type of account involved if only one of the consumer's accounts can be accessed at that terminal. A third amendment eliminated the requirement to provide duplicate statements when a customer transfers funds between two accounts at the same institution. The fourth change liberalized the documentation requirements and the error-resolution procedures for electronic fund transfers initiated in foreign countries.

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)

January 13, 1982—Amendments

The Board revised and simplified portions of Regulations G, T, and U as part of its Regulatory Improvement Project. All of the changes were effective February 15, 1982, except the amendment to Regulation U concerning collateral, which was effective March 31, 1982.

Votes for these actions: Messrs. Volcker, Schultz, Wallich, Partee, Rice, and Gramley. Votes against these actions: None. Absent and not voting: Mrs. Teeters.

In mid-1981, the Board published for comment proposals to substantially revise the Board's margin regulations. Although the rewriting of the regulations would not be completed for some time, the Board decided to adopt certain amendments in advance of the revisions to grant relief and flexibility in areas in which the comments disclosed no significant disagreement. These amendments are directed at simplifying the language, reducing regulatory burden, and acknowledging innovations in securities markets.

Among the changes adopted was an amendment to Regulation G that

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expanded the lending activities permissible for creditors covered by the regulation and the types of collateral they may accept. The amendment also clarified the definition of an indirect security for a loan.

Regulation T was revised to permit brokers and dealers to provide investment banking services that include the arranging of credit. Regulation U was revised to exempt from the regulation bank credit not secured by margin equity securities. In addition, the definition of indirect security credit was changed to parallel that in Regulation G. All three regulations were revised to remove the provisions governing equity-building devices, thereby giving investors with highly leveraged margin accounts greater flexibility in reallocating their portfolios.

May 12, 1982—Amendments

The Board amended its margin credit regulations (G, T, and U), effective June 12, 1982, to change the criteria for including a company's shares on the list of stocks traded over the counter that are eligible for margin credit.

> Votes for these actions: Messrs. Martin, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against these actions: None. Absent and not voting: Messrs. Volcker and Wallich.

The Board regularly publishes a list of stocks traded over the counter (OTC) that are sufficiently similar to securities traded on the major exchanges as to be afforded similar treatment under the Board's margin regulations. If a company meets the Board's criteria for inclusion on the OTC list, its stock is eligible for trading on margin.

The amendments to Regulations G, T, and U revised those criteria to take into account changing market conditions and exchange practices. One of the revisions permitted issues of foreign stock to be included on the OTC list if the issuer has registered with the Securities and Exchange Commission. Previously, foreign stocks were excluded because of difficulty in obtaining financial data about issuers.

Under the previous rules, a company could be included on the OTC list if it met the standards on two of the three criteria for eligibility: price, capital, and market value. The Board decided to eliminate the market-value criterion, since it was found to be of limited value, and to make conformance with the price and capital criteria mandatory. In addition, the Board changed those two criteria, as follows: (1) To be included initially on the list, an issuer must have at least $4 million in capital and 400,000 shares outstanding (previously, $5 million and 500,000). (2) For continued inclusion on the list, a company must have $1 million in capital and a price per share of at least $2 (previously, $2.5 million and $3). Stocks that are currently listed but do not meet the new eligibility standards will be retained on the OTC list for two years.

The Board also announced that future editions of the OTC list, which is published three times a year, will become effective two weeks after publication, rather than immediately, to allow brokers and other users time to adjust their operations.

Regulation K (International Banking Operations)

March 10, 1982—Amendment

The Board amended Regulation K, effective March 12, 1982, to permit Edge corporations to provide certain

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investment advisory and management services in the United States.

Votes for this action: Messrs. Volcker, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Mr. Wallich.[1]

The International Banking Act of 1978 directed the Board to remove from its regulations limitations that unnecessarily restrict or put Edge corporations at a disadvantage in competing with foreign-owned banking institutions in the United States. In keeping with that directive, the Board amended Regulation K to permit Edge corporations to provide several types of economic and investment advisory and management services to their foreign customers, including the following: (1) general economic information; (2) portfolio investment advice on securities, other financial instruments, and real estate; and (3) management of investment portfolios, with discretionary authority to buy or sell securities. Also, Edge corporations may provide their U.S. customers with advisory services regarding foreign investments. The amendment does not authorize Edge corporations to manage real estate or commercial or industrial properties.

The amendment was expected to further competitive equality between domestic and foreign banks in the United States by enabling U.S. banks, through their Edge subsidiaries, to offer a range of financial services similar to those that may be offered by U.S. branches of foreign banks.

Regulation L (Management Official Interlocks)

September 15 and December 22, 1982—Amendments

The Board amended Regulation L, effective October 26, 1982, to implement recent revisions in the Depository Institution Management Interlocks Act of 1978.

Votes for this action: Messrs. Volcker, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Mr. Martin.

In December, the Board further amended Regulation L, effective February 7, 1983, to clarify the circumstances under which certain management interlocks may be continued until November 10, 1988.

Votes for this action: Messrs. Martin, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Mr. Volcker.

The act and the implementing regulations of the federal regulatory agencies generally prohibited certain interlocking relationships involving officers of unaffiliated organizations. Interlocking relationships in existence when the act was passed were permitted to continue for 10 years; that time period was to be shortened if the circumstances of either interlocking institution changed.

Recent amendments to the act, however, clarified congressional intent that certain changes in circumstances—a merger, an acquisition, the establishment of new offices, or a sizable increase in assets—did not require termination of the interlocking relationship. Therefore, the Board and the other agencies amended their regulations to delete that requirement. Other amendments to Regulation L were adopted in September to conform with the statutory changes, including one that permits a management official to continue serving at both a depository and a nondeposi-

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tory organization even if the latter becomes a diversified savings and loan holding company.

When the Board amended Regulation L in September, it published for comment a proposed amendment that would permit a management official who had terminated a "grandfathered" interlock because of provisions in the existing regulation to resume the interlock for the remainder of the 10-year permissible period. After consideration of comments received, the Board amended Regulation L in December to allow the resumption of such an interlocking relationship until November 10, 1988.

Regulation O (Loans to Executive Officers, Directors, and Principal Shareholders of Member Banks)

October 22, 1982—Amendment

The Board amended Regulation O, effective November 1, 1982, to conform to the requirements of the Garn–St Germain Depository Institutions Act of 1982 dealing with bank loans to officials.

> Votes for this action: Messrs. Volcker, Martin, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None.

Before passage of the Depository Institutions Act of 1982, lending by a member bank to its executive officers had been limited by the Federal Reserve Act and Regulation O to the following amounts: $60,000 for a home mortgage, $20,000 for the education of an officer's children, and $10,000 for other purposes. In addition, loans to bank officials or their interests that exceeded $25,000 required the prior approval of the bank's board of directors.

The Depository Institutions Act eliminated the dollar limitations on mortgage and education loans, and the Board amended Regulation O to remove those dollar amounts. The act also deleted the limitations on loans for other purposes and on the maximum loan amount that does not require board approval, and authorized each federal regulatory agency to establish appropriate limitations for the institutions under its jurisdiction. The Board decided to retain the limitations currently in Regulation O for those two purposes pending completion of a review of the regulation and adoption of final rules to implement the act.

Regulation Q (Interest on Deposits)

August 20, 1982—Amendments and Interpretation

The Board adopted several amendments to Regulation Q relating primarily to recent actions by the Depository Institutions Deregulation Committee; it also issued an interpretation regarding the secondary market for certificates of deposit (CDs).

> Votes for these actions: Messrs. Martin, Wallich, Partee, Rice, and Gramley. Votes against these actions: None. Absent and not voting: Mr. Volcker and Mrs. Teeters.

One amendment revised the rules under which member banks may offer small-denomination repurchase agreements. Before these amendments were adopted, repurchase agreements (RPs) on U.S. government and agency securities in denominations of less than $100,000 and with maturities of 90 days or more were considered time deposits subject to the interest rate ceilings of Regula-

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tion Q; small-denomination RPs with maturities of less than 90 days were exempt from the ceilings unless they were automatically renewable. In a series of actions, the DIDC authorized a greater variety of deposit instruments for financial institutions and removed interest rate ceilings for time deposits with maturities of three and one-half years or longer. Because these actions reduced the incentive for institutions to raise longer-term funds through the issuance of RPs, the Board decided it was no longer necessary to subject small-denomination RPs of 90 days or more to interest rate ceilings or to restrict member banks from offering automatically renewable RPs with maturities of less than 90 days. The Board, therefore, amended Regulation Q, effective August 24, 1982, to exempt RPs of member banks from interest rate limitations. The Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board had taken similar actions for RPs of institutions in their jurisdictions.

Other amendments to Regulation Q, effective September 1, 1982, were adopted in conjunction with actions taken by the DIDC. One amendment changed the definition of a time deposit to allow member banks to issue time deposits in book-entry form rather than as written contracts. The remaining changes were technical amendments to conform the regulation to actions of the DIDC. Those amendments affected maximum rates payable on time and savings deposits, the advertisement of rates paid on certain short-term deposits, penalties for early withdrawal of time deposits, and treatment of obligations issued by a parent bank holding company.

The Board also issued an interpretation, effective August 24, 1982, regarding a member bank's participation in the secondary market for negotiable time deposits it had issued. The interpretation stated that a member bank may assist a depositor in finding a purchaser for a negotiable CD, as an alternative to the depositor's incurring a penalty for early withdrawal. A bank also may arrange for unaffiliated third parties to purchase deposits from its customers. A member bank may not, however, purchase its own deposits from customers, enter into reciprocal arrangements with another institution to purchase deposits from one another, or reimburse a third party for purchasing the bank's deposits.

October 4, 1982—Interpretation

The Board adopted an interpretation of Regulation Q, effective October 18, 1982, regarding the interest rate charged on a loan for which a borrower has pledged a time deposit as collateral. That interest rate must be at least 1 percentage point above the effective interest rate paid on the time deposit.

Votes for this action: Messrs. Volcker, Martin, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None.

The Board had become aware of various deposit arrangements designed to evade the interest rate ceilings of Regulation Q or the reserve requirements of Regulation D. By adopting this interpretation—and a related amendment to Regulation D—the Board sought to ensure that the rules regarding interest rate ceilings on deposits and penalties for withdrawal of time deposits before maturity were not violated. The interpretation clarifies that the minimum annual rate of interest that may be charged on a loan for which a time

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deposit is pledged as collateral is 1 percentage point above the effective annual rate paid on the deposit. The loan rate must take into account the effect compounding has on the interest paid on the deposit. The interpretation is applicable to loans made, extended, renewed, or agreed to after October 17, 1982.

November 24, 1982—Amendment

The Board amended Regulation Q, effective October 15, 1982, to permit governmental units to maintain negotiable order of withdrawal (NOW) accounts at member banks.

Votes for this action: Messrs. Martin, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Mr. Volcker.

The Garn–St Germain Depository Institutions Act of 1982, which was enacted and became effective October 15, permits the deposit of public funds in NOW accounts by all domestic and territorial governmental units. The Board, therefore, adopted the amendment to conform Regulation Q with the provisions of the act.

December 22, 1982—Amendments

These actions are discussed under Regulation D.

Regulation T (Credit by Brokers and Dealers)

January 13, 1982—Amendments

These actions are discussed under Regulation G.

May 12, 1982—Amendment

The Board amended Regulation T, effective May 17, 1982, to include as acceptable collateral in stock lending and borrowing transactions certain letters of credit, U.S. government securities, certificates of deposit, and bankers acceptances.

Votes for this action: Messrs. Martin, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Messrs. Volcker and Wallich.

Regulation T had permitted only cash to be pledged as collateral by brokers and dealers for borrowing or lending securities. In November 1981, the Board proposed to amend the regulation so that brokers and dealers could borrow and lend against letters of credit issued by banks insured by the Federal Deposit Insurance Corporation and against U.S. government securities. Commenters indicated that the proposal was too restrictive. After consideration of the comments, the Board decided to amend the regulation by expanding the list of acceptable collateral to include the following: U.S. government and agency securities; negotiable bank certificates of deposit and bankers acceptances, if issued and payable in the United States; and irrevocable letters of credit issued either by a domestic bank that is insured by the FDIC or by a foreign bank that has filed an appropriate agreement with the Board.

May 12, 1982—Amendments

Additional actions for this date are discussed under Regulation G.

December 8, 1982—Amendment

The Board amended Regulation T, effective January 17, 1983, to specify the characteristics that make private mortgage pass-through securities acceptable collateral for margin credit.

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Votes for this action: Messrs. Volcker, Martin, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None.

The amendment, which is applicable to securities not guaranteed by an agency of the federal government, established the following criteria for eligibility for margin credit: (1) the original issue must be at least $25 million; (2) the issuer must have filed current registration reports with the Securities and Exchange Commission; and (3) the creditor must have a reasonable basis for believing that the servicing agent is passing through the payment of mortgage interest and principal according to the terms of the offering.

Regulation U (Credit by Banks for the Purpose of Purchasing or Carrying Margin Stocks)

January 13, 1982—Amendments

May 12, 1982—Amendments

These actions are discussed under Regulation G.

Regulation Y (Bank Holding Companies and Change in Bank Control)

March 10, 1982—Amendments

The Board amended Regulation Y, effective April 20, 1982, to permit bank holding companies to provide management consulting services to unaffiliated nonbank depository institutions and, under certain conditions, to have management interlocks with those institutions.

Votes for these actions: Messrs. Volcker, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against these actions: None. Absent and not voting: Mr. Wallich.[1]

In conjunction with a request by a bank holding company to perform certain management consulting services, the Board sought public comment on whether to permit the activity generally. On the basis of comments received, the Board decided to permit holding companies to provide consulting services to unaffiliated nonbank depository institutions, subject to the same restrictions that apply when such services are provided to bank clients.

The Board also amended the regulation to permit holding companies to have management officials in common with the institutions to which they provide consulting services, if such interlocks are permitted by certain provisions of Regulation L (Management Official Interlocks).

April 28, 1982—Determination on Reinsurance Activities

The Board determined that the reinsurance of group mortgage life insurance was not an activity closely related to banking and that it should not be permissible for bank holding companies.

Votes for this action: Messrs. Volcker, Martin, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None. Absent and not voting: Messrs. Wallich and Gramley.

A bank holding company proposed to reinsure group credit life insurance for real estate loans made by its subsidiaries. The Board earlier had determined that underwriting mortgage life insurance was not closely related to banking and therefore was impermissible. Although the applicant cited distinctions between its proposed activities and those involved in underwriting insurance, the Board found

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those distinctions insufficient to warrant reversal of its previous decision. Consequently, the Board decided that there was no reasonable basis for determining that the activity is closely related to banking, and therefore that the activity is not permissible for bank holding companies.

June 30, 1982— Termination of Rulemaking

The Board terminated a rulemaking proceeding that would have amended Regulation Y to make acting as a futures commission merchant for nonaffiliated customers a permissible activity for bank holding companies.

> Votes for this action: Messrs. Volcker, Martin, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None.

In December 1981, the Board published for comment a proposal to amend Regulation Y to add to the list of activities permissible for bank holding companies acting as a futures commission merchant for nonaffiliated customers. Such activity would include executing and clearing futures contracts covering bullion, foreign exchange, U.S. government securities, and money market instruments that are traded on major exchanges.

The proposal resulted from an application by a bank holding company to act as a futures commission merchant. The Board approved the application because of the holding company's special expertise in that activity and because of the safeguards and commitments to which the company had agreed. Because of the inherent risks, however, the Board preferred not to make the activity generally permissible for holding companies. Instead, the Board decided to review applications to engage in the activity case by case, and therefore it withdrew the proposed amendment.

August 20, 1982—Amendments

The Board amended Regulation Y and a related interpretation, effective September 25, 1982, to clarify and expand the scope of data processing activities permissible for bank holding companies.

> Votes for these actions: Messrs. Martin, Wallich, Partee, Rice, and Gramley. Votes against these actions: None. Absent and not voting: Mr. Volcker and Mrs. Teeters.

In July 1982, after reviewing public comments and the results of a public hearing on the matter, the Board approved the application of a bank holding company to engage in a broad range of data processing activities. At that time the Board also agreed to make those activities permissible for all holding companies, under certain conditions. The Board, therefore, amended Regulation Y to permit activities such as transmission of data, provision of data bases, and provision of data processing hardware in conjunction with the provision of permissible software. The amendment also specified activities that may be performed for the internal operations of the holding company and its subsidiaries and those that may be performed for others. The related interpretation explained that packaged data processing and transmission facilities provided by holding companies should be limited to the performance of banking functions.

Regulation Z (Truth in Lending)

February 10, 1982—Amendment

The Board amended Regulation Z, effective February 19, 1982, to ex-

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clude from the definition of an arranger of credit those people, such as real estate brokers, who arrange financing by sellers of real property.

Votes for this action: Messrs. Schultz, Wallich, Partee, Rice, and Gramley. Vote against this action: Mrs. Teeters. Absent and not voting: Mr. Volcker.

The 1980 revisions to the Truth in Lending Act required disclosures from persons who are not usually considered creditors but who routinely arrange for credit to be extended. This requirement raised the question whether real estate brokers and agents who arrange seller-financed purchases of homes are required to provide truth-in-lending disclosures, and a proposal was made to include such arrangers of credit in the requirements of Regulation Z. Most Board members, however, preferred not to amend the regulation until the Congress, which was expected to consider that question later in the year, had reached a decision on the matter.

Governor Teeters believed real estate brokers should be included for the protection of borrowers. The other Board members believed the real estate industry should not have to incur the expense and difficulty of attempting to comply with a new requirement that the Congress later might make moot. The Board, therefore, excluded such brokers from the definition of an arranger of credit, with the understanding that it might be necessary to consider the matter again.

Policy Statements and Other Actions

May 20, 1982—Mandatory Convertible Securities

The Board issued guidelines, effective immediately, to clarify whether debt securities that contain a requirement for future conversion to equity securities qualify as primary capital. The guidelines were issued jointly with the Comptroller of the Currency.

Votes for this action: Messrs. Volcker, Martin, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None.

In December 1981, the Board and the Comptroller of the Currency jointly issued guidelines for assessing the capital adequacy of national and state member banks and bank holding companies. The guidelines established two measures of capital: total capital and primary capital. One of the components of primary capital is mandatory convertible securities.

After adoption of the capital adequacy guidelines, several banking organizations issued or proposed to issue mandatory convertible debt securities in one of two basic types. Under the conditions of issuance of one type, holders of the debt instruments are obligated to purchase similar amounts of the issuer's stock by the time the instruments mature. With the second type, issuers of such debt instruments are obligated to sell stock in sufficient amounts to replace the instruments at maturity.

The revisions to the capital adequacy guidelines specify that the instruments will qualify as primary capital only if certain conditions are met. The conditions are designed to assure that the instruments will be replaced with permanent equity and will be issued in a form consistent with sound banking principles. In adopting these guidelines, the Board noted that if an inadequately capitalized banking organization issues mandatory convertible securities, the instruments should

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not serve as the basis for additional leverage that would reduce its capital ratios.

Although the guidelines were effective immediately, the Board and the Comptroller sought comment on them, with the understanding that they might be revised later.

June 30, 1982—Nonvoting Equity Investments by Bank Holding Companies

The Board adopted a policy statement, effective July 8, 1982, governing bank holding company acquisitions of nonvoting equity shares of other bank holding companies.

Votes for this action: Messrs. Martin, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Mr. Volcker.

The Bank Holding Company Act prohibits a holding company from acquiring control of another bank or bank holding company without prior approval of the Board and also prohibits the acquisition of more than 5 percent of the voting shares of a bank. In anticipation of possible statutory changes that would make interstate banking permissable, a number of bank holding companies have made substantial equity investments in the preferred or nonvoting common stock of banking organizations located in other states. In the typical equity investment arrangement, a holding company acquires a significant portion of another holding company's nonvoting stock, with the understanding that, if interstate banking becomes permissible, the investing organization will merge with or acquire the other holding company. Some agreements include restrictive or limiting provisions to protect the investment of the banking organization.

To determine whether the terms of equity investment agreements are consistent with the Bank Holding Company Act, the Board adopted a policy statement that outlines the factors it will consider. In recognition of the variety of possible arrangements, the Board decided not to establish rigid rules for making determinations of control but, instead, to provide general guidelines. The statement describes the types of arrangements that indicate that controlling interest has been acquired by the investing bank holding company, and those arrangements that create the presumption that control has been acquired. In making its determinations, the Board will look at all aspects of the proposed investment, including the amount of nonvoting stock being acquired, the existence of terms or conditions that unduly restrict the operations of the banking organization in which a holding company is investing, and the size and terms of any warrants or options to acquire voting shares. The statement also requested any company considering such a nonvoting equity investment to review the investment with the Board before entering into the agreement.

September 13, 1982—Modification of the Policy on Mandatory Convertible Securities

The Board modified the criteria it uses to determine whether mandatory convertible securities issued by state member banks and bank holding companies qualify as primary capital. The revised policy is applicable to securities issued after September 27, 1982.

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Votes for this action: Messrs. Volcker, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Mr. Martin.

In May, the Board adopted a policy statement, issued jointly with the Comptroller of the Currency, that set forth the conditions under which mandatory convertible debt securities qualify as primary capital for purposes of determining capital adequacy. Although the policy was effective immediately, the Board sought comment on certain issues, with the understanding that the policy might be revised later.

After consideration of the comments received, the Board made one substantive change in the criteria: it established a limitation on equity-commitment notes, a type of mandatory convertible security. The revised policy limits the issuance of such notes to 10 percent of an organization's primary capital exclusive of mandatory convertible issues. The Board believed that that limitation would encourage organizations to rely more on equity notes than on equity-commitment notes. Certain other technical changes in the policy also were made.

The Comptroller of the Currency adopted similar revisions to the policy for national banks.

1982 Discount Rates

The Board approved seven changes in the basic discount rate during 1982. All were reductions of ½ percentage point and they lowered the rate from 12 percent in mid-July to 8½ percent by year-end. The Board also voted on four occasions to turn down requests for rate changes submitted by individual Federal Reserve Banks.

The reasons for the Board's decisions are reviewed below. In reaching those decisions the Board also took into account the economic and financial developments that are covered in greater detail elsewhere in this REPORT. A listing of the Board's discount rate actions during 1982, including the votes on the actions, follows this review.

January to Mid-July: No Change in Discount Rate

During the latter part of 1981, interest rates had declined considerably and the Board had approved reductions in the basic discount rate from 14 percent in late October to 12 percent in early December. In the closing weeks of 1981 and the early weeks of 1982, relatively rapid growth in the monetary aggregates and widespread discussion of large prospective federal deficits had fostered an upturn in market interest rates, and by February short-term rates had risen to levels well above the basic discount rate.

On March 1, the Board disapproved a request from one Federal Reserve Bank to raise the discount rate by 1 percentage point to 13 percent. The other eleven Banks had proposed that the current rate be maintained. The Board decided that a higher discount rate was not warranted by conditions in financial markets. Short-term interest rates, although still relatively high, had edged down from recent peaks, and monetary growth appeared to have subsided in previous weeks. In reaching its decision the Board also gave weight to indications of current weakness in economic activity.

On April 12, the Board turned down a request by one Reserve Bank to increase the discount rate by 1

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percentage point and requests by two other Banks to lower the rate by ½ percentage point and 1 percentage point respectively. Short-term interest rates had changed little during previous weeks and remained considerably above the basic discount rate. The Board took note, however, of the moderation in monetary growth since the early weeks of the year and of key economic indicators that pointed to a decline in economic activity during the first quarter. After weighing these developments, the Board concluded that on balance current economic and financial conditions argued against a change in the discount rate.

Subsequently, on June 21, the Board disapproved a request by one Reserve Bank to reduce the discount rate by ½ percentage point to 11½ percent. The Board decided that a lower discount rate would not be appropriate after the recent increases in market rates.

Mid-July to Mid-December: Reductions in Discount Rate

During the first part of July, market interest rates declined substantially, especially short-term rates. Treasury bill rates fell below the discount rate. On July 19, the Board approved a reduction in the basic discount rate from 12 percent to 11½ percent. The action was taken in the context of the decline in market rates and was also deemed to be appropriate in light of the relatively restrained growth of money and credit over the course of recent months.

Market interest rates declined sharply further during subsequent weeks, and the Board approved additional reductions of ½ percentage point in the discount rate on July 30, August 13, and August 26. Apart from serving to bring the discount rate into better alignment with short-term market interest rates, the reductions were deemed appropriate in view of the continued relatively moderate growth in money and of evidence of reduced credit demands at banks. In reaching its decisions the Board also took into account indications of continued relatively sluggish economic activity.

The Board disapproved a pending reduction of ½ percentage point in the discount rate on September 13 in light of prevailing conditions in financial markets and of the recent performance of the monetary aggregates. Subsequently, the Board approved a reduction of ½ percentage point to 9½ percent on October 8. Short-term market rates had declined substantially just before this action, after what proved to be a temporary upturn in previous weeks. In the circumstances the Board decided that a decrease of ½ percentage point would maintain an appropriate alignment between the discount rate and short-term market rates.

The final discount rate actions of the year were reductions of ½ percentage point approved on November 19 and December 13. These actions were viewed as consistent with the prevailing pattern of short-term interest rates and were taken against a background of continued progress toward price stability and indications of persisting sluggishness in economic activity. The Board recognized that recent monetary growth had been relatively rapid but also noted that such expansion was associated with current economic and financial uncertainties that were in turn generating exceptional demands for liquidity.

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Votes on Reserve Bank Actions to Change the Discount Rate

Under 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 depository institutions 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 establish new rates or to change existing rates.

Reference is made in this report to the basic discount rate, which is the rate on discounts and advances to depository institutions for short-term adjustment credit. Other categories of discount window credit include advances made over extended periods to depository institutions that are under sustained liquidity pressure. Such extended credit may also be provided when exceptional circumstances or practices adversely affect a particular depository institution. Finally, so-called seasonal credit may be provided for periods longer than those permitted under adjustment credit to assist smaller institutions in meeting regular needs for funds arising from certain expected movements in their deposits and loans.

As of December 31, 1982, the structure of rates was as follows: a basic rate of 8½ percent for short-term adjustment credit; a rate for seasonal credit of 8½ percent; and a rate on extended credit of 8½ percent for the first 60 days of borrowing, 9½ percent for the next 90 days of borrowing, and 10½ percent after 150 days.

March 1, 1982

The Board disapproved an action taken by the directors of the Federal Reserve Bank of St. Louis on February 23, 1982, to increase the basic discount rate from 12 percent to 13 percent.

Votes for this action: Messrs. Volcker, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None.[1]

April 12, 1982

The Board disapproved actions taken by the directors of the Federal Reserve Bank of St. Louis on April 6 to increase the basic discount rate to 13 percent, and by the directors of the Federal Reserve Banks of Chicago and Dallas on April 8 to reduce the basic discount rate to 11½ percent and 11 percent respectively.

Votes for these actions: Messrs. Volcker, Martin, Wallich, Partee, Mrs. Teeters, and Mr. Gramley. Votes against these actions: None. Absent and not voting: Mr. Rice.

June 21, 1982

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Chicago on June 10 to reduce the basic discount rate to 11½ percent.

Votes for this action: Messrs. Martin, Wallich, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None. Absent and not voting: Messrs. Volcker and Gramley.

July 19, 1982

Effective July 20, 1982, the Board approved actions taken by the direc-

1. This note appears on p. 59.

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tors of the Federal Reserve Banks of New York, Richmond, Atlanta, Chicago, Kansas City, Dallas, and San Francisco to reduce the basic discount rate from 12 percent to 11½ percent.

Votes for this action: Messrs. Volcker, Martin, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None. Absent and not voting: Messrs. Wallich and Gramley.

The Board subsequently approved similar actions taken by the directors of the Federal Reserve Banks of Boston, Cleveland, St. Louis, and Minneapolis, effective July 21, and Philadelphia, effective July 23, 1982.

July 30, 1982

Effective August 2, 1982, the Board approved actions taken by the directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco to reduce the basic discount rate to 11 percent.

Votes for this action: Mr. Volcker, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Messrs. Martin, Wallich, and Partee.

The Board subsequently approved a similar action taken by the directors of the Federal Reserve Bank of Cleveland, effective August 3, 1982.

August 13, 1982

Effective August 16, 1982, the Board approved actions taken by the directors of all of the Federal Reserve Banks to reduce the basic discount rate to 10½ percent.

Votes for this action: Messrs. Volcker, Martin, Wallich, Partee, Rice, and Gramley. Votes against this action: None. Absent and not voting: Mrs. Teeters.

August 26, 1982

Effective August 27, 1982, the Board approved actions taken by the directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco to reduce the basic discount rate to 10 percent.

Votes for this action: Messrs. Volcker, Martin, Wallich, and Partee. Votes against this action: None. Absent and not voting: Mrs. Teeters and Messrs. Rice and Gramley.

The Board subsequently approved a similar action taken by the directors of the Federal Reserve Bank of Cleveland, effective August 30, 1982.

September 13, 1982

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Chicago on September 9 to reduce the basic discount rate to 9½ percent.

Votes for this action: Messrs. Volcker, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Mr. Martin.

October 8, 1982

Effective October 12, 1982, the Board approved actions taken by the directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas to reduce the basic discount rate to 9½ percent.

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Effective October 11, 1982, the Board approved an action taken by the directors of the Federal Reserve Bank of San Francisco and those of its branches that were open on that date to reduce the basic discount rate to 9½ percent; the effective date for the Salt Lake City Branch was October 12.

Votes for these actions: Messrs. Volcker, Martin, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against these actions: None. Absent and not voting: Mr. Wallich.

The Board subsequently approved a similar action taken by the directors of the Federal Reserve Bank of Cleveland, effective October 13, 1982.

November 19, 1982

Effective November 22, 1982, the Board approved actions taken by the directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, and San Francisco to reduce the basic discount rate to 9 percent.

Votes for this action: Messrs. Volcker, Martin, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None.

The Board subsequently approved similar actions taken by the directors of the Federal Reserve Banks of Dallas, effective November 23, and Cleveland, effective November 26, 1982.

December 13, 1982

Effective December 14, 1982, the Board approved actions taken by the directors of the Federal Reserve Banks of Boston, Atlanta, Chicago, St. Louis, Minneapolis, Dallas, and San Francisco to reduce the basic discount rate to 8½ percent.

Votes for this action: Messrs. Volcker, Martin, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Mr. Wallich.

The Board subsequently approved similar actions taken by the directors of the Federal Reserve Banks of New York, Cleveland, Richmond, and Kansas City, effective December 15, and Philadelphia, effective December 17, 1982.

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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 1982, 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 made 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.

During 1982 the policy record for each meeting was released a few days after the next regularly scheduled meeting and was subsequently published in the *Federal Reserve Bulletin*.

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. (A new Domestic Policy Directive is adopted at each regularly scheduled meeting.) 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 1982. 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, 1982

1. The Federal Open Market Committee authorizes and directs the Federal

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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 $4.0 billion[1] 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) When appropriate, 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 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 $100 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 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, under special circumstances, such as when the New York Reserve Bank is closed, any other Federal Reserve Bank) (a) to lend to the Treasury such amounts of securities held in the System Open Market Account as may be necessary from time to time for the temporary accommodation of the Treasury, under such conditions as the Committee may specify; and (b) to purchase directly from the Treasury for renewable periods not to exceed 30 days, when authorized by the Board of Governors of the Federal Reserve System pursuant to an affirmative vote of not less than five members, for its own account (with discretion, in cases

1. Pursuant to an action taken by the Committee at its meeting on December 21–22, 1981, the limit on changes between Committee meetings in System Account holdings of U.S. government and federal agency securities was set at $4.0 billion for the period through the close of business on February 2, 1982, at which time it reverted to $3.0 billion.

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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 of ¼ of 1 percent below the discount rate of the Federal Reserve Bank of New York at the time of such purchases and provided that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed $2 billion.

3. In order to ensure 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. In order to ensure the effective conduct of open market operations, while assisting in the provision of short-term investments for foreign and international accounts maintained at the Federal Reserve Bank of New York, the Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York (a) for System Open Market Account, to sell U.S. Government securities to such foreign and international accounts on the basis set forth in paragraph 1 (a) under agreements providing for the resale by such accounts of those securities within 15 calendar days on terms comparable to those available on such transactions in the market; and (b) for New York Bank account, when appropriate, to undertake with dealers, subject to the conditions imposed on purchases and sales of securities in paragraph 1 (c), repurchase agreements in U.S. Government and agency securities, and to arrange corresponding sale and repurchase agreements between its own account and foreign and international accounts maintained at the Bank. Transactions undertaken with such accounts under the provisions of this paragraph may provide for a service fee when appropriate.

Domestic Policy Directive

In Effect January 1, 1982[2]

The information reviewed at this meeting suggests that real GNP declined appreciably in the fourth quarter and that prices on the average rose less rapidly than over the first three quarters of the year. In November industrial production fell more than in preceding months; nonfarm payroll employment, especially in manufacturing, declined sharply further; and the unemployment rate rose an additional 0.4 percentage points to 8.4 percent. The nominal value of retail sales increased, but the level was still well below the average for the third quarter. Housing starts remained at a depressed level. The rise in the index of average hourly earnings has been somewhat less rapid this year than during 1980.

The weighted average value of the dollar against major foreign currencies has changed little on balance since mid-November. The U.S. foreign trade deficit in October widened substantially from the unusually low rate in September, and the average for the two months was about the same as that for July and August.

M1-B (adjusted for estimated shifts into NOW accounts) expanded substantially in November and early December, but its level in November was still well below the lower end of the Committee's range for growth over the year from the fourth quarter of 1980 to the fourth quarter of 1981. Growth of M2 accelerated sharply in November, raising its level above the upper end of its range for the year. Short-term market interest rates and bond yields continued to decline in the latter part of November, but since then they have risen to levels generally higher than those of mid-November; over the period since mid-November, mortgage interest rates have declined further. On December 3 the Board of Governors announced a reduction in Federal Reserve basic discount rates from 13 to 12 percent.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce infla-

2. Adopted by the Committee at its meeting on December 21–22, 1981.

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tion, promote a resumption of growth in output on a sustainable basis, and contribute to a sustainable pattern of international transactions. At its meeting in early July, the Committee agreed that its objectives would be furthered by reaffirming the monetary growth ranges for the period from the fourth quarter of 1980 to the fourth quarter of 1981 that it had set at the February meeting. These ranges included growth of 3½ to 6 percent for M1-B, abstracting from the impact of flows into NOW accounts on a nationwide basis, and growth of 6 to 9 percent and 6½ to 9½ percent for M2 and M3 respectively. The Committee recognized that the shortfall in M1-B growth in the first half of the year partly reflected a shift in public preferences toward other highly liquid assets and that growth in the broader aggregates had been running at about or somewhat above the upper end of their ranges. In light of its desire to maintain moderate growth in money over the balance of the year, the Committee expected that growth in M1-B for the year would be near the lower end of its range. At the same time, growth in the broader aggregates might be high in their ranges. The associated range for bank credit was 6 to 9 percent. The Committee also tentatively agreed that for the period from the fourth quarter of 1981 to the fourth quarter of 1982 growth of M1, M2, and M3 within ranges of 2½ to 5½ percent, 6 to 9 percent, and 6½ to 9½ percent respectively would be appropriate.

In the short run, the Committee seeks behavior of reserve aggregates consistent with growth of M1 and M2 from November 1981 to March [1982] at annual rates of around 4 to 5 percent and 9 to 10 percent respectively. The target for M1 no longer reflects the "shift-adjustment" for conversion of outstanding interest-bearing assets into new NOW accounts, formerly estimated in the "shift-adjusted" M1-B series. In setting the M1 target, the Committee took account of the relatively rapid growth that had already taken place through the first part of December; it also recognized that interpretation of actual money growth may need to take account of the significance of fluctuations in NOW accounts, which have recently been growing relatively rapidly. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before the next meeting is likely to be associated with a federal funds rate persistently outside a range of 10 to 14 percent.

Authorization for Foreign Currency Operations

In Effect January 1, 1982

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, and in conformity with such procedural instructions as the Committee may issue from time to time:

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. Treasury, with the U.S. Exchange Stabilization Fund established by Section 10 of the Gold Reserve Act of 1934, with foreign monetary authorities, with the Bank for International Settlements, and with other international financial institutions:

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 balances of, and to have outstanding forward contracts to receive or to deliver, the foreign currencies listed in paragraph A above.

C. 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.

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D. To maintain an overall open position in all foreign currencies not exceeding $8.0 billion. For this purpose, the overall open position in all foreign currencies is defined as the sum (disregarding signs) of net positions in individual currencies. The net position in a single foreign currency is defined as holdings of balances in that currency, plus outstanding contracts for future receipt, minus outstanding contracts for future delivery of that currency, i.e., as the sum of these elements with due regard to sign.

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	3,000
Bank of France	2,000
German Federal Bank	6,000
Bank of Italy	3,000
Bank of Japan	5,000
Bank of Mexico	700
Netherlands Bank	500
Bank of Norway	250
Bank of Sweden	300
Swiss National Bank	4,000
Bank for International Settlements	
Dollars against Swiss francs	600
Dollars against authorized European currencies other than Swiss francs	1,250

Any changes in the terms of existing swap arrangements, and the proposed terms of any new arrangements that may be authorized, shall be referred for review and approval to the Committee.

3. All transactions in foreign currencies undertaken under paragraph 1(A) above shall, unless otherwise expressly authorized by the Committee, be at prevailing market rates. For the purpose of providing an investment return on System holdings of foreign currencies, or for the purpose of adjusting interest rates paid or received in connection with swap drawings, transactions with foreign central banks may be undertaken at nonmarket exchange rates.

4. It shall be the normal practice to arrange with foreign central banks for the coordination of foreign currency transactions. In making operating arrangements with foreign central banks of 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 liquid form, and generally have no more than 12 months remaining to maturity. When appropriate in connection with arrangements to provide investment facilities for foreign currency holdings, U.S. Government securities may be purchased from foreign central banks under agreements for repurchase of such securities within 30 calendar days.

6. All operations undertaken pursuant to the preceding paragraphs shall be reported promptly to the Foreign Currency Subcommittee and the Committee. The Foreign Currency Subcommittee consists of the Chairman and Vice Chairman of the Committee, the Vice Chairman of the Board of Governors, and such other members of the Board as the Chairman may designate (or in the absence of members of the Board serving on the Subcommittee, other Board Members designated by the Chairman as alternates, and in the absence of the Vice Chairman of the Committee, his alternate). Meetings of the Subcommittee shall be called at the request of any member, or at the request of the Manager for Foreign Operations, for the purposes of reviewing recent or contemplated operations and of consult-

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ing with the Manager on other matters relating to his responsibilities. At the request of any member of the Subcommittee, questions arising from such reviews and consultations shall be referred for determination to the Federal Open Market Committee.

7. The Chairman 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 Treasury;

B. To keep the Secretary of the Treasury fully advised concerning System foreign currency operations, and to consult with the Secretary on policy matters relating to foreign currency operations;

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.

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, 1982

1. System operations in foreign currencies shall generally be directed at countering disorderly market conditions, provided that market exchange rates for the U.S. dollar reflect actions and behavior consistent with the IMF Article IV, Section 1.

2. To achieve this end the System shall:

A. Undertake spot and forward purchases and sales of foreign exchange.

B. Maintain reciprocal currency ("swap") arrangements with selected foreign central banks and with the Bank for International Settlements.

C. Cooperate in other respects with central banks of other countries and with international monetary institutions.

3. Transactions may also be undertaken:

A. To adjust System balances in light of probable future needs for currencies.

B. To provide means for meeting System and Treasury commitments in particular currencies, and to facilitate operations of the Exchange Stabilization Fund.

C. For such other purposes as may be expressly authorized by the Committee.

4. System foreign currency operations shall be conducted:

A. In close and continuous consultation and cooperation with the United States Treasury;

B. In cooperation, as appropriate, with foreign monetary authorities; and

C. In a manner consistent with the obligations of the United States in the International Monetary Fund regarding exchange arrangements under the IMF Article IV.

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Meeting Held on February 1–2, 1982

Domestic Policy Directive

Preliminary estimates of the Commerce Department indicated that real gross national product had declined at an annual rate of about 5¼ percent in the fourth quarter of 1981. Average prices, as measured by the fixed-weight price index for gross domestic business product, increased at an annual rate of about 7 percent, much less rapidly than over the first three quarters of the year. During 1981, real GNP and nominal GNP grew about ¾ percent and 9¼ percent respectively, and the price index referred to above rose about 9 percent.

The index of industrial production fell 2.1 percent further in December, for a cumulative decline of about 7 percent over the last five months of 1981. The decline in December again was broadly based, reflecting output reductions for nearly all major product groupings, and it was particularly sharp for durable consumer goods and both durable and nondurable goods materials. Available data, notably for the automotive and steel industries, suggested further production cutbacks in January.

Total nonfarm payroll employment declined sharply in December for the third consecutive month. Job losses in manufacturing continued sizable, totaling more than 700,000 in the fourth quarter. The unemployment rate rose an additional 0.5 percentage point in December to 8.9 percent.

The nominal value of retail sales increased somewhat further in December, but the level remained below the average for the third quarter. Sales of new domestic automobiles fell to an annual rate of 4.9 million units in December, the lowest monthly pace in 22 years. Auto sales picked up in the first few weeks of January, but continued at an exceptionally low rate.

Private housing starts rose 13 percent in December from the depressed rate in November, but remained below an annual rate of 1 million units. Nearly all of the increase was in multifamily units. Sales of existing homes picked up somewhat in December, as had sales of new homes in November; nevertheless, total home sales in November were about one-third below their year-earlier level.

The producer price index for finished goods rose 0.3 percent in December, compared with 0.5 percent in November. During 1981 the index rose 7 percent, compared with the increase of nearly 12 percent over 1980. Producer prices of consumer foods rose only a little during 1981, and the rise in energy prices moderated, as a surge early in the year after decontrol of oil prices was followed by some decline in the second half. Producer prices of other consumer goods and capital equipment also rose less rapidly in 1981 than in 1980. The consumer price index rose 0.4 percent in December; over the year the index increased about 9 percent, compared with a rise of about 12½ percent over 1980. Increases were smaller in 1981 than in 1980 for all major components of the index.

The rise in the index of average hourly earnings slowed considerably in the final three months of 1981 from the pace earlier in the year. Over the year, the index rose about 8¼ percent, compared with an in-

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crease of about 9½ percent over 1980.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies rose about 4 percent during January, reflecting primarily responses to the widening differential between U.S. and foreign interest rates. Foreign monetary authorities intervened considerably to resist the depreciation of their currencies. The U.S. trade deficit increased in the fourth quarter from the rate in the previous two quarters, as nonagricultural exports declined and non-oil imports rose.

At its meeting on December 21–22, 1981, the Committee had decided that open market operations in the period until this meeting should be directed toward behavior of reserve aggregates consistent with growth of M1 and M2 from November 1981 to March 1982 at annual rates of around 4 to 5 percent and around 9 to 10 percent respectively. In setting the objective for M1, the Committee took account of the relatively rapid growth that had already taken place through the first part of December. The intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee between regularly scheduled meetings, was set at 10 to 14 percent.

M1 grew at an annual rate of 11½ percent in December and accelerated in January to a rate estimated to be above 20 percent. Expansion in checkable deposits other than demand accounts (other checkable deposits, or OCDs), which accounted for a substantial part of the acceleration of M1 growth in November and December, apparently was even more rapid in January. Growth of M2 moderated in December to an annual rate of about 7¾ percent, but picked up in January to a rate estimated at about 11 percent; the substantial growth over the two months reflected strength in the more liquid of the nontransaction components as well as in M1.[1] Some evidence suggested that the disproportionate growth in NOW and similar accounts in recent months had resulted at least in part from a desire of individuals to hold liquid balances because of uncertainties about economic prospects and interest rates.

The pace of monetary growth in December and January raised required reserves and generated demands for reserves considerably in excess of the volume supplied during

1. The growth rates cited are based on revised data for the monetary aggregates, reflecting new benchmarks and revised seasonal factors and some minor changes in the definition of M2, that were published on February 5. As redefined, M2 no longer includes institution-only money market mutual funds (which remain in M3) and includes retail repurchase agreements (RPs) in denominations of less than $100,000 (which were already in M3).

The monetary aggregates are defined as follows: M1 comprises demand deposits at commercial banks and thrift institutions, currency in circulation, traveler's checks, negotiable order of withdrawal (NOW) and automatic transfer service (ATS) accounts at banks and thrift institutions, and credit union share draft accounts. M2 contains M1 and savings and small-denomination time deposits at all depository institutions, overnight repurchase agreements (RPs) at commercial banks and retail RPs at all depository institutions, overnight Eurodollars held at Caribbean branches of member banks by U.S. residents other than banks, and money market mutual fund shares other than those restricted to institutions. M3 is M2 plus large-denomination time deposits at all depository institutions, large-denomination term RPs at commercial banks and savings and loan associations, and institution-only money market mutual funds.

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the intermeeting period through System open market operations. Consequently, borrowings from Federal Reserve Banks for purposes of adjusting reserve positions expanded sharply; borrowings averaged nearly $1.3 billion in the four statement weeks ending January 27, compared with an average of about $425 million in the four weeks ending December 23. The federal funds rate rose from around 12¼ percent in the days preceding the December meeting to about 14 percent in the days just before this meeting.

Against a background of continued rapid growth in monetary aggregates and large prospective federal deficits, market interest rates had risen on balance since the Committee's meeting in December: short-term rates increased about 1½ to 2½ percentage points and bond yields rose about ½ to 1 percentage point. The prime rate charged by most commercial banks on short-term business loans remained at 15¾ percent during the intermeeting interval. Average rates on new commitments for fixed-rate conventional home mortgage loans increased nearly ¾ of a percentage point.

Total credit at U.S. commercial banks, adjusted for shifts of assets from U.S. offices of banks to recently established international banking facilities (IBFs), expanded at an annual rate of about 11 percent in December.[2] Growth in business loans accelerated substantially, and security, real estate, and consumer loans also registered sizable gains. From the fourth quarter of 1980 to the fourth quarter of 1981, bank credit expanded 8¾ percent. Issuance of commercial paper by nonfinancial institutions was relatively strong in December, but slowed in early January.

Staff projections presented at this meeting suggested that real GNP would decline further in the current quarter and then begin to recover in the second quarter. The unemployment rate was expected to increase to a peak in the second quarter, while inflation, as measured by the fixed-weight price index for gross domestic business product, was projected to slow further over the year.

Views of Committee members concerning economic activity and prices during 1982 generally differed little from the staff projections. The members thought that recovery in activity most likely would begin before long, although they differed somewhat with regard to its probable strength. Their projections of growth in real GNP over the year ending in the fourth quarter of 1982 ranged from ½ percent to 3 percent. However, a number of members expressed concern about the risk that the recession might be prolonged by greater weakness in business capital investment than currently anticipated or by other developments. Members were unanimous in the view that the reduction in the rise in prices was likely to continue: their projections for the increase in the GNP implicit deflator over the year ranged from 6½ to 7¾ percent, compared with a rise of about 8½ percent over the year ending in the fourth quarter of 1981.

At this meeting, the Committee completed the review, begun at the

2. International banking facilities began operations on December 3, 1981. The adjustment made in calculating growth in bank credit involved adding back assets estimated to have been transferred from U.S. banking offices to IBFs.

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meeting in December 1981, of the ranges for growth of monetary aggregates over the period from the fourth quarter of 1981 to the fourth quarter of 1982 within the framework of the Full Employment and Balanced Growth Act of 1978. At its meeting in July 1981, the Committee had reaffirmed the ranges for growth over the year ending in the fourth quarter of 1981 that it had set in early February. These ranges were 3 to 5½ percent for M1-A and 3½ to 6 percent for M1-B, abstracting from the impact of the introduction of NOW accounts on a nationwide basis; 6 to 9 percent for M2; and 6½ to 9½ percent for M3. The associated range for growth of commercial bank credit was 6 to 9 percent. For the year ending in the fourth quarter of 1982, the Committee had tentatively agreed that growth of M1, M2, and M3 within ranges of 2½ to 5½ percent, 6 to 9 percent, and 6½ to 9½ percent respectively would be appropriate.[3]

When the Committee reaffirmed the ranges for 1981 at its meeting in July, it recognized that the divergence in growth of the various monetary aggregates was proving to be considerably greater than had been anticipated at the beginning of the year, even after allowance for the effects of shifts into NOW accounts. Thus it was thought likely and desirable that growth of M1-B over the year would be near the lower bound of its range and that growth of M2 and M3 might well be around the upper ends of their ranges.

The divergence in behavior between the narrow monetary aggregate and the broader ones proved to be even greater than had been expected at midyear. From the fourth quarter of 1980 to the fourth quarter of 1981, growth of M1-B adjusted for shifts into NOW accounts was about 2¼ percent, approximately 1¼ percentage points below the lower end of its range. Growth in this aggregate over the year was slow in relation to growth of nominal GNP, as financial innovations and high interest rates induced changes in cash-management techniques. Growth of M2 and M3 over the year was about 9½ percent and 11¼ percent respectively, about ½ percentage point and 1¾ percentage points above the upper ends of their ranges. The relatively strong growth of M2 reflected in part shifts of funds from market instruments to money market mutual funds and the expansion of small savers certificates at depository institutions in response to liberalization of interest rate ceilings; M3 grew more than M2 because of a substantial expansion in large-denomination CDs, as depository institutions increased their managed liabilities to support expansion in loans and investments.

In contemplating ranges for 1982, the Committee continued to face unusual uncertainties concerning the forces affecting monetary growth. It seemed likely that the recent expansion in NOW accounts would prove to be mostly a temporary aberration in individuals' liquidity preferences and that the relationship between growth of money and of nominal

3. In looking ahead to 1982, it had been decided to abandon the compilation of M1-A and the shift-adjusted M1-B (that is, M1-B adjusted to exclude that portion of flows into NOW accounts in 1981 estimated to have come from other interest-bearing assets rather than from demand deposits). The remaining aggregate for M1 is the one formerly labeled M1-B, which includes the total amount of NOW accounts.

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GNP would be closer to historical patterns. The ongoing changes in financial technology, which had reduced demand for M1 for most of 1981, were generally presumed to have effects in 1982 consistent with earlier experience, unless such arrangements as "sweeps" of individual checking accounts into money market funds or other instruments became widespread. With respect to M2, growth could be augmented if the scheduled reduction in federal income taxes or other influences raised the personal saving rate or if depository institutions attracted an exceptionally large flow of funds into individual retirement accounts (IRAs) from sources not included in M2.

In the Committee's discussion of ranges for monetary growth in 1982, the members were in agreement on the need to maintain the commitment to the long-standing goal of restraining growth of money and credit, thereby contributing to a further reduction in the rate of inflation and providing the basis for restoration of economic stability and sustainable growth in output. Nevertheless, members differed somewhat in their views concerning the particular ranges most appropriate for the year.

For M1, most members favored reaffirming the range of 2½ to 5½ percent that had been tentatively adopted at the meeting in July 1981. One member advocated a somewhat higher range, with a view to promoting more growth of real GNP and a lower rate of unemployment. In addition, some sentiment was expressed for retaining the range of 2½ to 5½ percent but taking the base level of M1 in the fourth quarter of 1981 to be the lower end of the Committee's range for last year. Such an adjustment of the base would in effect recognize that the recent burst in growth of M1 had brought its level more in line with the lower end of the 1981 range and, unless the burst proved to be temporary, could provide a more appropriate starting point.

Members differed somewhat more in their views concerning the broader monetary aggregates. Most desired to reaffirm the tentative range of 6 to 9 percent adopted last July. However, a substantial number initially favored specification of slightly higher ranges, largely because of their assessments of the likely impact of various developments that would tend to raise growth of M2 relative to that of M1. One member suggested that in pursuit of its objectives during the course of the year the Committee give more weight to M2 than to M1, because of the volatility of the behavior of the narrower aggregate in the short run reflecting, among other things, the response of NOW accounts to changing liquidity preferences and interest rates. More generally, it was felt that considerable weight should be given to M2 in interpreting developments during the year.

At the conclusion of the discussion, the Committee decided to reaffirm the ranges for 1982 that had been tentatively established in mid-1981. Thus the Committee adopted the following ranges for growth of the monetary aggregates from the fourth quarter of 1981 to the fourth quarter of 1982: for M1, 2½ to 5½ percent; for M2, 6 to 9 percent; and for M3, 6½ to 9½ percent. The associated range for commercial bank credit was 6 to 9 percent.

In setting the range for M1, the

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Committee recognized that the recent rapid increase in that aggregate placed it in January well above the average in the fourth quarter of 1981 but that it was too early to judge conclusively the extent to which the upsurge reflected temporary influences rather than a basic change in the amount of money needed to finance growth of nominal GNP. On the assumption that the relationship between growth of M1 and the expansion of nominal GNP was likely to be closer to normal than it had been in 1981, the Committee contemplated that growth of M1 in 1982 might acceptably be in the upper part of its range. The lower part of the range was considered appropriate to allow for the possibility that institutional or regulatory changes would speed the process of economizing on the cash balances included in M1. The Committee also contemplated that growth of M2 was likely to be high within its range, although growth still would be somewhat below that in 1981. However, growth of M2 might appropriately reach or even slightly exceed the upper end of its range if personal savings grew much more rapidly in relation to income than anticipated or if depository institutions attracted an exceptionally large flow of funds into IRAs from sources outside measured M2. In light of the unusual growth of NOW accounts in recent weeks, it was emphasized that the Committee might wish to reconsider the range for M1 should evidence suggest a more lasting change in individuals' liquidity preferences; in any event, it would reconsider the ranges in July within the framework of the Full Employment and Balanced Growth Act of 1978.

The Committee adopted the following ranges for growth in the monetary aggregates for the period from the fourth quarter of 1981 to the fourth quarter of 1982: M1, 2½ to 5½ percent; M2, 6 to 9 percent; and M3, 6½ to 9½ percent. The associated range for bank credit is 6 to 9 percent.

Votes for this action: Messrs. Volcker, Solomon, Boehne, Boykin, Corrigan, Gramley, Keehn, Partee, Rice, Schultz, and Wallich. Vote against this action: Mrs. Teeters.

Mrs. Teeters dissented from this action because she believed that somewhat higher monetary growth over the year ahead was needed to promote adequate expansion in economic activity and a reduction in the rate of unemployment. Specifically, she favored a range for M1 that was at least ½ percentage point higher than that adopted by the Committee and a range for M2 that provided for somewhat greater growth in the broader aggregate relative to that in M1.

In contemplating its objectives for monetary growth over the remainder of the first quarter of the new year, the Committee took account of the very rapid rise in M1 in recent months, especially in January. Given the apparent persistence of slow growth in nominal GNP in the first quarter, it seemed quite likely that the demand for money would abate substantially over the months ahead. Even if M1 grew no further from January to March, its income velocity on the average for the first quarter could well decline at a postwar record rate. While some decline in M1 seemed desirable, the Committee did not feel that much stronger measures than those already in place would be necessary or appropriate in

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the period immediately ahead to force such a decline.

Against this background, the Committee decided to seek behavior of reserve aggregates associated with no further growth of M1 from January to March and with growth of M2 at an annual rate of around 8 percent, with a view to bringing growth of both aggregates over time into their longer-run target ranges for the year. It was also agreed that some decline in M1, which would be associated with a faster return to its longer-run range, would be acceptable in the context of reduced pressure in the money market. The intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee, was set at 12 to 16 percent.

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

The information reviewed at this meeting indicates that real GNP declined appreciably in the fourth quarter of 1981 and that prices on the average rose much less rapidly than over the first three quarters of the year. In December industrial production and nonfarm payroll employment declined sharply for the third consecutive month, and the unemployment rate rose an additional 0.5 percentage point to 8.9 percent. The nominal value of retail sales increased somewhat further, but the level was still below the average for the third quarter. Although housing starts expanded, they remained at a depressed level. The rise in the index of average hourly earnings was considerably less rapid over the fourth quarter of 1981 than on the average earlier in the year.

The weighted average value of the dollar against major foreign currencies rose substantially during January; foreign monetary authorities intervened considerably to resist the depreciation of their currencies. In the fourth quarter the U.S. foreign trade deficit increased from the rate in the previous two quarters.

M1 grew rapidly in December and January, reflecting in part rapid expansion in checkable deposits other than demand accounts. Growth of M2 also was substantial, owing to strength in the more liquid of the nontransaction components as well as in M1. Short-term market interest rates and bond yields on balance have risen further in recent weeks, and mortgage interest rates have also increased.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation, promote a resumption of growth in output on a sustainable basis, and contribute to a sustainable pattern of international transactions. The Committee agreed that its objectives would be furthered by growth of M1, M2, and M3 from the fourth quarter of 1981 to the fourth quarter of 1982 within ranges of 2½ to 5½ percent, 6 to 9 percent, and 6½ to 9½ percent respectively. The associated range for bank credit was 6 to 9 percent.

The Committee seeks behavior of reserve aggregates over the balance of the quarter consistent with bringing M1 and M2 over time into their longer-run target ranges for the year. Taking account of the recent surge in growth of M1, the Committee seeks no further growth in M1 for the January-to-March period and growth in M2 at an annual rate of around 8 percent. Some decline in M1 would be associated with more rapid attainment of the longer-run range and would be acceptable in the context of reduced pressure in the money market. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before the next meeting is likely to be associated with a federal funds rate persistently outside a range of 12 to 16 percent.

Votes for this action: Messrs. Volcker, Solomon, Boehne, Boykin, Corrigan, Gramley, Keehn, Partee, Rice, Schultz, Mrs. Teeters, and Mr. Wallich. Votes against this action: None.

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Meeting Held on March 29–30, 1982

1. Domestic Policy Directive

The information reviewed at this meeting suggested that real GNP, which had declined at an annual rate of 4½ percent in the fourth quarter of 1981, fell appreciably further in the first quarter of this year. However, the level of final purchases in real terms was sustained, and the contraction in activity apparently moderated during the quarter. Average prices, as measured by the fixed-weight price index for gross domestic business product, were estimated to have risen much less than the annual rate of 7.5 percent in the preceding quarter.

The index of industrial production rose 1.6 percent in February, after a decline of 2.5 percent in January that was accounted for partly by severe winter weather. Although curtailments in output continued early this year, the rate of decline in industrial production from December to February was notably smaller than in the last four months of 1981.

Like industrial production, nonfarm payroll employment in February recovered some of its January decline. Over the two months the average monthly decline amounted to a little less than 100,000, compared with an average of about 300,000 in the fourth quarter. The unemployment rate in February, at 8.8 percent, was the same as in December.

The nominal value of retail sales, also distorted in January by the unusually severe weather, rebounded in February to about the level in December. Almost all categories of retail sales increased in February after having declined in January. Unit sales of new domestic automobiles rose to an annual rate of 6.2 million in February, buoyed by rebates and other price concessions; unit sales dropped in the first few weeks of March despite the continuation of purchase-incentive programs, but remained above the depressed fourth-quarter rate.

The Department of Commerce survey of business spending plans taken in January and February suggested that current-dollar expenditures for plant and equipment in 1982 would be about 7¼ percent greater than in 1981. The results implied a year-to-year decline of about 1 percent in real terms.

Private housing starts edged up in January and February from their unusually depressed pace in the fourth quarter of 1981, but the annual rate in February remained less than 1 million units for the seventh consecutive month. Sales of new and existing houses fell in January, reflecting the adverse weather conditions in many areas of the country in addition to the high level of mortgage interest rates; sales of existing homes picked up in February, but sales of new homes declined markedly further.

The rise in both producer and consumer prices moderated substantially in the first two months of the year. The producer price index for finished goods declined 0.1 percent in February, after a rise of 0.4 percent in January. Reductions in energy prices and rebates on motor vehicles contributed to the February decline in producer prices and to a deceleration in consumer prices as well. The consumer price index rose only 0.3 percent and 0.2 percent in January and February respectively. The rise in the index of average hourly earn-

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ings over the first two months of the year remained at a reduced pace.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies rose about 4 percent further in February and March, partly reflecting a widening of the differential between U.S. and foreign interest rates during much of the intermeeting interval. However, the differential narrowed somewhat toward the end of the period. Monetary authorities of some foreign countries intervened on a substantial scale to resist the depreciation of their currencies. The U.S. foreign trade deficit in January and February was somewhat less on average than in the fourth quarter, reflecting declines in imports of both oil and non-oil products. Exports also declined further from the fourth-quarter rate.

At its meeting on February 1–2, 1982, the Committee had adopted the following ranges for growth of the monetary aggregates over the period from the fourth quarter of 1981 to the fourth quarter of 1982: M1, 2½ to 5½ percent; M2, 6 to 9 percent; and M3, 6½ to 9½ percent. The associated range for bank credit was 6 to 9 percent.

At the February meeting, the Committee recognized that rapid monetary growth over the recent months had placed both M1 and M2 in January above the ranges adopted for growth over the year. Consequently, the Committee had also decided that open market operations in the period until this meeting should be directed toward behavior of reserve aggregates over the balance of the first quarter consistent with bringing growth of M1 and M2 over time into their longer-run target ranges. For the period from January to March, the Committee sought no further growth in M1 and growth in M2 at an annual rate of around 8 percent. It was also agreed that some decline in M1, which would be associated with a faster return to its longer-run range, would be acceptable in the context of reduced pressure in the money market. The intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee, was set at 12 to 16 percent.

After having grown rapidly for three months, M1 declined at an annual rate of about 3¾ percent in February and expanded only a little in early March. A substantial contraction in demand deposits accounted for the decline in February, as flows into other checkable deposits continued strong. Growth of M2 slowed to an annual rate of 4¼ percent in February, reflecting a slackening of the expansion in its nontransaction component as well as the decline in M1, but partial data suggested that growth accelerated in March.

Nonborrowed reserves declined substantially in February and then turned up in March; in the statement week ending March 24, such reserves remained somewhat below the average for the month of January. Borrowings from Federal Reserve Banks for purposes of adjusting reserve positions averaged a little less than $1.1 billion in the four statement weeks ending March 24 compared with an average of $1.2 billion in four weeks ending January 27, although such borrowings averaged nearly $1.5 billion in the intervening four weeks.

The federal funds rate, which had been about 14 percent in the days

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preceding the February meeting, generally fluctuated in a range of 13¾ to 15½ percent during the subsequent intermeeting period. Most other short-term market interest rates declined ½ to 1 percentage point on balance over the intermeeting interval and long-term yields fell about ½ to ¾ percentage point. The prime rate charged by most commercial banks on short-term business loans, which had been raised from 15¾ to 16½ percent on February 2, was unchanged during the remainder of the intermeeting period. Average rates on new commitments for fixed-rate home mortgage loans moved down nearly ½ percentage point to about 17 percent.

Total credit outstanding at U.S. commercial banks, adjusted for shifts of assets to IBFs, expanded at an average annual rate of about 11 percent in January and February, the same as in December. Growth in total loans picked up in February, and expansion in business loans continued sizable in both months. Issuance of commercial paper by nonfinancial institutions was quite strong in February.

Staff projections presented at this meeting suggested that real GNP would begin to recover in the second quarter and would expand moderately over the balance of 1982. The unemployment rate was expected to reach a peak in the second quarter, while inflation, as measured by the fixed-weight price index for gross domestic business product, was projected to slow somewhat further over the year.

Views of Committee members concerning the most probable direction of economic activity and the behavior of prices in the remaining three quarters of 1982 generally differed little from the staff projections, but several members emphasized the unusual uncertainties that could produce a different result. The prospective cut in federal income taxes at midyear and the current expansion in defense orders and outlays, together with a reduction or a reversal of inventory liquidation, were expected to contribute to economic recovery before long; but whether recovery would begin as early as in the second quarter was questioned, in part because a number of sensitive indicators of activity had continued to point to weakness. Concern was also expressed that continuing deterioration in both agriculture and nonagricultural industries and regions might dampen some types of consumer expenditures and overall outlays for plant and equipment. Moreover, there was a general feeling that the recovery could be more restrained than in earlier cycles, partly because financial stringency and high interest rates had prevailed for so long. With respect to inflation, progress recently had been greater than expected, and some further reduction in the underlying trend of costs and prices was thought likely; current price indicators were expected to show particularly small increases for some months.

The Committee considered objectives for monetary growth over the period from March to June in light of several circumstances bearing on the recent and prospective behavior of the monetary aggregates. It appeared that growth of both M1 and M2 from January to March would be close to the rates that the Committee had specified for that period. Consistent with the targets established for the year, however, slower growth than in the first quarter as a

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whole would be needed in the remaining quarters. The level of M2 in March appeared close to the upper end of its longer-run range.

A staff analysis suggested that the demand for money in the three months through June might be expected to moderate significantly from its growth in the first quarter. Growth of M1 on average in the first quarter had been considerably greater than would have been predicted on the basis of the actual behavior of nominal GNP and interest rates; the income velocity of M1 had declined very sharply after a small decline in the last quarter of 1981. Velocity declines of this magnitude and duration have been rare in the postwar period, and they were particularly unusual in the absence of declines in short-term interest rates.

The great bulk of the first-quarter growth of M1 had occurred in NOW accounts, suggesting that individuals wished to hold increased liquid balances in an environment of considerable uncertainty about the prospects for economic activity and interest rates. That interpretation was supported by renewed growth over recent months in highly liquid savings deposits that had relatively low yields. In the course of the second quarter, the accumulated liquidity balances might be drawn down to some extent, either for spending or for investing in other assets, especially if the economy strengthened and uncertainties were reduced. Thus at some point, relatively slow growth of M1, consistent with a fairly prompt return to its longer-run range, could be associated with a substantial rise in velocity. Should the recently increased preference for liquidity be more enduring, somewhat greater growth in M1 over time might be needed to foster economic recovery.

The task of judging the trend in M1 and of implementing monetary policy in the period immediately ahead would be complicated by problems involved in assessing the pattern of monetary growth during the early part of the second quarter. Calculation of seasonal adjustments for that part of the year is particularly difficult because of large tax payments, differences in the speed of their processing, and uncertainties about the size of tax refunds. The behavior of M1 is also affected by the extent to which funds accumulated in anticipation of tax payments are held in M1 deposits or, for example, in money market mutual funds.

Seasonal factors allow for a large rise in unadjusted M1 in April. However, the computation of the seasonal factors for the month has been complicated by the sharp variation in growth patterns in April for the past two years and by the related difficulties of isolating the impact of such nonrecurring influences as the credit control program in 1980 from possible shifts in the seasonal influences over time. Thus, inherent difficulties in the seasonal adjustment process as well as the usual uncertainties related to large tax payments and refunds raised the possibility that, while aiming at a second-quarter deceleration in monetary growth, allowance would need to be made for some bulge of growth in April.

Given the uncertainties about the near-term economic prospects as well as about the technical and other factors affecting the monetary aggregates, almost all members of the Committee felt that it would be desirable to set a course for the second quarter as a whole designed to per-

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mit modest growth of M1, consistent with moving toward the longer-run growth objective over a period of time. Considerable attention was paid to evaluating the significance of recent behavior of NOW accounts. In the Committee's decision, the point was made that the growth of M1 since October could be traced almost entirely to extraordinarily rapid growth in NOW accounts. A number of factors suggested that the growth of NOW accounts, as well as the accompanying growth in savings accounts, reflected a desire of individuals to hold more highly liquid assets, at least temporarily, in the light of uncertainties about economic activity and interest rates. Growth in demand deposits, which are held by businesses as well as by individuals, had been sluggish. Moreover, growth of the larger M2 aggregate, especially since December, appeared generally in line with the Committee's expectations.

Liquid balances accumulated in NOW accounts might be drawn upon in the second quarter, but if they were not, an effort to return M1 to its longer-run range might imply a more restrictive policy than was intended or would be desirable. It was suggested that if individuals evidenced a continuing desire to hold large liquid balances, the Committee would need to consider the implications of such a shift in liquidity preference for its range of growth of M1 over 1982. At the same time, it was noted that growth of M1 over a longer period extending back into 1981 understated the expansion of transaction balances to the extent that the accumulation of shares in money market mutual funds represented such balances. Partly for that reason, some members suggested that a stronger effort to reduce growth of M1 would be desirable to maintain pressure for continuation of the reduction in the rate of inflation.

Considering the pattern of growth in the period ahead and the seasonal uncertainties, most members believed that the behavior of M1 in April should be evaluated partly in light of the behavior of M2. Thus, for example, relatively rapid growth of M1 in April should be more readily accepted if M2 appeared to be growing at a pace consistent with the Committee's expectations for growth over the year. Should M1 growth in April be relatively rapid, offsetting behavior in the ensuing months would be expected. At the same time, sentiment was expressed for prompt efforts to contain an undue bulge in growth of M1 in April, on the grounds that the absence of such efforts would be interpreted as a weakening of the Committee's anti-inflationary stance and could have adverse consequences in long-term bond markets.

At the conclusion of the discussion, the Committee decided to seek behavior of reserve aggregates associated with growth of M1 and M2 from March to June at annual rates of about 3 percent and 8 percent respectively. It was understood that most, if not all, of the expansion in M1 over the period might well occur in April, and within limits, an April bulge in M1 alone should not be strongly resisted. In any event, it was agreed that deviations from those targets should be evaluated in light of the probability that over the period, M2 would be less affected than M1 by deposit shifts related to the mid-April tax date and by changes in the relative importance of NOW accounts as a savings vehicle.

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Some shortfall in growth of M1, consistent with progress toward the upper part of the range for the year as a whole, would be acceptable in the context of appreciably reduced pressures in the money market and relative strength of other aggregates. The intermeeting range for the federal funds rate, which provides a mechanism for initiating further consultation of the Committee, was set at 12 to 16 percent.

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

> The information reviewed at this meeting suggests that real GNP declined appreciably further in the first quarter of 1982 but that final purchases were sustained and the contraction in activity moderated during the quarter; prices on the average rose much less rapidly than in the preceding quarter. In January weakness in activity was accentuated by unusually severe weather, and in February the nominal value of retail sales rebounded while industrial production and nonfarm payroll employment recovered part of their January declines. The unemployment rate in February, at 8.8 percent, was unchanged from December. Although housing starts rose further in the first two months of the year, they remained at a depressed level. The rise in both the consumer price index and the producer price index for finished goods moderated substantially, and the advance in the index of average hourly earnings on the average remained at a reduced pace.
>
> The weighted average value of the dollar against major foreign currencies continued to rise strongly in February and March; foreign monetary authorities intervened on a substantial scale to resist the depreciation of their currencies. The U.S. foreign trade deficit in January and February on the average was somewhat less than the fourth-quarter rate.
>
> M1 declined in February, after three months of rapid growth, and then increased moderately in early March. Growth of M2 slowed appreciably in February, owing to a slackening of the expansion in the nontransaction component as well as to the decline in M1. Short-term market interest rates and bond yields on balance have declined since early February, and mortgage interest rates have edged down.
>
> The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation, promote a resumption of growth in output on a sustainable basis, and contribute to a sustainable pattern of international transactions. At its meeting in early February, the Committee agreed that its objectives would be furthered by growth of M1, M2, and M3 from the fourth quarter of 1981 to the fourth quarter of 1982 within ranges of 2½ to 5½ percent, 6 to 9 percent, and 6½ to 9½ percent respectively. The associated range for bank credit was 6 to 9 percent.
>
> In the short run, the Committee seeks behavior of reserve aggregates consistent with growth of M1 and M2 from March to June at annual rates of about 3 percent and 8 percent respectively. The Committee also noted that deviations from these targets should be evaluated in light of the probability that M2 would be less affected over the period than M1 by deposit shifts related to the tax date and by changes in the relative importance of NOW accounts as a savings vehicle. Some shortfall in growth of M1, consistent with progress toward the upper part of the range for the year as a whole, would be acceptable in the context of appreciably reduced pressures in the money market and relative strength of other aggregates. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before the next meeting is likely to be associated with a federal funds rate persistently outside a range of 12 to 16 percent.

Votes for this action: Messrs. Volcker, Solomon, Balles, Ford, Gramley, Partee, Rice, Mrs. Teeters, and Mr. Winn. Votes against this action: Messrs. Black and Wallich.

Messrs. Black and Wallich dissented from this action because they

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favored specification of somewhat lower rates for monetary growth from March to June than those adopted by the Committee, which would be associated with a relatively prompt return of M1 growth to its range for the year. Mr. Black believed that continued growth of M1 above its longer-run range for any extended period would adversely affect economic activity by exacerbating inflationary expectations and weakening markets for longer-term securities; for that reason, he felt that it was particularly important to resist any surge in growth of M1 that might develop in April. In Mr. Wallich's opinion, it would be desirable to restrain the pace of the prospective recovery in economic activity, consistent with some reduction in the unemployment rate, to sustain a degree of pressure for continuation of the reduction in the underlying rate of inflation.

2. Review of Continuing Authorizations

At this, the first regular 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, 1982, the Committee followed its customary practice of reviewing all of its continuing authorizations and directives. The Committee reaffirmed the authorization for domestic open market operations, the authorization for foreign currency operations, the foreign currency directive, and the procedural instructions with respect to foreign currency operations in the forms in which they were currently outstanding.

Votes for these actions: Messrs. Volcker, Solomon, Balles, Black, Ford, Gramley, Partee, Rice, Mrs. Teeters, Messrs. Wallich and Winn. Votes against these actions: None.

In reviewing the authorization for domestic open market operations, the Committee took special note of paragraph 3, which authorizes the Reserve Banks to engage in the 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 such lending of securities was reasonably necessary to the effective conduct of open market operations and to the implementation 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 for Domestic Operations that the lending activity in question remained reasonably necessary and that the authorization should remain in effect on a continuing basis, with the understanding that the manager would monitor the lending operation closely and would recommend discontinuing it in the event that it was no longer reasonably necessary to the effective conduct of open market operations.

3. Agreement with Treasury to Warehouse Foreign Currencies

At its meeting on January 17–18, 1977, the Committee had agreed to a suggestion by the Treasury that the Federal Reserve undertake to

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"warehouse" foreign currencies—that is, to make spot purchases of foreign currencies from the Exchange Stabilization Fund and simultaneously to make forward sales of the same currencies at the same exchange rate to the ESF. Pursuant to that agreement, the Committee had agreed that the Federal Reserve would be prepared to warehouse for the Treasury or for the ESF up to $5 billion of eligible foreign currencies. At this meeting the Committee reaffirmed the agreement on the terms adopted on March 18, 1980, with the understanding that it would be subject to annual review.

Votes for this action: Messrs. Volcker, Solomon, Balles, Black, Ford, Gramley, Partee, Rice, Mrs. Teeters, Messrs. Wallich and Winn. Votes against this action: None.

4. Authorization for Domestic Open Market Operations

On April 13–14, 1982, members of the Committee voted to increase from $3 billion to $5 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 immediately, for the period ending with the close of business on May 18, 1982.

Votes for this action: Messrs. Volcker, Solomon, Balles, Black, Gramley, Martin, Partee, Rice, Mrs. Teeters, Messrs. Wallich, Winn, and Roos. Votes against this action: None. Mr. Roos voted as alternate for Mr. Ford.

This action was taken on recommendation of the Manager for Domestic Operations. The Manager had advised that since the March meeting, large-scale net purchases of securities had been undertaken to counter the effects on member bank reserves of increases in currency in circulation and in Treasury balances at Federal Reserve Banks. The amount of these purchases was approaching $3 billion, leaving no leeway for further purchases over the current intermeeting interval. It appeared likely that sizable additional purchases would be required in the period ahead because of a projected further rise in Treasury balances associated with expansion in tax receipts.

On April 26–27, the Committee voted to approve an additional increase of $1 billion, to $6 billion, in the intermeeting limit on changes in holdings of U.S. government and federal agency securities, after the Manager had advised that the rise in Treasury balances at Federal Reserve Banks apparently would be considerably larger than anticipated earlier.

Votes for this action: Messrs. Volcker, Solomon, Black, Martin, Partee, Rice, Mrs. Teeters, Messrs. Wallich, Winn, Guffey, and Roos. Votes against this action: None. Absent: Mr. Gramley. Messrs. Guffey and Roos voted as alternates for Messrs. Balles and Ford respectively.

Meeting Held on May 18, 1982

The information reviewed at this meeting suggested that real GNP would change little in the current quarter after declining at annual rates of about 4 percent in the first quarter, according to preliminary estimates of the Commerce Department, and 4½ percent in the fourth

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quarter of 1981. In the current quarter, business inventory liquidation appeared to be moderating from the first quarter's extraordinary rate. The rise in average prices, as measured by the fixed-weight price index for gross domestic business product, appeared to be slowing somewhat further from the annual rate of about 5½ percent in the first quarter indicated by the preliminary estimates.

The nominal value of retail sales increased appreciably in April, according to the advance report, following little change on average over the first quarter. The advance report indicated especially strong sales gains in the automotive group, at stores selling building materials and related items, and at furniture and appliance stores. Unit sales of new domestic automobiles were at an annual rate of 5.5 million units compared with a rate of nearly 6 million in March and in the first quarter as a whole; unit sales picked up appreciably in early May, buoyed by new purchase-incentive programs.

The index of industrial production fell 0.6 percent in April, following a decline of 0.8 percent in March. In both months output of business equipment, construction supplies, and durable goods materials declined substantially, while production of consumer durable goods rose markedly. In April, industrial output was 8½ percent below its prerecession peak in July 1981.

Nonfarm payroll employment declined in March and April, reflecting continued sizable job losses in manufacturing and construction and smaller losses in other major sectors. The unemployment rate rose an additional 0.4 percentage point in April to 9.4 percent.

Private housing starts edged up in March for the fifth consecutive month, but at an annual rate still below 1 million units, they remained depressed. Sales of new homes declined further, while sales of existing homes picked up slightly.

The producer price index for finished goods changed little in March and April. Prices of energy-related items declined substantially in March and fell even more sharply in April. Prices of other nonfood consumer goods and of capital equipment rose in both months, and prices of foods and food materials rose sharply in April following little change in March. The consumer price index declined 0.3 percent in March, largely because of substantial reductions in costs of gasoline and homeownership, but declines in food prices also had a moderating influence. Thus far in 1982, both the producer price index for finished goods and the consumer price index have risen at annual rates of 1 percent or less on balance, and the advance in the index of average hourly earnings has remained at a reduced pace.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies rose somewhat further in early April but then fell about 3¼ percent over the following month, reflecting in part a decline in U.S. interest rates relative to foreign rates and market expectations of further declines. The U.S. foreign trade deficit was about one-third less in the first quarter than in the preceding quarter, as imports fell more sharply than exports.

At its meeting on March 29–30, the Committee had decided that open market operations in the period until this meeting should be directed

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toward behavior of reserve aggregates consistent with growth of M1 and M2 from March to June at annual rates of about 3 percent and 8 percent respectively. It was understood that most, if not all, of the expansion in M1 over the period might well occur in April, and within limits, an April bulge in M1 alone should not be strongly resisted. In any event, it was agreed that deviations from those targets should be evaluated in light of the probability that over the period M2 would be less affected than M1 by deposit shifts related to the mid-April tax date and by changes in the relative importance of NOW accounts as a savings vehicle. Some shortfall in growth of M1, consistent with progress toward the upper part of the range for the year as a whole, would be acceptable in the context of appreciably reduced pressures in the money market and the relative strength of other aggregates. The intermeeting range for the federal funds rate, which provides a mechanism for initiating further consultation of the Committee, was set at 12 to 16 percent.

Growth of M1 accelerated to an annual rate of 11¾ percent in April from 2½ percent in March. But the expansion was concentrated in the first half of the month and was largely retraced by month-end. As in other recent months, checkable deposits other than demand deposits (OCDs) posted a sizable increase. Growth of M2 moderated to an annual rate of about 9½ percent in April from 11¼ percent in March, reflecting a slackening in the expansion of its nontransaction component.

Total credit outstanding at U.S. commercial banks grew at an annual rate of 7¾ percent in April, about the same as in March. Banks added substantially to their holdings of Treasury securities, but expansion in their total loans, including business loans, moderated somewhat further. Business borrowing from other sources also moderated, as issuance of commercial paper by nonfinancial businesses slowed substantially and offerings of corporate securities declined.

Nonborrowed reserves, adjusted to include special borrowing and other extended credit from Federal Reserve Banks, changed little in April. Virtually all of the increase in total reserves associated with the expansion of M1 was provided through the discount window. Borrowing from Federal Reserve Banks for purposes of adjusting reserve positions (including seasonal borrowing) rose to an average of $1.5 billion in the two statement weeks ending April 28 from a weekly average of about $1.2 billion in March and the first half of April. Such borrowing subsequently fell back to an average of about $1.1 billion in the two weeks ending May 12.

The federal funds rate, which had been about 15 percent at the time of the March meeting, generally fluctuated in a narrow range of about 14¾ to 15½ percent during the subsequent intermeeting period. Most other short-term interest rates fell ½ to 1 percentage point on balance over the intermeeting interval, and long-term yields registered similar declines. The prime rate charged by commercial banks on short-term business loans remained at the 16½ percent rate that has prevailed since early February. Average rates on new commitments for fixed-rate mortgage loans at savings and loan

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associations declined slightly, to about 16¾ percent.

During the meeting the Committee was apprised of developments in the market for U.S. government securities stemming from the failure of a securities firm to make sizable interest payments that were due on borrowed Treasury obligations. System officials were monitoring the situation closely and it was understood that they would continue to do so.

Staff projections at this meeting suggested that real GNP would expand moderately over the balance of 1982. Inflation, as measured by the fixed-weight price index for gross domestic business product, was projected to remain moderate while the unemployment rate was expected to remain near its April level.

Views of Committee members concerning prospects for economic activity and the behavior of prices generally differed little from the staff projections. However, several members commented that the risks of a deviation from the projections were on the downside; they noted reports of gloomy sentiment prevailing among businessmen and consumers and of financial strains being experienced by many business firms, financial institutions, farmers, and consumers. Reduced economic activity and high interest rates were adversely affecting profits and eroding financial positions; the impact on key sectors of the economy such as capital investment, housing, and spending on consumer durables could impede the recovery.

A few members gave more emphasis to elements of strength in the near-term outlook, which they believed reduced the risks of prolonged recession and enhanced the prospects for a near-term recovery in economic activity. The favorable factors included the large tax cut at midyear and the concurrent increase in social security payments. In addition, liquidation of business inventories, which had been of unusual proportions in recent months, was likely to be reduced or reversed, thereby contributing to economic recovery. It was also suggested that spending in interest-sensitive sectors of the economy was likely to revive, perhaps more quickly than many anticipated, if inflation remained relatively moderate and interest rates declined.

It was emphasized during the discussion that a key element in the economic outlook would be developments affecting the federal budget and the size of future deficits. Significant progress in reducing prospective deficits would serve to improve business and consumer confidence and help to achieve and maintain the lower interest rates necessary to support a sustained economic recovery.

It was noted during the discussion that considerable progress had been made in the fight against inflation. Although the major price indexes overstated the extent of the recent improvement, the underlying rate of inflation was down substantially and cost pressures in general appeared to be continuing to ease. Inflationary expectations also appeared to have moderated somewhat further, but they remained sensitive to developments in the fiscal and monetary policy areas.

At its meeting on February 1–2, 1982, the Committee had adopted the following ranges for growth of the monetary aggregates over the period from the fourth quarter of 1981 to the fourth quarter of 1982:

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M1, 2½ to 5½ percent; M2, 6 to 9 percent; and M3, 6½ to 9½ percent. The associated range for bank credit was 6 to 9 percent.

At this meeting the Committee reviewed the short-run objectives for monetary growth that it had established in late March calling for expansion at annual rates of about 3 percent for M1 and about 8 percent for M2 over the three months from March to June. The Committee took note of a staff analysis suggesting that, despite the bulge in April as a whole, growth of M1 was generally consistent with the objective for the three-month period, reflecting weakness in late April and early May. Thus the level of M1, although still above a path consistent with the Committee's range for growth from the fourth quarter of 1981 to the fourth quarter of 1982, had moved down toward that path somewhat more rapidly than had been anticipated earlier. Growth of M2 also appeared to be consistent with the Committee's objective for the March-to-June period, and the level of that aggregate remained close to the upper end of its range for 1982.

As at the previous meeting, staff analysis suggested that the demand for money, as defined by M1, might moderate significantly in the current quarter. In the first quarter, growth of M1 had been considerably greater on average than would have been expected on the basis of the actual behavior of nominal GNP and interest rates; as a result, the income velocity of M1 had shown an unusually large decline. The great bulk of the growth in M1 in the first quarter, and indeed in the period since October 1981, had occurred in its NOW account component. A variety of evidence suggested an increased preference on the part of individuals to accumulate highly liquid balances in an environment of considerable uncertainty about prospects for economic activity and interest rates. It was thought that in the course of the current quarter the strong savings or precautionary demands for liquid balances were likely to begin to moderate, and perhaps to unwind, if economic prospects appeared to be improving as projected and if uncertainties about financial conditions were reduced. While considerable uncertainties remained, the behavior of NOW accounts in late April and early May was consistent with that expectation.

The staff analysis also suggested that continued pursuit of the second-quarter objectives for monetary growth set at the preceding meeting and the related provision of reserves through open market operations would be consistent with at least modest easing in bank reserve positions. Such easing in turn could be reflected in some decline in short-term interest rates. Rates appeared high, considering the recession in activity, the slower rise in prices, and more technically, the degree of pressure on bank reserve positions.

During the Committee's review of its second-quarter objectives, almost all the members agreed that growth rates consistent with those adopted at the previous meeting remained appropriate under current economic and financial conditions. Some sentiment was expressed for moderately faster monetary growth in the current quarter with the objective of improving liquidity and easing financial pressures, but no member favored substantially faster monetary expansion. Pursuit of the latter policy course, it was suggested, would

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probably exacerbate inflationary expectations, especially in light of the outlook for large deficits in the federal budget, and thereby exert upward pressure on interest rates.

Given the uncertainties relating to the public's demand for liquid balances, notably NOW accounts, most members continued to believe that the behavior of M1 should be evaluated partly in light of the behavior of M2 over the weeks ahead. Thus, for example, somewhat more rapid growth of M1 might be accepted if it appeared to be associated with a continuing desire by the public to build up liquid balances and with growth of M2 near its specified rate.

At the conclusion of the discussion the Committee agreed to reaffirm the objectives for monetary growth established at the previous meeting and to seek behavior of reserve aggregates associated with growth of M1 and M2 from March to June at annual rates of about 3 percent and 8 percent respectively. The Committee noted that deviations from these objectives should be evaluated in light of changes in the relative importance of NOW accounts as a savings vehicle. The intermeeting range for the federal funds rate, which provides a mechanism for initiating further consultation of the Committee, was set at 10 to 15 percent.

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

The information reviewed at this meeting suggests that real GNP will change little in the current quarter after the appreciable further decline in the first quarter, as business inventory liquidation moderates from last quarter's extraordinary rate. In April the nominal value of retail sales expanded, while industrial production and nonfarm payroll employment continued to decline. The unemployment rate rose 0.4 percentage point to 9.4 percent. Although housing starts edged up in March for the fifth consecutive month, they remained at a depressed level. The rate of increase in prices on the average appears to be slowing somewhat further in the current quarter; so far this year both the consumer price index and the producer price index for finished goods have risen little on balance, and the advance in the index of average hourly earnings has remained at a reduced pace.

The weighted average value of the dollar against major foreign currencies, after rising somewhat further in early April, has fallen sharply over the past month, reflecting in part a decline in U.S. interest rates relative to foreign rates and market expectations of further declines. The U.S. foreign trade deficit in the first quarter was one-third less than in the preceding quarter.

M1 increased sharply in April, but the expansion was concentrated in the first half of the month and was largely retraced later. Growth of M2 moderated somewhat, owing to a slackening of the expansion in the nontransaction component. Short-term market interest rates and bond yields on balance have declined since the end of March, and mortgage interest rates have edged down further.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation, promote a resumption of growth in output on a sustainable basis, and contribute to a sustainable pattern of international transactions. At its meeting in early February, the Committee agreed that its objectives would be furthered by growth of M1, M2, and M3 from the fourth quarter of 1981 to the fourth quarter of 1982 within ranges of 2½ to 5½ percent, 6 to 9 percent, and 6½ to 9½ percent respectively. The associated range for bank credit was 6 to 9 percent.

In the short run, the Committee seeks behavior of reserve aggregates consistent with growth of M1 and M2 from March to June at annual rates of about 3 percent and 8 percent respectively. The Committee also noted that deviations from these targets should be evaluated in light of changes in the relative impor-

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tance of NOW accounts as a savings vehicle. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before the next meeting is likely to be associated with a federal funds rate persistently outside a range of 10 to 15 percent.

> Votes for this action: Messrs. Volcker, Balles, Black, Ford, Gramley, Mrs. Horn, Messrs. Martin, Partee, Rice, Wallich, and Timlen. Vote against this action: Mrs. Teeters. (Mr. Timlen voted as alternate for Mr. Solomon.)

Mrs. Teeters dissented from this action because she favored specification of somewhat higher rates of monetary growth from March to June with the objective of improving liquidity and easing financial pressures. In her opinion, the time had come to foster lower and less variable interest rates in order to enhance prospects for significant recovery in output and employment.

Meetings Held on June 30–July 1, 1982, and on July 15, 1982[1]

Domestic Policy Directive

The information reviewed at this meeting suggested that real GNP had changed little in the second quarter, after declining at an annual rate of 3.7 percent in the first quarter, as business inventory liquidation moderated from an extraordinary rate. The rise in average prices, as measured by the fixed-weight price index for gross domestic business product, appeared to have slowed somewhat from the annual rate of about 4¾ percent in the first quarter.

The nominal value of retail sales rose 1½ percent further in May, according to the advance report. Sales gains were widespread and were especially strong at automotive, general merchandise, and apparel outlets. Unit sales of new domestic automobiles rose about 16½ percent to an annual rate of 6.4 million units. Auto sales dropped sharply in the first 20 days of June, however, following the termination of most purchase-incentive programs.

The index of industrial production edged down 0.2 percent in May, following declines of 0.8 percent in each of the two preceding months. Output of business equipment continued to drop sharply, and production of durable goods materials also declined further. But production of consumer durable goods rose markedly for the second month in a row, reflecting primarily an appreciable increase in automobile assemblies.

Nonfarm payroll employment was essentially unchanged in May, after having declined substantially in March and April. In manufacturing, job losses were appreciably less in May than in the earlier months, and

1. At its meeting on June 30–July 1, 1982, in accordance with the Full Employment and Balanced Growth Act of 1978 (the Humphrey-Hawkins Act), the Committee reviewed its ranges for growth of the monetary and credit aggregates for the period from the fourth quarter of 1981 to the fourth quarter of 1982 and gave preliminary consideration to the objectives for monetary growth that might be appropriate for 1983. The conclusion of the Committee's consideration of the ranges was deferred until July 15, 1982, owing to the long interval before the date of Chairman Volcker's testimony in conjunction with the Board's midyear report under the act, which was scheduled for July 20 before the Senate Committee on Banking, Housing, and Urban Affairs. The Board's report also was transmitted to the Congress on July 20.

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the average workweek edged up 0.1 hour to 39.1 hours. In contrast to the payroll data, the survey of households indicated a substantial increase in employment; but growth in the civilian labor force was even greater, and the unemployment rate edged up 0.1 percentage point to 9.5 percent.

The Department of Commerce survey of business spending plans taken in late April and May suggested that current-dollar expenditures for plant and equipment would rise only 2¼ percent in 1982, compared with 7¼ percent reported in the February survey and an actual expansion of about 8¾ percent in 1981. The survey results implied a year-to-year decline of about 2½ percent in real terms.

Private housing starts rose appreciably in May to an annual rate of 1.1 million units, exceeding a rate of 1 million units for the first time since last July. Most of the May increase was in the more volatile multifamily sector: multifamily starts rose nearly 50 percent, compared with an increase of about 9 percent in single-family starts. Sales of new homes increased substantially in May, while sales of existing homes were unchanged; total home sales were nearly 25 percent below the level of a year earlier.

The producer price index for finished goods changed little in May, as sharp declines in prices of energy-related items about offset increases in prices of food and other consumer goods and capital equipment. Over the first five months of the year, the index was virtually stable. The consumer price index, which had registered a small net increase over the first four months of the year, rose 1 percent in May, reflecting sharp increases in the volatile homeownership and energy components of the index and a considerable rise in food prices. Through May, the rise in the index of average hourly earnings was at a significantly less rapid pace than during 1981.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies had risen about 7 percent over the period since the last FOMC meeting, to its highest level since early 1971. The strength of the dollar reflected a rise in U.S. interest rates relative to foreign rates as well as heightened concerns because of hostilities in the Middle East. The U.S. foreign trade deficit in the first five months of 1982 was at a rate substantially less than that in the fourth quarter of last year, as imports declined more than exports.

At its meeting on May 18, the Committee had reaffirmed the objectives for monetary growth established at its meeting at the end of March; thus, it had decided to seek behavior of reserve aggregates associated with growth of M1 and M2 from March to June at annual rates of about 3 percent and 8 percent respectively. The Committee had also agreed that deviations from these objectives should be evaluated in light of changes in the relative importance of NOW accounts as a savings vehicle. The intermeeting range for the federal funds rate, which provides a mechanism for initiating further consultation of the Committee, was set at 10 to 15 percent.

M1 declined at an annual rate of about 2 percent in May, following expansion at an annual rate of about 10¾ percent in April. The contraction was attributable to a sizable

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decline in other checkable deposits, which had exhibited extraordinary growth over the preceding six months. M2 grew at an annual rate of about 10½ percent in May, a little above the rate in April.

Total credit outstanding at U.S. commercial banks grew at an annual rate of about 8½ percent in May, down slightly from the pace in April. Growth in business loans, at an annual rate of nearly 19 percent, accounted for much of the rise in bank credit, as most other categories of loans and investments registered only moderate growth or contraction. Business demands for credit, especially short-term credit, were exceptionally strong in May, as nonfinancial businesses also issued a sizable volume of commercial paper.

Nonborrowed reserves, adjusted to include extended credit from Federal Reserve Banks, expanded substantially in May, after having changed little in April. Total reserves grew moderately, however, as borrowing from Federal Reserve Banks for purposes of adjusting reserve positions (including seasonal borrowing) declined appreciably. In the two statement weeks ending June 23, such borrowing averaged about $875 million, compared with an average of about $940 million in May.

The federal funds rate averaged about 14¼ percent in the two statement weeks ending June 23, compared with around 14½ percent in the days immediately preceding the Committee meeting on May 18. The rate moved toward 15 percent in the days just before this meeting, influenced by the approach of the June 30 statement date. Most other interest rates rose about ½ to 1½ percentage points over the intermeeting period. The failure of one dealer in U.S. government securities and difficulties being experienced by another dealer heightened concerns about credit risks throughout the securities markets and induced some widening of risk premiums.[2] The prime rate charged by most commercial banks on short-term business loans remained at 16½ percent. Average rates on new commitments for fixed-rate mortgage loans at savings and loan associations edged up slightly.

The staff projections presented at this meeting suggested that real GNP would grow at a moderate pace over the year ahead but that the unemployment rate would remain near its recent high level. The rise in prices, as measured by the price index for gross domestic business product, was expected to pick up somewhat in the second half of 1982 from the substantially reduced rate in the first half, but continued improvement in the underlying trend was anticipated.

Views of Committee members concerning prospects for economic activity and the behavior of prices generally were similar in character to the staff projections. Consumption seemed likely to rise in response to the 10 percent reduction in federal income taxes at midyear, the concurrent cost-of-living increase in social security payments, and other factors; and the extraordinary rate of liquidation of business inventories in the first half of 1982 also seemed likely to contribute to some economic growth.

2. Neither of these firms was on the Federal Reserve Bank of New York's list of primary dealers in U.S. government securities that file reports on their operations with the Bank's Market Reports Division.

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As had been the case at the May meeting of the Committee, however, several members commented that the principal risks of a deviation from the projection of moderate growth in real GNP were on the downside, and some expressed concern that any recovery could falter. Business and consumer sentiment was reported to have deteriorated further, reflecting, among other things, greater uneasiness about the effects of high interest rates, increased bankruptcies, and difficulties affecting certain financial and industrial institutions. In these circumstances, business and consumer demands for liquidity might increase, rather than decline as many expected, extending the contraction in business capital expenditures and limiting consumer outlays for housing and durable goods. Concerning the prospective behavior of consumers, most statistical measures suggested that their liquidity was improving. The point was made, however, that rapidly rising prices of existing houses and readily available mortgages, which were characteristic of earlier years, were no longer providing stimulus for spending. Starting in 1983, a significant volume of balloon payments on earlier house-purchase loans would mature. Moreover, the recovery in activity could be impeded by weak expansion abroad, by import-financing problems of some major trading partners of the United States, and by the deterioration in the competitiveness of U.S. exports associated with the sharp rise in the foreign-exchange value of the dollar.

It was stressed during the meeting that considerable uncertainty remained about the size of the federal budget deficit for fiscal 1983, as well as for later years, although the recent congressional action on a budget resolution for the coming fiscal year represented progress toward a more restrained fiscal policy. To implement the resolution, a great deal remained to be done in legislating appropriations and additional revenues. Several Committee members observed, moreover, that the deficit would be considerably larger than that contained in the resolution, only in part because the latter was based on relatively optimistic assumptions concerning the performance of the economy. The degree of progress in reducing prospective federal deficits would have a major impact on pressures in financial markets and thus on the performance of such credit-sensitive sectors as homebuilding and business fixed investment. In the absence of significant progress, private investment outlays of all types would be less than otherwise.

With respect to prices, the members noted that considerable progress had been made in reducing the rate of increase but that the risks of exacerbating inflationary expectations remained serious. In any case, the underlying rate of inflation was not so low as might be inferred from the recent behavior of major indexes of prices, and the rise in those indexes was generally expected to pick up somewhat from the substantially reduced pace of 1982 to date.

At its meeting on February 1–2, 1982, the Committee had adopted the following ranges for growth of the monetary aggregates over the year from the fourth quarter of 1981 to the fourth quarter of 1982: for M1, 2½ to 5½ percent; for M2, 6 to 9 percent; and for M3, 6½ to 9½ percent. The associated range for bank credit was 6 to 9 percent. In setting

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the range for M1, the Committee recognized that the level of that aggregate in January was well above the average in the fourth quarter of 1981 but that it was too early to judge conclusively the extent to which the recent upsurge in growth reflected temporary influences rather than a basic change in the amount of money needed to finance growth of nominal GNP. On the assumption that the relationship between growth of M1 and the expansion of nominal GNP was likely to be closer to normal than it had been in 1981, and given the relatively low base in the fourth quarter of 1981, the Committee contemplated that growth of M1 in 1982 might acceptably be in the upper part of its range. The Committee also contemplated that growth of M2 was likely to be high within its range.

At this meeting, the Committee reviewed its ranges for growth of the monetary and credit aggregates for the period from the fourth quarter of 1981 to the fourth quarter of 1982 and gave preliminary consideration to objectives for monetary growth that might be appropriate for 1983. With respect to the current year, the Committee noted that the levels of the monetary aggregates in June were slightly above the upper ends of their ranges for 1982. The upsurge in M1 in January was followed by quite slow growth on average over the next five months, and from the fourth quarter of 1981 to June, M1 had increased at an annual rate of 5.7 percent. Over the same period, M2 and M3 had grown at annual rates of 9.4 percent and 9.7 percent respectively.

Although the growth of M1 was moderate over the first half of 1982, it considerably exceeded the growth of nominal GNP; in the first quarter, the decline in the income velocity of M1 was extraordinarily sharp. Similarly, the income velocity of the broader monetary aggregates was unusually weak in the first half. Given the persistence of relatively high interest rates, the behavior of velocity in the first half suggested a heightened demand for M1 and M2.

The unusual demand for M1 in the first half was concentrated in NOW accounts and other interest-bearing checkable deposits, which have some characteristics of traditional savings deposits. The enlarged share of these accounts in M1 had made this aggregate more sensitive to changes in the public's desire to hold highly liquid assets.

Growth of M2 as well as that of M1 appeared to have been bolstered in the first half of 1982 by increased preferences for holding highly liquid financial assets. Conventional savings deposits actually increased, after having contracted in the preceding four years, and money market mutual funds continued to expand strongly, although less so than in 1981. Altogether, the nontransaction component of M2 (M2 less M1) grew at an annual rate of 10½ percent from the fourth quarter of 1981 to June.

In reconsidering the ranges for 1982, Committee members remained in agreement on the need to maintain the commitment to the long-standing goal of restraining growth of money and credit in order to contribute to a further reduction in the rate of inflation and provide the basis for restoration of economic stability and sustainable growth in output. At the same time, the Committee took account of the need to provide sufficient monetary growth to encourage

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recovery in economic activity over the months ahead. Growth consistent with the current longer-run ranges, quite possibly around the upper end, was thought to be adequate in view of the sizable rise in the velocity of money that generally developed in the early stages of a cyclical recovery in economic activity. Still, the members recognized that regulatory actions and changes in the public's preferences for various assets, as well as shifts in liquidity demands generally, would tend to affect the velocity of money and would need to be taken into account in evaluating the behavior of the monetary aggregates. To the extent that precautionary demands for money remained strong, for example, growth of the major monetary aggregates near, or possibly somewhat above, the upper ends of their ranges for 1982 might well be consistent with the Committee's general policy objectives.

In the Committee's discussion at this meeting, almost all members preferred retention of the previously established ranges for growth of the monetary aggregates in 1982, with the understanding that growth around the upper ends of the ranges would be acceptable, but some sentiment was expressed for small upward adjustments in the ranges. Several members observed that any increase in the ranges might well be misinterpreted as a relaxation of the Committee's commitment to the long-run objective of restraining monetary growth and contributing to a further reduction in the rate of inflation, thereby adversely affecting inflationary expectations and long-term interest rates. It was also noted that minor adjustments in the ranges might seem to suggest an unrealistic degree of precision with which monetary growth could be controlled and might not be sufficient in any case to allow for a temporary bulge related to exceptional demands for liquidity, should they develop.

With respect to 1983, most members felt that the current ranges for 1982 could appropriately be retained; but they recognized that, in light of all the current uncertainties surrounding the economic, financial, and federal budgetary outlook, ranges adopted at this time would be especially tentative. The current ranges would be consistent with a reduction in monetary growth in 1983 if, as seemed likely, growth of the monetary aggregates in 1982 was around the upper ends of their ranges. Some sentiment was expressed for a reduction in the ranges for 1983, particularly if those for 1982 were raised, in line with the general objective of reducing monetary growth gradually over time.

The implications for monetary policy of the recent congressional action on a budget resolution were considered at some length. Committee members generally felt that a firm follow-through in current efforts to reduce budgetary deficits should contribute to easing financial market strains within the context of the current ranges for monetary growth; to help assure that result, in their view, it was important that action beyond the magnitude incorporated in the first budget resolution be taken affecting future years. It was not thought that the budgetary effort itself would warrant even greater growth in the monetary aggregates than was being contemplated. Excessive monetary growth would tend to work against the benefits of an improved budgetary outlook in curb-

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ing inflation and inflationary expectations. The Committee concluded its discussion and reached a decision on the longer-run ranges during a telephone conference on July 15, 1982.

The Committee considered policy for the period from June to September in light of the apparent consensus for retaining the previously established ranges for growth of the monetary aggregates over the year, with the understanding that growth near, or for a time somewhat above, the upper ends of those ranges would be acceptable depending on emerging strength of liquidity demands in a period of economic uncertainty. The data becoming available at the time of the meeting indicated that growth of M1 had weakened appreciably after mid-June and that growth of both M1 and M2 over the whole period from March to June apparently had been in line with the Committee's objectives for growth over that period at annual rates of about 3 percent and 8 percent respectively. The levels of M1 and M2 in June, as noted earlier, were just slightly above the upper ends of their ranges for 1982.

Evaluating the behavior of M1 and implementing policy in the period immediately ahead would be complicated by a number of special influences. The midyear reduction in withholding rates for federal income taxes and the cost-of-living increase in social security payments were generally expected to lead to some bulge in monetary growth in July. It was also expected, however, that any such bulge would be offset in ensuing months. More fundamentally, some easing in demands for liquidity and precautionary balances, and a concomitant increase in the income velocity of money, was anticipated over the months ahead, but the public's liquidity preferences could not be predicted with much confidence, especially in the current environment of financial strains.

Given these problems, most members stressed the need for flexibility in interpreting the behavior of the monetary aggregates in the period ahead. Thus, while still aiming to provide moderate monetary growth consistent with the objectives for growth over the year, those members would be willing to tolerate a bulge early in the period to the extent that it appeared to be a temporary effect of the tax reduction and increased social security payments, perhaps compounded by seasonal adjustment problems. They would also accept somewhat faster growth over the quarter as a whole if it appeared that demands for liquidity and precautionary balances were not easing as anticipated. In general, they wished to guard against the possibility that short-term aberrations in the behavior of money or exceptional demands for liquidity in circumstances of unusual uncertainty would generate financial market pressures that would impede the prospective recovery in output.

A few members of the Committee were concerned that accommodation of much of a bulge in monetary growth in July or a relatively rapid expansion over the summer months as a whole might jeopardize prospects for achieving the monetary objectives for the year and thus would risk exacerbating inflationary expectations. Accordingly, they believed that tendencies toward such monetary growth rates in the months ahead should be met by increased

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pressures on bank reserve positions and in the money market.

On the other hand, one member advocated a strategy directed toward a prompt easing of money market conditions with a view to promoting reductions in short-term interest rates. It was also suggested by one member that the Committee adopt an effective ceiling of 15 percent for fluctuations in the federal funds rate over the weeks until the next scheduled meeting, in an effort to avoid any significant backing up of interest rates in the current environment and to strengthen prospects for the anticipated recovery in economic activity. Several members observed, however, that such a strategy was more likely to be viewed as a fundamental change in the Committee's approach to targeting monetary growth and would have adverse market reactions because of its potential for producing an unduly rapid expansion in bank reserves and money.

At the conclusion of the discussion, the Committee agreed to seek behavior of reserve aggregates associated with growth of M1 and M2 from June to September at annual rates of about 5 percent and about 9 percent respectively. It decided that somewhat more rapid growth would be acceptable depending on evidence that economic and financial uncertainties were leading to exceptional liquidity demands. It was also noted that seasonal uncertainties, together with increased social security payments and the initial impact of the tax cut on cash balances, might lead to a temporary bulge in the monetary aggregates, particularly M1. The intermeeting range for the federal funds rate, which provides a mechanism for initiating further consultation of the Committee, was continued at 10 to 15 percent.

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

The information reviewed at this meeting suggests that real GNP changed little in the second quarter, after the appreciable further decline in the first quarter, as business inventory liquidation moderated from an extraordinary rate. In May the nominal value of retail sales continued to pick up, while industrial production declined only a little further and nonfarm payroll employment was essentially unchanged. The unemployment rate edged up 0.1 percentage point to 9.5 percent. Housing starts rose appreciably from a depressed level.

The price index for gross domestic business product appears to have risen at a relatively slow rate in the second quarter. Over the first five months of this year the producer price index for finished goods was virtually stable, and the advance in the index of average hourly earnings remained at a reduced pace. The consumer price index rose sharply in May, after a small net increase over the preceding four months.

The weighted average value of the dollar against major foreign currencies has risen sharply over the past month, reaching its highest level since early 1971, in response to a rise in U.S. interest rates relative to foreign rates as well as to hostilities in the Middle East. The U.S. foreign trade deficit in the first five months of 1982 was at a rate substantially less than in the fourth quarter of last year, as imports declined more than exports.

M1 declined somewhat in May, after its sharp rise in April, while growth of M2 remained substantial. Business demands for credit, especially short-term credit, were exceptionally strong. Short-term market interest rates and bond yields generally have risen since late May, and mortgage interest rates have increased.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation, promote a resumption of growth in output on a sustainable basis, and con-

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tribute to a sustainable pattern of international transactions. At its meeting in early February, the Committee agreed that its objectives would be furthered by growth of M1, M2, and M3 from the fourth quarter of 1981 to the fourth quarter of 1982 within ranges of 2½ to 5½ percent, 6 to 9 percent, and 6½ to 9½ percent respectively. The associated range for bank credit was 6 to 9 percent. These ranges were under review at this meeting.

In the short run, the Committee seeks behavior of reserve aggregates consistent with growth of M1 and M2 from June to September at annual rates of about 5 percent and about 9 percent respectively. Somewhat more rapid growth would be acceptable depending on evidence that economic and financial uncertainties are leading to exceptional liquidity demands and changes in financial asset holdings. It was also noted that seasonal uncertainties, together with increased social security payments and the initial impact of the tax cut on cash balances, might lead to a temporary bulge in the monetary aggregates, particularly M1. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before the next meeting is likely to be associated with a federal funds rate persistently outside a range of 10 to 15 percent.

Votes for this action: Messrs. Volcker, Solomon, Balles, Gramley, Martin, Partee, Rice, and Keehn. Votes against this action: Messrs. Black, Ford, Mrs. Teeters, and Mr. Wallich. Mr. Keehn voted as alternate for Mrs. Horn.

Messrs. Black, Ford, and Wallich dissented from this action because they favored a policy for the period immediately ahead that was firmly directed toward bringing growth of M1 down to its range for 1982 by the end of the year. They were concerned that accommodation of relatively rapid growth over the summer months might jeopardize achievement of the monetary objectives for the year and thus would risk exacerbating inflationary expectations. Accordingly, they believed that tendencies toward rapid monetary expansion in the months immediately ahead should be met by greater pressures on bank reserve positions and in the money market.

Mrs. Teeters dissented from this action because she favored specification of somewhat higher rates for monetary growth during the third quarter along with an approach to operations early in the period that would clearly signal an easing in policy. In her opinion, policy at this point should be directed toward exerting downward pressure on short-term interest rates in order to promote recovery in output and employment.

At a telephone meeting on July 15, the Committee concluded its review of the ranges for growth of the monetary aggregates in 1982 and the tentative ranges for 1983 and took the following actions.

The Committee reaffirmed the following ranges for growth of the monetary aggregates over the year from the fourth quarter of 1981 to the fourth quarter of 1982 that it had adopted in early February: for M1, 2½ to 5½ percent; for M2, 6 to 9 percent; and for M3, 6½ to 9½ percent. The associated range for bank credit was 6 to 9 percent. At the same time, the Committee agreed that growth in the monetary and credit aggregates around the top of the indicated ranges would be acceptable in the light of the relatively low base period for the M1 target and other factors, and that it would tolerate for some period of time growth somewhat above the target range should unusual precautionary demands for money and liquidity be evident in the light of current economic uncertainties.

Votes for this action: Messrs. Volcker, Solomon, Balles, Black, Ford, Mrs. Horn, Messrs. Martin,

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and Partee. Vote against this action: Mrs. Teeters. Absent and not voting: Messrs. Gramley, Rice, and Wallich.

Mrs. Teeters dissented from this action because she favored an explicit statement that growth of M1 above the upper end of the Committee's range for 1982 by 1 percentage point, or even as much as 1½ percentage points, might be acceptable. In her opinion, it was important to indicate the acceptable degree of growth of M1 above the range in order to foster market behavior that would lower interest rates and enhance the prospects for sustaining recovery in output and employment.

The Committee indicated that for 1983 it was tentatively planning to continue the current ranges for 1982, but would review that decision carefully in the light of developments over the remainder of 1982.

Votes for this action: Messrs. Volcker, Solomon, Balles, Black, Ford, Mrs. Horn, Messrs. Martin, Partee, and Mrs. Teeters. Votes against this action: None. Absent and not voting: Messrs. Gramley, Rice, and Wallich.

Shortly afterwards, Messrs. Gramley, Rice, and Wallich, who had been unable to attend the meeting on July 15 but who had been present for the main discussion of the longer-run ranges for monetary growth held at the meeting on June 30–July 1, associated themselves with the Committee in its actions with respect to the ranges for both 1982 and 1983.

Following the Committee's actions on July 15, the next to last paragraph of the domestic policy directive adopted at its meeting on June 30–July 1 read as follows:

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation, promote a resumption of growth in output on a sustainable basis, and contribute to a sustainable pattern of international transactions. At its meeting in early February, the Committee had agreed that its objectives would be furthered by growth of M1, M2, and M3 from the fourth quarter of 1981 to the fourth quarter of 1982 within ranges of 2½ to 5½ percent, 6 to 9 percent, and 6½ to 9½ percent respectively. The associated range for bank credit was 6 to 9 percent. The Committee began a review of these ranges at its meeting on June 30–July 1, and at a meeting on July 15, it reaffirmed the targets for the year set in February. At the same time the Committee agreed that growth in the monetary and credit aggregates around the top of the indicated ranges would be acceptable in the light of the relatively low base period for the M1 target and other factors, and that it would tolerate for some period of time growth somewhat above the target range should unusual precautionary demands for money and liquidity be evident in the light of current economic uncertainties. The Committee also indicated it was tentatively planning to continue the current ranges for 1983, but would review that decision carefully in the light of developments over the remainder of 1982.

Meeting Held on August 24, 1982

1. Domestic Policy Directive

The information reviewed at this meeting suggested that real GNP would advance only a little further in the current quarter, following an increase at an annual rate of about 1¼ percent in the second quarter. Average prices, as measured by the fixed-weight price index for gross domestic business product, were continuing to rise more slowly than in 1981.

The nominal value of retail sales rose 1 percent in July, according to the advance report, recovering only

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part of the 3¼ percent decline recorded in June. Sales of new domestic automobiles, which had dropped to an annual rate of 4.8 million units in June, rose a little in July and early August.

The index of industrial production was about unchanged in July, following a cumulative decline of more than 10 percent from the prerecession level in July 1981. Production of business equipment continued to drop at its recent pace of 2 to 3 percent per month, while output of defense and space equipment continued to expand. Output of consumer goods picked up, reflecting mainly an increase in automobile assemblies, but automobile output in July was at a rate substantially above the sales pace of June and July, and production schedules for August were cut back.

Nonfarm payroll employment, after declining sharply in June, was essentially unchanged in July, as continued job losses in manufacturing were about offset by gains in trade and service industries. The unemployment rate rose 0.3 percentage point to 9.8 percent, as the civilian labor force expanded and total civilian employment was unchanged.

Private housing starts rose 34 percent in July, more than reversing the decline in June; but at an annual rate of 1.2 million units, starts remained low by historical standards. All of the July increase was in multifamily units; starts of such units more than doubled, in part because of an upsurge in those qualifying for rental subsidies under a federal government program terminating on September 30. That impending termination also apparently contributed to a substantial rise in July in newly issued permits for multifamily units; permits for single-family dwellings declined slightly and were at about the same pace as in the second quarter as a whole. Combined sales of new and existing homes in June continued about 25 percent below those of a year earlier.

The producer price index for finished goods and the consumer price index both rose 0.6 percent in July, following increases of 1.0 percent in June. At the producer level, prices of energy-related items increased sharply in both months and in July accounted for nearly all of the rise in the index; prices of food and food materials fell substantially in July. At the consumer level, food prices edged down in July, while increases in energy prices and homeownership costs moderated from the rapid rates recorded in June. Over the first seven months of the year, the producer price index for finished goods and the consumer price index rose at annual rates of about 3 percent and 5½ percent respectively, compared with increases of about 7 percent and 9 percent in 1981. The advance in the index of average hourly earnings also was considerably less rapid through July than during 1981.

In foreign exchange markets the trade-weighted value of the dollar against major currencies, while fluctuating over a wide range, had changed little on balance since late June despite a sharp decline in U.S. interest rates relative to foreign rates. The strength of the dollar in the face of narrowing interest rate differentials apparently reflected concerns of market participants about economic and financial difficulties abroad. The U.S. foreign trade deficit in the second quarter was somewhat below the first-quarter deficit, reflecting primarily a sub-

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stantial drop in petroleum imports; the total of other imports rose somewhat and exports were about unchanged.

At its meeting on June 30–July 1, the Committee had agreed to seek behavior of reserve aggregates associated with growth of M1 and M2 from June to September at annual rates of about 5 percent and about 9 percent respectively. It had also decided that somewhat more rapid growth would be acceptable depending on evidence that economic and financial uncertainties were leading to exceptional liquidity demands. Moreover, the Committee had noted that seasonal uncertainties, together with increased social security payments and the initial impact of the tax cut on cash balances, might lead to a temporary bulge in the monetary aggregates, particularly M1. The intermeeting range for the federal funds rate, which provides a mechanism for initiating further consultation of the Committee, was set at 10 to 15 percent.

M1 in fact declined slightly in July, following declines in May and June, as demand deposits continued to contract and growth in currency slowed further. Growth of M2, after moderating in June from a rapid pace in previous months, accelerated again in July. Small-denomination time deposits increased sharply during the month, and shares in money market mutual funds continued to expand at a relatively strong pace; in contrast, savings deposits at all depository institutions declined substantially after growing moderately during earlier months of the year.

Total credit outstanding at U.S. commercial banks grew at an annual rate of about 6½ percent in July, well below the pace in the first half of the year. Growth in business loans slowed in July, but generally strong business demands for short-term credit were reflected in an increase in loans booked at foreign branches of U.S. banks and in a sharp acceleration in issuance of commercial paper by nonfinancial businesses. Issuance of publicly offered bonds rose in July.

Nonborrowed reserves expanded relatively rapidly in July. However, with the demand for reserves weak, in part reflecting the sluggishness of M1, adjustment borrowing by depository institutions (including seasonal borrowing) declined from an average of about $1.1 billion in June to about $330 million in the two statement weeks ending August 18.

Market interest rates had declined sharply over the period since the last Committee meeting. Short-term market rates fell 4 to 6 percentage points. The federal funds rate, for example, declined from around 14½ percent at the end of June to about 10 percent in the statement week ending August 18 and to around 9 percent in the days immediately preceding this Committee meeting. Bond yields declined about 1¾ to 2 percentage points. A substantial part of the decline in long-term rates occurred in an unusually strong rally in debt markets around mid-August, when record price increases also occurred in the stock market. The strength of the downward movement in interest rates apparently reflected a shift in market sentiment about the outlook for interest rates against the background of strains in financial markets, relatively weak economic indicators, and legislative action on the federal budget. Over the intermeeting interval, the prime rate charged by commercial banks on

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short-term business loans was lowered from 16½ percent to 13½ percent. In conjunction with the decline in short-term market rates, the Federal Reserve discount rate was reduced in three steps from 12 percent to 10½ percent over the period. In home mortgage markets, average rates on new commitments for fixed-rate conventional loans at savings and loan associations declined about ½ percentage point on balance.

The staff projections presented at this meeting suggested that real GNP would grow at a moderate pace over the year ahead but that the unemployment rate would remain near its recent high level. Inflation, as measured by the fixed-weight price index for gross domestic business product, was expected to pick up somewhat over the months ahead from the substantially reduced pace in the first half of 1982, but continued improvement in the underlying trend was anticipated.

In the Committee's discussion of the economic situation and outlook, several members commented that the timing of an economic recovery was subject to considerable uncertainty, but no member expressed disagreement with the general character of the staff projection. As at other recent meetings, some Committee members suggested that the principal risks of a deviation from the projection were on the down side. Reference was made to the growing expressions of concern in the business community and to financial strains being experienced by many business firms, financial institutions, and others. In this situation, spending might well remain weak in key sectors of the economy. Business capital spending was cited as especially vulnerable to remaining depressed, particularly in the event of renewed upward pressure on long-term interest rates. On the other hand, it was observed, continued success in the fight against inflation would over time ease pressures in long-term debt markets, improve business confidence, and strengthen business capital spending.

Some members commented that to date the midyear reduction in federal income taxes and the concurrent cost-of-living increase in social security payments appeared to have had little impact on consumer spending. The view was expressed, however, that the midyear tax actions were likely to exert a positive influence on a delayed basis. It was also noted that the recently reduced levels of interest rates, if they were sustained, would help to relieve financial pressures throughout the economy and thereby contribute to improvement in economic activity over the months ahead.

At its meeting on June 30–July 1, the Committee had begun a review of the monetary growth objectives for the period from the fourth quarter of 1981 to the fourth quarter of 1982 that it had set in early February. Subsequently, at a meeting on July 15, the Committee had reaffirmed those objectives, which included ranges of 2½ to 5½ percent for M1, 6 to 9 percent for M2, and 6½ to 9½ percent for M3. The associated range for bank credit was 6 to 9 percent. At the same time the Committee agreed that growth in the monetary and credit aggregates around the top of the indicated ranges would be acceptable in the light of the relatively low base period for the M1 target and other factors, and that it would tolerate for some period of time growth somewhat

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above the target range should unusual precautionary demands for money and liquidity be evident in the light of current economic uncertainties. The Committee also indicated that it was tentatively planning to continue the current ranges for 1983 but that it would review that decision carefully in the light of developments over the remainder of 1982.

At this meeting the Committee reviewed the short-run objectives that it had established at the previous meeting calling for expansion at annual rates of about 5 percent for M1 and about 9 percent for M2 over the three months from June to September. Data available through mid-August indicated that growth in M1 was running below the Committee's objective, while partial data suggested that growth in M2 had moved above the objective for the three-month period. In relation to the Committee's objectives for the year as a whole, the latest staff estimates indicated that the expansion of M1 was within its longer-run range, while that of M2 was somewhat above its 1982 range.

During the Committee's discussion, most of the members agreed that the short-run growth objectives adopted at the previous meeting remained appropriate under current economic and financial conditions and should be retained. The view was expressed that the substantial recent decline in interest rates, which in part reflected growing public awareness of the progress that had been made in curbing inflation, provided welcome relief in easing financial strains throughout the economy. A number of members expressed concern, however, about the volatility of interest rates and some commented that further sharp movements in either direction over the near term might have damaging consequences. Some members emphasized that a pronounced increase from current levels would aggravate financial strains and inhibit recovery in interest-sensitive sectors of the economy. Some members also suggested that a large further decline might foster a resurgence of inflationary expectations and could prove to be unsustainable and therefore unsettling to financial markets. Several members expressed the view that the Committee should review its policy if reserve provision to meet monetary growth objectives was fostering a substantial change in pressures on bank reserve positions and in credit markets.

Reference was made to the relative strength in M2 over the course of recent weeks that appeared to be related in part to unusual demands for liquid investments, such as money market funds, at comparatively attractive yields. The members agreed that under prevailing circumstances, growth in M2 somewhat above its short-run target would be acceptable over the period immediately ahead.

At the conclusion of the discussion the Committee agreed to reaffirm the objectives for monetary growth established at the June 30–July 1 meeting for the June to September period. The Committee decided that somewhat more rapid growth in the monetary aggregates would be acceptable depending upon evidence that economic and financial uncertainties were fostering unusual liquidity demands for monetary assets and were contributing to substantial volatility in interest rates. The intermeeting range for the federal funds rate, which provides a

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mechanism for initiating further consultation of the Committee, was set at 7 to 11 percent.

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

The information reviewed at this meeting suggests only a little further advance in real GNP in the current quarter, following a relatively small increase in the second quarter, while prices on the average are continuing to rise more slowly than in 1981. In July the nominal value of retail sales rose somewhat from a sharply reduced June level; housing starts increased substantially, though from a relatively low rate; and industrial production and nonfarm payroll employment were essentially unchanged. The unemployment rate rose 0.3 percentage point to 9.8 percent. Over the first seven months of the year the advance in the index of average hourly earnings was considerably less rapid than during 1981.

The weighted average value of the dollar against major foreign currencies, while fluctuating over a wide range, has changed little on balance since late June despite a sharp decline in U.S. interest rates relative to foreign rates. Demand for dollars appeared to reflect concern about economic and financial difficulties abroad. The U.S. foreign trade deficit in the second quarter was somewhat below the first-quarter deficit, with petroleum imports down substantially.

M1 declined slightly in June and July, while growth of M2 moderated somewhat from its average pace earlier in the year. Business demands for credit, especially short-term credit, remained generally strong. Market interest rates have declined sharply since around midyear, reflecting a shift in market sentiment about the outlook for interest rates against the background of strains in financial markets, relatively weak economic indicators, and legislative action on the federal budget. The Federal Reserve discount rate was reduced in three steps from 12 percent to 10½ percent during the period.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation, promote a resumption of growth in output on a sustainable basis, and contribute to a sustainable pattern of international transactions. At its meeting in early February, the Committee had agreed that its objectives would be furthered by growth of M1, M2, and M3 from the fourth quarter of 1981 to the fourth quarter of 1982 within ranges of 2½ to 5½ percent, 6 to 9 percent, and 6½ to 9½ percent respectively. The associated range for bank credit was 6 to 9 percent. The Committee began a review of these ranges at its meeting on June 30–July 1, and at a meeting on July 15, it reaffirmed the targets for the year set in February. At the same time the Committee agreed that growth in the monetary and credit aggregates around the top of the indicated ranges would be acceptable in the light of the relatively low base period for the M1 target and other factors, and that it would tolerate for some period of time growth somewhat above the target range should unusual precautionary demands for money and liquidity be evident in the light of current economic uncertainties. The Committee also indicated that it was tentatively planning to continue the current ranges for 1983 but that it would review that decision carefully in the light of developments over the remainder of 1982.

In the short run, the Committee continues to seek behavior of reserve aggregates consistent with growth of M1 and M2 from June to September at annual rates of about 5 percent and about 9 percent respectively. Somewhat more rapid growth would be acceptable depending on evidence that economic and financial uncertainties are leading to exceptional liquidity demands and changes in financial asset holdings. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before the next meeting is likely to be associated with a federal funds rate persistently outside a range of 7 to 11 percent.

Votes for this action: Messrs. Volcker, Solomon, Balles, Black, Ford, Mrs. Horn, Messrs. Martin, Partee, Rice, and Mrs. Teeters. Vote against this action: Mr. Wallich. Absent and not voting: Mr. Gramley.

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Mr. Wallich dissented from this action because he favored an approach to operations early in the period that would lessen the chances of short-term interest rates remaining below the prevailing discount rate or falling further below it. He was concerned that such interest rate behavior would tend to accelerate monetary expansion and that the necessary restraint of reserve growth to curb such expansion might lead to a sizable rebound in short-term rates with adverse implications for business and consumer confidence.

2. Authorization for Foreign Currency Operations

At this meeting Committee members were apprised of the status of ongoing discussions with the Government of Mexico regarding short-term financing arrangements to support Mexico's efforts to strengthen its economic and financial position. At its meeting on June 30–July 1, the Committee had agreed, in response to a request by officials of the Bank of Mexico, that it would stand ready to provide to the Bank of Mexico up to the full $700 million available under the Federal Reserve System's existing swap arrangement with that Bank. Subsequently, on August 4, 1982, the Bank of Mexico, which had drawn on its swap line on an overnight basis on a few occasions in recent months, drew $700 million for a period of three months.

At the time of this meeting, negotiations were under way among Mexico, the U.S. Treasury, major central banks, and other lenders to provide multilateral financial support to Mexico. The purpose of the support was to effect an orderly transition to an economic stabilization program that the Government of Mexico had announced was being developed. The Committee authorized Federal Reserve participation in the proposed multilateral financing package through the temporary establishment of a special swap arrangement of $325 million with the Bank of Mexico in addition to the regular arrangement of $700 million. Accordingly, paragraph 2 of the Committee's authorization for foreign currency operations was amended, effective August 28, 1982, for the period through August 23, 1983, to read as follows:

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	3,000
Bank of France	2,000
German Federal Bank	6,000
Bank of Italy	3,000
Bank of Japan	5,000
Bank of Mexico	
Regular	700
Special	325
Netherlands Bank	500
Bank of Norway	250
Bank of Sweden	300
Swiss National Bank	4,000
Bank for International Settlements	
Dollars against Swiss francs	600
Dollars against authorized European currencies other than Swiss francs	1,250

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Any changes in the terms of existing swap arrangements, and the proposed terms of any new arrangements that may be authorized, shall be referred for review and approval to the Committee.

Votes for this action: Messrs. Volcker, Solomon, Balles, Black, Ford, Mrs. Horn, Messrs. Martin, Partee, Rice, Mrs. Teeters, and Mr. Wallich. Votes against this action: None. Absent and not voting: Mr. Gramley.

On August 30, 1982, the U.S. Treasury and the Federal Reserve announced that they were participating with central banks of other Group of Ten countries, Spain, and Switzerland, under the aegis of the Bank for International Settlements, in making available to the Bank of Mexico short-term financing totaling $1.85 billion. The Treasury would provide $600 million though the Exchange Stabilization Fund, in conjunction with the $325 million that the Federal Reserve was making available through its additional swap arrangement. The multilateral financing program provided that drawings by Mexico would be made in line with progress toward agreement between the Mexican Government and the International Monetary Fund (IMF) on an economic adjustment program that will permit Mexico to qualify for drawings under the IMF's Extended Fund Facility.

Meeting Held on October 5, 1982

Domestic Policy Directive

The information reviewed at this meeting suggested that real GNP had changed little in the third quarter, following an increase at an annual rate of about 2 percent in the second quarter. Average prices, as measured by the fixed-weight price index for gross domestic business product, were continuing to rise more slowly than in 1981.

The nominal value of retail sales fell nearly 1 percent in August, according to the advance report, returning to the sharply reduced June level. Sales declines were particularly marked at automotive outlets and at general merchandise, apparel, and furniture and appliance stores. Sales of new domestic automobiles increased slightly in August to an annual rate of 5.3 million units; sales rose further to an annual rate of 6 million units in the first 20 days of September, apparently in response to purchase incentives offered by manufacturers in an effort to reduce excess stocks of 1982 models.

After having changed little in July, the index of industrial production declined 0.5 percent in August to a level about 1 percent below its second-quarter average and more than 10 percent below its prerecession level in July 1981. Production of consumer goods fell in August, following a sizable advance over the preceding four months, and output of business equipment continued to drop at a rapid rate. Output of defense and space equipment expanded further. Limited information currently available for September was generally indicative of some further decline in production.

Nonfarm payroll employment fell further in August, mainly reflecting sizable job losses in the manufacturing and trade sectors. In contrast to the payroll data, the survey of households indicated an increase in employment, and the unemployment rate was unchanged at 9.8 percent. But initial claims for unemployment insurance rose to a new high in mid-

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September, suggesting further deterioration in the labor markets.

The Department of Commerce survey of business spending plans taken in late July and August suggested that businesses had again reduced their spending plans for 1982. The survey results indicated that current-dollar expenditures for plant and equipment would rise only ¾ of a percent in 1982, compared with an estimated 2¼ percent in the May survey and 7¼ percent in the February survey. Actual expansion in 1981 was about 8¾ percent.

Private housing starts fell in August to an annual rate of 1.0 million units, reversing much of the substantial increase in July. While starts in August were above the average in the second quarter, they remained quite low by historical standards. Sales of existing homes declined 5 percent in August to the lowest monthly pace since 1970, while sales of new homes continued at the sluggish pace of recent months.

The producer price index for finished goods rose 0.6 percent in August, the same as in July. The consumer price index rose only 0.3 percent in August; food prices declined for the second consecutive month and energy prices leveled off after increasing sharply over the preceding three months. So far this year the producer price index and the consumer price index had risen at annual rates of about 3¾ percent and 5 percent respectively. In recent months the advance in the index of average hourly earnings had remained considerably less rapid than during 1981.

In foreign exchange markets the trade-weighted value of the dollar had risen about 5 percent over the period since the last FOMC meeting. The dollar's strength reflected in part a continuing concern in the market about economic and financial difficulties abroad and also some firming of U.S. interest rates relative to foreign rates after a considerable drop earlier. The U.S. foreign trade deficit rose sharply in August, reflecting primarily a substantial rebound in nonpetroleum imports. The deficit on average in July and August was at a rate well above that for the first half of the year, mainly because of increased imports of oil.

At its meeting on August 24, the Committee had agreed to continue seeking behavior of reserve aggregates consistent with growth of M1 and M2 from June to September at annual rates of about 5 percent and about 9 percent respectively. It had also agreed that somewhat more rapid growth in the monetary aggregates would be acceptable depending upon evidence that economic and financial uncertainties were leading to exceptional liquidity demands and changes in holdings of financial assets. The intermeeting range for the federal funds rate, which provides a mechanism for initiating further consultations of the Committee, was set at 7 to 11 percent.

Following three months of weakness, M1 grew at an annual rate of about 10½ percent in August and appeared to have grown more rapidly in September. Much of the strength of M1 was accounted for by rapid growth in other checkable deposits, but demand deposits also expanded in both months, after contracting on average since early in the year. The expansion in checkable deposits may have reflected in part the early impact on take-home pay of the tax cut as well as unusual liquidity demands in the face of

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continued economic uncertainties. Moreover, the lower level of short-term market interest rates had reduced the earnings disadvantage of keeping funds in checkable accounts. Growth in M2 accelerated to an annual rate of about 14¼ percent in August, but was estimated to have slowed substantially in September as expansion in its nontransaction component decelerated markedly.

Total credit outstanding at U.S. commercial banks grew at an annual rate of about 6½ percent in August, the same as in July but well below the pace in the first half of the year. Partial data for September suggested that growth slowed somewhat despite a pickup in growth of business loans from the sharply reduced August pace; a significant part of the strengthening in business loans appeared to have been associated with merger activity. Other short-term borrowing by nonfinancial businesses generally was weak: the volume of commercial paper outstanding edged down in August and dropped further in September. However, the weakness in short-term borrowing was largely offset by increased long-term financing in the bond market.

Total reserves expanded quite rapidly in September, after having grown relatively little on average over the preceding several months. A little less than half of the September growth in total reserves was supplied by nonborrowed reserves, and adjustment borrowing (including seasonal borrowing) by depository institutions increased from an average of about $420 million in August to about $815 million in September.

Most short-term market interest rates rose somewhat on balance over the intermeeting interval. Rates had declined substantially over the preceding two months, and decreases were particularly marked around the time of the August 24 meeting of the Committee, when expectations of continued declines in short-term market rates were strong. Effective August 27, the Federal Reserve discount rate was reduced from 10½ to 10 percent. Subsequently federal funds traded at rates somewhat above the discount rate, as compared with a trading level of around 9 percent in the last statement week of August, and rates on private short-term instruments also rose by about 1 to 2 percentage points from their late August lows. At the same time, rates on Treasury bills moved up only slightly, partly reflecting the increased preference for quality on the part of investors. The well-publicized problems in recent months of a few banks here and abroad, the acute external financing difficulties of Mexico, and emerging financing problems in other developing countries led to a more cautious atmosphere in private credit markets and a widening of yield spreads between U.S. government securities and some private credit instruments. Bond yields continued to decline over the intermeeting period, falling ¼ to ¾ percentage point. Average rates on new commitments for fixed-rate conventional home mortgage loans declined about 1 percentage point.

The staff projections presented at this meeting suggested that real GNP would grow moderately in the course of 1983, but that any recovery in economic activity in the months just ahead was likely to be quite limited. The projections for the year ahead also suggested that unemployment would remain at a high

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level. The rise in prices, as measured by the fixed-weight price index for gross domestic business product, was expected to slow gradually from a rate in the third quarter of 1982 that was estimated to be somewhat higher than that in the first half of the year.

In the Committee's discussion of the economic situation and policy, it was generally agreed that growth in real GNP over the next year at about the relatively restrained pace projected by the staff was a reasonable expectation. Expansion in output at a somewhat faster pace might occur, if consumer and business confidence in the outlook improved during the next few months. So far, however, the widely held expectations of recovery beginning in the spring or summer had been disappointed, and there were still no signs of a strengthening in the economy. The projected expansion in consumer demands associated with the midyear cut in federal income taxes had not yet developed; prospects for business plant and equipment spending and for commercial construction had deteriorated; and agricultural income and expenditures had remained depressed. In September industrial output and employment most likely had declined further, and the unemployment rate had almost surely risen from the July–August level of 9.8 percent. Against that background, it was recognized that there were risks of a shortfall from the projection of moderate growth in real GNP over the quarters ahead.

At the same time, progress in reducing the rate of inflation had been substantial, exceeding expectations of many, even after allowance for the influence of volatile prices of energy products and foods. Moreover, further moderation in labor cost and price pressures and also in inflationary expectations was a reasonable anticipation, given an environment of moderate expansion in output and employment, relatively low levels of resource utilization, and prospects for improvement in productivity.

Domestic problems were being intensified because the recession in economic activity was worldwide; it had affected every major industrial country and, through its impact on foreign trade and commodity prices, the developing countries as well. Many of the latter countries had accumulated large external debts over a number of years, and they now faced difficult financing and adjustment problems. Altogether, these circumstances had been contributing to an atmosphere of nervous uncertainty, which was reflected in, among other things, the foreign exchange value of the dollar. Over recent months, the dollar had risen against other major currencies even when dollar interest rates were declining relative to foreign rates, and the high exchange value currently had serious implications both for U.S. export industries and for efforts abroad to pursue flexible monetary policies.

The U.S. banking system had been subjected to pressures, owing in part to well-known problems of particular institutions but also to a more general uneasiness about the possibility of further credit problems domestically or internationally. An unusually cautious attitude in private credit markets had led to a widening of risk premiums, with the result that private interest rates had declined less than rates on Treasury securities since midsummer, and in

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recent weeks private short-term market rates had tended to move up. Altogether, these circumstances appeared to have been associated with business efforts to generate and conserve cash, with market participants' concerns about the quality of credit, and with a general increase in precautionary demands for money and liquidity. In financial markets and elsewhere, a sense of disarray could develop, which could increase the atmosphere of uncertainty.

With respect to the period ahead, the Committee continued to face uncertainties about the interpretation of the behavior of the monetary aggregates in general, arising from the impact of the current economic environment on precautionary demands for money and liquidity. Moreover, the behavior of M1 in particular during the final three months of the year would inevitably be distorted by two institutional developments. First, a very large volume of all savers certificates would mature in the first part of October, and disposition of the proceeds could be expected to induce temporary bulges in both the demand deposit and NOW account components of M1. Second, later in the quarter, as the Depository Institutions Deregulation Committee (DIDC) implemented recent legislation, depository institutions would be authorized to offer a new account (or accounts) that would be free from interest rate ceilings, would be usable to some degree for transaction purposes, and would be competitive with money market mutual funds. The new account was likely to have a substantial impact on the behavior of M1, but no basis existed for predicting its magnitude. While the new account seemed likely to have a depressing effect on currently defined M1 as it drew money from NOW accounts, the direction of the overall effect was in some doubt since that would depend in part on the exact characteristics of the instrument or instruments authorized by the DIDC. The new instrument could include even more transaction features than the account specifically provided for in the legislation. The new instrument could also be expected to affect the composition of M2 and perhaps in some degree its total as well. It seemed clear, however, that the new instrument would affect the behavior of M2 and other broader aggregates to a much smaller extent than that of M1.

Because of these difficulties in interpreting the behavior of M1 during the fourth quarter, the Committee decided that it would place much less than the usual weight on that aggregate's movements during this period and that it would not set a specific objective for its growth. In the view of most members, against the background of prevailing economic and financial developments, added pressures on bank reserve positions and money markets in response to a bulge in M1 related to the maturing of all saver certificates were not justified; indeed, some easing of the pressures of recent weeks in some sectors of the private credit markets would be desirable, if that could be consistent with growth in the broader aggregates in line with longer-term objectives.

The Committee agreed that in all the circumstances, it would seek to maintain expansion in bank reserves needed for an orderly and sustained flow of money and credit, consistent with growth of M2 (and M3) from September to December at an annual rate in a range of around 8½ to 9½

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percent, and taking account of the desirability of somewhat reduced pressures in private credit markets in the light of current economic conditions. Growth of M2 from the fourth quarter of 1981 to the fourth quarter of 1982 might be somewhat above the range for the year that the Committee had reaffirmed in July; the Committee had also agreed then that for a time it would tolerate growth somewhat above the target range, in the event of unusual precautionary demands for money and liquidity, and that such growth would be consistent with longer-term objectives. Recent and prospective market and economic conditions appeared consistent with that approach. Somewhat slower growth over the period from September to December, bringing those aggregates around the upper part of the ranges for the year ending in the fourth quarter of 1982, would be acceptable and desirable in a context of declining interest rates. Should economic and financial uncertainties lead to still stronger liquidity demands, somewhat more rapid growth in the broader aggregates would be tolerated. The intermeeting range for the federal funds rate, which provides a mechanism for initiating further consultation of the Committee, was set at 7 to 10½ percent.

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

The information reviewed at this meeting suggests that real GNP changed little in the third quarter, following a small increase in the second quarter, while prices on the average continued to rise more slowly than in 1981. In August the nominal value of retail sales fell back to the sharply reduced June level, while industrial production and nonfarm payroll employment also declined. Housing starts fell, reversing much of the substantial July increase. The unemployment rate was unchanged at 9.8 percent in August, but claims for unemployment insurance have risen further in recent weeks and there are indications of some further decline in production. In recent months the advance in the index of average hourly earnings has remained considerably less rapid than during 1981.

The weighted average value of the dollar against major foreign currencies has risen strongly further over the past month, reflecting in part a continuing concern in the market about economic and financial difficulties abroad and also some firming of U.S. interest rates relative to foreign rates after a considerable drop earlier. The U.S. merchandise trade deficit rose sharply in August and on average in July and August the deficit rate was well above that for the first half.

After three months of weakness, M1 grew rapidly in August and September; growth in M2 accelerated in August from an already rapid pace but appears to have slowed markedly in September. Following large declines over the preceding two months, short-term market interest rates have risen somewhat on balance since late August, while bond yields and mortgage rates have continued to decline. The Federal Reserve discount rate was reduced from 10½ percent to 10 percent in late August. Meanwhile, reflecting some well-publicized problems in recent months of a few banks here and abroad and the financing difficulties of Mexico, a more cautious atmosphere in private credit markets has been reflected in wider spreads between U.S. government and some private credit instruments.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation, promote a resumption of growth in output on a sustainable basis, and contribute to a sustainable pattern of international transactions. In July, the Committee agreed that these objectives would be furthered by reaffirming the monetary growth ranges for the period from the fourth quarter of 1981 to the fourth quarter of 1982 that it had set at the February meeting. These ranges

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were 2½ to 5½ percent for M1, 6 to 9 percent for M2, and 6½ to 9½ percent for M3. The associated range for bank credit was 6 to 9 percent. The Committee agreed that growth in the monetary and credit aggregates around the top of the indicated ranges would be acceptable in the light of the relatively low base period for the M1 target and other factors, and that it would tolerate for some period of time growth somewhat above the target range should unusual precautionary demands for money and liquidity be evident in the light of current economic uncertainties. The Committee also indicated that it was tentatively planning to continue the current ranges for 1983 but that it would review that decision carefully in the light of developments over the remainder of 1982.

Specification of the behavior of M1 over the balance of the year is subject to unusually great uncertainties because it will be substantially affected by special circumstances—in the very near term by reinvestment of funds from maturing all savers certificates and later by the public's response to the new account directly competitive with money market funds mandated by recent legislation. The probable difficulties in interpretation of M1 during the period suggest much less than usual weight be placed on movements in that aggregate during the current quarter. These developments are expected to affect M2 and other broader aggregates to a much smaller extent.

In all the circumstances, the Committee seeks to maintain expansion in bank reserves needed for an orderly and sustained flow of money and credit, consistent with growth of M2 (and M3) in a range of around 8½ to 9½ percent at an annual rate from September to December, and taking account of the desirability of somewhat reduced pressures in private credit markets in the light of current economic conditions. Somewhat slower growth, bringing those aggregates around the upper part of the ranges set for the year, would be acceptable and desirable in a context of declining interest rates. Should economic and financial uncertainties lead to exceptional liquidity demands, somewhat more rapid growth in the broader aggregates would be tolerated. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before the next meeting is likely to be associated with a federal funds rate persistently outside a range of 7 to 10½ percent.

Votes for this action: Messrs. Volcker, Solomon, Balles, Gramley, Martin, Partee, Rice, Mrs. Teeters, and Mr. Wallich. Votes against this action: Messrs. Black and Ford and Mrs. Horn.

Mr. Black dissented from this action because he preferred to direct operations in the period immediately ahead toward restraining monetary growth. Although he was mindful of the current difficulties of interpreting the behavior of M1, he was concerned that the recent strength in M1 might be followed by still more rapid growth in lagged response to the substantial decline in short-term interest rates that had occurred in the summer, which could require even more restrictive operations later.

Mr. Ford dissented from this action because he preferred a policy for the period immediately ahead that was more firmly directed toward restraining monetary growth, although he recognized that the behavior of M1 in particular would be difficult to interpret. He was concerned that the Committee's policy directive might be misinterpreted in ways that could adversely affect pursuit of the System's longer-run anti-inflationary objectives, particularly in the context of a highly expansive fiscal policy program.

Mrs. Horn dissented from this action because she preferred to continue setting a specific objective for growth of M1, as well as for M2, over the current quarter, notwithstanding the problems of interpreting

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its behavior. In setting a target for M1, she would tolerate faster growth early in the period, owing to the uncertain impact of the proceeds from maturing all savers certificates, and would give greater weight to the behavior of M2 for some weeks after the introduction of the new instrument at depository institutions.

Meeting Held on November 16, 1982

1. Domestic Policy Directive

The information reviewed at this meeting suggested that real GNP would change little in the fourth quarter, after increasing at an annual rate of ¾ percent in the third quarter according to preliminary estimates of the Commerce Department. Average prices, as measured by the fixed-weight price index for gross domestic business product, were continuing to rise at a much less rapid pace than in 1981.

The nominal value of retail sales rose 0.6 percent in October, but the level was little higher than in the second and third quarters. Sales increased at automotive outlets and furniture and appliance stores, but edged down at nondurable goods stores. Unit sales of new domestic automobiles fell back to an annual rate of 5.3 million units, after having increased to an annual rate of 6.2 million units in September in response to special promotions aimed at reducing excess stocks of 1982 models.

The index of industrial production declined 0.8 percent in October, a little more than in both August and September, and was about 11½ percent below its recent peak in July 1981. Output of business equipment fell substantially further in October, and as in other recent months, defense and space equipment was the only major category of final products showing strength. Capacity utilization in manufacturing fell 0.8 percentage point to 68.4 percent, the lowest level in the postwar period.

Nonfarm payroll employment fell further in October, declining slightly more than the average over the previous four months. Cutbacks in employment were widespread and were especially marked in durables manufacturing. The unemployment rate rose an additional 0.3 percentage point to 10.4 percent, with the rise concentrated among adult workers. In recent weeks, moreover, initial claims for unemployment insurance remained exceptionally high.

Private housing starts rose in September and in the third quarter as a whole were nearly 17 percent higher than in the second quarter. Most of the third-quarter increase was in the multifamily sector and was attributable mainly to a surge in federally subsidized rental units at the end of the fiscal year. In September, newly issued permits for both single-family and multifamily dwellings rose substantially. Sales of new homes also advanced appreciably, exceeding the 1981 average rate for the first time this year; sales of existing homes, however, remained at the reduced August pace.

The producer price index for finished goods rose 0.5 percent in October, following a decline of 0.1 percent in September. Most of the October increase was attributable to higher prices for motor vehicles, which had been reduced in September by end-of-year liquidation allowances and discounts on 1982 models.

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Prices of consumer foods and energy-related items edged down in October. Over the first ten months of the year the index rose at an annual rate of about 3¼ percent, less than half the pace in 1981. The consumer price index rose 0.2 percent in September, as the homeownership component declined and most other categories registered relatively small increases. Over the first nine months of the year the index rose at an annual rate of about 4¾ percent, compared with an increase of about 9 percent in 1981. In recent months the advance in the index of average hourly earnings had remained considerably less rapid than it was during 1981.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies continued to appreciate from the end of September to mid-November. The dollar strengthened further despite somewhat greater declines, on balance, in U.S. interest rates than in foreign interest rates over the period. Moreover, release of data indicating that the U.S. merchandise trade deficit in the third quarter was more than double the rate in the first two quarters of the year apparently had little impact on exchange rates.

At its meeting on October 5, the Committee had agreed that it would seek to maintain expansion in bank reserves needed for an orderly and sustained flow of money and credit, consistent with growth of M2 (and M3) from September to December at an annual rate in a range of around 8½ to 9½ percent, and taking account of the desirability of somewhat reduced pressures in private credit markets in the light of current economic conditions. Somewhat slower growth, bringing those aggregates around the upper part of the ranges set for the year, would be acceptable and desirable in a context of declining interest rates. Should economic and financial uncertainties lead to exceptional liquidity demands, somewhat more rapid growth would be tolerated. The Committee had also decided that it would place much less than the usual weight on the movements of M1 during the period from September to December and would not set a specific objective for its growth, because its behavior would be substantially affected by special circumstances. The intermeeting range for the federal funds rate, which provides a mechanism for initiating further consultation of the Committee, was set at 7 to 10½ percent.

Growth of M2 and M3, which had been sluggish in September, picked up to annual rates of about 8 percent and 9 percent respectively in October; still, growth remained below the brisk pace of earlier in the year. Growth of M1 surged to an annual rate of a little over 20 percent, influenced by shifts of funds in connection with the large volume of maturing all savers certificates.

Total credit outstanding at U.S. commercial banks grew at an annual rate of about 7 percent in October, up somewhat from the reduced September pace. Banks acquired a sizable volume of U.S. Treasury securities, but growth in loans generally remained relatively weak. Total short-term borrowing by nonfinancial businesses slowed further, as growth in business loans at banks moderated and the volume of commercial paper outstanding contracted substantially for the second month in a row. However, the weakness in short-term borrowing was

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offset in part by an increase in long-term financing in the bond market.

The demand for reserves was relatively strong in October, reflecting particularly the rapid growth of M1. Nonborrowed reserves grew rapidly, and adjustment borrowing (including seasonal borrowing) fell to an average of $337 million in October from an average of $815 million in September.

Short-term market interest rates on private instruments declined about 1½ percentage points on balance over the intermeeting interval, after a temporary reversal in September. Yields on short-term U.S. Treasury securities declined less, by about ¾ to 1 percentage point, and the rate on three-month Treasury bills actually rose somewhat. Quality spreads in the money markets, after widening in September, had narrowed in recent weeks as concerns about private credit risks apparently lessened. On October 8 the Federal Reserve announced a reduction in the discount rate from 10 percent to 9½ percent. Shortly thereafter, and over the balance of the intermeeting interval, federal funds traded at rates close to the new discount rate, compared with a trading level somewhat above 10 percent in September and early October. In the long-term capital markets, bond yields continued to decline over the period, falling about 1 to 1¼ percentage points; common stock prices advanced sharply, with many indexes touching new highs in early November. In home mortgage markets, average rates on new commitments for fixed-rate conventional home mortgage loans declined about 1¼ percentage points further to around 13⅞ percent.

The staff projections presented at this meeting, like those of early October, suggested that real GNP would grow moderately during 1983, but that any recovery in economic activity in the months just ahead was likely to be quite limited. The projections for the year ahead also suggested that unemployment would remain at a high level. The rate of increase in prices, as measured by the fixed-weight price index for gross domestic business product, was expected to drift down.

In the Committee's discussion of the economic situation and outlook, several members commented that the staff projection of moderate growth over the year ahead remained a reasonable expectation and the view was expressed that the projected growth could be exceeded. However, many members continued to stress that there were substantial risks of a shortfall from the projection. Considerable emphasis was given to the widespread signs of weakness in economic activity and to the continuing absence of evidence that an economic recovery might be under way. In the view of some members, a number of indicators of economic activity were in fact consistent with a further decline, at least over the near term. Reference was also made to the unusually sharp impact of the drop in exports—the consequence of worldwide recession and of the very high foreign exchange value of the dollar—and to expectations of a very slow recovery abroad. Moreover, the prospects for worldwide recovery were complicated by the financing difficulties of many developing countries.

Although widely held expectations of a domestic recovery had been repeatedly disappointed, the members

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noted that the large decline in interest rates over recent months had eased financial strains in the economy, fostered some recovery in housing and related industries, and appeared in recent weeks to have improved confidence somewhat among businessmen and consumers. One indicator of the less bearish sentiment was the decline in risk premiums in securities markets as rates on private credit instruments had fallen in recent weeks relative to those on U.S. government obligations. The improvement in attitudes was also reflected in the sharp rise of prices in the stock market. Several members commented, however, that the apparent easing of concerns was still quite tentative and could easily be reversed, with highly adverse consequences for the economy, if interest rates were to rise significantly from current levels.

Some Committee members, while acknowledging the absence of evidence of an imminent upturn in economic activity, nonetheless viewed the prospects for recovery as relatively favorable. They emphasized that fiscal policy and monetary policy tended to exert their impacts with a lag and that the sharp turn toward fiscal stimulus and the easing of conditions in financial markets were relatively recent developments. In this connection, concern was expressed that an overly expansive combination of fiscal and monetary policies would stimulate inflationary expectations, foster a rise in long-term interest rates, and limit or abort the economic recovery.

Turning to policy, the Committee reviewed the short-run objectives for monetary growth that it had established at its meeting on October 5 calling for expansion in M2 (and M3) at an annual rate in a range of around 8½ to 9½ percent for the period from September to December. No specific objective had been set for M1 growth in the fourth quarter because of the anticipated difficulty of interpreting the behavior of that aggregate during the quarter.

In their discussion the Committee members agreed that the behavior of M1 would continue to be distorted by institutional developments. The first involved the large buildup of checkable deposits associated with the maturing of a very large volume of all savers certificates, especially in early October. The resulting bulge in M1 growth had persisted somewhat longer than some members had anticipated; but, according to a staff analysis, M1 growth could be expected to decelerate over the balance of the quarter as the transaction balances built up from maturing all savers certificates were invested or drawn down. Growth of M1 and also M2 could be positively affected in the near term, however, by a possible buildup of balances for eventual placement in the short-term deposit account that had recently been authorized by the Depository Institutions Deregulation Committee, effective December 14, 1982. It was generally expected that the new account, which would be free from interest rate ceilings and could be used to a limited extent for transaction purposes, would draw funds from regular transaction accounts, thereby tending to reduce M1 after its introduction. In view of these institutional distortions, the Committee decided that it would continue to give much less than the usual weight to M1 and that it would not set a specific objective for its growth over the fourth quarter.

The behavior of M2 and M3,

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though not of their components, appeared to have been affected only marginally by the maturing of all savers certificates, and these broader aggregates were also expected to be affected much less than M1 when the new deposit account was introduced in mid-December. In reviewing the growth objectives for M2 and M3 that had been set for the fourth quarter, most of the Committee members endorsed the view that monetary growth running somewhat above the Committee's target ranges set early in the year was appropriate given the indications of continuing strong demands for liquidity during a period of relatively weak economic activity. In that connection, emphasis was placed by some members on the evidence that velocity trends over the past year or so seemed to suggest a distinct break from earlier postwar experience. While questions could be raised about the persistence of the slowdown in velocity, available evidence suggested that unusual economic and financial uncertainties, as well as lower interest rates, were inducing a greater desire to hold liquid assets than had been assumed in setting the annual targets.

With regard to the choice of specific objectives for the broader aggregates in the fourth quarter, all of the members favored growth rates that were within or slightly above the range adopted at the October 5 meeting. It was suggested that such growth rates would balance the desirability of meeting current liquidity needs and fostering economic recovery against the risk of creating excess liquidity that might later complicate the achievement of sustained progress toward price stability, particularly in light of the prospect of continuing large deficits as the economy recovered. Several members commented that further declines in interest rates would be welcome for both domestic and international reasons, but concern was also expressed that any sizable declines in association with unduly rapid monetary growth could prove to be unsustainable, with unsettling effects on financial markets and adverse consequences for inflationary expectations and the economy.

At the conclusion of its discussion the Committee agreed that, against the background of prevailing economic and financial conditions and current liquidity demands, it would seek to maintain expansion in bank reserves needed for an orderly and sustained flow of money and credit, consistent with growth of M2 (and M3) from September to December at an annual rate of around 9½ percent. The Committee also decided that somewhat slower growth in M2 and M3, to the extent of reducing their expansion for the year to nearer the upper part of the ranges for 1982, would be acceptable and desirable if such growth were associated with declining interest rates. On the other hand, somewhat more rapid growth would be tolerated if continuing economic and financial uncertainties should appear to be reflected in exceptional liquidity demands. The intermeeting range for the federal funds rate, which provides a mechanism for initiating further consultation of the Committee, was set at 6 to 10 percent.

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

The information reviewed at this meeting suggests little change in real GNP in

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the fourth quarter and continuation of the rise in prices at a much less rapid pace than in 1981. In October the nominal value of retail sales edged up, but was little higher than in the second and third quarters; industrial production and nonfarm payroll employment continued to decline; and the unemployment rate rose another 0.3 percentage point to 10.4 percent. Initial claims for unemployment insurance have remained exceptionally high. In September and the third quarter as a whole, housing starts had strengthened. In recent months the advance in the index of average hourly earnings has remained considerably less rapid than during 1981.

The weighted average value of the dollar against major foreign currencies continued to appreciate from the end of September to mid-November. The U.S. merchandise trade deficit in the third quarter was more than double the rate in the first two quarters of the year.

Growth of M1, already rapid in August and September, accelerated sharply in October in association with the maturing of a large volume of all savers certificates. Growth of M2 and M3 picked up from sluggish rates in September, but remained below the brisk pace of earlier in the year. Most short-term market interest rates have declined on balance since early October, after a reversal in September, and bond yields and mortgage rates have declined further. On October 8 the Federal Reserve announced a reduction in the discount rate from 10 percent to 9½ percent. Quality spreads in the money markets, which had widened, have narrowed in recent weeks as interest rates have declined, and common stock prices have advanced sharply.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation, promote a resumption of growth in output on a sustainable basis, and contribute to a sustainable pattern of international transactions. In July, the Committee agreed that these objectives would be furthered by reaffirming the monetary growth ranges for the period from the fourth quarter of 1981 to the fourth quarter of 1982 that it had set at the February meeting. These ranges were 2½ to 5½ percent for M1, 6 to 9 percent for M2, and 6½ to 9½ percent for M3. The associated range for bank credit was 6 to 9 percent. The Committee agreed that growth in the monetary and credit aggregates around the top of the indicated ranges would be acceptable in the light of the relatively low base period for the M1 target and other factors, and that it would tolerate for some period of time growth somewhat above the target range should unusual precautionary demands for money and liquidity be evident in the light of current economic uncertainties. The Committee also indicated that it was tentatively planning to continue the current ranges for 1983 but that it would review that decision carefully in the light of developments over the remainder of 1982.

Specification of the behavior of M1 over the balance of the year remains subject to substantial uncertainty because of special circumstances in connection with the reinvestment of funds from maturing all savers certificates and the public's response to the new account directly competitive with money market funds mandated by recent legislation. The difficulties in interpretation of M1 continue to suggest that much less than usual weight be placed on movements in that aggregate during the current quarter.

In all the circumstances, the Committee seeks to maintain expansion in bank reserves needed for an orderly and sustained flow of money and credit, consistent with growth of M2 (and M3) of around 9½ percent at an annual rate from September to December. Somewhat slower growth, bringing those aggregates around the upper part of the ranges set for the year, would be acceptable and desirable in a context of declining interest rates. Should economic and financial uncertainties lead to exceptional liquidity demands, somewhat more rapid growth in the broader aggregates would be tolerated. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before the next meeting is likely to be associated with a federal funds rate persistently outside a range of 6 to 10 percent.

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Votes for this action: Messrs. Volcker, Solomon, Balles, Black, Gramley, Mrs. Horn, Messrs. Martin, Partee, Rice, Mrs. Teeters, and Mr. Wallich. Vote against this action: Mr. Ford.

Mr. Ford dissented from this action because he believed that it ran the risk of complementing very large budget deficits with substantial increases in the supply of money. In his view the result would be an overly stimulative combination of policies that could rekindle inflation and drive up interest rates during 1983.

2. Authorization for Domestic Open Market Operations

At this meeting the Committee voted to increase from $3 billion to $4 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 immediately, for the period from October 6, 1982, through the close of business on November 16, 1982.

Votes for this action: Messrs. Volcker, Solomon, Balles, Black, Ford, Gramley, Mrs. Horn, Messrs. Martin, Partee, Rice, Mrs. Teeters, and Mr. Wallich. Votes against this action: None.

This action was taken on the recommendation of the Manager for Domestic Operations. The Manager had advised that substantial net purchases of securities in recent weeks had reduced to about $500 million the leeway for further purchases during the intermeeting period ending with the close of business today. Purchases of securities in excess of that leeway seemed desirable during the course of today's operations to provide reserves to meet increased seasonal needs.

Meeting Held on December 20–21, 1982

1. Domestic Policy Directive

The information reviewed at this meeting suggested that real GNP, which had increased at an annual rate of 0.7 percent in the third quarter, declined in the fourth quarter, although final sales apparently were maintained. The rise in average prices, as measured by the fixed-weight price index for gross domestic business product, remained much less rapid than in 1981.

The nominal value of retail sales rose about 2¼ percent in November, after having increased 1½ percent over the preceding two months. Although gains in November were recorded for all major categories of stores, the rise was attributable mainly to a sharp increase in sales at automotive outlets. Unit sales of new domestic automobiles increased to an annual rate of 6¾ million, as buyers responded to interest rate concessions and other special promotions offered primarily on 1982 models. In the first 10 days of December, however, sales fell back to an annual rate of 5¾ million units.

Private housing starts, both single-family and multifamily, rose substantially in November, and at an annual rate of 1.4 million units, were nearly 500 thousand units higher than the rate in the first half of the year. Newly issued permits for residential construction also strengthened, rising 6 percent in November after increasing 17 percent in October.

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Business fixed investment spending appeared to be continuing the downtrend that began in mid-1981 as shipments and orders for nondefense capital goods declined in October, the latest month for which data were available. According to the Department of Commerce survey taken in late October and November, plant and equipment spending would rise only 2 percent in the first half of 1983 from the level in the second half of this year; in real terms, the survey results implied a decline of more than 2 percent. Along with capital spending, inventory investment was exerting a dampening influence on economic activity, as businesses continued their efforts to reduce inventories.

The index of industrial production fell again in November, but the decline of 0.4 percent was half that in each of the preceding two months. Most major sectors registered reductions in output, with cutbacks especially pronounced in durable goods industries. Defense and space equipment continued to be the only major category of final products showing strength. Capacity utilization in manufacturing declined to 67.8 percent, a new postwar low.

Nonfarm payroll employment fell 165,000 in November, about the same as the average monthly decline earlier in the year. Job losses were concentrated in the manufacturing sector, particularly durable goods manufacturing. The unemployment rate rose 0.4 percentage point to 10.8 percent. Initial claims for unemployment insurance, although down from the peaks in early autumn, remained relatively high.

The producer price index for finished goods rose 0.6 percent in November. More than half of the rise was attributable to sharp increases in prices of energy-related items; prices of consumer foods declined somewhat, while prices of other consumer goods rose moderately. Over the first 11 months of the year the index increased at an annual rate of about 3¾ percent. The consumer price index edged up only 0.1 percent in November, as homeownership costs declined and price increases for most other major expenditure categories slowed. Thus far in 1982 the index had risen at an annual rate of about 4½ percent, half the pace in 1981. The advance in the index for average hourly earnings slowed appreciably to an annual rate of 4½ percent from June to November, compared with an annual rate of 6½ percent over the first half of 1982 and about 8½ percent during 1981.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies had declined about 4½ percent from peaks reached in early November. A major factor in the decline apparently was the market's reassessment of prospects for the U.S. foreign trade and current accounts. In October the U.S. foreign trade deficit rose sharply further: agricultural exports declined somewhat from the reduced third-quarter rate, and nonagricultural exports fell substantially while imports rose.

At its meeting on November 16, the Committee had agreed that it would seek to maintain expansion in bank reserves needed for an orderly and sustained flow of money and credit, consistent with growth of M2 (and M3) from September to December at an annual rate of around 9½ percent. The Committee also decided that somewhat slower growth in M2 and M3, to the extent of reducing

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their expansion for the year to nearer the upper part of the ranges set for 1982, would be acceptable and desirable if such growth were associated with declining interest rates. On the other hand, somewhat more rapid growth would be tolerated if continuing economic and financial uncertainties should appear to be reflected in exceptional demands for liquidity. The Committee had also decided that it would continue to place much less than the usual weight on the movements of M1 during the period from September to December and would not set a specific objective for its growth over the fourth quarter. The intermeeting range for the federal funds rate, which provides a mechanism for initiating further consultation of the Committee, was set at 6 to 10 percent.

The demand for reserves remained strong in November, reflecting particularly the continuing rapid growth of transaction balances. Nonborrowed reserves grew rapidly, although less so than in October, and adjustment borrowing (including seasonal borrowing) rose to an average of $433 million in November from an average of $337 million in October.

M2 grew at annual rates of about 8¼ percent and 11¾ percent in October and November respectively, and M3 grew at an annual rate of about 9¼ percent in both months. On average, expansion in these broader aggregates had remained at about or somewhat below the rates of earlier in the year. On the basis of partial data, however, it was estimated that expansion in M2 and M3 had slowed substantially in recent weeks. Growth of M1 had remained rapid in recent months, influenced by shifts of funds associated with the maturing in early October of a large volume of all savers certificates and possibly with the recent and prospective introduction of new deposit accounts at depository institutions.

Expansion in total credit outstanding at U.S. commercial banks slowed to an annual rate of 1½ percent in November. Banks again acquired a sizable volume of U.S. Treasury securities, but their total loans outstanding fell. Business loans contracted at an annual rate of nearly 8 percent and security loans declined markedly, while real estate and consumer loans remained sluggish. The outstanding volume of commercial paper of nonfinancial businesses contracted substantially for the third successive month, as firms continued to raise funds in the longer-term capital markets.

Short-term market interest rates declined about ⅜ to ¾ percentage point on balance over the intermeeting period, while bond yields rose a little in response to unusually heavy borrowing by businesses and governments. The Federal Reserve announced reductions in the discount rate from 9½ to 9 percent on November 19 and to 8½ percent on December 13. In recent weeks federal funds had traded in the area of 8½ to 9 percent, compared with about 9½ percent over the previous intermeeting interval. The prime rate charged by most commercial banks on short-term business loans was reduced ½ percentage point to 11½ percent in late November. Average rates on new commitments for fixed-rate conventional home mortgage loans had edged down further in recent weeks.

The staff projections presented at this meeting continued to suggest

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that real GNP would grow moderately during 1983. The projections also suggested that unemployment would remain at a high level. The rate of increase in prices, as measured by the fixed-weight price index for gross domestic business product, was expected to drift down.

The views of Committee members with respect to the economic situation and outlook had changed little in the period since the Committee meeting in mid-November. Moderate growth in real GNP over the year ahead accompanied by some further improvement in the performance of prices continued in general to be regarded as a reasonable expectation.

Since mid-November, it was observed, additional signs of a near-term strengthening in activity had appeared, particularly in markets for housing and consumer goods, and there were indications of some improvements in business confidence in many parts of the country. At the same time, conditions in the industrial sector remained severely depressed, reflecting the sustained downtrend in business fixed investment, the ongoing efforts to pare business inventories, and the continued weakness in export markets. In some industries, the expansion in orders for defense equipment was providing at least a partial offset to the weakness in demands for nondefense equipment, but the translation of such orders into production and employment often involved extended lags. On balance, an upturn in economic activity appeared to be in the offing, although the evidence was not conclusive and some Committee members stressed that there were substantial risks of a shortfall from the staff projection.

As in mid-November, it was noted that financial market conditions had eased significantly since midyear, and fiscal policy over the second half of 1982 had become highly stimulative. In fact, some members continued to express concern that an overly expansive combination of fiscal and monetary policies might reinvigorate inflationary expectations, thereby fostering a rise in long-term interest rates that would limit or abort the expected recovery.

At a meeting in July 1982, the Committee had reaffirmed the monetary growth ranges for the period from the fourth quarter of 1981 to the fourth quarter of 1982 that it had set at its meeting in early February. These ranges were 2½ to 5½ percent for M1, 6 to 9 percent for M2, and 6½ to 9½ percent for M3. The associated range for bank credit was 6 to 9 percent. The Committee had agreed that growth in the monetary and credit aggregates around the top of the indicated ranges would be acceptable in the light of the relatively low base period for the M1 target and other factors, and that it would tolerate for some period of time growth somewhat above the target range should unusual precautionary demands for money and liquidity be evident in the light of current uncertainties. The Committee had also indicated in July that it was tentatively planning to continue the current ranges for 1983. That decision will be reviewed at the Committee meeting scheduled for February 8–9, 1983, taking into account the latest economic developments and institutional changes associated with the new deposit accounts authorized by the Depository Institutions Deregulation Committee (DIDC).

In the Committee's discussion of

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policy for the near term, the period from December 1982 to March 1983, the members considered objectives for monetary growth against the background of the tentative ranges for 1983 as a whole. In the discussion, it was recognized that the behavior of the aggregates would continue to be distorted by institutional developments relating to deregulation of interest rates on deposits. Depository institutions had begun to offer the new money market deposit account that had been authorized by the DIDC, effective December 14, 1982. This account had limited transaction features and, while included in M2, was excluded from M1. The DIDC had also authorized a minimum balance NOW account free of interest rate ceilings, effective January 5, 1983, which would be included in M1.

The impact of the new accounts on the behavior of the monetary aggregates was highly uncertain, especially in the case of M1 for which even the direction of the impact was currently unclear. A staff analysis referred to the large pool of liquid assets that could be shifted into the new accounts, possibly during a relatively short period of time. The magnitude of such shifts and the allocation of funds between the two new accounts would depend on the competitive pricing and promotion of the accounts by depository institutions and on the response of depositors to interest rate relationships and to the elements of convenience.

At one extreme, shifts of funds could be dominated by flows into the new NOW accounts, thereby causing M1 to rise sharply during some transition period. At the other extreme, money market deposit accounts might attract most of the shifted funds, including those from deposits in M1, retarding the growth of M1 if not actually reducing its level.

The shifts of funds would clearly work in the direction of expanding M2, although the magnitude of the effect was very uncertain. A large part of the shifts would probably represent a redistribution of funds among the components of M2, but in addition funds would shift into M2 from market instruments and from large-denomination certificates of deposit. Growth in M3 was expected to be affected the least because depository institutions would probably curtail their issuance of large-denomination certificates of deposit in response to the availability of funds through the new accounts. The timing of the various shifts was also subject to a great deal of uncertainty, although earlier experience with the introduction of NOW accounts suggested that a large part of the transition to the new accounts would be concentrated in a relatively short period of time.

At its meetings held in October and November, the Committee had decided to place much less weight than usual on M1 in the fourth quarter and not to set a specific objective for its growth, because of the difficulties of interpreting its behavior in a period of major institutional changes. At this meeting, the members generally favored continuance of that reduced attention to M1 during the first quarter. Thus, the Committee focused on setting objectives for growth of M2 and M3.

Reference was made to the fact that, despite some evidence of a deceleration in the growth of these broader aggregates most recently,

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their expansion over the year ending in the current quarter would be somewhat above the growth ranges that had been set by the Committee. At recent meetings, however, most Committee members had endorsed the view that monetary growth somewhat above those ranges was appropriate in light of the indications of strong demands for liquidity during a period of relatively weak economic activity. The income velocity of the broader aggregates, and also of M1, appeared to have declined at an unusually sharp rate over the year.

With respect to M2, most Committee members indicated a preference for setting a first-quarter growth rate that would allow for some modest shift of funds into components of that aggregate from market instruments and large-denomination certificates of deposit. They were prepared, however, to accept greater growth if analysis of incoming data and other evidence from depository institutions and market reports indicated that the new money market accounts were generating substantial shifts of funds into those aggregates from outside sources.

During the Committee's discussion, the observation was made that the uncertainties that had generated unusual demands for liquidity in relation to GNP during 1982—and the accompanying decline in the velocity of the monetary aggregates—could be expected to abate as economic activity strengthened and consumer and business confidence improved. Thus, abstracting roughly from the impact of the new deposit accounts, the velocity of money could be expected to show much less weakness in 1983 than in 1982, though whether it might continue to be affected by strong liquidity demands was open to question.

At the conclusion of the discussion, the Committee decided to seek to maintain expansion in bank reserves consistent with growth of M2 at an annual rate of around 9½ percent and growth of M3 at an annual rate of about 8 percent for the period from December to March. The objective for M2 would allow for a modest amount of growth resulting from shifts into the newly authorized money market deposit accounts from large-denomination certificates of deposit or market instruments. For both M2 and M3, the Committee indicated that greater growth would be acceptable if analysis of incoming data and other evidence from banking and market reports indicated that the new money market deposit accounts were generating more substantial shifts of funds into these broader aggregates from market instruments. The intermeeting range for the federal funds rate, which provides a mechanism for initiating further consultation of the Committee, was set at 6 to 10 percent.

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

The information reviewed at this meeting suggests that real GNP declined in the fourth quarter, although final sales apparently were maintained, and that the rise in prices remained much less rapid than in 1981. Retail sales and housing activity have strengthened in recent months, but business fixed investment apparently has weakened further and efforts to reduce inventories have continued. In November industrial production and nonfarm payroll employment declined further, and the unemployment rate rose 0.4 percentage point to 10.8 percent. Initial claims for unemployment insurance, although down from the early autumn peaks, have remained relatively

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high. In recent months the advance in the index of average hourly earnings has slowed appreciably further.

The weighted average value of the dollar against major foreign currencies has declined from peaks reached in early November. The U.S. merchandise trade deficit rose sharply further in October.

Growth of M1 has remained rapid in recent months, while growth of M2 and M3 has continued at about or somewhat below the rates of earlier in the year. On balance short-term market interest rates have declined since mid-November, while bond yields have risen somewhat in response to unusually heavy borrowing by businesses and governments; mortgage rates have edged down further. The Federal Reserve announced reductions in the discount rate from 9½ percent to 9 percent on November 19 and to 8½ percent on December 13.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation, promote a resumption of growth in output on a sustainable basis, and contribute to a sustainable pattern of international transactions. In July, the Committee agreed that these objectives would be furthered by reaffirming the monetary growth ranges for the period from the fourth quarter of 1981 to the fourth quarter of 1982 that it had set at the February meeting. These ranges were 2½ to 5½ percent for M1, 6 to 9 percent for M2, and 6½ to 9½ percent for M3. The associated range for bank credit was 6 to 9 percent. The Committee agreed that growth in the monetary and credit aggregates around the top of the indicated ranges would be acceptable in the light of the relatively low base period for the M1 target and other factors, and that it would tolerate for some period of time growth somewhat above the target should unusual precautionary demands for money and liquidity be evident in the light of current economic uncertainties. The Committee had also earlier indicated that it was tentatively planning to continue the current ranges for 1983, but it will review that decision carefully at its February 1983 meeting in light of economic developments and institutional changes associated with the new deposit accounts authorized by the Depository Institutions Deregulation Committee.

Specification of the behavior of M1 over the months ahead remains subject to substantial uncertainty because of special circumstances in connection with the public's response to the new deposit accounts available at depository institutions. The difficulties in interpretation of M1 continue to suggest that much less than usual weight be placed on movements in that aggregate during the coming quarter. The institutional changes also add a degree of uncertainty to the behavior of the broader monetary aggregates.

In all the circumstances, the Committee seeks to maintain expansion in bank reserves consistent with growth of M2 of around 9½ percent at an annual rate, and of M3 at about an 8 percent rate, from December to March, allowing in the case of M2 for modest shifting into the new money market accounts from large-denomination CDs or market instruments. The Committee indicated that greater growth would be acceptable if analysis of incoming data and other evidence from bank and market reports indicate that the new money market accounts are generating more substantial shifts of funds into broader aggregates from market instruments. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before the next meeting is likely to be associated with a federal funds rate persistently outside a range of 6 to 10 percent.

Votes for this action: Messrs. Volcker, Solomon, Balles, Gramley, Mrs. Horn, Messrs. Martin, Partee, Rice, Mrs. Teeters, and Mr. Wallich. Votes against this action: Messrs. Black and Ford.

Mr. Black dissented because he preferred to direct policy in the weeks immediately ahead toward ensuring that the growth of M1, abstracting from temporary effects of the introduction of new money market deposit accounts, would moderate from the extremely rapid rate of recent months. While recognizing

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the difficulties in interpreting M1 currently, he was concerned that excessive underlying growth in that aggregate might reverse the progress achieved in reducing inflation and inflationary expectations and lead to substantially weaker markets for long-term securities.

Mr. Ford dissented from this action because he continued to prefer a policy for the current period that was more firmly directed toward restraining monetary growth, after allowance for the short-run impact of the introduction of the new money market deposit accounts. He remained concerned that rapid expansion in the supply of money together with very large budget deficits would produce an overly stimulative combination of policies that could rekindle inflation and inflationary expectations and lead to higher interest rates during 1983 and 1984.

The Committee subsequently, on several occasions, discussed the extraordinarily rapid growth in money market deposit accounts (MMDAs) that had taken place since they became available in mid-December and the implications of this growth for behavior and interpretation of the monetary aggregates. At a telephone conference on January 28, 1983, it was noted that these accounts had risen to a level of about $185 billion on average by the week ending January 19, leading to a very sharp expansion in M2. Estimates of sources of MMDA inflows at this time were inevitably subject to considerable uncertainty. Growth of M2 seemed clearly to be on a track well above the 9½ percent annual rate for the December to March period set at the December meeting, but staff analysis—based on assessment of incoming data as well as various reports on sources of MMDA inflows—suggested it was possible that virtually all of the greater M2 growth might be attributed to unexpectedly large shifts into MMDAs out of instruments not included in M2. Effects on M3 were more problematical, but actual growth of this aggregate in December and January on average appeared to have been modest. Expansion of M1 had remained on the strong side; while there may have been some diversion from M1 to MMDAs, its growth very recently had been raised by the introduction of Super NOW accounts. It was the Committee consensus for the time being to maintain the existing degree of reserve restraint but not to increase this restraint further in response to the recent reported overtarget growth of the broader monetary aggregates because that growth appeared to be primarily related to the massive redistribution of funds currently under way. The situation will be reviewed at the FOMC meeting on February 8–9.

2. Authorization for Domestic Open Market Operations

At this meeting the Committee voted to increase from $3 billion to $4 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 immediately, for the period ending with the close of business on February 9, 1983.

Votes for this action: Messrs. Volcker, Solomon, Balles, Black, Ford, Gramley, Mrs. Horn, Messrs. Martin, Partee, Rice, Mrs. Teeters,

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and Mr. Wallich. Votes against this action: None.

This action was taken on the recommendation of the Manager for Domestic Operations. The Manager had advised that substantial net sales of securities were likely to be required during January in order to absorb reserves that had been provided over recent weeks to meet seasonal needs for currency in circulation.

On January 25–26, 1983, the Committee voted to approve an additional increase to $5.5 billion in the intermeeting limit on changes in holdings of U.S. government and federal agency securities, effective immediately, for the period ending with the close of business on February 9, 1983. This action was taken after the Manager had advised that the seasonal need to absorb reserves in association with the return flow of currency would be greater than anticipated earlier.

Votes for this action: Messrs. Volcker, Solomon, Balles, Black, Ford, Gramley, Mrs. Horn, Messrs. Martin, Partee, Rice, Mrs. Teeters, and Mr. Wallich. Votes against this action: None.

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Consumer and Community Affairs

During 1982, the Board continued its efforts to reduce the costs of compliance with its consumer regulations, while maintaining the protections for consumers that the underlying statutes provide. These efforts followed a complete rewriting in 1981 of Regulation Z (Truth in Lending) and Regulation C (Home Mortgage Disclosure) to ease the burdens of compliance and to simplify and clarify regulatory provisions.

The Board used several approaches during 1982 to carry out these efforts. It amended several consumer regulations to reduce or eliminate costly requirements that failed to provide proportionate benefits to consumers; unified interpretations of consumer regulations by providing commentaries that are updated periodically; distributed aids to help smaller institutions comply with the regulatory requirements; and gathered and analyzed information to assist in rulemaking and enforcement activities. All these actions are discussed in this report.

The report also examines the extent of compliance in 1982 with Regulation Z (Truth in Lending), Regulation B (Equal Credit Opportunity), and Regulation E (Electronic Fund Transfers); legislative recommendations; the activities of the Consumer Advisory Council; and the Federal Reserve System's activities relating to the Community Reinvestment Act.

Regulatory Actions

Regulation Z and Regulation E were amended in 1982 to reflect statutory changes, changes in the marketplace, and new comparisons of the burdens of compliance with the benefits to consumers. Interpretations of Regulation B were adopted, and official staff commentaries of Regulation M (Consumer Leasing) and Regulation Z were issued.

Arranger of Credit

In October 1981, the Board published for comment a proposed amendment under which Regulation Z would apply to real estate brokers who arrange financing by the seller. This proposal was motivated both by statutory changes and by issues arising from the more frequent use of seller financing in the mortgage market. One of the original provisions of the Truth in Lending Simplification and Reform Act required that disclosures be given by persons who regularly arrange for consumer credit to be extended by someone who is not a creditor. However, neither the statutory amendment nor the formal legislative history defined "arrangers of credit" or clearly indicated the type of person intended to be covered. The commenters raised issues that called for a difficult balancing of benefits to consumers against burdens on brokers. Supporters argued, for example, that without truth-in-lending disclosures, a consumer might not be alerted to a large balloon payment due after a few years. Moreover, the act would impose no greater responsibilities on real estate brokers than on others it covered. Opponents of the proposal argued that it would impose a burden

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without really assisting buyers because the principal purpose of the disclosure is to assist buyers in shopping for credit, and seller financing is usually arranged only when other kinds of financing are unobtainable and thus shopping for credit is to no avail. They also pointed out operational problems, and argued that no new burdens should be laid on a real estate industry already experiencing serious problems.

In February, the Board amended the definition of "arranger of credit" in Regulation Z to exclude persons, such as real estate brokers, who arrange for seller financing of real property. In making this decision, the Board noted that the Congress was considering the issue and that if the Board covered brokers and they were later excluded by the Congress, the industry would incur needless expense in preparing to comply.

In fact, the Garn–St Germain Depository Institutions Act of 1982, enacted in October, amended the Truth in Lending Act to exclude all arrangers of credit (including real estate brokers) from the definition of creditor and, therefore, from the coverage of the act.

Seller's Points

The Board also considered amending Regulation Z to require the annual percentage rate (APR) to include seller's points (an amount a lender requires the seller to pay to provide financing to the buyer). Because the exclusion of seller's points from the finance charge might have created a disclosure loophole, the Board in July proposed several alternatives: inclusion of seller's points in the calculation of finance charges and of annual percentage rates; an entry in disclosure statements and advertisements of the amount of seller's points being charged; a notice in disclosure statements and advertisements of the possible effect of seller's points on the accuracy of APRs; and such a notice in advertisements only.

Half of the commenters urged the Board not to take any action. The Board found that the advantages of the disclosures to consumers would be uncertain and that the disclosures would involve costs and other burdens that appeared to outweigh their benefits. Accordingly, the Board decided in September not to amend Regulation Z at that time to require disclosure of seller's points.

Preauthorized Electronic Transfers

In October, the Board amended Regulation E to exempt financial institutions with assets of $25 million or less from its requirements concerning preauthorized electronic transfers. Many such institutions were subject to those requirements only because they receive electronically initiated social security transfers for their customers, and the Board found that most were unduly burdened by the requirements. In relieving such institutions of that burden, the Board hoped that more banks would undertake to provide electronic transfers and thus that consumers would benefit from the safety, certainty, and earlier availability of funds that the service makes possible.

Other Amendments to Regulation E

In 1982, Regulation E was amended in these other ways to reduce regulatory burdens without sacrificing consumer protection:

- An exemption was provided from the requirement to disclose, on ter-

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minal receipts, the type of account involved in an automated teller machine transaction, when only a single account can be accessed.

- An exemption was provided from the requirement to provide a periodic statement for each account when a transfer is made between accounts of the same consumer in the same institution.
- Modifications were made to the requirements for documentation and for procedures to resolve errors for transfers initiated outside the United States.

Interpretations

In October, the Board adopted interpretations of Regulation B to clarify procedures for compliance. The interpretations, effective April 1, 1983, address the application of Regulation B. The first discusses the ways a creditor can comply with the regulation's prohibition against discounting or excluding "protected income" while using judgmental and credit-scoring systems in considering a credit application. Protected income is income derived from alimony, child support, separate maintenance, part-time employment, retirement benefits, or public assistance. The second interpretation deals with the rules on the selection and disclosure of the principal reasons for adverse action.

Also in October, the Board withdrew proposed amendments to the business credit provisions of the regulation because the costs and burdens appeared to outweigh limited benefits of the proposals. The amendments would have affected the requirements for recordkeeping and notification of adverse action in certain loan transactions, and would have subjected business credit to the general rule against asking for an applicant's marital status. The withdrawal of the proposals does not affect the substantive provisions of the Equal Credit Opportunity Act and Regulation B, which prohibit discrimination on the basis of sex, marital status, race, and certain other protected characteristics in any aspect of a credit transaction.

State Exemptions

In 1982, the Board granted exemptions from certain parts of the Truth in Lending Act to the states of Maine, Connecticut, Massachusetts, Oklahoma, and Wyoming. That act directs the Board to exempt from its provision transactions that are subject to state laws that meet certain requirements. Under the act, consumer credit transactions may be exempted from chapter 2 (credit transactions) if the applicable state law is substantially similar to the federal act and if the state demonstrates adequate provision for enforcement. The act sets the same exemption standards for chapter 4 (credit billing) and chapter 5 (consumer leases) respectively, but also directs the Board to consider whether the state law is more protective of the consumer.

The Board also renewed the exemptions of Connecticut, Massachusetts, New Jersey, and New York from the disclosure requirements of the federal Home Mortgage Disclosure Act, as amended in 1980, and the Board's Regulation C, which implements the act. These exemptions are based on the determination that state law provides for substantially similar disclosures and that it contains adequate provision for enforcement. Finally, the Board terminated the exemption granted to

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state-licensed savings and loan associations in California in 1976. Such associations must comply with the federal act and Regulation C beginning with the reporting of data on loans made in calendar year 1982.

Consolidation of Interpretations

In May, the Board published an official staff commentary on Regulation M (Consumer Leasing). Like the commentaries on Regulations Z and E, this one, CL–1, consolidates all regulatory interpretations and provides for additions and changes to be grouped and issued periodically. The commentary, which modifies the staff's previous approach of providing interpretations one by one in response to specific inquiries, also provides interpretations of more general application. The changes in language, distribution, and organization should help institutions keep abreast of the official interpretations.

In September, the Board published the first revision of its official staff commentary on Regulation Z. The changes generally provide more flexibility in compliance without compromising basic consumer protection. The Board plans to amend the commentary only when necessary to respond to significant questions or to clarify language. The revision addresses the following issues:

- Use of the creditor's commercial lending rate as the base rate in variable-rate, open-end credit plans.
- Application of the rules about finance charges to the offering of cash discounts in the sale of motor-vehicle fuel.
- Disclosures for several types of mortgage financing plans, including growth equity mortgages and graduated-payment, adjustable-rate mortgages.

Compliance Aids

Even the most exhaustive efforts to simplify regulations cannot eliminate all the burdens of compliance. The difficulties include mastering the details of the law and figuring out the effect of the rules on the institution's operations. In 1982, to make compliance easier, the Board distributed two aids: a booklet and a videotape.

The Board developed the booklet, "A Guide to HMDA Reporting," to help smaller institutions use census tools and identify properties by census tract numbers in the course of complying with the Home Mortgage Disclosure Act (HMDA). The 14-page booklet, distributed to all financial institutions subject to the act, was developed in consultation with the U.S. Bureau of the Census. It explains the steps in the HMDA reporting process and how to use census tract maps and indexes. It also contains sample reporting forms, compliance checklists, and a directory of the regional offices of the Bureau of the Census.

The two-hour videotape, "Regulation Z: The Simplified Rules," which provides an overview of the revised regulation, helped institutions comply with the simplified Truth in Lending rules by October 1, 1982, the mandatory compliance date. The Federal Reserve Banks lent copies of the tape without charge to financial institutions, mortgage lenders, retailers, and others. This service proved to be an effective and comparatively inexpensive way of educating institutions in advance. About 12,000 people viewed the tape in 1982; smaller institutions appear to have been the heaviest users.

To help consumers understand their rights and responsibilities, the Board and the Federal Reserve Banks con-

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tinued distribution of a range of popular pamphlets, films, and teaching aids; added "Your Credit Rights," a curriculum on credit laws produced by the Federal Reserve Bank of Minneapolis; continued a series of nationwide workshops for teachers on credit issues; and provided technical assistance to the media and to private organizations preparing consumer education materials.

Collection and Use of Data

In 1982, the Board compiled, analyzed, and applied various data to strengthen its enforcement and rule-writing efforts.

Consumer Survey

To improve administration of consumer protection regulations to support monetary policy, the Board has joined with the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), the Federal Trade Commission (FTC), and the Departments of Health and Human Services, Labor, and the Treasury in sponsoring a comprehensive consumer survey in 1983. The survey, which will be conducted by the University of Michigan's Survey Research Center, will be the first in six years to correlate household balance sheets with consumer financial decisions, and the first in more than twenty years to collect comprehensive data on consumers' assets. It should help the Board determine the benefits to the consumer of the Truth in Lending Act, the Equal Credit Opportunity Act, and other consumer laws. After the survey is cleared by the Office of Management and Budget (under the Paperwork Reduction Act), the Survey Research Center will start interviewing in 5,000 households.

Compliance Cost Survey

In 1981 and 1982, the Board's Regulatory Improvement Project group surveyed approximately 100 banks to gather data on the incremental start-up and on-going costs of complying with Regulations B (Equal Credit Opportunity), E (Electronic Fund Transfers), and Z (Truth in Lending). The banks were asked to furnish cost data for the following functional categories: administration, training, legal services, changes in data processing systems, labor, postage, statements, disclosures, and premises and equipment. The survey questions also gave the banks an opportunity to comment on the usefulness, effectiveness, and burden of specific regulatory provisions and to indicate which disclosures and documentation they would continue to provide in the absence of regulatory requirements. The Board will use the results of this study to weigh compliance costs against consumer benefits and to determine the need for any changes in the regulations.

Consumer Complaints

The Federal Reserve System investigates and resolves complaints against state member banks; it also forwards to the appropriate enforcement agencies any complaints it receives that involve other creditors or businesses. In 1982, the Federal Reserve's computerized logging system registered 2,840 complaints: 1,891 by letter, 908 by telephone, and 41 in person.

In 1982, the System responded to 228 written inquiries concerning consumer credit laws and banking policies and procedures. In responding to both inquiries and complaints, the

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staff provides consumers with individualized explanations of laws, regulations, and banking practices, and with printed material relevant to their needs.

The Board's Division of Consumer and Community Affairs assists the Reserve Banks in handling consumer complaints. Members of the Board's staff regularly evaluate a sample of the complaints resolved by the Reserve Banks for adherence to System procedures and guidelines. Because the results of the review are then discussed with the Bank, the Board believes this program is successful in strengthening the complaint-handling system by providing feedback and suggestions.

In 1982, the Board revised questionnaires that are directed to consumers whose complaints against state member banks were handled by the System. The revisions allow the Board to assess more accurately consumer attitudes about its system for handling complaints. A high percentage of the respondents report favorable reactions to the treatment of complaints by the Federal Reserve System. Approximately 63 percent found the explanation they received clear and understandable; 70 percent were satisfied with the promptness with which the complaint was handled; 95 percent were treated courteously by Federal Reserve staff; 54 percent believed the Federal Reserve was complete and thorough in handling the problem; and 79 percent would contact the Federal Reserve again if they should encounter another problem with a bank. Forty-six percent of the respondents found the resolution of their complaint acceptable. Those numbers suggest that many people were satisfied with the System's handling of their complaints even though those complaints were not resolved in their favor. Many of those cases involved practices that are permissible for banks but that consumers find objectionable or hard to understand.

The accompanying table summarizes the nature and resolution of the complaints against state member banks that were received in 1982. About 53 percent of the complaints against state member banks concerned lending functions; of these, about 13 percent alleged discrimination on a prohibited basis. The other 40 percent alleged improper notices, functions not related to discrimination, improper disclosures of credit costs, discrimination on other than the specifically prohibited bases, and other problems with the lending functions. Approximately 27 percent involved interest on deposits and general practices concerning deposit accounts.

The System received 1,397 complaints about unregulated bank practices, 14 percent fewer than in 1981. The Board continued to monitor consumer complaints about unregulated practices to identify those that may be unfair or deceptive and adopted additional procedures for such monitoring. The Board also surveyed consumers about the practice of assessing fees on inactive accounts, testified before a congressional subcommittee concerning delayed funds availability, and discussed the system for handling complaints with the Consumer Advisory Council.

As in the past, the Board identified practices that are not subject to regulations, about which the System receives 15 or more complaints per quarter, or 50 annually. Of the 1,397 complaints, 435 fell into this category. They were of six types: complaints about disputed deposits (99, or 7.1 percent of all complaints about unregulated practices); discrepancies

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Consumer Complaints Received by the Federal Reserve System, by Function and Resolution, 1982

Type of resolution	Total complaints	Type of complaint					
		Loan functions		Deposit function	Electronic fund transfers	Trust services	Other
		Discrimination	Other				
Total complaints	**2,840**	**282**	**1,121**	**812**	**75**	**26**	**524**
Total concerning state member banks	1.226	162	487	326	38	15	198
Insufficient information[1]	33	10	7	4	0	0	12
Information furnished[2]	219	28	79	62	2	4	44
Bank legally correct							
No accommodation	357	68	156	85	9	3	36
Accommodation made[3]	148	16	65	35	7	3	22
Clerical error, corrected	177	11	67	55	8	1	35
Factual dispute[4]	41	0	13	21	2	0	5
Bank violation, resolved[5]	25	3	12	4	3	2	1
Possible bank violation, unresolved[6]	18	1	6	7	1	0	3
Customer error	14	2	5	6	1	0	0
Pending, December 31	194	23	77	47	5	2	40

1. The staff has been unable, after follow-up correspondence with the consumer, to obtain sufficient information to process the complaint.
2. When it appears that the complainant does not understand the law and that there has been no violation on the part of the bank, the Federal Reserve System explains the law in question and provides the complainant with other pertinent information.
3. In these cases the bank appears to be legally correct but chooses to make an accommodation.
4. These cases involve factual disputes not resolvable by the Federal Reserve System and contractual disputes that can be resolved only by the courts. Consumers wishing to pursue the matter may be advised to seek legal counsel or legal aid, or to use small claims courts.
5. In these cases a bank appears to have violated a law or regulation and has taken corrective measures voluntarily or as requested by the Federal Reserve System.
6. When a bank appears to have violated a law or regulation, customers are advised to seek civil remedy through the courts. Cases that appear to involve criminal irregularity are referred to the appropriate law enforcement agency.

in accounts (95, or 6.8 percent); charges and procedures concerning insufficient funds (81, or 5.8 percent); debt-collection tactics (59, or 4.2 percent); bond redemption (51, or 3.7 percent); and excessive time to clear checks (50, or 3.6 percent).

The two largest categories of complaints received (disputed deposits and discrepancies in accounts) involve factual disputes between the consumer and the bank in which no faulty practice is clearly identified. Each of these categories, however, accounts for only a small fraction (6 percent or less) of all consumer complaints received. The table on the next page identifies by subject the consumer complaints received by the Federal Reserve System in 1982.

The Board formalized procedures for gathering additional information concerning complaints about unregulated practices to enhance the Board's ability to fulfill its responsibilities under section 18f of the Federal Trade Commission Act. These procedures stipulate that the Board will continue to identify the types and numbers of complaints received by the System and to review periodically the complaints handled by the Reserve Banks. The Board will, in appropriate cases, enlist the aid of examiners to investigate practices of banks that these procedures reveal as especially problematic. The Board may also request data or summaries from other banking agencies regarding similar types of practices in the

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Consumer Complaints Received by the Federal Reserve System, by Subject, 1982

Subject	Number
Regulation B (Equal Credit Opportunity)	544
Regulation C (Home Mortgage Disclosure)	2
Regulation E (Electronic Fund Transfers)	63
Regulation Q (Interest on Deposits)	174
Regulation X (Securities Credit)	0
Regulation Z (Truth in Lending)	500
Regulation BB (Community Reinvestment)	1
Regulation CC (Consumer Credit Restraint)	0
Fair Credit Reporting Act	63
Fair Debt Collection Practices Act	27
Fair Housing Act	0
Holder in due course	5
Transfer agents	4
Municipal securities dealer regulation	2
Unregulated bank practices	1,397
Other[1]	58
Total	**2,840**

1. "Other" refers primarily to miscellaneous complaints against business entities.

institutions they supervise. The procedures call for the Board's inquiry to continue only until the Board has sufficient information to determine whether regulatory action is necessary. The Board believes these procedures enhance the present program and ensure access to necessary information in areas of concern.

In July 1982, as part of the Survey of Consumer Attitudes conducted by the Survey Research Center of the University of Michigan, the Board asked consumers about their experiences with fees charged on inactive checking and savings accounts. Of the respondents who had inactive accounts (22 percent of the total) 13 percent indicated that the financial institution had charged a fee on their accounts because too few deposits or withdrawals were made during the year. These data indicate that fees for inactivity on deposit accounts were relatively infrequent.

In addition, equal proportions of consumers with inactive and active accounts reported receiving written disclosure statements and information about inactivity fees. Thus consumers with inactive accounts did not appear less aware of the terms of deposit accounts than those with active deposit accounts.

In March, the Board's Staff Director for Federal Reserve Bank Activities testified for the Board on the issue of delayed funds availability before the Senate's Subcommittee on Consumer Affairs of the Committee on Banking, Housing, and Urban Affairs. The Board acknowledged that the practice by some depository institutions of delaying the availability of funds deposited by check has caused difficulties for consumers.

Given the wide variety of circumstances inherent in the check-clearing process, however, the Board believes that an attempt to deal with the practice of delayed funds by regulation would be costly to banks and, ultimately, to consumers themselves. The Board continues to review the situation and to consider several nonregulatory alternatives for improving the situation. First, the Board is undertaking a study of possible improvements in its check-collection procedures that would speed handling of return items or confirmation of payment or nonpayment of checks. In addition, the Board is working with the American Bankers Association on ways to encourage banks to disclose their policy on the availability of funds, and will continue to monitor consumer problems and attitudes in this area.

Aggregated Home Mortgage Disclosure Act Data

Federal Reserve examiners now use HMDA data, aggregated by the Fed-

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eral Financial Institutions Examination Council (FFIEC), to prepare themselves for examinations of state member banks. For each census tract in a standard metropolitan statistical area (SMSA), and for each SMSA as a whole, the HMDA tables show the number and the principal amount of various kinds of residential loans: government-insured, conventional, home improvement, and home purchase loans; loans on multifamily dwellings; and loans made to non-occupant owners. The tables also include the percentage of minority population, the median family income, the median age of the housing stock, and the number of owner-occupied units in each census tract.

The aggregated data, which are available at central repositories, give examiners a clearer picture of the housing and income characteristics of a bank's community. For example, the data can help identify census tracts that have predominantly older housing units. For each SMSA, the data also show the number of tracts by three income categories (low and moderate income, middle income, and upper income, defined by the relation of the median income in the tract to the median income in the SMSA as a whole) and the dollar amount and number of housing-related loans in census tracts in each of those categories. These data help examiners prepare questions for interviews with community representatives during examinations for compliance with the Community Reinvestment Act (CRA).

The aggregated data also are broken down by income and racial characteristics. For instance, they show the total principal amount and number of loans extended in low- and moderate-income census tracts with minority populations greater than 80 percent. Examiners may, for example, compare this information with that for low- and moderate-income tracts with a minority population of less than 5 percent. Such comparisons may suggest hypotheses about compliance with the Equal Credit Opportunity and Fair Housing Acts that can be tested during the compliance examination.

Regulation E—Economic Impact Analysis

One of the provisions of the Electronic Fund Transfer Act directs the Board to monitor the costs and benefits that such transfers have for financial institutions and consumers. The economic impact of the act increased during 1982 as more financial institutions offered electronic fund transfers (EFTs) and more consumers used them. Over 76 percent of commercial and mutual savings banks and over 16 percent of all other depository institutions now provide EFT services that are covered by the statute's compliance requirements. A large percentage of banks in all size classes offer automated clearinghouse transfers and access to automated teller machines (ATMs), among other forms of EFT. While larger banks are more likely to offer a full range of consumer EFT services than smaller ones, shared networks and joint ventures are rapidly making the more sophisticated EFT services accessible to smaller banks as well. Because nearly all banks now use computers, the proportion of institutions offering regulated consumer EFT services undoubtedly will increase.

Consumer demand for EFT services continued to grow during 1982, as more transactions were conducted through ATMs, telephone bill-pay-

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ment systems, and automated clearinghouses. More households had accounts at financial institutions that offered access to EFT services, and the number of consumers using ATMs and authorizing automatic direct credits and debits to their accounts increased. Additionally, the development of point-of-sale EFT and home banking systems is accelerating.

The benefits to consumers from the Electronic Fund Transfer Act are difficult to measure because they cannot be isolated from consumer protections that would have been provided otherwise. Some evidence that comes from compliance statistics in examination reports suggests, however, that there are no widespread compliance problems or violations of the consumer rights established by the act. One of the five federal agencies that regulate financial institutions reported no significant change from the previous year in the percentage of institutions not in full compliance; the others reported only a moderate increase in noncompliance. The increase may be explained largely by the substantial increase in the number of institutions becoming subject to the act: new entrants into the EFT market are likely to need time to adjust to the act's many compliance requirements.

Further evidence that consumers have no serious problems with EFT lies in data from the Board's Consumer Complaint Control System. Only 75 of the 2,840 complaints processed in 1982 involved EFTs. The Board forwarded 37 of these complaints to other agencies for resolution; of the remaining 38, only 4 involved a violation of the regulation.

Similarly, costs associated with the act are difficult to quantify because it is hard to know how the industry would have evolved without the statutory requirements. Direct evidence on the compliance costs and benefits to financial institutions was obtained from a survey conducted by the Board in 1981 and 1982. The survey asked for incremental start-up and ongoing compliance costs—that is, costs that were incurred above and beyond operating expenses in the absence of the act's requirements.

Some institutions found it difficult to identify the procedures that they would not have adopted in the absence of federal regulation—that is, those attributable to Regulation E. Some found it difficult to allocate joint costs. For example, if a compliance officer is employed by an institution to deal with all regulatory requirements, for what part of that salary and overhead does Regulation E account? Institutions generally prorated such expenses according to the percentage of employee time spent on the regulation. They followed a similar procedure with capital equipment, such as computers, furniture, and telephones.

Responding institutions were asked to estimate only those expenses that they could attribute directly to Regulation E. Information was requested for seven categories of start-up costs, for nine categories of ongoing costs, and for overhead and fringe benefits. In general, when a cost category could not be estimated by a respondent, it went unreported. In analyzing the cost data, the Board staff estimated missing data using reports from similar institutions.

Start-up and ongoing costs of compliance per reporting institution are shown in the accompanying table. The table shows that larger institutions generally spent more than

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Costs of Complying with Regulation E, by Deposit Size of Respondents

Dollars

Type of cost	Size of deposits (millions of dollars)					
	Less than 100	100–500	500–1,000	1,000–3,000	3,000 or more	All respondents
	A. Average start-up costs per institution (dollars)					
Administration	2,333	3,361	18,808	17,275	75,663	....
Training	1,102	2,421	6,010	10,521	28,374	....
Legal services	684	3,255	17,248	15,035	23,960	....
Changes in data processing systems	572	7,257	37,846	83,082	173,681	....
Premises, furniture, supplies, and equipment	450	687	464	9,047	5,804	....
Statement forms and disclosure documents	634	1,698	3,769	15,187	50,836	....
Other	432	417	949	6,745	14,387	....
Total	**6,206**	**19,096**	**85,094**	**156,893**	**372,704**	....
	B. Average ongoing costs per institution (dollars)					
Administration	2,992	7,143	42,995	4,107	23,282	....
Labor	6,351	7,370	39,197	15,787	80,310	....
Training	446	1,077	4,332	2,366	12,786	....
Legal services	168	1,017	1,676	1,550	9,891	....
Printing or purchase of statements	1,306	951	3,134	22,662	16,747	....
Postage	753	1,427	13,145	17,633	40,281	....
Premises, furniture, supplies, and equipment	393	1,520	144	0	21,418	....
Telephone	122	909	485	385	468	....
Other	264	526	0	1,095	18,702	....
Total	**12,794**	**21,940**	**105,108**	**65,588**	**223,886**	....
	C. Average start-up and ongoing costs per EFT transaction (dollars)					
Average total start-up costs	.116	.092	.109	.124	.068	.077
Average total ongoing costs	.217	.090	.126	.049	.035	.047
Total average compliance costs for first year	.333	.182	.235	.173	.103	.124

smaller institutions to comply with the act.

The functions in which start-up was most costly included changes in data processing systems, administration, and statements and disclosures related to the act's requirements for documentation and disclosures (panel A of the table). Many institutions made extensive changes in systems to provide the detailed statements required by the act. Increasing the frequency of periodic statements for certain savings accounts was particularly costly.

Labor, administration, and postage were among the three most costly elements of ongoing compliance. As with start-up costs, the act's documentation requirements proved the most costly (panel B). Labor costs were associated with preparation of statements and with the error-resolution procedures. Because of their nature, labor costs are likely to increase relative to other costs as the volume of EFT transactions expands.

The compliance costs reported by individual institutions varied according to many factors, such as the degree to which data processing systems needed modification and the way in which institutions chose to comply. One important determinant

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of costs was the number of EFT transactions processed. The smallest institutions had the highest costs per transaction, and the largest institutions the lowest (panel C). Although that relation was not consistent across the size categories, on balance these results suggest scale economies in compliance with Regulation E: larger institutions and those with higher volumes of transactions incur relatively lower compliance costs per transaction.

Three-fourths of the responding institutions reported that the act did not cause them to abandon any existing or planned consumer services; those that indicated some reduction in services mentioned a ban on EFT transactions for savings accounts, an end to payment of utility bills at ATMs, and the delay of planned EFT services until compliance could be achieved. Practically no institutions reported that operating costs were reduced or eliminated by the act, or that they enjoyed benefits from the act or Regulation E, though almost all reported that consumers might benefit. Responding institutions were about equally divided in their perceptions of how the act and the regulation had affected the payments system: a third found a net benefit from standardization; a third perceived an increase in overall payment system costs; and the rest detected no appreciable effect.

A complete summary of the survey findings will be published as a Board staff study. Further information on the benefits of Regulation E will be generated by a major consumer survey, to be conducted in early 1983.

Compliance with Consumer Regulations

The five federal agencies that regulate financial institutions enforce compliance with the consumer regulations mainly through periodic examinations. The other agencies charged with enforcing these laws monitor compliance primarily through investigating consumer complaints or other monitoring procedures (except for the Farm Credit Administration, which enforces Regulations Z and B through examination). This section summarizes the information provided by the enforcing agencies on compliance in 1982 with the Truth in Lending Act, the Equal Credit Opportunity Act, and the Electronic Fund Transfer Act. The reports cover the period July 1, 1981, to June 30, 1982.

Regulation Z (Truth in Lending)

The Board of Governors, the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), and the Office of the Comptroller of the Currency (OCC) reported that compliance with "old" Regulation Z continued to improve in 1982. About one-third of all institutions examined were found to have no violations at all, evidence of an improvement in compliance. Moreover, of those that did have violations, roughly half had only a small number (one to five). Thus, in the aggregate, about 75 percent of the financial institutions were in substantial compliance with Regulation Z. The Federal Home Loan Bank Board (FHLBB), on the other hand, reported a 13 percent decrease in the number of institutions with no violations.

The following were the most frequent violations of the "old" Regulation Z:

• Failure to disclose accurately the number, amount, due dates, or periods of scheduled payments on the indebtedness.

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• Failure to disclose the annual percentage rate (APR) with sufficient accuracy.

• Failure to disclose the total amount of the finance charge using the term "finance charge," and the sum of payments using the term "total of payments."

• Failure to identify with the term "balloon payment" any payment that is more than twice the amount of a regularly scheduled equal payment.

• Failure to include, when appropriate, charges or premiums for credit insurance covering life, accident, health, or loss of income in the finance charge disclosed.

The FDIC issued ten cease-and-desist orders, and the FHLBB issued two, that cited Regulation Z violations. Both agencies, as well as the OCC and the Board, also issued memoranda of understanding and other administrative enforcement actions that included provisions requiring compliance with Regulation Z.

The five member agencies of the Federal Financial Institutions Examination Council reported that in 1982 approximately 1,450 institutions reimbursed a total of $5.5 million on about 105,000 accounts under the Regulation Z enforcement policy. Although this total is somewhat higher than the 1981 figure of $4.7 million, the dollar volume of restitutions decreased 55 percent from the rate in the last two quarters of 1981 to the first two quarters of 1982. This marked decline indicates that compliance with provisions on the APRs and finance charges of Regulation Z was improving over that period.

The Federal Trade Commission (FTC) reported that it is inquiring into compliance with provisions of two acts: those in the Fair Credit Billing Act, for resolution of disputes and unauthorized use of credit cards, and those in the Truth in Lending Act for advertising as they relate to television and the Consumer Leasing Act. The FTC has investigated several companies for inaccurate APR and finance charges, and has monitored compliance with the Cash Discount Act of 1981 and with the advertising provisions for closed-end credit in connection with consent judgments that were filed against 12 firms in 1981. According to the FTC, compliance with requirements for credit advertising and cash discounts remains problematic.

The other agencies with responsibilities for enforcement of the Truth in Lending Act are the Packers and Stockyards Administration of the Department of Agriculture and the Farm Credit Administration. The former reported no truth in lending complaints or enforcement actions in 1982; the latter reported only two minor complaints.

Regulation B (Equal Credit Opportunity)

All the federal agencies responsible for regulating financial institutions reported improved compliance with the Equal Credit Opportunity Act (ECOA) and Regulation B. About 67 percent of the institutions examined had no violations, up from 51 percent in 1981; and most institutions with violations had fewer than five. The following were the most frequent violations of Regulation B in 1982:

• Failure to provide or properly complete a written notice of adverse action.

• Failure to provide the name and address of the federal supervisory agency on an adverse action notice.

• Failure to observe time limits on sending out adverse action notices.

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• Failure to provide the required notice concerning "other income."

The federal regulators issued eight cease-and-desist orders in 1982 that cited violations of Regulation B, and seven agreements or memoranda of understanding, most of which involved that regulation.

The FTC took formal enforcement action against two creditors for violations of Regulation B: one for failure to give written notices of adverse action and accurate reasons for denial, and the other for failure to retain copies of rejected applications for 25 months.

Although most creditors seem to be complying, the FTC staff continues to find serious problems: some creditors are illegally requiring a spouse's signature on a promissory note, failing to consider applications from consumers who rely on alimony and other forms of protected income, illegally discouraging elderly applicants from filing credit applications, and failing to retain rejected applications as required by Regulation B.

The other regulatory agencies reported satisfactory compliance. The Farm Credit Administration had only a few ECOA complaints, none of which involved illegal discrimination. The Civil Aeronautics Board (CAB) received 21 complaints, and none warranted formal action.

Regulation E (Electronic Fund Transfers)

The Board, FDIC, FHLBB, and NCUA reported that about 26 percent of the institutions failed to comply with some provisions of Regulation E and the Electronic Fund Transfer Act in 1982, up from about 20 percent in 1981. The majority of these institutions, however, had only one to five violations. On the other hand, the OCC reported a slight increase in compliance.

The following were the most frequent violations of Regulation E in 1982:

• Failure to provide initial disclosures, or failure to provide correct initial disclosures, when a consumer contracts for EFT service or before the first electronic transfer on the account.

• Failure to provide a notice of error-resolution procedure at least once each calendar year.

• Failure to include on the periodic disclosure the address and telephone number for inquiries or notification of an error.

• Failure to include in the periodic disclosure statement the name of any third party to or from whom funds were transferred.

• Failure to provide notice by one of the allowed means when a consumer's account is credited by "routine" preauthorized transfers.

The FTC encountered no problem severe enough to justify enforcement action, and the CAB and the Securities and Exchange Commission reported that organizations subject to their jurisdiction engage in no activities covered by the Electronic Fund Transfer Act.

Legislative Recommendations

The FDIC, the FTC, and the OCC have recommended several changes in the Truth in Lending, Equal Credit Opportunity, and Electronic Fund Transfer Acts. The FDIC, which believes that truth in lending requirements are complex and unmanageable, calls for a "complete overhaul" of the act and regulation. The FDIC suggested that exemptions from dis-

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closure for simple interest loans with identical annual percentage and simple-interest rates and with a finance charge that is "entirely a function of the amount of credit extended and the time it was outstanding."

The FTC recommended that the Congress remove the prohibition on credit surcharges imposed by the Cash Discount Act (section 167 of the Truth in Lending Act). According to the FTC, the widespread confusion of businesses and consumers stems from the lack of practical difference between a cash discount and a credit surcharge. The FTC also said that the ban against credit surcharges has spurred many corporate policies and state regulations that not only fail to benefit the public but also harm retailers by imposing unnecessary compliance costs and causing the loss of customer goodwill.

The OCC favors further simplification of the Truth in Lending Act, but prefers that no changes be made until the full effects of simplification and the recent update of the Regulation Z commentary are known.

The OCC recommended that the Congress reconsider certain provisions of the Electronic Fund Transfer Act. It criticized the three-tier schedule for determining consumer liability (which may be $50, $500, or unlimited, depending on the circumstances). These provisions, according to the OCC, make it unnecessarily complicated to establish consumer liability because financial institutions must prove when the consumer learned of the loss or theft and, in some instances, whether the losses would have occurred if the consumer had notified the institution.

The OCC also recommended that the Congress clarify its intent with regard to a financial institution's burden of proof in a dispute about authorization of a transfer. The OCC pointed out that Regulation E requires merely a good-faith investigation of the institution's records in resolving the dispute. As a result, the financial institution does not bear so heavy a burden of proof of unauthorized use as the act intended. In addition, the OCC wants the Congress to clarify whether the requirement about the burden of proof applies only in a judicial procedure or in the pretrial stages of a consumer dispute as well.

Consumer Advisory Council

In 1982, the Consumer Advisory Council (CAC) met quarterly to advise the Board with regard to its responsibilities under the consumer credit protection laws and to discuss other issues relating to consumer finances. The council has 30 members, representing a wide spectrum of consumer and creditor interests.

The CAC invited public comment in March on several questions related to the availability and affordability of credit for consumers, neighborhood reinvestment projects, and community programs in the current economic environment. The council received nearly 60 letters; those from financial institutions generally said that the high cost of funds and the inability of consumers to afford credit have led to an "overall reduction in credit." Some of the industry comments said that these factors have had the greatest negative impact in low- and moderate-income neighborhoods.

Most of the other comments came from local nonprofit community organizations. These commenters be-

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lieved that the main obstacles to obtaining credit to meet community needs were high interest rates, cuts in federal programs, unemployment, and the recession in general. They said that high interest rates have caused problems for the credit programs that benefit the low-income consumers who have been hit especially hard by the recession.

The solutions to these problems, according to the creditors, lay in a lower inflation rate; more community services, such as credit counseling; bond programs to help the thrift industry; an end to usury ceilings; revisions of bankruptcy laws; reductions in compliance costs; and more education for consumers. The community organizations stressed federal programs, such as the block grant program for community development; job training; and funds for nonprofit housing corporations and for home improvement loans. These organizations called on the Board to make credit available to banks for loans for housing low- and moderate-income people, for small businesses, and for farmers.

In 1982, the CAC also discussed practices in the financial services industry that may be deceptive or unfair to consumers—for example, the advertising of individual retirement accounts (IRAs). Some council members expressed concern that many advertisements give consumers the impression that investments and earnings in IRAs are tax-free forever, and say nothing about withdrawal penalties, maintenance fees, or cancellation periods. The council formed a special committee to investigate IRA advertising and to formulate recommendations. At its October meeting, the CAC adopted the committee's report, which recommended that IRA advertisements should disclose the following:

- The penalties for early withdrawal.
- The basis for projected long-term earnings (together with a warning as to the effect of inflation) and the extent to which the sponsor is committed to maintain the underlying rates.
- If applicable, the term of the account, the simple rate of interest, and the yield.
- The amounts or rates of all charges imposed on the account.
- The type of investment or instrument and whether insured.
- The way the consumer can get additional advance information.

The recommendations also stated that IRA advertisements should not use "scare tactics" by warning about the inadequacy of pensions or other benefits.

The council also discussed consumer needs for disclosure of fees and reduced earnings on inactive accounts, the advantages and disadvantages of surcharges and cash discounts on credit-card transactions, and the effect of the prime rate on consumer credit rates. Some members of the council suggested that the disclosure practices relating to variable-rate loans should be monitored carefully.

At the request of Chairman Volcker, the CAC established in 1982 a committee to review the Board's policies and procedures under the Community Reinvestment Act (CRA). The CRA Review Committee is evaluating the System's examination activity, procedures for applications and complaints, training of personnel, and community affairs and public information functions relating to the CRA. The committee

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plans to present its report in early 1983.

Community Reinvestment Act

The Board of Governors, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the Office of the Comptroller of the Currency are required by the Community Reinvestment Act (CRA) to encourage the institutions under their jurisdiction to help meet the credit needs in their communities, including low- and moderate-income neighborhoods, consistent with the safety and soundness of the institutions. The act requires the agencies to assess the record of institutions in meeting the needs of their communities and to take that record into account in deciding certain applications that the institution may file. Most applications to the Federal Reserve are considered by the Federal Reserve Banks acting on behalf of the Board. The Board itself considers applications that raise significant legal or policy questions and those from institutions that have unsatisfactory CRA records.

In 1982, the Board processed eight applications protested by community groups challenging the applicant's record of meeting community credit needs, and eighteen unprotested cases that involved applicants with CRA ratings that were less than satisfactory. One of the protested cases was approved following a negotiated agreement between the applicant and the protestant. One of the unprotested applications was withdrawn to allow the applicant time to improve its CRA performance. The remaining applications were approved on the basis of additional information about the applicant's performance or commitments by the applicant to the Board or the community groups.

In the 1982 reporting period, Federal Reserve System personnel examined 854 state member banks for CRA compliance, using the Uniform Interagency Community Reinvestment Act Assessment Rating System. This system ranks financial institutions on a scale of 1 through 5, with 5 representing the lowest level of performance and 3, less than satisfactory performance. About 79 percent of the state member banks received a rating of 2; 12 percent, a rating of 1; 13 percent, a rating of 3; and less than 1 percent, a rating of 4. No bank received a 5.

To assure a balanced perspective in determining community credit needs and assessing the CRA performance, Federal Reserve examiners often interview community representatives outside the financial institution. In the 1982 reporting period, 1,271 such interviews were conducted with government officials, community-based organizations, trade associations, community development corporations, and civil rights and consumer advocates. Also, to assist the Board in encouraging state member banks to help meet the credit needs of their communities, each Reserve Bank has appointed a Community Affairs Officer, who facilitates communication between bankers and community groups.

Federal Financial Institutions Examination Council

In 1982, the Federal Financial Institutions Examination Council (FFIEC) approved uniform examination procedures for the Truth in Lending, Fair Debt Collection, and Home Mortgage Disclosure Acts. It also

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sponsored the production of a videotape course for examiners, entitled "Outside Contact Interviews: Interviewing for Information from the Community." The purpose of the course is to teach examiners how to interview community representatives for information about the economic condition and the credit needs of the bank's community. This information should help examiners assess the CRA performance of a financial institution; it may also be helpful in examinations relating to the Fair Housing and Equal Credit Opportunity Acts.

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Litigation

During 1982, the Board of Governors was named in 34 lawsuits, compared with 43 in 1981. Of the 19 actions filed in 1982, 6 raised questions under the Bank Holding Company Act, compared with 5 in 1981. As of December 31, 1982, 17 cases were pending, 4 of which involve the Bank Holding Company Act. A brief description of each of these cases and of those disposed of in 1982 follows.

Bank Holding Companies—Antitrust Action

In 1982, the U.S. Department of Justice filed no challenges under the antitrust laws of the United States to acquisitions or mergers by bank holding companies that had been approved by the Board, and as of the end of the year, no such cases were pending from previous years.

Bank Holding Companies—Review of Board Actions

In *Wilshire Oil Company of Texas* v. *Board of Governors,* no. 81–1560 (3rd Circuit, filed April 9, 1981), petitioner sought judicial review of a Board order determining that petitioner continued to be subject to the Bank Holding Company Act and directing it to terminate its status as a bank holding company. On December 31, 1981, the court of appeals affirmed the Board's order (668 F.2d 732). On February 1, 1982, the court of appeals denied petitioner's request for a rehearing en banc, and on June 21, 1982, the U.S. Supreme Court denied petitioner's petition for certiorari (102 S. Ct. 2958).

Litigation was completed in the suits filed by Option Advisory Service, Inc. In *Option Advisory Service, Inc.* v. *Board of Governors,* no. 81–4174 (2d Circuit, filed September 24, 1981), petitioner sought review of the Board's order approving the application of Midland Bank, Ltd., London, England, to acquire Crocker National Bank, San Francisco, California (*Federal Reserve Bulletin,* volume 67, September 1981, page 729). On December 28, 1981, the court of appeals dismissed the petition for review on the ground that petitioner lacked standing. On February 18, 1982, the court of appeals awarded court costs to Midland Bank. On June 28, 1982, the Supreme Court denied petitioner's petition for certiorari (50 U.S.L.W. 3998.20).

In *Option Advisory Service, Inc.* v. *Board of Governors,* no. 81–4176 (2d Circuit, filed September 24, 1981), petitioner sought judicial review of a Board order approving the application of Credit and Commerce America Holdings, N.V., Willemstad, Netherlands Antilles, to acquire Financial General Bankshares, Inc., Washington, D.C. (*Federal Reserve Bulletin,* volume 67, September 1981, page 737). On December 28, 1981, the court of appeals dismissed the petition for review on the ground that petitioner lacked standing. Petitioner then filed a petition for certiorari, which was denied by the Supreme Court on May 17, 1982 (102 S. Ct. 2242).

In *Option Advisory Service, Inc.*

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v. *Board of Governors,* no. 81–4248 (2d Circuit, filed December 21, 1981), petitioner sought judicial review of a Board order approving the application of J.P. Morgan & Co., Inc., New York, New York, to acquire Morgan Bank (Delaware), Wilmington, Delaware (*Federal Reserve Bulletin,* volume 67, December 1981, page 917). The action was dismissed for lack of standing on January 26, 1982.

In *First Lakefield Bancorporation et al.* v. *Board of Governors,* no. 4–82–8 (D. Minn., filed January 6, 1982), plaintiff sought a declaratory judgment that its application for Board approval to acquire First Trust Bank in Lakefield, Lakefield, Minnesota, had been approved by operation of law because the Board had failed to act within 91 days of receipt of the complete record of the application, as required by the Bank Holding Company Act. By stipulation of the parties, the action was dismissed with prejudice on June 8, 1982.

In *C.A. Cavendes, Sociedad Financiera* v. *Board of Governors,* no. 82–1030 (D.C. Circuit, filed January 8, 1982), petitioner sought judicial review of the Board's order approving an application by Florida National Banks of Florida, Inc., Jacksonville, Florida, to merge with Alliance Corporation, Jacksonville, Florida (*Federal Reserve Bulletin,* volume 68, January 1982, page 49). The Board's order was affirmed without opinion on March 29, 1982 (675 F.2d 1339).

In *Gustafson* v. *Board of Governors,* nos. 82–4113 and 82–4213 (5th Circuit, filed March 24 and June 4, 1982), petitioner seeks judicial review of an order of the Federal Reserve Bank of Dallas approving the application of Raymondville State Bancshares, Inc., Raymondville, Texas, to acquire Raymondville State Bank, Raymondville, Texas, pursuant to authority delegated by the Board of Governors (*Federal Reserve Bulletin,* volume 68, April 1982, page 260). The case has been fully briefed and is awaiting argument.

In *First Bancorporation* v. *Board of Governors,* no. 82–1401 (10th Circuit, filed April 9, 1982), petitioner seeks judicial review of a Board order approving petitioner's application to acquire an industrial loan company, providing the acquired company does not simultaneously offer negotiable order of withdrawal (NOW) accounts and also engage in the business of commercial lending, and that any NOW accounts offered be subject to reserve requirements and federal limitations on interest rates (*Federal Reserve Bulletin,* volume 68, April 1982, page 253). The case has been fully briefed and is awaiting argument.

In *Florida National Banks of Florida, Inc.* v. *Board of Governors,* nos. 82–1483 (D.C. Circuit) and 82–1048 (D.D.C., both filed April 15, 1982), petitioner sought review of a Board order, dated April 5, 1982, that determined not to disapprove—under the Change in Bank Control Act—the acquisition of petitioner's shares by C.A. Cavendes, Sociedad Financiera, Caracas, Venezuela, and that after such acquisition, Cavendes would not be considered to be controlling petitioner for purposes of the Bank Holding Company Act. By stipulation of the parties, both actions were dismissed with prejudice on June 11, 1982.

In *Wyoming Bancorporation* v. *Board of Governors,* no. 82–1634 (10th Circuit, filed May 20, 1982),

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petitioner seeks judicial review of the Board's order dated April 22, 1982 (*Federal Reserve Bulletin,* volume 68, May 1982, page 313), disapproving petitioner's application to acquire the American National Bank of Powell, Powell, Wyoming. Petitioner challenges the Board's definition of the relevant geographic market for assessing the competitive impact of this proposal. The case has been fully briefed and is awaiting argument.

In *Association of Data Processing Service Organizations, Inc., et al.* v. *Board of Governors,* nos. 82–1910 and 82–2108 (D.C. Circuit, filed August 6 and September 20, 1982), petitioners seek judicial review of Board orders approving an application by Citicorp, New York, New York, to engage through a subsidiary in certain data processing activities (*Federal Reserve Bulletin,* volume 68, August 1982, page 505), and amending the Board's Regulation Y to designate those activities as closely related to banking and thus permissible for bank holding companies in general (*Federal Reserve Bulletin,* volume 68, September 1982, page 552). The actions are pending.

Other Litigation Involving Challenges to Board Procedures and Regulations

The following cases are arranged either according to the act under which they were filed or under the category Employment Actions.

Monetary Control Act of 1980

In *First Bank & Trust Co.* v. *Board of Governors,* no. 81–38 (E.D. Ky., filed February 24, 1981), plaintiff seeks declaratory and injunctive relief from a Board determination that plaintiff is ineligible to qualify for the phasing-in of reserve requirements on deposits, which is permitted for nonmember banks under the Monetary Control Act. The parties' cross-motions for summary judgment or dismissal are pending.

In *Bank Stationers Association et al.* v. *Board of Governors,* no. C81–1417A (N.D. Ga., filed July 27, 1981), plaintiffs seek declaratory and injunctive relief from the fee schedule for automated clearinghouse services that was adopted by the Board pursuant to the Monetary Control Act. By order dated December 22, 1981, the district court dismissed plaintiffs' complaint for lack of standing. On January 21, 1982, plaintiffs filed an appeal in the U.S. Court of Appeals for the Eleventh Circuit (no. 82–8058). The case has been fully briefed and is awaiting decision.

Financial Institutions Supervisory Act of 1966

In *Hall* v. *Board of Governors,* no. C81–1786A (N.D. Ga., filed September 28, 1981), plaintiff sought declaratory and injunctive relief and compensatory damages in connection with an order issued by the Board pursuant to the Financial Institutions Supervisory Act. On March 10, 1982, the case was transferred to the U.S. District Court for the Middle District of Florida. By stipulation of the parties, the case was dismissed with prejudice on November 10, 1982.

In *Wolfson* v. *Board of Governors,* no. 81–913 CWTK (M.D. Fla., filed September 28, 1981), plaintiff seeks declaratory and injunctive relief and compensatory damages in connection with the Board's issuance of an order pursuant to the Financial Institutions

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Supervisory Act. The Board's motion for summary judgment is pending.

In *Gabriel* v. *Board of Governors,* no. 82–7190 (9th Circuit, filed April 6, 1982), petitioner sought judicial review of an order of removal and prohibition issued by the Board pursuant to the Financial Institutions Supervisory Act. By stipulation of the parties, the petition for review was dismissed on July 30, 1982.

Glass-Steagall Act

In *A.G. Becker Inc.* v. *Board of Governors et al.,* no. 80–2614 (D.D.C., filed October 14, 1980), and *Securities Industry Association* v. *Board of Governors et al.,* no. 80–2730 (D.D.C., filed October 24, 1980), plaintiffs seek review of a Board statement, dated September 26, 1980, denying in part plaintiffs' petition that the Board prohibit Bankers Trust Company, a state member bank, from selling third-party commercial paper as an agent of the issuer. Plaintiffs also filed petitions for review of the Board's statement in the Court of Appeals for the District of Columbia Circuit (nos. 80–2258 and 80–2314, filed October 14 and 24, 1980 respectively). In an opinion and order dated July 28, 1981 (519 F. Supp. 602), the district court declined to order the Board to initiate enforcement proceedings against Bankers Trust, but invalidated the legal conclusions in the Board's statement. The Board and A.G. Becker appealed the judgment of the district court (nos. 81–2070, 81–2058, and 81–2096).

In an opinion and order dated November 2, 1982, the U.S. Court of Appeals for the District of Columbia Circuit reversed the action of the district court and upheld the Board's statement under the Glass-Steagall Act. Petitions for rehearing, filed by the Securities Industry Association and by A.G. Becker, Inc., are pending.

Freedom of Information Act

In *9 to 5 Organization for Women Office Workers* v. *Board of Governors,* no. 80–2905–C (D. Mass., filed December 30, 1980), plaintiff sought under the Freedom of Information Act, records from a wage survey conducted by a consortium of employers in Massachusetts and used by the Board in approving salaries for the Federal Reserve Bank of Boston. By orders dated December 21, 1981, and June 17, September 30, and December 2, 1982, the district court partially granted and partially denied each of the parties' cross-motions for summary judgment.

In *Flagship Banks, Inc.* v. *Board of Governors,* no. 82–2920 (D.D.C., filed October 12, 1982), plaintiff seeks disclosure of Board records pertaining to a notice filed pursuant to the Change in Bank Control Act. The Board filed an answer to the complaint on November 12, 1982.

Government in the Sunshine Act

In *A.G. Becker, Inc.* v. *Board of Governors,* no. 80–2175 (D.D.C., filed August 25, 1980), plaintiff seeks declaratory and injunctive relief under the Government in the Sunshine Act with respect to the Board's determination to exclude the public from a meeting at which plaintiff's petition for initiation of enforcement proceedings was discussed. In an order and opinion dated November 26,

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1980 (502 F. Supp. 378), the district court granted in substantial part the Board's motion for summary judgment, holding that the Board had acted properly in closing the meeting to the public, but had not given public notice of the meeting at the earliest practicable time.

Plaintiff appealed the action (no. 81–1493, D.C. Circuit, filed May 4, 1981). The appeal was consolidated with *Board of Governors* v. *A.G. Becker, Inc.*, no. 80–2258 (see the discussion of cases under the Glass-Steagall Act); and in an opinion and order dated November 2, 1982, the U.S. Court of Appeals upheld the Board's action on the merits. Plaintiff's petition for a rehearing is pending.

Administrative Procedure Act

In *Philadelphia Clearing House Association et al.* v. *Board of Governors*, no. 82–3245 (E.D. Pa., filed July 27, 1982), plaintiffs seek injunctive and other relief under the Administrative Procedure Act with respect to a Board determination to set a uniform deadline of 12 noon for presentment of "city items" by Federal Reserve Banks to depository institutions for clearing and settlement. The case is pending.

Employment Actions

In *Bollow* v. *Board of Governors et al.*, no. C76–977 (N.D. Cal., filed May 12, 1976), a former employee of the Federal Reserve Bank of San Francisco sought damages and other relief against the Board and the Reserve Bank in connection with the termination of his employment. By order dated September 23, 1977, the district court granted the Board's motion for summary judgment. In an opinion and order dated July 13, 1981 (650 F.2d 1093), the U.S. Court of Appeals for the Ninth Circuit affirmed the district court's judgment in favor of the Reserve Bank. On February 22, 1982, plaintiff's petition for certiorari was denied by the Supreme Court (102 S. Ct. 1449).

In *Hilliard* v. *Volcker et al.*, no. 76–1655 (D.D.C., filed December 8, 1976), the district court, after remand from the Court of Appeals (659 F.2d 1125), found no grounds for plaintiff's claim of discrimination and rendered judgment for the Board on January 12, 1982.

In *Hilliard* v. *Cooper*, no. CA 0950–82 (D.C. S. Ct., filed January 25, 1982), removed to the U.S. District Court for the District of Columbia (no. 82–0355), and *Hilliard* v. *Langley*, no. CA 1322–82 (D.C. S. Ct., filed February 2, 1982), removed to the U.S. District Court for the District of Columbia (no. 82–0454), the court dismissed plaintiffs' complaints of discrimination by orders dated June 4, 1982, on grounds of collateral estoppel based on the prior decision of the district court in *Hilliard* v. *Volcker et al.* (discussed in previous paragraph).

Other Actions

In *Berkovitz et al.* v. *Government of Iran*, no. C80–0097–WWS (N.D. Cal., filed June 13, 1980), plaintiffs seek to impose a trust on the assets of the government of Iran and to recover damages in connection with the death of Martin Berkovitz, a U.S. citizen. In September 1981, the court entered a stipulated stay of all proceedings pending further order of the court.

In *Gordon* v. *Heimann et al.*, nos. C80–1265A (N.D. Ga., filed July 25,

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1980) and 81–288A (N.D. Ga., filed February 15, 1981), plaintiff sought damages from 44 defendants in connection with alleged violations of the Securities Act of 1933, the Securities Exchange Act of 1934, and the Racketeer Influenced and Corrupt Organizations Act (RICO). The two actions were dismissed by the district court, by orders dated December 2, 1980, and May 28, 1981 respectively. By orders dated September 25, 1981, the district court awarded attorneys' fees to certain defendants in both cases and denied them to certain defendants in no. C80–1265A.

Plaintiff's appeals from the district court's orders of September 25, 1981 (nos. 81–8017 and 81–8018) were consolidated before the U.S. Court of Appeals for the Eleventh Circuit with cross-appeals from the defendants denied attorneys' fees (no. C80–1265A). The case is pending.

In *Public Interest Bounty Hunters* v. *Board of Governors,* no. C81–1184A (N.D. Ga., filed June 25, 1981), plaintiff alleges that various Board actions violate the Bank Holding Company Act and the Glass-Steagall Act. On November 29, 1982, plaintiff appealed the district court's orders dated June 23, 1982, dismissing the action, and September 30, 1982, awarding attorneys' fees to the defendant.

In *Christian Educational Association, Inc.* v. *Federal Reserve System,* no. 82–88 CIV–T–H (M.D. Fla., filed January 29, 1982), plaintiff sought declaratory and other relief in connection with the issuance of Federal Reserve notes as legal tender. The Board's motion to dismiss, filed March 29, 1982, was granted by the court on June 11, 1982.

In *Vick* v. *Volcker,* no. 82–0592 (D.D.C., filed March 2, 1982), plaintiff seeks damages and other relief in connection with the alleged unconstitutionality of the Federal Reserve Act. The district court dismissed the complaint for lack of standing. Plaintiff filed notices of appeal (D.C. Circuit: nos. 82–1504, 82–1505, 82–1506, and 82–1510), and the appeals are stayed pending the filing of plaintiff's motion to proceed in forma pauperis in the district court.

In *Richter* v. *Board of Governors et al.,* no. 82–C–3150 (N.D. Ill., filed May 21, 1982), plaintiff seeks injunctive relief in connection with the Board's conduct of national monetary policy. The Board's motion to dismiss is pending.

In *Montgomery* v. *State of Utah et al.,* no. C82–1504 W (D. Utah, filed May 3, 1982), plaintiff sought declaratory and other relief with respect to the issuance of Federal Reserve notes as legal tender. Following a hearing on the Board's motion to dismiss, the district court dismissed the complaint.

In *Bowler* v. *Treasurer of the United States et al.,* no. 82–0151–B (D. Me., filed July 15, 1982), plaintiff seeks relief in connection with the alleged unconstitutionality of issuance of Federal Reserve notes as legal tender. The district court granted the Board's motion to dismiss by order dated November 17, 1982. Plaintiff's appeal from the order is pending in the U.S. Court of Appeals for the First Circuit (no. 82–1879).

In *Hayton* v. *State of Utah et al.,* no. C82–6595 (D. Utah, filed September 10, 1982), plaintiff seeks declaratory, injunctive, and compensatory relief in connection with the alleged unconstitutionality of issuance of Federal Reserve notes as legal tender. The Board's motion to dismiss is pending.

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Legislation Enacted

Export Trading Company Act

Public Law 97–290, approved October 8, 1982, consists of four titles.

1. Title I, the Export Trading Company Act of 1982, encourages the formation and operation of export trading companies to promote exports.

2. Title II, the Bank Export Services Act of 1982, amends section 4 of the Bank Holding Company Act to permit bank holding companies and bankers' banks, and Edge and Agreement corporations that are subsidiaries of bank holding companies, to invest in export trading companies pursuant to Federal Reserve regulation.[1] Investment by banking institutions in export trading companies generally is subject to a prudential limit of 5 percent of the institution's consolidated capital and surplus.

Title II also increases the statutory ceiling on eligible bankers acceptances to 150 percent of a member bank's capital and surplus without prior Board approval and to 200 percent with Board approval. These ceilings apply also to U.S. branches and agencies of foreign banks that are covered by section 7 of the International Banking Act of 1978.

3. Title III (Export Trade Certificates of Review) establishes procedures for the Secretary of Commerce, with the concurrence of the Attorney General, to issue certificates of review to export trading companies. Such a certificate protects its holder from criminal and civil antitrust actions for conduct that is specified in, and complies with the terms of, the certificate.

4. Title IV, the Foreign Trade Antitrust Improvements Act of 1982, amends the Sherman Act and the Federal Trade Commission Act to supplement the antitrust certification provisions in Title III.

Garn–St Germain Depository Institutions Act

Public Law 97–320, the Garn–St Germain Depository Institutions Act of 1982, approved October 15, 1982, consists of eight titles.

Title I, the Deposit Insurance Flexibility Act, expands the authority of the Federal Deposit Insurance Corporation (FDIC) and the Federal Savings and Loan Insurance Corporation (FSLIC) to deal with the unusual financial pressures that many depository institutions now face. Among other things, the Deposit Insurance Flexibility Act does the following:

1. Permits the FDIC and the FSLIC to provide capital assistance to insured commercial banks or savings banks and to insured savings and loan associations respectively when severe financial conditions threaten the stability of a number of insured institutions or of insured institutions with significant resources. The agencies may provide such assistance if it

1. Under this act bankers' banks are defined as depository institutions that are organized solely to do business with other financial institutions; that are owned primarily by the financial institutions with which they do business; and that do not do business with the general public.

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would lessen the risk of loss to the insurance funds.

2. Expands the forms of permissible capital assistance.

3. Expands the powers of the regulatory agencies to facilitate mergers between depository institutions through the conversion of mutual organizations to stock form.

4. Under certain conditions, permits the acquisition by out-of-state thrift institutions or bank holding companies of insured savings and loan associations, closed insured commercial banks with assets of $500 million or more, and insured savings banks with assets of $500 million or more that have failed or are in danger of failing.

Certain provisions of Title I expire three years after the date of enactment.

Title II, the Net Worth Certificate Act, authorizes the FDIC and the FSLIC to increase or maintain the capital of troubled, qualified depository institutions through the purchase of net worth certificates. The authority to purchase additional net worth certificates expires three years from the date of enactment.

Title III, the Thrift Institutions Restructuring Act, expands the lending, investment, and liability powers of federally chartered thrift institutions. This title includes the following provisions, among others:

1. Authorizes federal savings and loan associations and savings banks to invest up to 10 percent of assets in commercial loans and expands their consumer lending authority.

2. Requires the elimination of the differential on deposit interest rate ceilings in favor of thrift institutions on or before January 1, 1984.

3. Directs the Depository Institutions Deregulation Committee to establish, within 60 days of enactment, an account that is "directly equivalent to and competitive with money market mutual funds."

4. Preempts state laws prohibiting enforcement of due-on-sale provisions, except for a limited period of time specified in the law.

Title IV amends various statutes relating to national and state member banks. It includes the following provisions, among others:

1. Increases the lending limit for a single borrower for national banks from 10 to 15 percent of unimpaired capital and surplus, with an additional 10 percent if the loan is fully secured by marketable collateral. The new limits are subject to a number of exceptions.

2. Revises section 23A of the Federal Reserve Act, governing loans to affiliates of member banks and other FDIC-insured institutions, to do the following, among other things:

(a) Limit the aggregate amount of "covered transactions" between a bank and any one affiliate to 10 percent of the bank's capital and surplus (20 percent in the case of all affiliates).

(b) Require that covered transactions between a bank and its affiliates be on terms and conditions consistent with safe and sound banking practices.

(c) Eliminate restrictions on transactions among most bank subsidiaries of a holding company, except for the restriction on the purchase of low-quality assets.

(d) Expand the definition of "affiliate" to include, among other things, any organization sponsored and advised on a contractual basis by a bank or its affiliates and any investment company advised by a bank or its affiliates.

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(e) Expand the types of collateral permitted on bank loans and extensions of credit to affiliates, while requiring that these new types of collateral have a high value relative to the loan.

3. Exempts all depository institutions from reserve requirements on the first $2 million of liabilities on which reserves are required. The exemption is indexed and will increase annually by a dollar amount calculated by applying to the $2 million 80 percent of the percentage increase in the total liabilities of all depository institutions that are subject to reserves.

4. Amends the Financial Institutions Regulatory and Interest Rate Control Act of 1978 to do the following, among other things:

(a) Eliminate the statutory limitations on loans by member banks to their executive officers for purchasing their own homes and for their children's education. The $10,000 limit on loans for any other purpose is replaced by authority to bank regulators to set an appropriate limit.

(b) Replace the $25,000 limit above which loans to insiders must be approved by the board of directors with an authorization for bank regulators to set an appropriate limit.

(c) Authorize the bank regulators to develop alternative reporting and disclosure requirements for bank loans to insiders. When the new requirements are effective, the existing requirements will be repealed.

5. Extends the deadline for bank holding companies to divest real estate or interests in real estate from December 31, 1982, to December 31, 1984.

Title V amends the Federal Credit Union Act to provide greater operating flexibility for federal credit unions and for the National Credit Union Administration.

Title VI amends the Bank Holding Company Act to prohibit bank holding companies from providing insurance as underwriter, agent, or broker. Exceptions to the general prohibition include the following, among other things:

1. Any insurance agency activity engaged in by a bank holding company with consolidated assets of less than $50 million.

2. Any insurance agency activity engaged in by a bank holding company before May 1, 1982, and certain expansions of those activities.

3. Any insurance agency activity in communities of less than 5,000 or in any place in which the bank holding company demonstrates that insurance agency facilities are inadequate.

4. Activity as underwriter, agent, or broker with respect to credit life, credit disability, and involuntary unemployment insurance in connection with an extension of credit.

5. Sale of property insurance on loan collateral by finance company subsidiaries. The insurance must be limited to repayment of the outstanding balance on the loan and may not exceed $10,000 ($25,000 if the loan is for the purchase of a mobile home).

Title VII contains miscellaneous changes to various statutes that, among other things, do the following:

1. Exempt certain student loans from the Truth in Lending Act and exclude arrangers of credit, including real estate brokers and loan brokers, from the definition of "creditor" in the Truth in Lending Act.

2. Authorize negotiable order of withdrawal accounts for all federal, state, and local public units.

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3. Permit bank service corporations to engage in certain nonbanking activities, with the prior approval of the Board of Governors.

4. Designate the Federal Reserve Board building as the Marriner S. Eccles Federal Reserve Board Building.

5. Require each of the federal deposit insurance agencies to conduct a study of the current system of federal deposit insurance and transmit a report to the Congress within six months of the date of enactment. The studies are to include, among other things, the feasibility of the following:

(a) Offering depositors the option to purchase additional deposit insurance.

(b) Basing deposit insurance premiums on risk.

(c) Consolidating the three separate insurance funds.

Title VIII, the Alternative Mortgage Transaction Parity Act of 1982, authorizes nonfederally chartered housing creditors to offer alternative types of mortgages in order to achieve parity with federally chartered institutions.

Continuing Appropriations

Public Law 97–377, the Further Continuing Appropriations Act, approved December 21, 1982, contains a provision declaring it to be the sense of the Congress that the Federal Reserve, with due regard for controlling inflation, should continue to take such actions as are necessary to achieve and maintain a level of interest rates low enough to generate significant economic growth and thereby reduce the current intolerable level of unemployment.

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Banking Supervision and Regulation

One of the Federal Reserve's principal responsibilites is the supervision and regulation of commercial banking organizations. In carrying out its duties, the Federal Reserve supervises and regulates state member banks; bank holding companies and their nonbank subsidiaries; the international activities of banks and bank holding companies; and the U.S. banking and nonbanking activities of foreign banks. Many of these supervisory activities are conducted in coordination with other federal and state regulatory agencies. A description of how the System fulfilled these responsibilities during 1982 follows.

Supervision for Safety and Soundness

The Federal Reserve conducts three main types of supervisory activities to ensure the safety and soundness of financial institutions: on-site examinations and inspections, surveillance and monitoring activities, and enforcement and other supervisory actions.

Examinations and Inspections

The on-site review of operations is the primary mechanism for ensuring the safety and soundness of financial institutions. Examinations or inspections of these operations entail (1) an appraisal of the quality of the institution's assets; (2) an evaluation of management, along with internal operations, policies, and procedures; (3) an assessment of the key financial factors of capital, earnings, asset and liability management, and liquidity; and (4) a review for compliance with applicable laws and regulations.[1]

State Member Banks

The Federal Reserve is the primary federal supervisor and regulator of state-chartered commercial banks that are members of the System. At the end of 1982, there were 1,040 state member banks, accounting for about 7 percent of all insured commercial banks. Because these banks typically were larger than the average, they held around 18 percent of total assets of insured commercial banks.

State member banks are examined every 18 months, except when significant weaknesses or other conditions call for more frequent examination. In 1982, System personnel conducted 809 examinations, many jointly or concurrently with examiners from state regulatory agencies.

Bank Holding Companies

During 1982, the number of bank holding companies increased by 853 to a total of 4,557. These organizations control commercial banks that hold about 84 percent of the total assets of insured commercial banks in the United States.

1. The Board's Division of Consumer and Community Affairs handles compliance with consumer and civil rights laws through the use of specially trained examiners at the Federal Reserve Banks. These regulatory responsibilities are covered in the "Consumer and Community Affairs" section of this REPORT. Compliance with other statutes and regulations, which is treated in this section, is the responsibility of the Board's Division of Banking Supervision and Regulation and of the Reserve Bank examiners, who check for safety and soundness.

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Most large bank holding companies, as well as small companies with significant nonbank assets, are inspected at least every eighteen months, others at least every three years. The inspection focuses on the operations of the parent holding company and its nonbank subsidiaries; the subsidiary banks are examined by their federal banking regulatory agency. During the year, System staff conducted 1,273 inspections of bank holding companies.

International Activities

Edge and Agreement corporations. Edge corporations are chartered by the Board to conduct an international banking business to provide all segments of the U.S. economy with a means of financing international trade, in particular exports. Agreement corporations are state-chartered companies that enter into an agreement with the Board to limit their operations to international banking. During 1982, the Federal Reserve conducted 112 examinations of Edge and Agreement corporations and their branches.

Overseas operations of U.S. banking organizations. Examinations of the international operations of state member banks, Edge corporations, and bank holding companies are conducted at the banking organization's head office in the United States, where the ultimate responsibility for overseas facilities lies. To verify and supplement the results of the head-office examinations, on-site reviews of important overseas facilities are performed at least every 3 years. In 1982, the Federal Reserve examined 12 foreign branches of state member banks and 10 overseas subsidiaries of Edge corporations and bank holding companies.

U.S. activities of foreign banks. In recent years, foreign entities have rapidly expanded their operations in the United States; today they are a significant element in the U.S. banking system. As of December 31, 1982, 205 foreign banks operated 338 state-licensed uninsured branches and agencies, 31 state-licensed branches insured by the Federal Deposit Insurance Corporation, and 53 branches and agencies licensed by the Office of the Comptroller of the Currency (of which 2 have FDIC insurance). Foreign banks also owned a controlling interest in 69 U.S. subsidiary banks. Altogether, these foreign banks controlled 14.4 percent of U.S. banking assets as of June 30, 1982.

The Federal Reserve has broad residual and oversight authority for the supervision and regulation of foreign banks that engage in banking in the United States through branches, agencies, commercial lending companies, and subsidiary banks. In fulfilling this responsibility, the Federal Reserve relies on examinations conducted by the appropriate federal regulatory agency for insured branches and for federally licensed branches and agencies, or commercial bank subsidiaries; and by the appropriate state authority for state-licensed branches and agencies. Although the states have primary authority for examining state-licensed uninsured branches and agencies, the Federal Reserve participated in the examination of 118 such offices in 1982.

Specialized Examinations

The Federal Reserve conducts specialized examinations in the following areas of bank activity.

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Electronic Data Processing
The Federal Reserve examines the electronic data processing (EDP) activities of state member banks, as well as independent centers that provide EDP services to these banks. During the year, System EDP examiners conducted 296 on-site reviews of state member banks and independent data centers. In addition, the Federal Reserve reviewed 96 EDP examination reports of independent centers providing EDP services to state member banks that were prepared by other federal agencies under the Interagency EDP Examination Program.

Trust Activities
The Federal Reserve examines trust departments of state member banks, trust companies that are members of the Federal Reserve System, and certain nondepository trust-company subsidiaries of bank holding companies. These examinations review the trust functions to ensure they are conducted in accordance with applicable fiduciary principles and with laws and regulations. During the year, the Board examined 305 institutions that exercise trust powers under its supervision.

Municipal Securities Dealers and Clearing Agents
Under the Securities Acts Amendments of 1975, the Board is responsible for supervising state member banks and bank holding companies that act as municipal securities dealers or as clearing agencies. In 1982, the Board examined 34 of the 50 state member banks registered with the Board as dealing in municipal securities for their trading accounts.

A clearing agency acts as a custodian of securities for the settlement of securities transactions by bookkeeping entries. The three agencies registered with the Board were examined in 1982; one examination was conducted jointly with the Securities and Exchange Commission.

Transfer Agents
System examiners conduct separate reviews of state member banks and bank holding companies that act as transfer agents. Transfer agents countersign and monitor the issuance of securities, register the transfer of securities, and exchange or convert securities. During 1982, the Board examined 137 such banks and bank holding companies.

Improvements to Examinations and Inspections

During the year, the Federal Reserve took a number of steps to enhance its examination and inspection programs.

New Examination Report for Commercial Banks
In recent years, it has become evident that a new format for reports was required to respond to developments in the banking industry. To meet that need, in 1982 the Federal Reserve adopted a new report for commercial bank examinations conducted after January 1, 1983.

The report was designed to respond to changing banking practices, particularly with respect to funding and asset–liability management, and to place additional emphasis on the evaluation of management policies, procedures, and internal systems and controls. Each examination report makes extensive use of data from reports of condition and income filed by state member banks and from the uniform bank performance report, as well as information obtained di-

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rectly from the bank under examination. The report balances the presentation of these data with written analyses of important aspects of the bank's management, loan quality, and financial condition. In addition to asset quality and liquidity, the report emphasizes the analysis of interest rate sensitivity and off-balance-sheet items of banks, and incorporates the revised definition and guidelines relating to capital adequacy that were implemented in 1982. Because the report makes extensive use of readily available data, it will result in more efficient examinations and will free examiners to devote more time to the review of problem areas requiring supervisory attention.

Supervisory Reporting Requirements

During the year, the Federal Reserve participated with the other federal banking regulators under the auspices of the Federal Financial Institutions Examination Council (FFIEC) in developing quarterly schedules to be completed by commercial banks in conjunction with the reports of condition and income.[2] These reports will be of particular importance to the supervisory and examination processes. One such schedule, "Repricing Opportunities for Selected Balance Sheet Categories," provides information that will assist examiners in analyzing the interest rate sensitivity of banks' earning assets and interest-bearing liabilities, and the effect of interest rate changes on a bank's condition. Another, "Commitments and Contingencies," provides information that will help examiners assess the potential impact that off-balance-sheet items—such as loan commitments, foreign exchange contracts, interest rate futures contracts, and letters of credit might have on a bank's financial condition.

The FFIEC also developed and implemented a quarterly schedule on past-due, nonaccrual, and renegotiated loans and leases, which bear on the quality of a bank's loan portfolio. In carrying out these changes, the regulatory agencies attempted to balance the needs for better and more timely supervisory information and for minimizing the reporting burden.

Definition of Bank Capital and Capital Adequacy Guidelines

Nineteen eighty-two marked the first full year of applying the broadened definition of bank capital in determining its adequacy in state member banks. The FFIEC recommended the definition to promote uniformity among federal bank regulators and to provide guidance to commercial banks. Under the new definition, bank capital consists of primary capital and secondary capital. Primary capital comprises common and perpetual preferred stock, surplus and undivided profits, contingency and other capital reserves, mandatory convertible instruments, and 100 percent of the funds set aside as reserves for possible loan losses. Secondary capital comprises limited-life preferred stock, and subordinated notes and debentures; however, there are restrictions upon the amount of these less permanent funds that may be counted as part of a bank's capital structure.

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2. The Federal Financial Institutions Examination Council is composed of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, the National Credit Union Administration, and the Board of Governors of the Federal Reserve System.

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This was also the first full year of implementing the new ratio guidelines issued by the Federal Reserve and the Office of the Comptroller of the Currency (OCC) for assessing the adequacy of capital in the examination and supervision of national banks, state-chartered banks that are members of the Federal Reserve System, and bank holding companies. The guidelines address the long-term decline in capital ratios, particularly those of certain large multinational banks; introduce greater uniformity in the supervisory assessment of capital adequacy; provide banks and holding companies with direction for capital and strategic planning; and permit some reduction of the disparities in capital ratios between banking organizations of different size. In general, the guidelines apply to sound, well-managed organizations and will be applied so as to allow for differences in the risks assumed by institutions.

Criteria for Determining Primary Capital Status of Mandatory Convertible Securities

In 1982, the Federal Reserve and the OCC jointly adopted criteria for determining whether debt securities that require conversion to, or the issuance of, equity can qualify as part of the primary capital of a banking organization in an assessment of that organization's compliance with the capital adequacy guidelines. Two types of these securities were issued during the year, equity notes and equity commitment notes. Equity notes require the holder to buy the common stock or perpetual preferred stock of the issuer. Equity commitment notes require the issuer to sell sufficient equity over the life of the security to liquidate the debt. The criteria adopted to evaluate these securities include provisions that ensure the issuance of equity capital within a certain period of time and that limit the total amount of such securities an organization may include in its primary capital.

Coordination of Examinations of Large Banks and Their Parent Holding Companies

In December 1981, the Federal Reserve and the OCC agreed to conduct certain examinations concurrently, and in 1982 the Federal Deposit Insurance Corporation (FDIC) entered the agreement. The Federal Reserve, the OCC, and the FDIC plan to implement the new agreement in 1983. Under the agreement, bank holding companies with more than $1 billion in consolidated assets and their lead national or state nonmember bank subsidiaries are to be examined concurrently on an annual basis by the Federal Reserve and the OCC when a lead national bank is involved, and by the Federal Reserve and the FDIC when the lead bank is a state nonmember bank. The purpose of the program is to strengthen coordination and consistency in the supervision of large banking organizations. The program is also expected to enhance cooperation among the federal banking agencies, to eliminate duplication, and to reduce the burden of multiple examinations on commercial banks and their parent companies.

New Manual on Bank Use of Certain Financial Contracts

In 1982, the Board's Division of Banking Supervision and Regulation developed and implemented a new manual for examiners, "Manual for Examination of Bank and Bank Holding Company Use of Interest

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Rate Futures and Forward Contracts." The manual contains procedures for verifying compliance with the Board's policy statements governing bank and bank holding company activities in futures and forward contracts. The policy and manual are designed to ensure that the involvement of banks and holding companies in interest rate futures and forward transactions is in accordance with safe and sound banking practices and is undertaken for the purpose of limiting or hedging banking risks.

Revised Examination Report and Manual, and New Rating System, for Edge Corporations

During 1982, the Federal Reserve revised its examination report for Edge corporations and the accompanying manual to reflect changes in the structure of these organizations resulting from branching. In addition, a new system for rating the financial condition and management performance of Edge corporations involved in banking activities was implemented. The rating system closely parallels the CAMEL system used in rating commercial banks, but places special emphasis on rating the quality of assets, earnings, and management.[3] These components are rated on a scale of 1 through 5, in descending order of performance, and a composite rating is also calculated. The new rating system will summarize important information about the financial condition of Edge corporations and will help focus supervisory efforts on companies with financial deficiencies.

3. CAMEL refers to the rating system used by the federal supervisory agencies to assess the financial condition of commercial banks.

Examination Guidelines for Retail Repurchase Agreements

In light of the increased use by banking organizations of retail repurchase agreements (RPs) involving U.S. government or agency securities, the Federal Reserve developed guidelines concerning this activity to be used in the examination of state member banks. In addition, the Federal Reserve sent a letter to each state member bank addressing the issues and risks associated with retail RPs, as well as setting forth certain disclosure guidelines and requirements to ensure that retail RPs are not misconstrued or misrepresented as insured bank deposits.

EDP Examinations

In 1982, the Federal Reserve, in conjunction with the other agencies of the FFIEC, issued a statement to all financial institutions emphasizing the importance of obtaining and analyzing financial data on their institution's independent data processing servicers. In addition, each agency adopted a uniform examination program for multiregional data processing servicers (MDPS). Under the program, major data processing servicers with centers across the country are examined on a nationwide, consolidated basis. The program eliminates duplication of effort, fosters cooperation and uniformity, and reduces the burden of multiple examinations on data processing servicers.

In addition, the Federal Reserve and the FDIC adopted new guidelines and procedures for the supervision of electronic fund transfer systems (EFTS) of state-chartered banks. The banking industry's rapid expansion of retail and wholesale EFTS services necessitated the revision of previous guidelines.

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Surveillance and Monitoring Program

The Federal Reserve System performs computer surveillance of member banks on a quarterly basis and of large bank holding companies on a semiannual basis. Current financial reports of banks and bank holding companies are screened periodically at the Board and sent to the Reserve Banks, which do the financial analysis and take any corrective action.

If surveillance indicates that a bank or bank holding company is in good financial condition and that there is no trend toward serious deterioration in its key financial ratios, then the time between on-site examinations of these organizations may be lengthened. On the other hand, if surveillance suggests a poor and deteriorating financial condition, the banking organization is likely to have its examination date accelerated. During 1982, the Board revised its bank holding company performance report (BHCPR) and developed a user's guide to conform to the FFIEC's uniform bank performance report. Since its introduction, the BHCPR has been successfully used by the federal regulatory agencies as well as some state banking regulatory agencies.

Enforcement Actions and Civil Money Penalties

Under the Financial Institutions Supervisory Act of 1966, the Board of Governors has the authority to enter into written agreements or cease-and-desist actions with state member banks, bank holding companies, and persons associated with such organizations that engage in unsafe or unsound practices or that violate applicable laws or regulations. The Board may also assess civil money penalties for violations of a cease-and-desist order, of the Bank Holding Company Act, or of certain provisions of the Federal Reserve Act.

In 1982, the Reserve Banks recommended or initiated 44 enforcement actions, most dealing with unsafe or unsound banking practices; 30 were completed by year-end. In connection with the completed actions, the Board issued 15 cease-and-desist orders and entered into 23 written agreements: 17 involved banks; 13, bank holding companies or their subsidiaries; and 8, individuals participating in the affairs of the financial institutions.

In 1982, the Board collected ten civil money penalties totaling $540,900 and assessed, but did not fully collect, an additional civil money penalty. Of the total, one was paid by a bank, two were paid by or assessed against bank holding companies, and eight were paid by individuals.

The Board made available to the public a description of all formal supervisory actions completed during the year and the reasons for them. This action was taken to achieve the fullest public disclosure of information consistent with valid concerns of confidentiality.

Staff Training

System training continued to emphasize analytical and supervisory themes common to the four areas of supervision and regulation—examinations, inspections, applications, and surveillance—and to stress areas of interdependence. During 1982, the Federal Reserve conducted fourteen schools, seven of which offered core banking courses—two introductory,

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three intermediate, and two advanced. Other schools included two dealing with credit analysis—a new subject—two with bank holding company applications, two with consumer compliance, and one with a financial analysis program for senior examiners. The two credit analysis schools were held in Washington and were followed by regional programs at four Reserve Banks for 115 students. Additional training programs in specialized areas, including trusts, international banking, electronic data processing, activities of municipal securities dealers, management, and instructor training, were conducted by the FFIEC.

In 1982, 516 employees completed System training programs and 214 completed FFIEC courses. As in previous years, staff from state banking departments and several foreign central banks also attended the System schools.

Regulation of U.S. Banking Structure

The Board of Governors administers the Bank Holding Company Act, the Bank Merger Act, and the Change in Bank Control Act. In doing so, the Federal Reserve acts on a variety of proposals that directly or indirectly affect U.S. banking structure at the local, regional, and national levels. The Board also has primary responsibility for regulating the international operations of domestic banking organizations and of the U.S. operations of foreign banks that engage in banking in the United States, either directly through a branch or agency, or indirectly through a subsidiary commercial lending company. In addition, the Board has established regulations for the interstate banking activities of these foreign banks and for foreign banks that control a U.S. subsidiary commercial bank.

Bank Holding Company Act

By law, a company must obtain the Board's approval to form a bank holding company by securing control of one or more banks. Moreover, once formed, a bank holding company must receive the Board's approval before acquiring more banks or related nonbanking companies.

In reviewing an application filed by a bank holding company, the Board considers the convenience and needs of the community, the applicant's financial and managerial resources, the prospects of both the applicant and the firm to be acquired, and the likely effects of the proposal on competition.

In 1982, the Board—and, under delegated authority, the Federal Reserve Banks, the Director of the Board's Division of Banking Supervision and Regulation, and the Board's Office of the Secretary—acted on 2,401 bank holding company applications. The System approved 1,086 proposals to organize holding companies and denied 3; approved 418 bank acquisitions by existing bank holding companies and denied 4; and approved 839 requests to acquire nonbank companies that are closely related to banking and rejected 3. Data on holding company decisions are shown in the accompanying table.

Bank Merger Act

The Bank Merger Act requires that all proposed bank mergers receive the prior approval of the appropriate federal bank regulatory agency. If

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Bank Holding Company Decisions by the Federal Reserve, Domestic Applications, 1982

Proposal	Direct action		Delegated authority					Total
	Board of Governors		Division Director[1]		Office of the Secretary	Federal Reserve Banks		
	Approved	Denied	Approved	Denied	Approved	Approved	Permitted	
Formation of holding company	47	3	...	...	8	1,031	...	1,089
Retention of bank	...	...	...	...	...	1	...	1
Acquisition								
Bank	26	4	...	...	53	339	...	422
Nonbank	60	3	...	...	6	111	662	842
Merger of holding company	12	1	...	...	2	17	...	32
Other	5	1	7	2	...	...	...	15
Total	**150**	**12**	**7**	**2**	**69**	**1,499**	**662**	**2,401**

1. This heading refers to decisions approved or denied by the Director of the Division of Banking Supervision and Regulation.

the bank surviving the merger is a state member bank, the Federal Reserve has primary jurisdiction.

Before approving a bank merger, the Federal Reserve considers the community's convenience and needs, the financial and managerial resources and prospects of the existing and proposed institution, and the competitive effects of the proposal. The Board must also consider the views of certain other agencies on the competitive factors involved in the transaction.

During 1982, the Federal Reserve approved 52 merger applications: 3 were approved by the Board, 2 by the Secretary of the Board under delegated authority, and 47 by the Reserve Banks under delegated authority. As required by law, each merger is described in table 18 in the Statistical Tables section of this REPORT.

When the Comptroller of the Currency or the Federal Deposit Insurance Corporation has jurisdiction over a merger, the Board is asked to comment on the competitive factors to assure comparable enforcement of the antimonopoly provisions of the act.

On behalf of the Board, the Reserve Banks submitted 736 reports on competitive factors to the Comptroller of the Currency and the FDIC. The Board and those agencies have adopted standard terminology for assessing competitive factors in bank merger cases to assure consistency in administering the Bank Merger Act.

Change in Bank Control Act

The Change in Bank Control Act of 1978 gave the federal banking agencies the authority to disapprove changes in the control of banks and bank holding companies. The Federal Reserve is the agency responsible for changes in the control of state member banks and bank holding companies. Factors to be considered in determining whether a transfer of control should be denied include the financial condition, competence, experience, and integrity of the acquiring person, and the effect on competition.

In 1982, 152 changes in ownership

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of the stock of state member banks and holding companies were reported; all but four were processed by the Reserve Banks. There was only one denial.

International Activities of U.S. Banking Organizations

The Board has three principal statutory responsibilities in supervising the international operations of U.S. banking organizations: to issue licenses for foreign branches of member banks and regulate the scope of their activities; to charter and regulate Edge corporations and their investments; and to authorize and regulate overseas investments by member banks, Edge corporations, and bank holding companies.

Foreign Branches of Member Banks

Under provisions of the Federal Reserve Act and Regulation K, member banks may establish branches in foreign countries subject, in most cases, to the Board's prior approval. In reviewing proposed foreign branches, the Board considers the requirements of the governing statute, the condition of the bank, and the bank's experience in international business. In 1982, the Board approved the opening of 43 foreign branches.

By the end of 1982, 163 member banks were operating 877 branches in foreign countries and overseas areas of the United States, a net increase of 36 from the revised figure for 1981. One hundred twenty-nine national banks were operating 744 of these branches, while 34 state member banks were operating the remaining 133 branches.

International Banking Facilities

Effective December 3, 1981, the Board amended its Regulations D and Q to permit the establishment of international banking facilities (IBFs) in the United States. Subject to conditions specified by the Board, IBFs may be established by U.S. depository institutions, by Edge and Agreement corporations, and by U.S. branches and agencies of foreign banks.

An IBF is essentially a set of asset and liability accounts that is segregated from other accounts of the establishing office. In general, deposits from and credit extended to foreign residents or other IBFs can be booked at these facilities free from domestic reserve requirements and interest rate limitations. By the end of 1982, 430 offices had established IBFs.

Edge and Agreement Corporations

Under sections 25 and 25(a) of the Federal Reserve Act, Edge and Agreement corporations may engage in international banking and foreign financial transactions. These corporations, which are usually subsidiaries of member banks, provide their owner organizations with additional powers in two areas: (1) they may conduct a deposit and loan business in states other than that of the parent, provided that the business is strictly related to international transactions; and (2) they have somewhat broader foreign investment powers than member banks, being able to invest in foreign financial organizations, such as finance companies and leasing companies, as well as in foreign banks. In 1982, the Board approved the establishment of 9 Edge corporations and 1 Agreement corporation, and the operations of 25 branches by established Edge corporations. The Board requires each Edge corporation that is engaged in

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banking to maintain a ratio of equity to risk assets of at least 7 percent. At midyear, half of the banking corporations had ratios that were more than twice this minimum.

Foreign Investments
Under authority of the Federal Reserve Act and the Bank Holding Company Act, in 1982 the Board authorized 118 foreign investments by member banks, Edge and Agreement corporations, and bank holding companies. Most were for additional investments in financially related companies.

Export Trading Companies
In 1982, the Bank Export Services Act amended section 4 of the Bank Holding Company Act to permit bank holding companies, their subsidiary Edge or Agreement corporations, and bankers' banks to invest in export trading companies subject to certain limitations and after Board review. The purpose of the act is to allow for meaningful and effective participation by bank holding companies in the financing and development of export trading companies. The Board has proposed regulations to achieve the objectives set forth in the law: to facilitate the export of goods and services produced in the United States and to help avoid adverse effects on the subsidiary banks of the bank holding companies involved.

Delegation of Applications

In exercising its responsibility to formulate policies and procedures in the applications area, the Board has delegated certain regulatory functions—including the authority to approve, but not deny, certain types of applications—to the Reserve Banks and to the Board's Division of Banking Supervision and Regulation and Office of the Secretary.

In September 1979, the Board issued revised rules that delegated additional authority to the Reserve Banks to approve applications for bank holding companies and bank mergers. During 1980, the first full year under expanded delegation, 89 percent of all holding company and merger applications were acted on under delegated authority while the proportion during 1982 increased to 93 percent. In contrast, only 78 percent were processed by the Reserve Banks in 1978, the last full year before expanded delegation. In 1982, the Board delegated to the Reserve Banks authority to approve domestic branches of Edge corporations and foreign "shell" branches of member banks. In addition, the Board reduced from 60 to 45 days the notification period for foreign investments by U.S. banking organizations. The benefits that were expected from broadened delegation continue to be achieved: routine cases have been removed from the Board's agenda to allow more efficient use of staff of both the Board and the Reserve Banks.

Timely Processing of Applications

Although the number of applications by holding companies increased 27 percent from 1981 to 1982, the System still acted on 97 percent of these proposals within 90 days of the filing of a complete application.

In 1982, 48 of the 52 applications for bank mergers were processed within 90 days; the 4 that took longer involved protest proceedings. The System also prepared 736 reports on

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the competitive factors of proposed mergers for the other two banking agencies; all but a few were completed within 30 days. Of the 152 change-of-control notices, 148 were handled within 90 days.

The System also measures its performance in processing international applications against a 90-day standard. During 1982, the Federal Reserve acted on 244 international applications, 95 percent of which were decided in 90 days or less.

During 1982, several changes in procedures were instituted to expedite still further the processing of applications so as to reduce the burden on applicants and to make more efficient use of Board and Reserve Bank staff. These changes included the revision of application forms and the further streamlining of certain internal procedures.

Pamphlet on Processing Applications

The Board issued a pamphlet, "Processing Bank Holding Company and Merger Applications," to facilitate the filing of an application by those without experience in this area. The pamphlet, designed as a compact reference, not only assists an applicant in preparing and filing an application, but also explains the steps in processing and outlines the factors the System must consider when reviewing an application.

Public Notice of Board Decisions

Each action by the Board or its delegated representative on a case involving a bank holding company, bank merger, change in control, or international banking is effected by an order or announcement. Orders set forth the essential facts of the application, the basis for the decision, and the decision. Announcements state merely the action taken by the Federal Reserve. All orders and announcements are released immediately to the public and are reported in the Board's weekly H.2 statistical release, "Actions of the Board; applications and reports" and the monthly *Federal Reserve Bulletin*. Announcements of applications and notices received by the System but not yet acted on are also made in the H.2 release.

Board Policy Decisions and Developments in Bank-Related Activities

During 1982, the Board expanded the list of permissible bank holding company activities contained in Regulation Y to include additional data processing and transmission services to third parties, and management consulting advice to nonaffiliated nonbank depository institutions. The Board also approved by order two other activities: acting as a futures commission merchant for nonaffiliated persons in the execution and clearance of certain financial futures contracts, and arranging equity financing for commercial and industrial income-producing properties. Certain restrictions on the way these activities are to be offered are outlined either in Regulation Y or in the related Board order. The conditions are intended to ensure that these activities by bank holding companies are conducted in a manner consistent with the public interest.

In recognition of its supervisory responsibilities, the Board also ap-

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proved the acquisitions of savings and loans associations by two bank holding companies. The Board had previously stated that it preferred to defer to the Congress the question of whether a bank holding company should be permitted to operate a savings and loan association. In approving the two acquisitions, the Board took note of the distressed financial condition of the two acquired associations, the lack of any viable alternative, and the condition of the thrift industry in general. In each instance, the Board determined that substantial public benefits would result from preserving these institutions as competitors in the thrift industry.

Subsequent to approval of the acquisition of the two institutions, the Congress passed the Garn–St Germain Depository Institutions Act of 1982. Among the important provisions of this act, the Congress established specific criteria for permitting a bank holding company to acquire a federally insured thrift institution when severe financial conditions threaten the stability of a number of such institutions or of such institutions with significant resources.

Enforcement of Other Laws and Regulations

The preceding sections discussed the Board's activities in carrying out its statutory responsibilities for the supervision of bank safety and soundness and the regulation of banking structure. This section describes the enforcement of other laws, rules, and regulations.

Financial Disclosure by State Member Banks

The Board's Regulation F deals with the disclosure requirements for state member banks that have securities registered under the Securities Exchange Act of 1934. Seventy-three state member banks, most of which are of small or medium size, were registered with the Board under this regulation. These institutions must file certain materials, such as financial reports and proxy statements, that are of interest to investors. The Board's staff reviews these filings for compliance with the regulation.

The disclosure rules under Regulation F are substantially similar to those issued by the Securities and Exchange Commission.

Loans to Executive Officers

Under section 22(g) of the Federal Reserve Act, state member banks must include with their quarterly report of condition a list of loans to executive officers. The table summarizes these data for the last quarter of 1981 and the first three quarters of 1982.

Period	Total loans to executive officers		Range of interest rates charged (percent)
	Number	Amount (dollars)	
October 1—December 31, 1981	1,074	6,866,599	6–26
January 1—March 31, 1982	778	5,459,960	6–27
April 1—June 30, 1982	971	7,016,053	7–21
July 1—September 30, 1982	989	5,365,086	6–21

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Applications by State Member Banks

The Board's authority over state member banks covers permission to open new branches, to make investments in bank premises that exceed 100 percent of capital stock, to add to the capital base from sales of subordinated debt, and the waiver of the six months' notice of intention to withdraw from membership in the System. The Federal Reserve employs the application or notification process to administer these statutory provisions.

With few exceptions, these matters are handled under delegated authority by the Federal Reserve Banks or, in the case of proposed sales of subordinated debt, by the Director of the Board's Division of Banking Supervision and Regulation.

Stock Repurchases by Bank Holding Companies

A bank holding company sometimes purchases its own shares from existing shareholders. Often such stock repurchases are financed through borrowings, so that the net effect of the transaction is to increase the debt of the bank holding company at the very time that its equity is decreased. Because relatively large repurchases may adversely affect the financial condition of a bank holding company and its bank subsidiary, the Board, by regulation, requires holding companies to provide advance notice of repurchases that retire 10 percent or more of their consolidated equity capital.

The Federal Reserve reviewed 150 such notifications during 1982, all but 2 of which were acted on by the Reserve Banks on the Board's behalf.

Securities Regulation

Under the Securities Exchange Act of 1934 (1934 Act), the Board is responsible for regulating credit used to purchase or carry securities. In fulfilling its responsibility under the 1934 Act, the Board limits the amount of credit that may be provided by securities brokers and dealers (Regulation T), by banks (Regulation U), and by other lenders (Regulation G). Regulation X extends these credit limitations, or margin requirements, to certain borrowers and certain credit extensions, such as credit obtained from foreign lenders by U.S. citizens.

The SEC, the National Association of Securities Dealers, and the national securities exchanges examine brokers and dealers for compliance with Regulation T. The three bank supervisory agencies examine banks for compliance with Regulation U, with the Board being responsible for state member banks that extend stock-secured credit for the purpose of buying margin stock.

The Board, the National Credit Union Administration, and the Farm Credit Administration examine other lenders under their respective jurisdictions for compliance with Regulation G. At the end of 1982, there were 536 such lenders, 296 of which were subject to the Board's supervision. During the year, Federal Reserve examiners inspected 99 lenders that were subject to Regulation G (these lenders are inspected on a biennial basis) for compliance with the Federal Reserve's margin requirements.

Regulations G and U, in general, impose credit limitations on banks and other lenders only when a loan is for the purpose of purchasing or

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carrying publicly held equity securities and is secured by such securities. Regulation T limits the amount of credit that brokers and dealers may extend based on the value of securities serving as collateral. This collateral must consist of stocks and bonds traded on national securities exchanges or certain over-the-counter stocks and bonds that the Board designates as having characteristics similar to those of stocks listed on national exchanges. The latter category of stocks appear on the Board's "List of OTC Margin Stocks."

The Board published revised lists of OTC stocks subject to its margin regulations on March 1, July 26, and October 18, 1982. In March, the list consisted of 1,576 stocks. The Board's Division of Banking Supervision and Regulation monitors the market activity of all OTC stocks to determine what stocks to place on this list.

Stocks must meet certain criteria, established by the Board, before they can be eligible for the OTC margin stock list. On May 12, 1982, the Board changed those criteria (1) to allow foreign issuers to be eligible for listing, (2) to replace certain alternative criteria with mandatory requirements, and (3) to relax financial requirements to make them comparable to those of major stock exchanges.

In 1982, there were other significant amendments to the margin regulations and further proposals to amend them. On January 18, the Board adopted several amendments to relax certain restrictions in Regulations G, T, and U. Lenders subject to Regulation G now have broader lending powers and greater flexibility as to the types of collateral for loans they may accept. The January amendments also exempted from Regulation U bank credit that was not secured by margin equity securities and simplified the definition of indirect security. The latter change was also made in Regulation G. At the same time, the Board relaxed restrictions on the arranging of credit by brokers and dealers to permit them to engage in investment banking services that had been previously prohibited.

In another area, on February 25, the Board proposed a regulatory framework for establishing margin requirements on contracts for stock-index futures. As of December 31, 1982, the Board had not imposed formal margin requirements on these contracts.

On March 25, as part of its Regulatory Improvement Project, the Board proposed for public comment a total revision of Regulation T. The new proposal would incorporate amendments already adopted on January 18 (mentioned above).

On April 19, the Board filed a brief as amicus curiae in support of the U.S. Securities and Exchange Commission in *Board of Trade of the City of Chicago* vs. *SEC*, 677 F.2d 1137 (7th Cir. 1982); *vacated as moot*, 51 U.S.L.W. 3418 (U.S. Sup. Ct., November 29, 1982); a case in which the U.S. Court of Appeals for the Seventh Circuit ruled that options on securities of the Government National Mortgage Association (GNMA) were not securities upon which margin requirements apply. If the court's decision were left standing, the Board's regulation governing options on GNMA and other government securities, adopted on October 5, 1981, would be invalidated. The Board also believed that the sweeping nature of the Seventh Circuit's decision could challenge its authority

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to set margins on a wide variety of other options, which have consistently been treated as securities over which the Board has margin authority.

This decision was effectively reversed by the enactment of legislation (in October 1982) that specifically makes GNMA options securities for purposes of the federal securities laws. On November 29, the Supreme Court vacated the judgment of the Seventh Circuit on the basis that the litigation was mooted by the new amendments to the federal securities laws.

On May 12, the Board amended Regulation T to permit brokers and dealers who are authorized to borrow and lend securities for certain purposes to accept letters of credit, U.S. government securities, bank certificates of deposit, and bankers acceptances as collateral. Before the amendment, brokers and dealers were permitted to borrow and lend securities only against a deposit of cash. The Board's amendment also permits foreign banks to issue letters of credit in stock lending and borrowing transactions if they have filed with the Board agreements to comply with the same rules and regulations applicable to member banks in securities credit transactions.

On December 9, the Board amended Regulation T to permit brokers and dealers to extend credit on private mortgage pass-through securities. The amendment added a provision to the definition of an over-the-counter margin bond, on which brokers and dealers may extend good-faith credit. In order for brokers and dealers to extend credit on private mortgage pass-through securities, the securities must have an original issue size of at least $25 million. The issuer must file current reports with the Securities and Exchange Commission and appear to be meeting material obligations under the terms of the offering.

Under section 8 of the 1934 Act, a broker or dealer may not borrow from a bank on the collateral of registered securities unless the bank is either a member of the Federal Reserve System or one that files an agreement with the Board undertaking to comply with all statutes, rules, and regulations applicable to member banks with respect to their securities credit activities. Domestic and foreign nonmember banks must file these agreements, designated T-1 and T-2 respectively, before they engage in the business of lending to brokers and dealers on the collateral of registered securities. During the year, the Board processed four T-1 and T-2 agreements.

During 1982, the Board's Securities Regulation Section of the Division of Banking Supervision and Regulation issued 36 interpretations of the margin regulations that presented sufficiently important or novel issues to be published in the *Securities Credit Transactions Handbook*, which is part of the *Federal Reserve Regulatory Service*. These interpretations, which were published monthly, serve as a guide to compliance with the margin regulations.

Federal Reserve Membership

At the end of 1982, 5,619 banks were members of the Federal Reserve System, a net increase of 145 from the previous year. Member banks operated 26,953 branches on December 31, 1982, a net increase of 1,192 for the year.[4]

4. This figure includes 1,818 automatic teller machine branches.

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Member banks accounted for 38 percent of all commercial banks in the United States, and for 64 percent of commercial banking offices. Complete figures on changes in the number of banks and banking offices by charter class are provided in table 17 in the Statistical Tables section of this REPORT.

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Regulatory Simplification

Action taken by the Board of Governors in 1982 to comply with the Financial Regulation Simplification Act of 1980 is reported here, as required by section 805 of that act. Also discussed are the Board's efforts under the Regulatory Flexibility Act and the Board's Statement of Policy Regarding Expanded Rulemaking Procedures. These acts and the Board's policy statement are intended to improve the regulatory process.

The Financial Regulation Simplification Act (Title VIII of the Depository Institutions Deregulation and Monetary Control Act of 1980) requires that each federal financial regulatory agency assure that its regulations impose no more burdens than are necessary, that they are adopted only after interested persons are heard, and that they are written simply and clearly. The act also requires each agency to establish a program of periodic review of its regulations to determine whether the regulations meet these objectives.

The following are examples of steps the Board has recently taken to meet statutory objectives and to carry out its policy statement.

Monetary Policy and Payments System

Reserve Requirements of Depository Institutions (Regulation D)

Since passage of the Monetary Control Act, the Board has deferred reserve and reporting requirements for nonmember depository institutions with total deposits of less than $2 million. In 1982, the Congress enacted legislation that would permanently exempt the first $2 million of a depository institution's reservable liabilities from reserve requirements, thereby exempting almost 25,000 institutions.

Whenever it could do so consistent with the needs of monetary policy, the Board attempted to ease the regulatory burden. Thus, before substituting a contemporaneous reserve accounting system for lagged reserve accounting, the Board sought estimates of the cost and complications institutions would incur in altering their systems for collecting and reporting information on deposits and in managing a contemporaneous system. Moreover, the Board delayed the change until February 1984, to permit institutions to make the necessary adjustments in their administrative and data processing procedures.

Collection of Checks and Other Items and Wire Transfers of Funds (Regulation J)

The Board proposed to amend Regulation J to reduce float by changing the schedule for payment of cash items on midweek closing days and nonstandard holidays. It also adopted an amendment to extend the times during which checks may be deposited for collection, in order to improve the speed and efficiency of the nation's payments mechanism. Institutions of all sizes will benefit substantially from the better funds availability that the program affords.

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Interest on Deposits (Regulation Q)

To implement the Garn-St Germain Depository Institutions Act of 1982, the Board amended Regulation Q in several ways. Banks were permitted to offer money market deposit accounts, with a limit of three checks per month, and Super NOW accounts, with unlimited transfers, both without interest rate ceilings provided that balances exceed $2,500. In addition, all governmental units may maintain NOW accounts.

Another amendment permitted member banks to issue all time deposits in book-entry form as an alternative to issuing certificates of deposit in definitive form, a change that should yield cost savings to depositors and institutions.

Banking Structure and Supervision

International Banking Operations (Regulation K)

Recently, the Board amended Regulation K to permit Edge corporations in the United States to offer certain investment advisory and management services, and thereby to remove a barrier to entry into new business fields. This change continues the policy established with the International Banking Act of 1978 of enhancing the organizational and operational flexibility with which U.S. banks can conduct international activities; that policy has emphasized upgrading the competitive capabilities of Edge corporations at home and abroad.

The Board also changed the procedures for establishing a U.S. branch of an Edge corporation and shortened certain investment notification periods from 60 to 45 days.

Management Official Interlocks (Regulation L)

The Board reviewed its experience under the new Regulation L and decided to take additional steps to lighten the regulatory burdens. Among other things, the proposed amendments would aid depository institutions, including small ones, that face a disruptive loss of management because of the Depository Institutions Management Interlocks Act. They also would relieve institutions of the need to apply for the statutory maximum grace period of 15 months in which to terminate any interlock that becomes prohibited because of changes in circumstances; the grace period is automatically granted to all affected institutions. The Board also implemented a statutory change preserving grandfather rights of current management officials for 10 years despite a change in circumstances.

Bank Holding Companies and Change in Bank Control (Regulation Y)

The Board has added to the list of permissible nonbanking activities in which bank holding companies may engage. The new activities are providing expanded data processing; acting as a futures commission merchant; offering securities discount brokerage (approved in early 1983); arranging equity financing with institutional lenders for income-producing property; consulting on management to thrift institutions; acquiring a troubled or failing savings and loan institution in another state; and offering information, advice, and transactions in connections with foreign exchange (approved in early 1983).

Staff work is continuing on a complete revision of Regulation Y under the Board's Regulatory Im-

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provement Project. This work has focused on eliminating applications whenever possible and improving System processing of applications that are still required. The redrafted regulation will incorporate essential statutory material and a number of Board rulings to make it self-contained and more useful.

The Board proposed guidelines, in the form of a policy statement, to be used to assess competitive factors under the Bank Holding Company Act and the Bank Merger Act. Such guidelines should aid applicants by fostering greater certainty and generally expediting the application process.

The Board published criteria for determining the primary capital status of mandatory convertible securities, to be used in connection with capital adequacy guidelines issued jointly by the Board and the Comptroller of the Currency in 1981.

Consumer and Community Affairs Regulations

Equal Credit Opportunity (Regulation B)

In response to industry requests for clarification, the Board adopted interpretations concerning the use of income from various sources in credit-scoring systems and the disclosure of creditors' reasons for adverse decisions. Also, the Board withdrew proposed amendments that would have subjected some business-credit transactions to all requirements related to adverse actions and retention of records.

Electronic Fund Transfers (Regulation E)

The Board adopted four amendments to grant relief to providers of EFT services. One amendment eliminates duplicate periodic statements for certain intrainstitutional transfers; a second exempts small institutions from provisions regulating preauthorized electronic transfers; and the others lift certain burdens from institutions that are members of debit–credit card networks.

Truth in Lending (Regulation Z)

The Board updated the Official Staff Commentary of Regulation Z, which has replaced 1,500 individual staff interpretations. The commentary is revised on a regular schedule to answer significant questions that have arisen during the preceding six months.

As indicated in the ANNUAL REPORT for 1981, the Board declined in February 1982 to adopt a proposed amendment that would have redefined "arranger of credit" so as to require real estate brokers to provide truth in lending disclosures to buyers of residential property when sellers are providing some or all of the financing. The Board asked the Congress to clarify the matter, and the Congress amended the Truth in Lending Act to exclude all arrangers of credit from disclosure requirements. Thus the Board did not need to define "arranging," and real estate brokers and sales persons involved with seller-financed transactions are spared the expense of complying with the regulation.

The Board also considered alternative disclosure requirements to deal with seller's points. The points paid by a seller to a creditor became an issue because of the widespread use and advertising of reduced-rate plans for financing purchases of homes and automobiles. The Board subsequently declined to amend the regu-

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lation because of doubts about the benefits to consumers and because of practical difficulties—notably, ensuring compliance in advertising and determining the influence of points on negotiated prices.

Securities Credit and Securities Activities

Securities Credit Regulations (Regulations G, T, U, and X)

As indicated in last year's ANNUAL REPORT, in January 1982 the Board adopted amendments to simplify and modernize Regulations G, T, and U. These actions should foster competition between banks and broker-dealers, reduce the compliance burden for brokers and dealers, and expand flexibility in making investment decisions. Proposals are under development to reorganize the account structure required at brokerage firms, among other things, and the regulations are being redrafted to embody terminology the industry now uses. These changes simplify and clarify various complex provisions and together with changes already made should save more than one million reporting hours. Public comment has been received on the completely rewritten Regulation T that incorporates these proposed changes, and the redrafting of Regulations G, U, and X is proceeding.

The Board amended these regulations to revise the criteria that over-the-counter stocks must meet initially and the criteria that they must continue to meet to remain on the Board's "List of OTC Margin Stocks." The amendments involved a mixture of relaxing and tightening changes, but none of the comments received indicated that the changes would have a significant economic impact on firms, whatever their size.

Credit by Brokers and Dealers (Regulation T)

As separate matters, the Board adopted two proposals that affect regulation of brokers and dealers. One permits brokers and dealers to use irrevocable letters of credit and other instruments as collateral when, in the ordinary course of business, they borrow or lend securities. This type of transaction arises from the need to complete short sales or to settle customer transactions when the broker has not yet received delivery of expected securities. Both brokers and customers view the use of letters of credit favorably, and such use can be expected to reduce the net cost of credit used by brokers and dealers in clearing transactions.

The other proposal that the Board adopted as an amendment to Regulation T permits private mortgage pass-through certificates to be used as collateral for margin credit. By treating these certificates as analogous to OTC bonds, the amendment should promote regulatory equality between broker-dealers and commercial banks. This amendment is not expected to have a significant adverse economic impact on a substantial number of small entities.

Stock Index Futures

The Board published advance notice of a proposal to establish a regulatory framework for imposing margin requirements for futures contracts based on stock indexes under Regulations G, T, and U. The notice solicited information helpful in designing a regulatory framework that presents the fewest operational problems, should federal regulation become necessary. The comments will be taken into consideration in the cur-

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rent joint agency study of federal margin regulations.

Membership of State Banking Institutions in the Federal Reserve System (Regulation H)

The Board, in conjunction with the other banking agencies and the Securities and Exchange Commission, revised form TA-1 for transfer agents for securities transactions to reduce substantially the information required.

Regulatory Impact Studies

The Board is engaged in a number of projects to assess the costs and burdens of regulations.

1. Working through the Survey Research Center of the University of Michigan, the Board conducted additional surveys of consumers' experience with depository institutions and prepared the questionnaire for a survey of the financial affairs of 5,000 consumers. Analysis of the results is expected to help guide Federal Reserve regulatory actions.

2. The Board sponsored a colloquium on the deregulation of product lines in banking that brought together representatives from financial institutions and the banking agencies. The proceedings of the colloquium are available from the Board.

3. The Board has undertaken a joint agency study regarding the scope and effectiveness of federal regulation of margin requirements. The other participating agencies are the Securities and Exchange Commission and the Commodities Futures Trading Commission. Federal authority in this area needs reexamination because the structure of financial markets has changed since margins were first regulated in 1934. The Board has noted that most contracts for financial futures and options, which have been introduced and grown rapidly in recent years, are bought and sold under a regulatory framework different from that in the cash markets, although the new instruments are partial substitutes for one with another and prices are related across markets. The Board has solicited public comment on specific areas in the study.

Regulatory Service and Other Informational Services

The Board continues to update the *Federal Reserve Regulatory Service*. A significant step in 1982 was the collection and publication of major Board and staff rulings under Regulation Y (Bank Holding Companies and Change in Bank Control). Previously, these rulings were not readily available.

The Board also continues to publish new educational materials. For example, a pamphlet, "Processing Bank Holding Company and Merger Applications," tells a holding company how to prepare and file an application with the System and explains the processing steps and timing once the application is filed. The pamphlet also outlines the factors that the Board considers in acting on holding company and merger applications.

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Federal Reserve Banks

Developments in the Payments Mechanism and in the Pricing of Federal Reserve Services

The pricing environment mandated by the Monetary Control Act of 1980 continued to have a significant impact on the activities of the Federal Reserve Banks in 1982. One of the basic goals of the act was a less costly, more effective payments mechanism. To achieve that goal the act required the Board to establish fee schedules for services provided by Reserve Banks to depository institutions. In the process, incentives have changed, and resources are being used more efficiently by both the Reserve Banks and private depository institutions.

During 1982, the Federal Reserve concentrated on (1) adjusting the structure and level of fees to reflect more accurately the cost of resources devoted to providing services, and (2) providing incentives for more efficient use of resources in payments services.

Commercial Check Collection

The total volume of commercial checks cleared by the Federal Reserve Banks declined approximately 12 percent from 1981 to 1982. The reduction was attributable largely to the re-emergence and expansion of local clearing arrangements following the advent of pricing, and to changing deposit patterns. Further, the business recession may have dampened check volume growth. Moreover, depository institutions sought ways that were more cost-effective to clear checks through the Federal Reserve—for example, by taking advantage of the generally lower prices for collection of checks that are completely sorted as to payor bank. Because these shifts in volume were greater than anticipated, revenues were not so large as expected.

After six months of experience with charging for check collection services, several adjustments in prices were made. Effective April 1, 1982, the fee for completely sorted checks was separated into two components: a fee for each item and a fee for the deposit as a whole. In addition, prices were raised for nonmachinable items and for deposits of unsorted checks.

The Federal Reserve also sought in 1982 to accelerate the collection of checks. In August the Board published for comment a proposed program designed to improve funds availability to institutions that deposit checks for collection through the System. After careful consideration of the issues raised in the comments it received, the Board in December adopted a program that was revised, among other reasons, to take into account the concerns of depository institutions of all sizes. Under this program, which was scheduled to become effective in February 1983, institutions may deposit checks for collection later in the day at Federal Reserve offices, and the Reserve Banks will phase in a schedule for presentment of checks to payor institutions later in the

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business day. The later deadlines should facilitate faster collection of checks, especially those that are deposited at institutions some distance away from the institution on which they are drawn.

Wire Transfer of Funds and Net Settlement

The volume of wire transfers of funds grew 15 percent in 1982; it averaged more than 2.9 million transfers per month. The installation of terminals at depository institutions to originate and receive wire transfers through the Federal Reserve continued during the year. This spread of terminals is expected to improve further the efficiency of the system.

The initial schedules of fees for wire transfers and net settlement became effective early in 1981. After considerable review of alternative fee structures and of the costs of providing the service, the Board revised those fee schedules, effective April 29, 1982. The principal change imposed fees on the receivers, as well as on the originators, of all wire transfers. Previously, receivers paid fees only for transfers on which they requested notice.

Automated Clearinghouse Service

The volume of transactions through automated clearinghouses (ACHs) expanded approximately 16 percent during 1982, mostly because of the increase in commercial transactions. In their efforts to enhance the commercial ACH service, the Reserve Banks plan to expand the night-cycle service during 1983 to accommodate applications other than cash-concentration transfers. The Banks also will cooperate with the private sector to facilitate electronic payments among corporations through ACHs. These enhancements to the ACH service will promote efficiency in the payments mechanism by encouraging more rapid and less costly methods of payment.

When it adopted the initial fee schedule, effective August 1981, the Board recognized that the full potential for an ACH service had not been realized. To encourage the use of the ACH service, the Board set a fee schedule that assumed a mature volume of transactions, which was expected to be achieved in about five years.

In April 1982, the Board announced a plan for ending its incentive pricing policy for the ACH service. Support for ACH prices will be reduced gradually over several years so that the fees established in 1985 should fully recover the production costs of the service plus the private sector adjustment factor (PSAF). This adjustment is the imputed cost that accounts for the taxes that would have been paid and the return on capital that would have been provided had the services been furnished by a private-sector firm. A revised schedule announced in November 1982 set fees designed to recover 40 percent of costs plus the PSAF, in accordance with the support program announced earlier in the year. In addition, the structure of fees was altered to set (1) separate fees for day-cycle and night-cycle processing in recognition of cost differentials, and (2) higher day-cycle fees for credits than for debits in recognition of the benefits that accrue to receivers of credits.

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Coin and Currency Services

The initial fee schedule for the *cash transportation* service became effective on January 28, 1982. To ease the burden of adjustment to full-cost pricing of cash transportation for institutions in remote areas, the Board established maximum fees to be charged to individual institutions. It also determined to review this price-support program at year-end, and if it were to extend the program at that time, to do so for no longer than one year. In that review, on December 27, the Board increased the maximum fees for the cash transportation service and affirmed its commitment to terminate the program of support at the end of 1983, in view of the shifts in transportation arrangements and new efforts in the private sector toward more efficient distribution of coin and currency. The Board also endorsed a uniform accounting approach for cash shipments, effective July 1, 1983, and revised guidelines for the structure of cash transportation fees, effective January 27, 1983.

The initial fee schedule for the *coin wrapping* service also became effective on January 28, 1982. At that time, only two Reserve Banks offered the service. During the year, however, three more Banks began offering it, and others were expected to participate in 1983.

Securities Services

The initial fee schedule for all securities services offered by Federal Reserve Banks to depository institutions became effective October 1, 1981. Since that time, in anticipation of repricing the services, the System has devoted considerable effort to analyzing the response to explicit pricing, to considering potential service enhancements, and to reviewing costs.

The Board published a proposed fee schedule for *book-entry* services for comment late in 1982, before acting on a revised fee schedule expected to become effective in the second quarter of 1983. The proposed fees were higher than those contained in the initial schedule. Part of the proposal was the establishment of a fee per issue.

During 1982, improvements were made in the schedule of credit availability for past-due items in the *noncash collection* service. Several actions were also taken to expedite the collection process for *definitive securities*, and to contain the costs of providing the service. Despite these improvements, which appeared to make the services more attractive, throughout 1982 the System continued to experience declines in volume for most of the definitive securities services offered by the Reserve Banks. After adjustment for the drop in volume, however, the float associated with definitive securities services declined markedly as a result of the service improvements.

Float

Continuing the trend that began in 1980, Federal Reserve float declined to a daily average of $2.3 billion in 1982, primarily because of further operational improvements at the Reserve Banks. Those improvements were part of a program announced by the Board in 1980, whose purpose was to reduce Federal Reserve float, through operational improvements, before its pricing. Since the inception

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of the program, nearly two-thirds of System float has been eliminated.

In November 1982, the Board published for comment three proposals related to the remaining float: (1) changes in crediting procedures that Reserve Banks use for interterritory check shipments; (2) a charge to the Reserve Bank account of the depositing institution for a returned interterritory check in the amount of $50,000 or more on the day the Federal Reserve gives credit to the returning payor institution; and (3) the explicit pricing of intraterritory float. The Board will review comments on these proposals and expects to take final action during the first quarter of 1983.

Work is under way on proposals for the most cost-effective approaches to eliminating or pricing the remaining Federal Reserve float. The Board expects to review such proposals in 1983.

Administrative Matters

On November 22, 1982, the Board announced changes in the Federal Reserve's procedures for administering *clearing balances*. The changes, which were to take effect in early 1983, permit any depository institution to establish a clearing balance. Other changes adopted by the Board simplify requirements for clearing balances for smaller institutions.

On December 17, 1982, the Board adopted a *private sector adjustment factor* of 16 percent for 1983 pricing purposes. Although based on more recent data, the new PSAF is the same as that in 1982.

Financial Performance

The Monetary Control Act directs the Federal Reserve to set fees that, over the long run, are based on (1) all the direct and indirect costs of providing services, and (2) an imputed cost (represented by the PSAF) that accounts for the taxes that would have been paid and the return on capital that would have been provided had the services been furnished by a private-sector firm.

For 1982, the total revenue from pricing of services was $421.6 million and the total expense of providing them was $456.8 million. Thus expenses exceeded revenue by $35.2 million. Including the PSAF, the expenses exceeded revenue by $90.9 million. Two adjustments can be made to the 1982 results: (1) for the incentive pricing program for the ACH service, which anticipated recovery of only 20 percent of production costs plus the PSAF through pricing; and (2) for the price support program in the cash transportation service. After the effect of these programs, pro forma net revenue after the private sector adjustment was −$78.8 million. Table 10 in the Statistical Tables section of this REPORT shows the revenue and expense by major categories of priced services.

The revenues for Federal Reserve services tend to be sensitive to the volume of use because most of the services are priced per item or per transaction. In contrast, the costs of providing services do not respond readily to changes in volume. Early in 1982, projected revenue for the year fell short of projected costs plus the PSAF by a considerable margin, because the actual volume fell short of expectations, especially in some of the check and securities services, and because the redistribution of volume across services was not fully anticipated. Changes in the fee

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schedules for wire transfers, net settlement, and some check services, announced before mid-1982, mitigated the revenue shortfall somewhat. The fee schedules for other services were not revised so readily because of the complexities of the issues associated with such revisions. Through efforts to contain costs and to improve their services, however, the Federal Reserve Banks made substantial progress in reducing the shortfall over the course of 1982 so that by the fourth quarter, the production costs of providing services were recovered through pricing revenues, although not the full PSAF. Initiatives are well under way to eliminate the remaining shortfall; and the Board expects that by the end of 1983, the second full year of experience with pricing services, pro forma net revenue adjusted for the programs that support the ACH and cash transportation services will reflect the recovery of direct and indirect costs, including the private sector adjustment.

Examination

The Board's Division of Federal Reserve Bank Operations examined the 12 Reserve Banks and their 25 branches during 1982, 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 the accounts and holdings related to the Federal Reserve 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 furnished copies of these reports to the Committee. The procedures that were 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 annually.

Income and Expenses

The accompanying table summarizes the income, expenses, and distribution of net earnings of the Federal Reserve Banks for 1982 and 1981.

Current income, at $16,517 million in 1982, was $1,009 million higher than in 1981. The principal change was an increase of $942 million in income on U.S. government obliga-

Income, Expenses, and Distribution of Net Earnings of Federal Reserve Banks, 1982 and 1981

Thousands of dollars

Item	1982	1981
Current income	16,517,385	15,508,350
Operating expenses	1,024,475	901,120
Current net income	15,492,910	14,607,230
Net deduction from current net income	68,833	368,873
Assessments for expenditures of Board of Governors	61,813	63,163
Net income before payments to U.S. Treasury	15,362,264	14,175,194
Dividends paid	79,352	74,574
Payments to U.S. Treasury (interest on Federal Reserve notes)	15,204,591	14,023,723
Transferred to surplus	78,320	76,897

1. Operating expenses include $4 million and $29 million in earnings credits granted to depository institutions in 1981 and 1982 respectively. In 1981, the cost of earnings credits was reported as a deduction from current net income.

NOTE. Details may not add to totals because of rounding.

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tions. Income from priced services amounted to $387 million.

Operating expenses were $1,024 million, including $28 million of earnings credits granted to depository institutions. Assessments for expenditures of the Board of Governors totaled $62 million.

The profit and loss account showed a net deduction of $69 million, principally because of an unrealized loss of $150 million on assets denominated in foreign currencies related to revaluation to market exchange rates, and a gain of $85 million on sales of U.S. government obligations.

Statutory dividends to member banks totaled $79 million, $4 million more than in 1981. This rise reflected an increase in the capital and surplus of member banks and a consequent increase in the paid-in capital stock of the Federal Reserve Banks.

Payments to the U.S. Treasury as interest on Federal Reserve notes totaled $15,205 million for the year, compared with $14,024 million in 1981. This amount consists of all net income after dividends and the amount necessary to bring surplus to the level of paid-in capital.

A detailed statement of the income and expenses of each Federal Reserve Bank during 1982 is shown in table 7, and a condensed historical statement appears in table 8, in the Statistical Tables section of this REPORT. A detailed statement of assessments and expenditures of the Board of Governors appears in "Financial Statements," pages 201–06.

Federal Reserve Bank Premises

During 1982, the Baltimore Branch occupied its new quarters and sold the vacated building and property. With the approval of the Board of Governors, the Omaha Branch acquired property for a future building site; and the Birmingham Branch acquired adjacent property for projected expansion.

Table 6, in the Statistical Tables section of this REPORT, shows the cost and book values of premises owned or occupied by the Federal Reserve Banks and branches, and of real estate acquired for future banking-house purposes.

Securities and Loans of Federal Reserve Banks, 1980–82

Millions of dollars except as noted

Item and year	Total	U.S. government securities[1]	Loans	Acceptances
Average daily holdings [2]				
1980	129,750	128,196	1,420	134
1981	132,238	130,754	1,363	121
1982	140,968	139,772	1,047	149
Earnings				
1980	12,673	12,479	176	18
1981	14,766	14,551	196	19
1982	15,697	15,504	175	18
Average interest rate (percent)				
1980	9.77	9.73	12.39	13.43
1981	11.17	11.13	14.38	15.70
1982	11.14	11.09	16.71	12.08

1. Includes federal agency obligations.

2. Based on holdings at opening of business.

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Holdings of Securities and Loans

The accompanying table presents holdings, earnings, and average interest rates on securities and loans of the Federal Reserve Banks during the past three years.

Average daily holdings of securities and loans during 1982 amounted to $140,968 million, an increase of $8,730 million over 1981. Holdings of U.S. government securities increased $9,018 million; loans decreased $316 million; and acceptances increased $28 million.

The average rates of interest on holdings decreased from 11.13 to 11.09 percent on U.S. government securities; increased from 14.38 to 16.71 percent on loans; and decreased from 15.70 to 12.08 percent on acceptances.

Volume of Operations

Table 9 in the Statistical Tables section of this REPORT shows the volume of operations in the principal departments of the Federal Reserve Banks for 1979–82.

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Board of Governors

Financial Statements

The financial statements of the Board for the years 1982 and 1981 were examined by Arthur Andersen & Co., independent public accountants.

AUDITORS' REPORT

To the Board of Governors of the
Federal Reserve System:

We have examined the balance sheets of the Board of Governors of the Federal Reserve System as of December 31, 1982 and 1981, and the related statements of assessments and expenditures and changes in financial position for the years then ended. Our examinations were 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 financial statements referred to above present fairly the financial position of the Board of Governors of the Federal Reserve System as of December 31, 1982 and 1981, 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.

Arthur Andersen & Co.

Washington, D.C.,
February 18, 1983.

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

BALANCE SHEETS

ASSETS	As of December 31, 1982	1981
OPERATING FUND		
Cash	$ 4,613,805	$ 6,164,961
Receivables and advances	554,928	634,532
Stockroom and cafeteria inventories at lower of cost (first-in, first-out) or market	257,495	240,040
Deferred publication costs (Note 3)	—	334,562
Total operating fund	5,426,228	7,374,095
PROPERTY FUND, at cost (Note 1)		
Land and improvements	1,301,314	1,301,314
Buildings	61,056,512	60,787,084
Furniture and equipment	8,636,512	8,085,073
Computer equipment	6,845,572	5,893,872
Total property fund	77,839,910	76,067,343
	$ 83,266,138	$ 83,441,438
LIABILITIES AND FUND BALANCES		
OPERATING FUND		
Liabilities		
Accounts payable	$ 4,328,675	$ 2,484,847
Accrued payroll and related taxes	1,466,018	1,372,466
Accrued annual leave (Note 1)	3,074,671	2,694,966
	8,869,364	6,552,279
Commitments and contingencies (Notes 2 and 4)		
Fund balance (Note 1)		
Balance, beginning of year	821,816	(2,809,658)
Assessments (under) over funded expenditures and unfunded accrued annual leave	(4,264,952)	3,631,474
Balance, end of year	(3,443,136)	821,816
Total operating fund	5,426,228	7,374,095
PROPERTY FUND (Note 1)		
Fund balance		
Balance, beginning of year	76,067,343	75,262,877
Additions—at cost	1,808,096	852,955
Disposals—at cost	(35,529)	(48,489)
Total property fund	77,839,910	76,067,343
	$ 83,266,138	$ 83,441,438

The accompanying notes are an integral part of these balance sheets.

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENTS OF ASSESSMENTS AND EXPENDITURES

	For the years ended December 31,	
	1982	1981
ASSESSMENTS LEVIED ON FEDERAL RESERVE BANKS (Note 1)		
For Board expenses and property additions	$ 61,813,400	$ 63,162,700
For expenditures made on behalf of the Federal Reserve Banks for printing, issuance, and redemption of Federal Reserve notes	85,766,269	84,859,336
Total assessments	147,579,669	148,022,036
FUNDED EXPENDITURES (Note 1)		
Board expenses		
Salaries	43,874,292	41,014,846
Retirement and insurance contributions (Note 2)	7,598,440	6,227,869
Travel	1,765,093	1,591,343
Contractual services	1,316,441	1,179,604
Printing and binding	1,289,216	1,791,588
Heat, light, and power	1,268,450	1,273,657
Equipment, office space, and other rentals (Note 4)	1,228,791	867,466
Telephone and telegraph	1,038,630	862,981
Repairs and maintenance	982,601	788,394
Postage	906,766	655,030
Stationery, office, and other supplies	626,559	560,350
Cafeteria operations, net	476,168	442,897
Professional fees	386,917	347,152
Books and subscriptions	248,829	173,693
Other	889,123	690,950
	63,896,316	58,467,820
Board property additions, net of recoveries on disposals of $5,765 in 1982 and $4,893 in 1981 (Note 1)	1,802,331	848,062
Expenditures for printing, issuance, and redemption of Federal Reserve notes on behalf of the Federal Reserve Banks (Note 1)	85,766,269	84,859,336
Total funded expenditures	151,464,916	144,175,218
Assessments (under) over funded expenditures	(3,885,247)	3,846,818
UNFUNDED ACCRUED ANNUAL LEAVE (Note 1)	379,705	215,344
ASSESSMENTS (UNDER) OVER FUNDED EXPENDITURES AND UNFUNDED ACCRUED ANNUAL LEAVE	$ (4,264,952)	$ 3,631,474

The accompanying notes are an integral part of these statements.

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENTS OF CHANGES IN FINANCIAL POSITION

	For the years ended December 31,	
	1982	1981
Sources of Funds		
Assessments levied for Board expenses and property additions	$ 61,813,400	$ 63,162,700
Assessments levied for expenditures made on behalf of the Federal Reserve Banks	85,766,269	84,859,336
Recoveries from disposals of property	5,765	4,893
Increase in accounts payable, accrued payroll and related taxes	1,937,380	836,495
Decrease in receivables, inventories, and deferred costs	396,711	570,458
Total sources	149,919,525	149,433,882
Applications of Funds		
Board expenses	63,896,316	58,467,820
Expenditures for printing, issuance, and redemption of Federal Reserve notes on behalf of the Federal Reserve Banks	85,766,269	84,859,336
Additions to property		
Land and improvements	—	3,485
Buildings	269,428	451,216
Furniture and equipment	586,968	397,224
Computer equipment	951,700	1,030
Total applications	151,470,681	144,180,111
(Decrease) Increase in Cash	(1,551,156)	5,253,771
Cash Balance, beginning of year	6,164,961	911,190
Cash Balance, end of year	$ 4,613,805	$ 6,164,961

The accompanying notes are an integral part of these statements.

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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1982 AND 1981

(1) SIGNIFICANT ACCOUNTING POLICIES

In preparing its financial statements, the Board of Governors of the Federal Reserve System (the Board) has applied accounting principles which, in management's opinion, best reflect its financial position and results of operations. These accounting principles include certain principles which are generally accepted for organizations in the private sector and also certain principles which are generally accepted for governmental units. A summary of significant accounting policies is shown below.

Assessments, Board Expenses, and Property Additions—Assessments made on the Federal Reserve Banks for Board expenses and additions to property are calculated based upon expected cash needs. Assessments, Board expenses, and property additions are recorded on the accrual basis of accounting.

Assessments and Expenditures Made on Behalf of the Federal Reserve Banks—Assessments and expenditures made on behalf of the Federal Reserve Banks for the printing, issuance, and redemption of Federal Reserve notes are recorded on the cash basis. This treatment produces results which are not materially different from those which would have been produced using the accrual basis of accounting.

Property—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 of expense in the Operating Fund in the year of disposal. When property is acquired or sold, the property asset accounts and the balance in the property fund account are increased or decreased at cost.

Employee Annual Leave—In accordance with Statement of Financial Accounting Standards No. 43, "Accounting for Compensated Absences," the Board records the liability for employees' rights to receive compensation for annual leave in the accompanying Balance Sheets. In addition, the incremental expense for this liability is separately presented in the accompanying Statements of Assessments and Expenditures since it is not funded currently by assessments levied on the Federal Reserve Banks.

(2) RETIREMENT PLANS

There are two major retirement plans for employees of the Board. Approximately 83 percent of the employees are covered by the Federal Reserve Board Plan. Substantially all new members of the staff who do not come directly from a position in the federal government are covered by this plan. The second plan, the Civil Service Retirement Plan, covers all new employees who come directly from federal government service. Employee contributions are the same percentage of salary under both plans, and benefits are similar, being based upon the Civil Service Plan.

Under the Civil Service Plan, the Board's contributions directly match employee payroll deductions. Under the Federal Reserve Board Plan, the Board's contributions for active employees are actuarially determined and are funded in the current period.

The Board's contributions to the retirees' Cost-of-Living Adjustment (COLA) totaled $1,937,000 in 1982 and $878,000 in 1981. The increase in the level of these contributions was primarily attributed to a change in policy. Consistent with federal government action taken in 1981, the Board changed its method of computing the retirees' COLA from a semiannual basis to an annual basis. Because it was the year of transition, however, the 1981 COLA only reflected the change in the consumer price index that occurred during the six months ended December 31, 1980. In 1982, the COLA reflected the change in the consumer price index that occurred during the twelve months ended December 31, 1981.

Additionally, employees of the Board participate in the Federal Reserve System's Thrift Plan. Under this plan, the Board contributes a fixed percentage of allowable employee savings to employee savings accounts.

Board contributions to the retirement plans and the Thrift Plan totaled approximately $6,384,000 in 1982 and $5,338,000 in 1981.

As of January 1, 1982 and 1981 (the dates of the most recent actuarial reviews), the accumulated plan benefits for the Federal Reserve Board Plan were as follows.

	As of January 1,	
	1982	1981
Actuarial present value of accumulated plan benefits		
Vested	$44,679,000	$43,931,000
Nonvested	2,550,000	2,791,000
	$47,229,000	$46,722,000

The assumed rate of return used in determining the present value of accumulated plan benefits was 10 percent in 1982 and 9 percent in 1981.

As of January 1, 1982 and 1981, net assets available for plan benefits exceeded the actuarial present value of accumulated plan benefits.

(3) FEDERAL RESERVE REGULATORY SERVICE

The Board began publication of the *Federal Reserve Regulatory Service* in 1981. This monthly looseleaf service contains Board regulations, interpretations, staff rulings, and other regulatory materials. The service is distributed without charge throughout the Federal Reserve System. It is also sold to depository institutions, legal firms, and others. Subscription revenues in the amount of $844,000 and $711,000 were generated in 1982 and 1981, respectively. These revenues were used to offset prior year's deferred publication costs and current year publication costs.

(4) COMMITMENTS AND CONTINGENCIES

The Board leases office and computer equipment and office and storage space under leases which may generally be terminated within one year. At Decem-

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ber 31, 1982, fixed future rental commitments were approximately $1,252,000 for 1983.

The Board has been named as a defendant in litigation involving challenges to, or appeals from, actions or proposed actions of the Board pursuant to statutory requirement or authorization. Such lawsuits generally seek injunctive or declaratory relief against the Board rather than monetary awards. It is the opinion of Board counsel that lawsuits involving monetary awards do not represent a material liability to the Board.

The Board is self-insured with regard to (1) a group term life and accident insurance plan for Board officers and (2) losses of its building and equipment from fire or other casualties. Coverage for other customarily insured risks, such as workers' compensation and comprehensive general liability, is carried by the Board.

(5) FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

The Board is one of five member agencies of the Federal Financial Institutions Examination Council (the Council). During 1982 and 1981, the Board paid $175,000 and $114,000, respectively, in assessments for operating expenses of the Council.

The Board serves as custodian for the Council's cash. (This cash is not reflected in the accompanying financial statements.) It also processes accounting transactions, including payroll for most employees, and performs other administrative services for the Council which are reimbursed.

The Board is not reimbursed for the costs of personnel who serve on the Council and on the various task forces and committees of the Council. The costs associated with these contributed services are included in the accompanying financial statements.

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Statistical Tables

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1. Detailed Statement of Condition of All Federal Reserve Banks Combined, December 31, 1982

Thousands of dollars

Assets

Item				
Gold certificate account				**11,147,909**
Special drawings rights certificate account				**4,618,000**
Coin				**439,297**
Loans and securities				
Loans to depository institutions			**714,833**	
Acceptances held under repurchase agreement			**1,479,978**	
Federal agency obligations				
Bought outright			**8,936,836**	
Held under repurchase agreement			**587,795**	
U.S. government securities				
Bought outright				
Bills	**54,425,660**			
Notes	**62,625,895**			
Bonds	**18,555,734**			
Total bought outright		**135,607,289**		
Held under repurchase agreement		**3,704,305**		
Total U.S. government securities			**139,311,594**	
Total loans and securities				**151,031,036**
Cash items in process of collection				
Transit items			11,295,950	
Other cash items			1,694,151	
Total cash items in process of collection				**12,990,101**
Bank premises				
Land			90,322	
Buildings (including vaults)		350,982		
Building machinery and equipment		131,762		
Construction account		128,676		
Total bank premises		611,420		
Less depreciation allowance		152,960	458,460	
Bank premises, net				**548,782**
Other assets				
Furniture and equipment		275,679		
Less depreciation		96,729		
Total furniture and equipment, net			178,950	
Denominated in foreign currencies[1]			5,764,470	
Interest accrued			2,315,022	
Premium on securities			386,759	
Due from Federal Deposit Insurance Corporation			285,333	
Overdrafts			64,504	
Prepaid expenses			59,123	
Suspense account			139,683	
Real estate acquired for banking-house purposes			14,832	
All other			137,167	
Total other assets				**9,345,844**
Total assets				**190,120,970**

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1.—Continued

LIABILITIES

Item		
Federal Reserve notes		
Outstanding (issued to Federal Reserve Banks)	159,979,052	
Less held by Federal Reserve Banks	17,989,453	
Total Federal Reserve notes, net		**141,989,599**
Deposits		
Depository institutions		**26,491,873**
U.S. Treasury—general account		**5,033,451**
Foreign—official accounts		**328,280**
Other deposits		
Collected funds due to other Federal Reserve Banks	1,438,718	
Officers' and certified checks	55,681	
International organizations	109,498	
All other[2]	874,047	
Total other deposits		**2,477,944**
Deferred availability cash items		**8,813,035**
Other liabilities		
Exchange-translation account	−171,901	
Unearned discount	1,412	
Discount on securities	2,060,878	
Sundry items payable	38,528	
Suspense account	338,080	
All other	4,893	
Total other liabilities		**2,271,890**
Total liabilities		**187,406,071**
CAPITAL ACCOUNTS		
Capital paid in		**1,357,449**
Surplus		**1,357,449**
Other capital accounts[3]		
Total liabilities and capital accounts		**190,120,970**

1. Of this amount, $1,404.0 million was invested in securities issued by foreign governments, and the balance was invested with foreign central banks and the Bank for International Settlements. Amount shown includes $1,291.8 million in foreign currencies warehoused for U.S. Treasury.
2. In closing out the other capital accounts at year-end, the Reserve Bank earnings that are payable to the Treasury are included in this account pending payment.
3. During the year, this item includes undistributed net income, which is closed out on Dec. 31; see table 7 in the Statistical Tables section of this REPORT.

NOTE. Amounts in boldface type indicate items in the Board's weekly statement of condition of the Federal Reserve Banks.

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2. Statement of Condition of Each Federal Reserve Bank, December 31, 1982 and 1981

Millions of dollars

Item	Total		Boston		New York		Philadelphia		Cleveland		Richmond	
	1982	1981	1982	1981	1982	1982	1982	1981	1982	1981	1982	1981
ASSETS												
Gold certificate account	11,148	11,151	570	1,017	3,212	3,160	554	531	744	805	967	1,147
Special drawing rights certificate account	4,618	3,318	241	165	1,335	951	225	141	302	253	408	288
Coin	438	377	26	20	32	18	13	19	48	38	51	46
Loans												
To depository institutions	717	1,604	15	77	90	559	101	212	19	19	108	102
Other	0	0	0	0	0	0	0	0	0	0	0	0
Acceptances held under repurchase agreements	1,480	195	0	0	1,480	195	0	0	0	0	0	0
Federal agency obligations												
Bought outright	8,937	9,125	413	388	2,811	2,657	298	327	590	662	758	729
Held under repurchase agreements	588	269	0	0	588	269	0	0	0	0	0	0
U.S. government securities												
Bought outright[1]	135,607	127,738	6,265	5,437	42,656	37,188	4,519	4,571	8,950	9,274	11,506	10,198
Held under repurchase agreements	3,705	3,216	0	0	3,705	3,216	0	0	0	0	0	0
Total loans and securities	**151,034**	**142,147**	**6,693**	**5,902**	**51,330**	**44,084**	**4,918**	**5,110**	**9,559**	**9,955**	**12,372**	**11,029**
Cash items in process of collection	13,000	10,636	345	313	1,630	705	299	397	497	383	1,723	1,730
Bank premises	549	498	97	98	25	23	51	52	27	27	110	99
Other assets												
Denominated in foreign currencies[2]	5,764	5,129	150	141	1,436	1,386	236	191	432	397	300	256
All other	3,577	3,592	144	125	1,358	1,296	107	140	191	197	259	222
Interdistrict Settlement Account	0	0	+101	+287	+871	+656	+364	−256	−1,322	−1,066	−307	+562
Total assets	**190,128**	**176,848**	**8,367**	**8,068**	**61,229**	**52,279**	**6,767**	**6,325**	**10,478**	**10,989**	**15,883**	**15,379**

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LIABILITIES												
Federal Reserve notes	141,990	131,906	7,191	6,995	44,812	39,633	5,560	5,287	8,823	8,972	12,411	12,046
Deposits												
Depository institutions	26,489	25,228	676	602	8,882	5,075	816	664	1,051	1,259	1,322	1,301
U.S. Treasury—General account	5,033	4,301	0	0	5,033	4,301	0	0	0	0	0	0
Foreign—Official accounts	328	505	5	9	170	267	9	12	16	25	11	16
Other	2,484	791	25	12	587	540	21	10	41	20	65	31
Total deposits	**34,334**	**30,825**	**706**	**623**	**14,672**	**10,183**	**846**	**686**	**1,108**	**1,304**	**1,398**	**1,348**
Deferred-availability cash items	8,814	8,800	306	278	485	949	173	159	215	339	1,478	1,656
Other liabilities and accrued dividends[3]	2,272	2,759	94	106	596	876	68	89	134	182	452	197
Total liabilities	**187,410**	**174,290**	**8,297**	**8,002**	**60,565**	**51,641**	**6,647**	**6,221**	**10,280**	**10,797**	**15,739**	**15,247**
CAPITAL ACCOUNTS												
Capital paid in	1,359	1,279	35	33	332	319	60	52	99	96	72	66
Surplus	1,359	1,279	35	33	332	319	60	52	99	96	72	66
Other capital accounts	0	0	0	0	0	0	0	0	0	0	0	0
Total liabilities and capital accounts	**190,128**	**176,848**	**8,367**	**8,068**	**61,229**	**52,279**	**6,767**	**6,325**	**10,478**	**10,989**	**15,883**	**15,379**
FEDERAL RESERVE NOTE STATEMENT												
Federal Reserve notes outstanding (issued to Bank)	159,979	151,033	8,050	7,885	47,896	43,654	7,546	7,374	9,463	9,882	13,708	13,348
LESS: Held by Bank[4]	17,989	19,127	859	890	3,084	4,021	1,986	2,087	640	910	1,297	1,302
Federal Reserve notes, net[5]	141,990	131,906	7,191	6,995	44,812	39,633	5,560	5,287	8,823	8,972	12,411	12,046
Collateral for Federal Reserve notes												
Gold certificate account	11,148	11,151	570	1,017	3,212	3,160	554	531	744	805	967	1,147
Special drawing rights certificate account	4,618	3,318	241	165	1,335	951	225	141	302	253	408	288
Other eligible assets	107	0	0	0	0	0	0	0	0	0	0	0
U.S. government and agency securities	126,717	117,437	6,380	5,813	40,265	35,522	4,781	4,615	7,777	7,914	11,036	10,611
Total collateral	**141,990**	**131,906**	**7,191**	**6,995**	**44,812**	**39,633**	**5,560**	**5,287**	**8,823**	**8,972**	**12,411**	**12,046**

For notes see end of table.

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2. Statement of Condition of Each Federal Reserve Bank, December 31, 1982 and 1981—Continued

Millions of dollars

Item	Atlanta		Chicago		St. Louis		Minneapolis		Kansas City		Dallas		San Francisco	
	1982	1981	1982	1981	1982	1981	1982	1981	1982	1981	1982	1981	1982	1981
ASSETS														
Gold certificate account	402	436	1,476	1,171	418	450	154	189	675	534	743	628	1,233	1,083
Special drawing rights certificate account	161	98	646	519	170	129	61	48	241	154	310	192	518	380
Coin	44	43	26	23	25	29	19	17	44	31	32	26	78	67
Loans														
To depository institutions	8	44	83	399	88	49	9	11	33	60	160	57	3	15
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Acceptances held under repurchase agreements	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Federal agency obligations														
Bought outright	227	290	1,268	1,393	301	338	113	136	422	417	606	571	1,130	1,217
Held under repurchase agreements	0	0	0	0	0	0	0	0	0	0	0	0	0	0
U.S. government securities														
Bought outright[1]	3,452	4,059	19,246	19,501	4,565	4,734	1,709	1,911	6,406	5,842	9,192	7,992	17,141	17,031
Held under repurchase agreements	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total loans and securities	**3,687**	**4,393**	**20,597**	**21,293**	**4,954**	**5,121**	**1,831**	**2,058**	**6,861**	**6,319**	**9,958**	**8,620**	**18,274**	**18,263**
Cash items in process of collection	1,664	1,571	923	1,011	677	632	688	451	1,366	1,212	1,404	1,528	1,784	703
Bank premises	34	34	19	17	15	14	27	28	24	22	16	14	104	70
Other assets														
Denominated in foreign currencies[2]	438	377	813	738	167	151	213	161	259	216	375	306	945	809
All other	117	151	434[6]	468[6]	99	135	62	52	165	141	203	254	438	411
Interdistrict Settlement Account	−278	−434	−158	−930	+742	−730	−275	−211	+873	+767	+91	+1,542	−702	−187
Total assets	**6,269**	**6,669**	**24,776**	**24,310**	**7,267**	**5,931**	**2,780**	**2,793**	**10,508**	**9,396**	**13,132**	**13,110**	**22,672**	**21,599**

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Item	1	2	3	4	5	6	7	8	9	10	11	12	13	14
LIABILITIES														
Federal Reserve notes	3,295	3,142	20,612	19,534	4,630	4,532	1,758	1,463	7,851	6,652	9,317	8,666	15,730	14,984
Deposits														
Depository institutions	1,647	1,842	2,854	3,358	477	662	414	764	1,224	1,422	2,408	2,930	4,718	5,349
U.S. Treasury—General account	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Foreign—Official accounts	16	24	30	47	6	10	8	10	9	14	14	20	34	51
Other	31	8	114	78	1,408	17	22	3	36	15	46	22	88	35
Total deposits	**1,694**	**1,874**	**2,998**	**3,483**	**1,891**	**689**	**444**	**777**	**1,269**	**1,451**	**2,468**	**2,972**	**4,840**	**5,435**
Deferred-availability cash items	1,007	1,360	508	554	603	544	452	420	1,168	1,064	1,024	1,149	1,395	328
Other liabilities and accrued dividend[3]	55	99	288	379	67	92	28	39	96	115	135	155	259	430
Total liabilities	**6,051**	**6,475**	**24,406**	**23,950**	**7,191**	**5,857**	**2,682**	**2,699**	**10,384**	**9,282**	**12,944**	**12,942**	**22,224**	**21,177**
CAPITAL ACCOUNTS														
Capital paid in	109	97	185	180	38	37	49	47	62	57	94	84	224	211
Surplus	109	97	185	180	38	37	49	47	62	57	94	84	224	211
Other capital accounts	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total liabilities and capital accounts	**6,269**	**6,669**	**24,776**	**24,310**	**7,267**	**5,931**	**2,780**	**2,793**	**10,508**	**9,396**	**13,132**	**13,110**	**22,672**	**21,599**
FEDERAL RESERVE NOTE STATEMENT														
Federal Reserve notes outstanding (issued to Bank)	5,522	5,270	22,048	21,111	5,440	5,546	2,206	1,995	8,974	7,891	11,047	10,121	18,079	16,956
LESS: Held by Bank[4]	2,227	2,128	1,436	1,577	810	1,014	448	532	1,123	1,239	1,730	1,455	2,349	1,972
Federal Reserve notes, net[5]	3,295	3,142	20,612	19,534	4,630	4,532	1,758	1,463	7,851	6,652	9,317	8,666	15,730	14,984
Collateral notes for Federal Reserve notes														
Gold certificate account	402	436	1,476	1,171	418	450	154	189	675	534	743	628	1,233	1,083
Special drawing rights certificate account	161	98	646	519	170	129	61	48	241	154	310	192	518	380
Other eligible assets	0	0	0	0	0	0	0	0	107	0	0	0	0	0
U.S. government and agency securities	2,732	2,608	18,490	17,844	4,042	3,953	1,543	1,226	6,828	5,964	8,264	7,846	13,979	13,521
Total collateral	**3,295**	**3,142**	**20,612**	**19,534**	**4,630**	**4,532**	**1,758**	**1,463**	**7,851**	**6,652**	**9,317**	**8,666**	**15,730**	**14,984**

1. *Includes* securities loaned—fully guaranteed by U.S. government securities pledged with Federal Reserve Banks— and *excludes* (if any) securities sold and scheduled to be bought back under matched sale-purchase transactions.
2. Includes U.S. government securities held under repurchase agreement against receipt of foreign currencies and foreign currencies warehoused for the U.S. Treasury. Assets shown in this line are revalued monthly at market exchange rates.
3. Includes exchange-translation account reflecting the monthly revaluation at market exchange rates of foreign-exchange commitments.
4. Beginning September 1980, Federal Reserve notes held by the Reserve Banks are exempt from the collateral requirement.
5. Includes Federal Reserve notes held by U.S. Treasury and by Federal Reserve Banks other than the issuing Bank.
6. Includes special investment account at Chicago of Treasury bills maturing within 90 days.

NOTE. Data for 1982 in tables 1 and 2 may differ because of rounding or closing adjustments, which are not included in table 2.

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3. Federal Reserve Open Market Transactions, 1982

Millions of dollars

Type of transaction	Jan.	Feb.	Mar.	Apr.
U.S. GOVERNMENT SECURITIES				
Outright transactions (excluding matched transactions)				
Treasury bills				
Gross purchases	0	1,017	474	4,149
Gross sales	2,756	868	995	0
Exchange	0	0	0	0
Redemptions	600	0	600	0
Others within 1 year				
Gross purchases	0	20	0	132
Gross sales	0	0	0	0
Maturity shift	542	2,633	900	333
Exchange	0	−940	−1,479	−525
Redemptions	0	0	0	0
1 to 5 years				
Gross purchases	0	50	0	570
Gross sales	0	0	0	0
Maturity shift	−542	−974	−900	−333
Exchange	0	765	1,479	525
5 to 10 years				
Gross purchases	0	0	0	81
Gross sales	0	0	0	0
Maturity shift	0	−1,659	0	0
Exchange	0	100	0	0
Over 10 years				
Gross purchases	0	0	0	52
Gross sales	0	0	0	0
Maturity shift	0	0	0	0
Exchange	0	75	0	0
All maturities				
Gross purchases	0	1,087	474	4,984
Gross sales	2,756	868	995	0
Redemptions	600	0	600	0
Matched transactions				
Gross sales	51,132	28,033	38,946	44,748
Gross purchases	51,717	28,258	38,650	44,759
Repurchase agreements				
Gross purchases	12,962	18,656	8,595	18,396
Gross sales	12,914	21,919	6,998	14,724
Net change in U.S. government securities	−2,724	−2,820	179	8,667
FEDERAL AGENCY OBLIGATIONS				
Outright transactions				
Gross purchases	0	0	0	0
Gross sales	0	0	0	0
Redemptions	68	32	13	5
Repurchase agreements				
Gross purchases	800	872	554	2,033
Gross sales	935	1,006	471	1,119
Net change in federal agency obligations	−203	−166	70	909
BANKERS ACCEPTANCES				
Repurchase agreements, net	402	−597	488	280
Total net change in System Open Market Account	**−2,524**	**−3,583**	**737**	**9,856**

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(Continued)

May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
595	1,559	1,905	1,721	425	774	2,552	1,897	17,067
519	0	1,175	651	674	0	0	731	8,369
0	200	-200	0	0	0	0	0	0
400	0	200	600	400	0	0	200	3,000
0	0	71	0	0	0	88	0	312
0	0	0	0	0	0	0	0	0
1,498	988	382	4,938	733	623	2,819	906	17,295
-2,541	-1,249	0	-3,914	-650	0	-1,924	-943	-14,164
0	0	0	0	0	0	0	0	0
0	0	691	0	0	0	485	0	1,797
0	0	0	0	0	0	0	0	0
-1,000	-988	-382	-4,938	-733	-623	-2,204	-906	-14,524
1,600	1,049	200	3,078	650	0	1,515	943	11,804
0	0	113	0	0	0	194	0	388
0	0	0	0	0	0	0	0	0
-498	0	0	601	0	0	-616	0	-2,172
941	0	0	837	0	0	250	0	2,128
0	0	123	0	0	0	132	0	307
0	0	0	0	0	0	0	0	0
0	0	0	-601	0	0	0	0	-601
0	0	0	0	0	0	159	0	234
595	1,559	2,903	1,721	425	774	3,452	1,897	19,870
519	0	1,175	651	674	0	0	731	8,369
400	0	200	600	400	0	0	200	3,000
36,047	41,509	54,646	39,403	51,983	45,655	39,579	72,123	543,804
36,790	37,548	58,753	37,962	51,554	46,370	41,724	69,088	543,173
10,155	5,332	18,267	3,755	9,649	5,618	4,161	15,229	130,774
15,424	5,332	18,267	2,567	7,035	9,420	4,161	11,525	130,286
-4,850	-2,402	5,636	217	1,535	-2,313	5,596	1,636	8,358
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
1	6	1	46	5	6	*	6	189
1,305	831	4,389	1,095	1,997	1,776	739	2,566	18,957
2,301	831	4,389	866	1,225	2,778	739	1,978	18,638
-997	-6	-1	183	767	-1,008	*	582	130
-768	0	0	565	248	-813	0	1,480	1,285
-6,615	**-2,408**	**5,634**	**966**	**2,550**	**-4,134**	**5,596**	**3,697**	**9,773**

*Less than $500,000.

NOTE. Sales, redemptions, and negative figures reduce holdings of the System Open Market Account; all other figures increase such holdings. Details may not add to totals because of rounding.

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4. Federal Reserve Bank Holdings of U.S. Government and Federal Agency Securities, December 31, 1980-82

Millions of dollars

Description	December 31			Increase or decrease (−)	
	1982	1981	1980	1982	1981
U.S. government securities—Total	**139,312**	**130,954**	**121,328**	**8,358**	**9,626**
1–15 days[1]	4,396	3,935	4,780	461	−845
16–90 days	31,088	25,190	23,499	5,898	1,691
91 days to 1 year	40,057	37,417	30,187	2,640	7,230
1–5 years	35,102	36,025	34,505	−923	1,520
5–10 years	12,095	11,752	13,354	343	−1,602
Over 10 years	16,574	16,634	15,002	−60	1,632
Held outright[2]					
Treasury bills	54,426	49,359	43,688	5,067	5,671
Treasury notes	62,626	59,978	58,718	2,648	1,260
Treasury bonds	18,556	18,401	16,893	155	1,508
Held under RPs	3,704	3,216	2,029	488	1,187
Federal agency obligations—Total	**9,525**	**9,394**	**9,264**	**131**	**130**
1–15 days	730	530	705	200	−175
16–90 days	564	631	426	−67	205
91 days to 1 year	1,954	1,443	1,519	511	−76
1–5 years	4,780	5,256	4,838	−476	418
5–10 years	979	962	1,092	17	−130
Over 10 years	518	573	685	−55	−112
Held outright					
Banks for Cooperatives	21	21	35	0	−14
Export-Import Bank	0	16	16	−16	0
Federal Farm Credit Banks	2,174	1,960	1,459	214	501
Federal Home Loan Banks	2,494	2,500	2,426	−6	74
Federal Home Loan Mortgage Corporation	5	5	0	0	5
Federal Intermediate Credit Banks	50	59	75	−9	−16
Federal Land Banks	613	840	988	−227	−148
Farmers Home Administration	147	163	187	−16	−24
Federal National Mortgage Association	3,198	3,312	3,305	−114	7
Government National Mortgage Association—PCs	67	83	83	−16	0
U.S. Postal Service	37	37	37	0	0
Washington Metropolitan Area Transit Authority	117	117	117	0	0
General Services Administration	14	14	14	0	0
Held under RPs	588	269	525	319	−256

1. Includes securities held under repurchase agreements.
2. Excludes securities sold under matched agreements, and securities held under repurchase agreements.

NOTE. Details may not add to totals because of rounding.

5. Number and Salaries of Officers and Employees of Federal Reserve Banks, December 31, 1982

Federal Reserve Bank (including branches)	President	Other officers		Employees			Total	
	Annual salary (dollars)	Number	Annual salaries (dollars)	Number: Full-time	Number: Part-time	Annual salaries (dollars)	Number	Annual salaries (dollars)
Boston	111,000	50	2,477,500	1,267	172	26,863,227	1,490	29,451,727
New York	145,000	150	8,716,000	3,946	93	87,266,680	4,190	96,127,680
Philadelphia	82,000	42	2,085,000	1,026	73	19,428,094	1,142	21,595,094
Cleveland	92,000	40	1,808,000	1,214	62	22,251,700	1,317	24,151,700
Richmond	97,000	71	3,325,300	1,873	95	30,786,903	2,040	34,209,203
Atlanta	106,000	67	3,194,600	2,063	44	37,586,333	2,175	40,886,933
Chicago	117,000	84	3,975,600	2,871	105	52,705,239	3,061	56,797,839
St. Louis	94,000	46	2,177,980	1,184	75	21,248,033	1,306	23,520,013
Minneapolis	90,000	40	1,849,000	992	2	18,441,700	1,035	20,380,700
Kansas City	87,000	54	2,435,500	1,560	45	26,960,797	1,660	29,483,297
Dallas	82,000	47	2,232,600	1,367	30	24,809,561	1,445	27,124,161
San Francisco	122,000	91	4,414,101	2,066	84	42,206,872	2,242	46,742,973
Total	**1,225,000**	**782**	**38,691,181**	**21,429**	**880**	**410,555,139**	**23,103**	**450,471,320**

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Bank Premises of Federal Reserve Banks and Branches, December 31, 1982

Dollars

Federal Reserve Bank or Branch	Cost				Net book value	Other real estate[3]
	Land	Buildings (including vaults)[1]	Building machinery and equipment	Total[2]		
BOSTON	21,635,436	79,855,836	5,425,128	106,916,400	96,872,789	....
Annex	27,840	89,202	44,538	161,580	138,291	....
NEW YORK	3,436,277	12,561,757	21,427,695	37,425,729	20,817,670	....
Annex	477,862	1,136,219	745,855	2,359,936	945,657	....
Buffalo	887,844	3,010,752	1,661,223	5,559,819	2,994,507	....
PHILADELPHIA	1,876,601	52,360,009	5,253,502	59,490,112	51,170,428	....
CLEVELAND	1,074,281	5,802,520	4,439,911	11,316,712	3,704,841	1,224,363
Cincinnati	1,997,249	13,541,212	7,521,727	23,060,188	15,496,563	....
Pittsburgh	1,658,376	5,113,033	3,064,907	9,836,316	7,757,737	....
RICHMOND	3,912,575	55,679,289	14,314,313	73,906,179	65,989,168	....
Annex	522,733	3,725,466	3,616,991	7,865,190	4,421,545	....
Baltimore	3,880,302	35,036,673	....	38,916,975	38,698,750	....
Charlotte	347,071	1,075,116	946,943	2,369,130	1,219,698	1,675,944
ATLANTA	1,202,255	6,565,323	3,558,580	11,326,159	6,293,027	....
Birmingham	2,361,070	1,905,770	1,046,244	5,313,084	3,603,775	166,845
Jacksonville	164,004	1,706,794	778,505	2,649,303	875,565	951,793
Annex	107,925	76,236	15,843	200,003	155,826	....
Miami	3,547,571	11,776,944	2,116,440	17,440,955	16,598,408	....
Nashville	592,342	1,474,678	1,175,891	3,242,912	1,546,874	....
New Orleans	3,087,693	2,754,272	1,476,257	7,318,222	5,053,452	283,753
CHICAGO	4,511,942	16,439,102	11,448,225	32,399,268	15,289,180	....
Annex	53,066	302,249	136,878	492,193	457,478	....
Detroit	797,734	3,137,976	1,972,024	5,907,734	2,779,316	....
ST. LOUIS	700,378	4,944,833	3,823,399	9,468,610	3,724,513	....
Little Rock	1,148,492	2,067,898	1,023,475	4,239,865	2,979,025	....
Louisville	700,075	2,865,319	1,131,238	4,696,632	2,442,333	....
Memphis	1,135,623	4,239,761	2,126,755	7,502,139	5,483,003	....
MINNEAPOLIS	1,394,384	26,664,805	7,692,189	35,751,378	26,749,830	....
Helena	289,619	104,184	61,906	455,709	343,588	....
KANSAS CITY	1,338,737	12,059,988	5,813,699	19,212,423	12,929,195	5,323,439
Denver	2,997,746	3,646,679	2,374,384	9,018,808	5,998,423	....
Oklahoma City	646,386	2,370,476	1,717,342	4,734,204	3,473,865	....
Omaha	1,030,226	1,550,902	817,215	3,398,342	1,848,063	479,076
DALLAS	3,729,268	5,388,345	3,653,592	12,771,205	8,222,787	....
El Paso	262,477	1,048,617	393,301	1,704,395	1,498,073	....
Houston	2,049,064	1,994,423	791,229	4,834,716	4,114,724	....
San Antonio	448,596	1,782,893	570,846	2,802,335	2,179,935	....
SAN FRANCISCO	12,436,775	83,288,534	2,174,233	97,899,542	92,806,072	....
Annex	247,201	131,114	62,078	440,393	340,809	....
Los Angeles	644,238	4,711,365	2,426,971	7,782,575	4,423,713	4,726,662
Portland	207,381	1,678,512	649,432	2,535,324	1,956,146	....
Salt Lake City	480,222	1,974,295	1,036,376	3,490,893	2,380,543	....
Seattle	274,772	2,018,722	1,234,879	3,528,373	2,006,517	....
Total	**90,321,708**	**479,658,092**	**131,762,159**	**701,741,959**	**548,781,704**	**14,831,874**

1. Includes expenditures for construction at some offices pending allocation to appropriate accounts.
2. Excludes charge-offs of $17,698,968 before 1952.
3. Includes acquisitions for banking-house purposes, and Bank premises formerly occupied and being held pending sale.

NOTE. Details may not add to totals due to rounding.

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7. Income and Expenses of Federal Reserve Banks, 1982

Dollars

Item	Total	Boston	New York	Philadelphia	Cleveland
CURRENT INCOME					
Loans	174,599,512	4,815,638	72,915,122	10,790,342	7,476,261
Acceptances	18,282,868	....	18,282,868	....	....
U.S. government securities	15,492,891,505	694,660,256	4,828,055,401	524,668,313	1,047,056,094
Foreign currencies	432,541,731	11,216,663	109,322,456	17,608,710	32,333,016
Priced services	386,732,282	23,045,933	58,982,951	14,867,390	23,999,246
All other	12,337,230	532,768	5,947,971	241,276	318,797
Total	**16,517,385,129**	**734,271,258**	**5,093,506,769**	**568,176,031**	**1,111,183,414**
CURRENT EXPENSES					
Salaries and other personnel expenses	469,307,979	29,834,881	101,388,988	23,633,374	26,945,680
Retirement and other benefits	128,075,979	8,361,765	25,199,077	6,625,349	8,121,877
Fees	8,317,808	449,229	1,706,982	391,748	538,624
Travel	14,414,464	810,832	1,751,510	487,997	1,030,710
Postage and other shipping costs	100,095,196	4,793,726	12,862,222	4,098,033	6,622,762
Communications	19,358,575	1,361,436	4,253,849	945,646	856,872
Materials and supplies	37,449,670	2,435,555	7,351,488	1,938,790	2,036,381
Building expenses					
Taxes on real estate	16,696,319	3,186,972	2,775,275	1,340,142	911,821
Property depreciation	14,819,043	2,299,705	1,399,008	1,494,875	953,867
Utilities	20,973,887	2,093,546	3,858,868	1,973,677	1,371,834
Rent	12,797,242	461,151	6,189,509	40,014	250,947
Other	10,014,647	486,324	1,545,422	992,314	395,686
Equipment					
Rentals	53,111,250	1,876,321	9,918,295	1,568,091	3,974,531
Depreciation	32,686,112	1,581,050	6,627,483	2,105,343	1,382,311
Repairs and maintenance	19,788,408	996,542	4,280,130	1,328,987	838,717
Cost of Federal Reserve currency	98,441,027	5,454,292	22,400,628	4,524,085	6,628,954
Cost of earnings credits[1]	28,261,201	2,806,545	1,930,562	1,392,678	1,996,859
All other	27,137,096	2,302,334	4,402,408	1,161,926	1,952,888
Shared costs, net[2]	0	187,686	−172,581	227,777	−408,380
Recoveries	−4,109,109	−310,360	−929,720	−409,478	−66,884
Expenses capitalized[3]	−2,840,279	−92,201	−7,223	0	−163,438
Total[4]	**1,100,277,278**	**71,377,331**	**218,732,180**	**55,861,368**	**66,172,619**
Reimbursements	−75,802,294	−6,788,241	−17,592,132	−4,435,281	−5,066,172
Net expenses	1,024,474,984	64,589,090	201,140,048	51,426,087	61,106,447

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7.—Continued

Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco
10,511,320	3,236,546	17,978,090	6,129,624	5,719,762	11,211,220	15,125,041	8,690,546
....	....	....	....	....	....	....	....
1,283,449,216	421,329,511	2,235,496,829	534,237,701	204,995,294	720,536,314	1,019,659,201	1,978,747,375
22,369,054	32,699,165	60,766,531	12,495,072	15,911,316	19,343,250	27,925,967	70,550,531
28,019,258	44,695,757	61,051,781	19,113,403	21,180,961	28,565,313	26,088,093	37,122,196
624,751	874,700	1,321,170	442,936	276,880	216,183	621,310	918,489
1,344,973,599	**502,835,679**	**2,376,614,401**	**572,418,737**	**248,084,213**	**779,872,280**	**1,089,419,612**	**2,096,029,138**
35,501,997	39,248,272	59,495,404	24,015,714	20,737,835	31,245,710	28,233,617	49,026,507
10,148,260	10,921,503	16,811,432	6,523,239	5,370,653	8,457,956	7,512,907	14,021,961
511,661	543,532	1,107,989	568,350	378,621	442,820	491,067	1,187,185
1,190,997	1,228,466	2,245,578	688,040	820,755	1,304,750	1,013,983	1,840,846
10,039,965	10,400,429	13,748,988	6,178,235	4,998,600	7,590,579	7,394,045	11,367,612
1,416,153	2,001,465	2,303,212	705,674	1,003,036	1,206,278	1,285,382	2,019,572
3,561,839	3,681,688	4,211,219	2,276,020	1,393,603	2,879,994	2,518,135	3,164,958
1,352,197	1,033,949	1,784,092	402,122	1,808,307	514,805	667,569	919,068
2,937,441	905,828	639,016	530,443	957,600	810,918	663,518	1,226,824
1,929,376	1,744,942	2,037,457	1,133,923	817,877	1,147,115	1,285,565	1,579,707
934,038	107,127	1,873,096	284,084	76,638	46,473	767,275	1,766,890
1,142,517	869,558	1,717,288	399,492	625,524	586,590	627,232	626,700
5,842,954	6,159,046	9,425,786	2,003,530	1,927,345	2,204,446	3,148,144	5,062,761
2,710,779	1,993,281	2,488,330	1,791,311	1,577,600	3,007,295	3,012,638	4,408,691
1,553,834	1,474,999	1,788,136	1,252,165	904,671	1,650,394	1,466,867	2,252,966
10,400,382	7,987,997	12,131,492	3,433,409	1,631,364	5,915,811	4,755,151	13,177,462
2,740,820	4,379,560	8,068,853	498,783	1,829,799	519,795	806,271	1,290,676
1,470,755	1,962,581	4,942,415	1,028,173	1,331,593	1,219,361	2,085,616	3,277,046
239,011	603,069	-462,706	558,990	440,632	-224,193	-986,975	-2,330
-918,531	-379,954	-68,889	-518,924	-84,794	-276,895	-116,829	-27,851
-231,247	-184,515	-637,614	-106,573	-68,666	-759,478	-476,456	-112,868
89,955,961[4]	**96,682,823**	**145,650,574**	**53,646,200**	**48,478,593**	**69,490,524**	**66,154,722**	**118,074,383**
-6,115,873	-5,491,944	-9,323,489	-3,282,981	-2,188,905	-3,970,062	-3,786,618	-7,760,596
83,840,088	91,190,879	136,327,085	50,363,219	46,289,688	65,520,462	62,368,104	110,313,787

For notes see end of table.

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7. Income and Expenses of Federal Reserve Banks, 1982—Continued

Dollars

Item	Total	Boston	New York	Philadelphia	Cleveland
PROFIT AND LOSS					
Current net income	15,492,910,149	669,682,167	4,892,366,721	516,749,946	1,050,076,967
Additions to current net income					
Profits on sales of U.S. government securities	85,240,779	3,989,431	27,142,214	2,806,247	5,533,135
All other	1,162,530	311	18,637	606	706
Total additions	86,403,309	3,989,742	27,160,851	2,806,853	5,533,841
Deductions from current net income					
Losses on foreign currency transactions[5]	149,612,214	3,889,918	37,253,441	6,134,101	11,220,916
All other	5,624,246	43,557	1,239,217	46,663	43,094
Total deductions	155,236,460	3,933,475	38,492,658	6,180,764	11,264,010
Net additions to or deductions (−) from current net income	−68,833,150	56,267	−11,331,807	−3,373,911	−5,730,169
Assessment for expenditures of Board of Governors[6]	61,813,400	1,605,700	15,383,800	2,579,800	4,639,900
Net income before payments to U.S. Treasury	15,362,263,601	668,132,734	4,865,651,114	510,796,235	1,039,706,899
Dividends paid	79,352,304	2,039,198	19,582,450	3,393,997	5,891,495
Payments to U.S. Treasury (interest on Federal Reserve notes)	15,204,590,947	664,574,836	4,833,139,264	500,598,188	1,031,120,404
Transferred to surplus	78,320,350	1,518,700	12,929,400	6,804,050	2,695,000
Surplus, January 1	1,279,128,350	33,434,500	318,683,300	52,986,600	96,451,300
Surplus, December 31	1,357,449,200	34,953,200	331,612,700	59,790,650	99,146,300

1. In 1981, earnings credits were classified as a deduction from current net income.
2. Includes distribution of costs for projects performed by one Bank for the benefit of one or more other Banks.
3. This item includes expenses for labor and materials temporarily capitalized and charged to activities when the products are consumed.
4. The total expense for Richmond has been adjusted to exclude $4,519,237, which was allocated to the expenses of other Federal Reserve Banks for operation of the Federal Reserve Communications System.
5. This item consists of unrealized net losses related to revaluation of assets denominated in foreign currencies to market exchange rates.
6. For additional details, see the last three pages of the section "Board of Governors, Financial Statements."

NOTE. Details may not add to totals because of rounding.

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7.—Continued

Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco
1,261,133,511	411,644,801	2,240,287,316	522,055,518	201,794,525	714,351,818	1,027,051,508	1,985,715,351
7,303,207	2,080,775	11,946,614	2,822,073	1,040,924	4,047,928	5,851,259	10,676,972
844,771	18,418	8,155	1,410	29,883	1,648	40,300	197,685
8,147,978	2,099,193	11,954,769	2,823,483	1,070,807	4,049,576	5,891,559	10,874,657
7,779,835	11,370,528	21,095,322	4,338,754	5,535,652	6,732,550	9,724,794	24,536,403
60,625	129,006	508,627	23,094	9,845	176,117	688,177	2,656,224
7,840,460	11,499,534	21,603,949	4,361,848	5,545,497	6,908,667	10,412,971	27,192,627
307,518	-9,400,341	-9,649,180	-1,538,365	-4,474,690	-2,859,090	-4,521,412	-16,317,970
3,173,400	4,745,200	8,649,500	1,802,800	2,251,600	2,759,800	4,074,500	10,147,400
1,258,267,629	397,499,260	2,221,988,635	518,714,354	195,068,235	708,732,928	1,018,455,596	1,959,249,982
4,116,116	6,237,573	10,926,469	2,285,427	2,888,870	3,568,966	5,368,824	13,052,919
1,248,471,813	379,625,737	2,206,444,016	515,818,077	190,038,015	700,300,061	1,002,595,672	1,931,864,864
5,679,700	11,635,950	4,618,150	610,850	2,141,350	4,863,900	10,491,100	14,332,200
65,866,900	97,228,900	180,055,100	37,468,800	46,842,850	57,044,550	83,766,500	209,299,550
71,546,600	108,864,850	184,673,250	38,079,650	48,984,200	61,908,450	94,257,600	223,631,750

1. In 1981, earnings credits were classified as a deduction from current net income.
2. Includes distribution of costs for projects performed by one Bank for the benefit of one or more other Banks.
3. This item includes expenses for labor and materials temporarily capitalized and charged to activities when the products are consumed.
4. The total expense for Richmond has been adjusted to exclude $4,519,237, which was allocated to the expenses of other Federal Reserve Banks for operation of the Federal Reserve Communications System.
5. This item consists of unrealized net losses related to revaluation of assets denominated in foreign currencies to market exchange rates.
6. For additional details, see the last three pages of the section "Board of Governors, Financial Statements."

NOTE. Details may not add to totals because of rounding.

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Federal Reserve Bank of St. Louis

8. Income and Expenses of Federal Reserve Banks, 1914–82

Dollars

Period, or Federal Reserve Bank	Current income	Current expenses	Net additions or deductions (—)	Assessments for expenditures of Board of Governors
All Banks				
1914–15	2,173,252	2,018,282	5,875	302,304
1916	5,217,998	2,081,722	−193,001	192,277
1917	16,128,339	4,921,932	−1,386,545	237,795
1918	67,584,417	10,576,892	−3,908,574	382,641
1919	102,380,583	18,744,815	−4,673,446	594,818
1920	181,296,711	27,548,505	−3,743,907	709,525
1921	122,865,866	33,722,409	−6,314,796	741,436
1922	50,498,699	28,836,504	−4,441,914	722,545
1923	50,708,566	29,061,539	−8,233,107	702,634
1924	38,340,449	27,767,886	−6,191,143	663,240
1925	41,800,706	26,818,664	−4,823,477	709,499
1926	47,599,595	26,628,458	−3,637,668	721,724
1927	43,024,484	26,739,327	−2,457,792	779,116
1928	64,052,860	26,207,133	−5,026,029	697,677
1929	70,955,496	28,909,469	−4,861,642	781,644
1930	36,424,044	27,533,141	−93,136	809,585
1931	29,701,279	26,322,110	311,451	718,554
1932	50,018,817	25,562,571	−1,413,192	728,810
1933	49,487,318	28,422,677	−12,307,074	800,160
1934	48,902,813	27,869,374	−4,430,008	1,372,022
1935	42,751,959	30,171,545	−1,736,758	1,405,898
1936	37,900,639	28,194,457	485,817	1,679,566
1937	41,233,135	27,052,234	−1,631,274	1,748,380
1938	36,261,428	27,186,684	2,232,134	1,724,924
1939	38,500,665	27,025,391	2,389,555	1,621,464
1940	43,537,805	27,461,466	11,487,697	1,704,011
1941	41,380,095	31,123,609	720,636	1,839,541
1942	52,662,704	36,877,718	−1,568,208	1,746,326
1943	69,305,715	41,129,934	23,768,282	2,415,630
1944	104,391,829	46,879,564	3,221,880	2,296,357
1945	142,209,546	46,376,762	−830,007	2,340,509
1946	150,385,033	54,975,323	−625,991	2,259,784
1947	158,655,566	62,753,308	1,973,001	2,639,667
1948	304,160,818	69,466,518	−34,317,947	3,243,670
1949	316,536,930	74,235,176	−12,122,274	3,242,500
1950	275,838,994	77,138,071	36,294,117	3,433,700
1951	394,656,072	91,373,589	−2,127,889	4,095,497
1952	456,060,260	100,572,489	1,583,988	4,121,602
1953	513,037,237	109,415,220	−1,058,993	4,099,800
1954	438,486,040	105,558,331	−133,641	4,174,600
1955	412,487,931	105,865,923	−265,456	4,194,100
1956	595,649,092	115,842,696	−23,436	5,339,800
1957	763,347,530	124,306,103	−7,140,914	7,507,900
1958	742,068,150	131,804,455	124,175	5,917,200
1959	886,226,116	138,232,106	98,247,253	6,470,600
1960	1,103,385,257	147,348,575	13,874,702	6,533,700
1961	941,648,170	155,009,475	3,481,628	6,265,100
1962	1,048,508,335	169,481,234	−55,779	6,654,900
1963	1,151,120,060	179,700,557	614,835	7,572,800
1964	1,343,747,303	188,740,689	725,948	8,655,200
1965	1,559,484,027	195,713,790	1,021,614	8,576,396
1966	1,908,499,896	198,379,526	996,230	9,021,600
1967	2,190,403,752	209,351,250	2,093,876	10,769,596
1968	2,764,445,943	228,152,172	8,519,996	14,198,198
1969	3,373,360,559	259,953,236	−557,553	15,020,084

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8.—Continued

Dividends paid	Payments to U.S. Treasury			Transferred to surplus (section 13b)	Transferred to surplus (section 7)
	Franchise tax	Under section 13b	Interest on Federal Reserve notes		
217,463	...	...	...	...	...
1,742,775	...	...	...	...	...
6,804,186	1,134,234	...	...	...	1,134,234
5,540,684	...	...	...	...	48,334,341
5,011,832	2,703,894	...	...	...	70,651,778
5,654,018	60,724,742	...	...	...	82,916,014
6,119,673	59,974,466	...	...	...	15,993,086
6,307,035	10,850,605	...	...	...	-659,904
6,552,717	3,613,056	...	...	...	2,545,513
6,682,496	113,646	...	...	...	-3,077,962
6,915,958	59,300	...	...	...	2,473,808
7,329,169	818,150	...	...	...	8,464,426
7,754,539	249,591	...	...	...	5,044,119
8,458,463	2,584,659	...	...	...	21,078,899
9,583,911	4,283,231	...	...	...	22,535,597
10,268,598	17,308	...	...	...	-2,297,724
10,029,760	...	...	...	...	-7,057,694
9,282,244	2,011,418	...	...	...	11,020,582
8,874,262	...	...	...	...	-916,855
8,781,661	...	...	...	-60,323	6,510,071
8,504,974	...	297,667	...	27,695	607,422
7,829,581	...	227,448	...	102,880	352,524
7,940,966	...	176,625	...	67,304	2,616,352
8,019,137	...	119,524	...	-419,140	1,862,433
8,110,462	...	24,579	...	-425,653	4,533,977
8,214,971	...	82,152	...	-54,456	17,617,358
8,429,936	...	141,465	...	-4,333	570,513
8,669,076	...	197,672	...	49,602	3,554,101
8,911,342	...	244,726	...	135,003	40,237,362
9,500,126	...	326,717	...	201,150	48,409,795
10,182,851	...	247,659	...	262,133	81,969,625
10,962,160	...	67,054	...	27,708	81,467,013
11,523,047	...	35,605	75,223,818	86,772	8,366,350
11,919,809	...	...	166,690,356	...	18,522,518
12,329,373	...	...	193,145,837	...	21,461,770
13,082,992	...	...	196,628,858	...	21,849,490
13,864,750	...	...	254,873,588	...	28,320,759
14,681,788	...	...	291,934,634	...	46,333,735
15,558,377	...	...	342,567,985	...	40,336,862
16,442,236	...	...	276,289,457	...	35,887,775
17,711,937	...	...	251,740,721	...	32,709,794
18,904,897	...	...	401,555,581	...	53,982,682
20,080,527	...	...	542,708,405	...	61,603,682
21,197,452	...	...	524,058,650	...	59,214,569
22,721,687	...	...	910,649,768	...	-93,600,791
23,948,225	...	...	896,816,359	...	42,613,100
25,569,541	...	...	687,393,382	...	70,892,300
27,412,241	...	...	799,365,981	...	45,538,200
28,912,019	...	...	879,685,219	...	55,864,300
30,781,548	...	...	1,582,118,614	...	-465,822,800
32,351,602	...	...	1,296,810,053	...	27,053,800
33,696,336	...	...	1,649,455,164	...	18,943,500
35,027,312	...	...	1,907,498,270	...	29,851,200
36,959,336	...	...	2,463,628,983	...	30,027,250
39,236,599	...	...	3,019,160,638	...	39,432,450

For notes see end of table.

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8. Income and Expenses of Federal Reserve Banks, 1914–82—Continued

Dollars

Period, or Federal Reserve Bank	Current income	Current expenses	Net additions or deductions (—)	Assessments for expenditures of Board of Governors
1970	3,877,218,444	300,145,586	11,441,829	21,227,800
1971	3,723,369,921	344,550,798	94,266,075	32,634,002
1972	3,792,334,523	379,371,852	−49,615,790	35,234,499
1973	5,016,769,328	450,705,676	−80,653,488	44,411,700
1974	6,280,090,965	506,424,874	−78,487,237	41,116,600
1975	6,257,936,784	551,488,714	−202,369,615	33,577,201
1976	6,623,220,383	606,948,264	7,310,500	41,827,700
1977	6,891,317,498	623,859,582	−177,033,463	47,366,100
1978	8,455,390,401	652,617,206	−633,123,486	53,321,700
1979	10,310,148,406	693,559,531	−151,148,220	50,529,700
1980	12,802,319,335	791,157,259	−115,385,855	62,230,800
1981	15,508,349,653	897,114,405	−372,879,185	63,162,700
1982	16,517,385,129	1,024,474,984	−68,833,150	61,813,400
Total, 1914–82	**131,617,347,653**	**11,941,561,317**	**−1,744,668,964**	**776,352,508**
Aggregate for each Bank, 1914–82				
Boston	6,219,194,588	805,778,799	−65,166,284	31,092,986
New York	35,041,576,438	2,494,053,832	−395,917,147	205,010,786
Philadelphia	6,386,381,559	640,596,889	−74,921,868	38,844,018
Cleveland	10,147,608,805	848,275,126	−150,509,181	67,086,390
Richmond	10,040,897,126	954,600,118	−103,566,012	40,293,476
Atlanta	5,970,651,606	968,125,662	−122,907,176	52,964,060
Chicago	20,534,656,054	1,579,807,163	−286,247,684	114,355,372
St. Louis	5,061,525,611	657,424,414	−63,638,446	25,415,872
Minneapolis	2,669,821,755	479,465,553	−48,484,094	21,420,615
Kansas City	5,605,914,743	725,096,486	−75,208,478	32,422,509
Dallas	6,757,109,021	633,222,519	−104,680,109	43,216,073
San Francisco	17,182,010,349	1,155,114,754	−253,422,486	104,230,351
Total	**131,617,347,653**	**11,941,561,317**	**−1,744,668,964**	**776,352,508**

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8.—Continued

Dividends paid	Payments to U.S. Treasury			Transferred to surplus (section 13b)	Transferred to surplus (section 7)
	Franchise tax	Under section 13b	Interest on Federal Reserve notes		
41,136,551	....	....	3,493,570,636	....	32,579,700
43,488,074	....	....	3,356,559,873	....	40,403,250
46,183,719	....	....	3,231,267,663	....	50,661,000
49,139,682	....	....	4,340,680,482	....	51,178,300
52,579,643	....	....	5,549,999,411	....	51,483,200
54,609,555	....	....	5,382,064,098	....	33,827,600
57,351,487	....	....	5,870,463,382	....	53,940,050
60,182,278	....	....	5,937,148,425	....	45,727,650
63,280,312	....	....	7,005,779,497	....	47,268,200
67,193,615	....	....	9,278,576,140	....	69,141,200
70,354,516	....	....	11,706,369,955	....	56,820,950
74,573,806	....	....	14,023,722,907	....	76,896,650
79,352,304	....	....	15,204,590,947	....	78,320,350
1,526,526,198	**149,138,300**	**2,188,893**	**113,990,793,736**	**−3,657**	**1,486,121,399[1]**
69,634,479	7,111,395	280,843	5,194,946,365	135,411	45,048,025
425,946,071	68,006,262	369,116	31,083,837,366	−433,412	368,869,271
86,855,954	5,558,901	722,406	5,464,469,990	290,661	74,120,872
137,110,589	4,842,447	82,930	8,827,331,955	−9,906	112,380,093
75,522,467	6,200,189	172,493	8,783,187,479	−71,517	77,426,408
93,222,820	8,950,561	79,264	4,610,265,182	5,491	114,131,390
214,302,447	25,313,526	151,045	18,114,465,130	11,682	200,002,004
50,597,141	2,755,629	7,464	4,218,513,883	−26,515	43,199,278
40,004,409	5,202,900	55,615	2,022,262,284	64,874	52,861,413
62,278,088	6,939,100	64,213	4,637,866,142	−8,674	66,048,400
80,740,837	560,049	102,083	5,795,996,936	55,337	98,535,078
190,310,896	7,697,341	101,421	15,237,651,024	−17,089	233,499,167
1,526,526,198	**149,138,300**	**2,188,893**	**113,990,793,736**	**−3,657**	**1,486,121,399[1]**

1. The $1,486,121,399 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 $1,357,449,198 on Dec. 31, 1982.

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, 1979–82

Operation	1982	1981	1980	1979
	Millions of pieces			
Loans	(1)	(1)	(1)	(1)
Currency received and counted	10,679	10,277	9,432	8,839
Currency verified and destroyed	4,147	3,510	3,197	2,969
Coin received and counted	16,859	17,023	17,700	18,756
Checks handled				
U.S. government checks	655	683	705	718
Postal money orders	126	126	117	117
All other[2]	13,971	15,880r	15,721r	15,067
Issues, redemptions, and exchanges of U.S. government securities	156	188	301	335
Transfers of funds[3]	58	54	43	35
Food stamps redeemed	2,565	2,625	2,541	1,730
	Amounts (millions of dollars)			
Loans	184,997	236,532	267,957	220,628
Currency received and counted	128,802	117,901	104,333	93,119
Currency verified and destroyed	31,258	24,912	20,183	22,638
Coin received and counted	2,714	3,184	2,703	2,765
Checks handled				
U.S. government checks	628,639	611,403	598,569	511,044
Postal money orders	6,645	6,030	6,164	6,323
All other	8,722,369	9,454,638r	9,365,649r	8,514,670
Issues, redemptions, and exchanges of U.S. government securities	26,550,780	12,728,458	10,326,013r	8,186,706r
Transfers of funds	121,239,371	93,968,246	78,594,862	64,231,109
Food stamps redeemed	9,869	9,547	9,268	7,779

1. Number handled (in thousands): 1982, 24; 1981, 36; 1980, 25; and 1979, 38.
2. Includes checks processed in pre-sorted bundles (fine sort items) as follows (millions of bundles): 1980, 4.5, with a value of $1,314,925 million; 1981, 8.3 with a value of $1,715,552 million; and 1982, 10.0, with a value of $1,383,735 million. Before 1980, the volume of these items was insufficient to warrant separate reporting.
3. Includes the volume processed at both sending and receiving offices of Federal Reserve Banks. The number of priced wire transfers in 1982 was 35 million.
r Revised.

10. Revenue and Expense of Priced Services at Federal Reserve Banks, 1982

Thousands of dollars

Item	Federal Reserve System[1]	Service						
		Wire transfer and net settlement	Commercial ACH[2]	Commercial check collection	Book-entry securities	Definitive safekeeping and noncash collection	Cash transportation[3]	Coin wrapping
Revenue	421,571	49,251	1,302	283,034	13,326	14,503	24,149	1,167
Expense	456,824	47,922	9,620	304,004	16,117	20,349	29,457	1,094
Net revenue	−35,253	1,329	−8,318	−20,970	−2,791	−5,846	−5,308	73
Private sector adjustment[4]	55,672	7,662	1,510	40,646	2,575	2,944	226	109
Net revenue after private sector adjustment	−90,925	−6,333	−9,828	−61,616	−5,366	−8,790	−5,534	−36
MEMO: Pro forma net revenue after private sector adjustment, after effect of the ACH and cash transportation programs	−78,796	...	−924	...	...	...	−2,309	...

1. Total System revenue comprises $386.7 million of income from fees for services and $34.8 million of income related to clearing balances established by depository institutions. Total System expense includes $28.3 million of earnings credits granted to depository institutions on clearing balances. Details may not add to totals because revenue and expense data shown by service do not reflect the income and expense related to clearing balances.
2. The Board established an incentive pricing program for the commercial automated clearinghouse service that provides for fee structures designed to recover an increasing share of expenses over a period of several years. For 1982, revenue for the commercial ACH service was expected to represent approximately 20 percent of expenses plus the private sector adjustment factor.
3. The Board adopted a transitional support program, to be concluded at the end of 1983, for the cash transportation service, and anticipated that expenses plus the private sector adjustment would exceed revenue for the duration of the program.
4. This adjustment is an imputed cost intended to reflect the taxes that would have been paid and the return on capital that would have been provided had a private sector firm furnished the services. In 1982, a PSAF of 16 percent was applied to Bank expenses for priced services, except certain shipping expenses.

NOTE. Revenue and expenses of priced services offered by the Federal Reserve Banks are derived from the income and expense data shown in table 7. Expenses for priced services are based primarily on the Federal Reserve Planning and Control System, which provides for the allocation of expenses to the principal areas of operation of the Banks.

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11. Federal Reserve Bank Interest Rates, December 31, 1982

Percent per annum

Federal Reserve Bank	Loans to depository institutions			
	Short-term adjustment credit and seasonal credit[1]	Extended credit[2]		
		First 60 days of borrowing	Next 90 days of borrowing	After 150 days
Boston	8½	8½	9½	10½
New York	↑	↑	↑	↑
Philadelphia				
Cleveland				
Richmond				
Atlanta				
Chicago				
St. Louis				
Minneapolis				
Kansas City				
Dallas	↓	↓	↓	↓
San Francisco	8½	8½	9½	10½

1. Rates applied to short-term advances for the purpose of meeting temporary funding requirements and to longer-term advances made to smaller institutions for the purpose of meeting seasonally recurring needs for funds. See sections 201.3(a) and 201.3(b)(1) of Regulation A.

2. Applicable to advances when exceptional circumstances or practices involve only a particular depository institution and to advances when an institution is under sustained liquidity pressures. See section 201.3(b)(2) of Regulation A.

12. Reserve Requirements of Depository Institutions

Percent 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	...
11, 16	23½	19½	12	5
18	23	19	...	...
25	22½	18½	...	...
Sept. 1	22	18	...	...
1951—Jan. 11, 16	23	19	13	6
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	...	...	...
24	18	16½	...	...
1960—Sept. 1	17½	...	...	...
Nov. 24	...	...	12	...
Dec. 1	1½	...	...	...
1962—July 28	([3])	...	...	...
Oct. 25, Nov. 1	...	...	...	4

For notes see end of table.

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12. Reserve Requirements of Depository Institutions—Continued

Percent of deposits

July 14, 1966, through Nov. 8, 1972 (deposit intervals 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	16½[5]		12[5]		4[5]	4[5]	5
Sept. 8, 11	....	....	....	....	....	....	6
1967–Mar. 2	....	....	....	....	3½	3½	....
16	....	....	....	....	3	3	....
1968–Jan. 11, 18	16½	17	12	12½	....	....	....
1969–Apr. 17	17	17½	12½	13	....	....	....
1970–Oct. 1	....	....	....	....	....	....	5

Nov. 9, 1972, through Nov. 12, 1980 (deposit intervals in millions of dollars)

Effective date	Net demand deposits[2,6]					Time and savings deposits[4]						
						Savings	Time[7]					
							0–5, by maturity			Over 5, by maturity		
	0–2	2–10	10–100	100–400	Over 400		30–179 days	180 days to 4 yrs.	4 yrs. or more	30–179 days	180 days to 4 yrs.	4 yrs. or more
1972–Nov. 9	8	10	12	16½[8]	17½	3[5]		3[5]			5[5]	
16	...	...	...	13	...	...	...	...	...	...	...	...
1973–July 19	...	10½	12½	13½	18	...	...	...	...	...	...	...
1974–Dec. 12	...	...	...	...	17½	...	...	...	...	6		3
1975–Feb. 13	7½	10	12	13	16½	...	...	...	...	...	...	...
Oct. 30	...	...	...	...	...	...		3	1[9]	...	3	1[9]
1976–Jan. 8	...	...	...	...	...	...	3	2½[9]	...	...	2½[9]	...
Dec. 30	7	9½	11¾	12¾	16¼	.....	...	...	...	...	...	...

Beginning Nov. 13, 1980

Type of deposit, and deposit interval[10]	Depository institution requirements after implementation of the Monetary Control Act[11]	
	Percent	Effective date
Net-transaction accounts[12,13]		
$0–$26.3 million	3	12/30/82
Over $26.3 million	12	12/30/82
Nonpersonal time deposits[14]		
By original maturity		
Less than 3½	3	4/29/82
3½ years or more	0	4/29/82
Eurocurrency liabilities		
All types	3	11/13/80

1. Reserves required during the period from inception of the Federal Reserve System until June 20, 1917, were not strictly comparable with later requirements; they were based on aggregate amounts of deposits, and reserve balances with the Reserve Banks were increased in stages.

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. Demand deposits subject to reserve requirements, beginning Aug. 23, 1935, were 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).

All required reserves were held on deposit with Federal Reserve Banks from June 21, 1917, until late 1959. Since then, member banks were allowed to count vault cash as reserves, as follows: country banks—in excess of 4 and 2½ percent 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 percent effective Dec. 3, 1959, and Sept. 1, 1960, respectively. All institutions were allowed to count all vault cash as reserves effective Nov. 24, 1960.

In graduated requirement schedules, each deposit interval applies to that part of the deposits of each bank.

Beginning Oct. 16, 1969, Regulation M required reserves against (a) net balances due from domestic offices to their foreign branches and (b) foreign-branch loans to U.S. residents; Regulation D imposed a similar requirement against (c) borrowings from foreign banks by domestic offices of a member bank. Limited reserve-free base amounts were originally permitted under Regulation M but were eliminated for (b) effective June 21, 1973, and were lowered in steps for (a) and (c) until eliminated effective Mar. 4, 1974. Beginning June 21, 1973, loans aggregating $100,000 or less to any U.S. res-

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12.—Continued

ident were excluded from computations, as were total loans of a bank to U.S. residents if not exceeding $1 million. The applicable reserve percentage, which was originally 10 percent, was increased to 20 percent on Jan. 7, 1971; reduced to 8 percent on June 21, 1973, to 4 percent on May 22, 1975, and to zero on Aug. 24, 1978. Effective Dec. 1, 1977, the reserve required against deposits that foreign branches of U.S. banks use for lending to U.S. residents was reduced to 1 percent, and on Aug. 24, 1978, it was reduced to zero. For details see Regulations D and M as described in "Record of Policy Actions of the Board of Governors," 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. Time deposits such as Christmas and vacation club accounts became subject to the same requirements as savings deposits, effective Jan. 5, 1967. Negotiable order of withdrawal (NOW) accounts were defined in the Board's Regulation Q as savings deposits beginning Jan. 1, 1974. Effective with the reserve computation period beginning Nov. 16, 1978, domestic deposits of Edge corporations were subject to the same reserve requirements as deposits of member banks.

5. This rate had been established in the earlier structure. It remained the same in the new structure established this date.

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 maintain reserves related to the size of its net demand deposits. The new reserve city designations were as follows: A bank having net demand deposits of more than $400 million was considered to have the character of business of a reserve city bank, and the presence of the head office of such a bank constituted designation of that place as a reserve city. Cities in which there were Federal Reserve Banks or branches were also reserve cities. Any bank, wherever located, having net demand deposits of $400 million or less was considered to have the character of business of banks outside of reserve cities and was permitted to maintain reserves at ratios set for banks not in reserve cities.

7. Beginning Nov. 2, 1978, a supplementary reserve requirement of 2 percent was added to the existing requirements for time deposits of $100,000 or more and for certain other liabilities. This supplementary requirement was eliminated with the maintenance period beginning July 24, 1980.

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 percent during the entire period), requirements were as follows: 8 percent for (a) and (b) from June 21 through Oct. 3, 1973, and for (c) from July 12 through Oct. 3, 1973; 11 percent from Oct. 4 through Dec. 26, 1973; and 8 percent from Dec. 27, 1973, through Sept. 18, 1974. Beginning Sept. 19, the 8 percent requirement applied only to those obligations in (a), (b), and (c) with initial maturities of less than 120 days, and effective Dec. 12, 1974, the remaining marginal reserve was removed on this type of obligation issued to mature in less than 4 months. For details, see "Record of Policy Actions of the Board of Governors" in 1973 and 1974 ANNUAL REPORTS.

Effective with the reserve maintenance period beginning Oct. 25, 1979, a marginal reserve requirement of 8 percent was added to managed liabilities in excess of a base amount. This marginal requirement was increased to 10 percent beginning Apr. 3, 1980, was decreased to 5 percent beginning June 12, 1980, and was eliminated beginning July 24, 1980. Managed liabilities are defined as large time deposits, Eurodollar borrowings, repurchase agreements against U.S. government and federal agency securities, federal funds borrowings from nonmember institutions, and certain other obligations. In general, the base for the marginal reserve requirement was originally the greater of (a) $100 million or (b) the average amount of the managed liabilties held by a member bank, Edge corporation, or family of U.S. branches and agencies of a foreign bank for the two reserve computation periods ending Sept. 26, 1979. For the computation period beginning Mar. 20, 1980, the base was lowered by (a) 7 percent or (b) the decrease in an institution's U.S. office gross loans to foreigners and gross balances due from foreign offices of other institutions between the base period (Sept. 13–26, 1979) and the week ending Mar. 12, 1980, whichever was greater. For the computation period beginning May 29, 1980, the base was increased 7½ percent above the base used to calculate the marginal reserve in the statement week of May 14–21, 1980. In addition, beginning Mar. 19, 1980, the base was reduced to the extent that foreign loans and balances declined.

8. The 16½ percent requirement applied only for one week and solely to former reserve city banks. For other banks, the 13 percent requirement was continued in this deposit interval.

9. The average of reserves on savings and other time deposits had to be at least 3 percent, the legal minimum at that time.

10. The Garn–St Germain Depository Institutions Act of 1982 (P.L. 97–320) provides that $2 million of reservable liabilities (transaction accounts, nonpersonal time deposits, and Eurocurrency liabilities) of each depository institution are subject to a reserve requirement of zero percent. Each year the Board will adjust the amount of reservable liabilities subject to the zero percent requirement 80 percent of the percentage increase in the total reservable liabilities of all depository institutions as of June 30; no adjustment is made in the event of a decrease.

Effective Dec. 9, 1982, the amount of the exemption was established at $2.1 million. In determining the reserve requirements of a depository institution, the exemption applies in the following order: (1) net negotiable order of withdrawal (NOW) accounts (that is, NOW accounts less allowable deductions); (2) net other transaction accounts; and (3) nonpersonal time deposits or Eurocurrency liabilities, starting with those with the highest reserve ratio. With respect to NOW and to other transaction accounts, the exemption applies only to the accounts that would be subject to a 3 percent reserve requirement.

11. For nonmember banks and thrift institutions that were not members of the Federal Reserve System on or after July 1, 1979, a phase-in period ends September 3, 1987. For banks that were members on or after July 1, 1979, but withdrew on or before Mar. 31, 1980, the phase-in period established by P.L. 97–320 ends on Oct. 24, 1985. For existing member banks the phase-in period is about three years, depending on whether their new reserve requirements are greater or less than the old requirements. All new institutions will have a two-year phase-in beginning with the date that they open for business, except for those institutions that have total reservable liabilities of $50 million or more.

12. Transaction accounts include all deposits on which the account holder is permitted to make withdrawals by negotiable or transferable instruments, payment orders of withdrawal, and telephone and preauthorized transfers (in excess of three per month) for the purpose of making payments to third persons or others. However, money market deposit accounts (MMDAs) authorized under 12 CFR 1204.122, and similar accounts offered by institutions not subject to the rules of the Depository Institutions Deregulation Committee that permit up to six preauthorized, automatic, or other transfers per month, of which no more than three can be checks, are not transaction accounts. Such accounts are savings deposits subject to the reserve requirements for time deposits.

13. The Monetary Control Act of 1980 requires that the amount of transaction accounts against which the 3 percent reserve requirement applies be modified annually 80 percent of the percentage change in transaction accounts held by all depository institutions, as of June 30 each year. Effective Dec. 31, 1981, the amount was increased from $25 million to $26 million; and effective Dec. 30, 1982, to $26.3 million.

14. In general nonpersonal time deposits are time deposits, including savings deposits, that are not transaction accounts and in which the beneficial interest is held by a depositor that is not a natural person. Also included are all transferable time deposits and certain obligations issued to depository institution offices located outside the United States. For details, see section 204.2 of Regulation D.

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13. Maximum Interest Rates Payable on Time and Savings Deposits at Federally Insured Institutions[1]

Percent per annum

Type and maturity of deposit	Commercial banks				Savings and loan associations and mutual savings banks (thrift institutions)			
	In effect Dec. 31, 1982		Previous maximum		In effect Dec. 31, 1982		Previous maximum	
	Percent	Effective date	Percent	Effective date	Percent	Effective date	Percent	Effective date
Savings	5¼	7/1/79	5	7/1/73	5½	7/1/79	5¼	(2)
Negotiable order of withdrawal accounts [3]	5¼	12/31/80	5	1/1/74	5¼	12/31/80	5	1/1/74
Time accounts [4]								
Fixed ceiling rates by maturity [5]								
14–89 days [6]	5¼	8/1/79	5	7/1/73	(7)	....	(7)	....
90 days to 1 year	5¾	1/1/80	5½	7/1/73	6	1/1/80	5¾	(2)
1 to 2 years [8]	6	7/1/73	5½	1/21/70	6½	(2)	5¾	1/21/70
2 to 2½ years [8]			5¾	1/21/70			6	1/21/70
2½ to 4 years [8]	6½	7/1/73	5¾	1/21/70	6¾	(2)	6	1/21/70
4 to 6 years [9]	7¼	11/1/73	(10)	....	7½	11/1/73	(10)	....
6 to 8 years [9]	7½	12/23/74	7¼	11/1/73	7¾	12/23/74	7½	11/1/73
8 years or more [9]	7¾	6/1/78	(7)	....	8	6/1/78	(7)	....
Issued to governmental units (all maturities) [11]	8	6/1/78	7¾	12/23/74	8	6/1/78	7¾	12/23/74
IRAs and Keogh (H.R. 10) plans (3 years or more) [11,12]	8	6/1/78	7¾	7/6/77	8	6/1/78	7¾	7/6/77

1. For the history of interest rate ceilings before 1982, see previous editions of the ANNUAL REPORT.
2. July 1, 1973, for mutual savings banks; July 6, 1973, for savings and loan associations.
3. Federally insured commercial banks, savings and loan associations, cooperative banks, and mutual savings banks in Massachusetts and New Hampshire were first permitted to offer negotiable order of withdrawal (NOW) accounts on Jan. 1, 1974. Authorization to issue NOW accounts was extended to similar institutions throughout New England on Feb. 27, 1976, in New York State on Nov. 10, 1978, New Jersey on Dec. 28, 1979, and to similar institutions nationwide effective Dec. 31, 1980.
4. For exceptions with respect to certain foreign time deposits see the *Federal Reserve Bulletin* for October 1962 (p. 1279), August 1965 (p. 1084), and February 1968 (p. 167).
5. Effective Nov. 10, 1980, the minimum notice period for public unit accounts at savings and loan associations was decreased to 14 days and the minimum maturity period for time deposits at savings and loan associations in excess of $100,000 was decreased to 14 days. Effective Oct. 30, 1980, the minimum maturity or notice period for time deposits was decreased from 30 to 14 days at mutual savings banks.
6. Effective Oct. 30, 1980, the minimum maturity or notice period for time deposits was decreased from 30 to 14 days at commercial banks.
7. No separate account category.
8. No minimum denomination. Until July 1, 1979, a minimum of $1,000 was required for savings and loan associations, except in areas where mutual savings banks permitted lower minimum denominations. This restriction was removed for deposits maturing in less than 1 year, effective Nov. 1, 1973.
9. No minimum denomination. Until July 1, 1979, the minimum denomination was $1,000 except for deposits representing funds contributed to an individual retirement account (IRA) or a Keogh (H.R. 10) plan established pursuant to the Internal Revenue Code. The $1,000 minimum requirement was removed for such accounts in December 1975 and November 1976 respectively.
10. Between July 1, 1973, and Oct. 31, 1973, certificates maturing in 4 years or more with minimum denominations of $1,000 had no ceiling; however, the amount of such certificates that an institution could issue was limited to 5 percent of its total time and savings deposits. Sales in excess of that amount, as well as certificates of less than $1,000, were limited to the 6½ percent ceiling on time deposits maturing in 2½ years or more. Effective Nov. 1, 1973, ceilings were reimposed on certificates maturing in 4 years or more with minimum denomination of $1,000. There is no limitation on the amount of these certificates that banks can issue.
11. Accounts subject to fixed-rate ceilings. See footnote 8 for minimum denomination requirements.
12. Effective Jan. 1, 1980, commercial banks are permitted to pay the same rate as thrift institutions on IRA and Keogh accounts and accounts of governmental units when such deposits are placed in 2½-year-or-more variable-ceiling certificates or in 26-week money market certificates regardless of the level of the Treasury bill rate.

NOTE. Before Mar. 31, 1980, the maximum rates that could be paid by federally insured commercial banks, mutual savings banks, and savings and loan associations were established by the Board of Governors of the Federal Reserve System, the Board of Directors of the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board under the provisions of 12 CFR 217, 329, and 526 respectively. Title II of the Depository Institutions Deregulation and Monetary Control Act of 1980 (P.L. 96-221) transferred the authority of the agencies to establish maximum rates of interest payable on deposits to the Depository Institutions Deregulation Committee. The maximum rates on time deposits in denominations of $100,000 or more with maturities of 30–89 days were suspended in June 1970; the maximum rates for such deposits maturing in 90 days or more were suspended in May 1973. For information regarding previous interest rate ceilings on all types of accounts, see earlier issues of the *Federal Reserve Bulletin*, the *Federal Home Loan Bank Board Journal*, and the *Annual Report of the Federal Deposit Insurance Corporation*.

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13.—Continued

TIME DEPOSITS SUBJECT TO VARIABLE CEILING RATES

7- to 31-day time deposits. Effective Sept. 1, 1982, depository institutions are authorized to issue nonnegotiable time deposits of $20,000 or more with a maturity or required notice period of 7 to 31 days. The maximum rate of interest payable by thrift institutions is the rate established and announced (auction average on a discount basis) for U.S. Treasury bills with maturities of 91 days at the auction held immediately before the date of deposit or renewal ("bill rate"). Commercial banks may pay the bill rate minus 25 basis points. The interest rate ceiling is suspended when the bill rate is 9 percent or below for the four most recent auctions held before the date of deposit or renewal.

91-day time deposits. Effective May 1, 1982, depository institutions were authorized to offer time deposits that have a minimum denomination of $7,500 and a maturity of 91 days. The ceiling rate of interest on these deposits is indexed to the discount rate (auction average) on most recently issued 91-day Treasury bills for thrift institutions and the discount rate minimum 25 basis points for commercial banks. The rate differential ends 1 year from the effective date of these instruments and is suspended at any time the Treasury bill discount rate is 9 percent or below for four consecutive auctions.

Six-month money market time deposits. Effective June 1, 1978, commercial banks and thrift institutions were authorized to offer time deposits with a maturity of exactly 26 weeks and a minimum denomination requirement of $10,000. The ceiling rate of interest on these deposits is indexed to the discount rate (auction average) on most recently issued 26-week U.S. Treasury bills. Interest on these certificates may not be compounded. Effective for all 6-month money market certificates issued beginning Nov. 1, 1981, depository institutions may pay rates of interest on these deposits indexed to the higher of (1) the rate for 26-week Treasury bills established immediately before the date of deposit (bill rate) or (2) the average of the four rates for 26-week Treasury bills established for the 4 weeks immediately before the date of deposit (4-week average bill rate). Ceilings are determined as follows:

Bill rate or 4-week average bill rate	*Commercial bank ceiling*
7.50 percent or below	7.75 percent
Above 7.50 percent	¼ of 1 percentage point plus the higher of the bill rate or 4-week average bill rate
	Thrift ceiling
7.25 percent or below	7.75 percent
Above 7.25 percent, but below 8.50 percent	½ of 1 percentage point plus the higher of the bill rate or 4-week average bill rate
8.50 percent or above, but below 8.75 percent	9 percent
8.75 percent or above	¼ of 1 percentage point plus the higher of the bill rate or 4-week average bill rate

12-month all savers certificates. Effective Oct. 1, 1981, depository institutions are authorized to issue all savers certificates (ASCs) with a 1-year maturity and an annual investment yield equal to 70 percent of the average investment yield for 52-week U.S. Treasury bills as determined by the auction of 52-week Treasury bills held immediately before the calendar week in which the certificate is issued. A maximum lifetime exclusion of $1,000 ($2,000 on a joint return) from gross income is generally authorized for interest income from ASCs.

2½-year to less than 3½-year time deposits. Effective Aug. 1, 1981, commercial banks are authorized to pay interest on any variable ceiling nonnegotiable time deposit with an original maturity of 2½ years to less than 4 years at a rate not to exceed ¼ of 1 percent below the average 2½-year yield for U.S. Treasury securities as determined and announced by the Treasury Department immediately before the date of deposit. Effective May 1, 1982, the maximum maturity for this category of deposits was reduced to less than 3½ years. Thrift institutions may pay interest on these certificates at a rate not to exceed the average 2½-year yield for Treasury securities as determined and announced by the Treasury Department immediately before the date of deposit. If the announced average 2½-year yield for Treasury securities is less than 9.50 percent, commercial banks may pay 9.25 percent and thrift institutions 9.50 percent for these deposits. These deposits have no required minimum denomination, and interest may be compounded on them. The ceiling rates of interest at which they may be offered vary biweekly.

Between Jan. 1, 1980, and Aug. 1, 1981, commercial banks and thrift institutions were authorized to offer variable ceiling nonnegotiable time deposits with no required minimum denomination and with maturities of 2½ years or more. Effective Jan. 1, 1980, the maximum rate for commercial banks was ¾ percentage point below the average yield on 2½-year U.S. Treasury securities; the ceiling rate for thrift institutions was ¼ percentage point higher than that for commercial banks. Effective Mar. 1, 1980, a temporary ceiling of 11¾ percent was placed on these accounts at commercial banks and 12 percent on these accounts at savings and loans. Effective June 2, 1980, the ceiling rates for these deposits at commercial banks and savings and loans were increased ½ percentage point. The temporary ceiling was retained, and a minimum ceiling of 9.25 percent for commercial banks and 9.50 percent for thrift institutions was established.

TIME DEPOSITS NOT SUBJECT TO INTEREST RATE CEILINGS, BY MATURITY

Money Market Deposit Accounts. Effective Dec. 14, 1982, depository institutions are authorized to offer a new account with a required initial balance of $2,500 and an average maintenance balance of $2,500 not subject to interest rate restrictions. No minimum maturity period is required for this account, but depository institutions must reserve the right to require seven days' notice for withdrawals. When the average balance is less than $2,500, the account is subject to the maximum ceiling rate of interest for NOW accounts; compliance with the average-balance requirement may be determined over a period of one month. Depository institutions may not guarantee a rate of interest for this account for a period longer than one month or condition the payment of a rate on a requirement that the funds remain on deposit for longer than one month. No more than six preauthorized, automatic, or other third-party transfers are permitted per month, of which no more than three can be checks. Telephone transfers to third parties or to another account of the same depositor are regarded as preauthorized transfers.

IRAs and Keogh (H.R.10) plans (18 months or more). Effective Dec. 1, 1981, depository institutions are authorized to offer time deposits not subject to interest rate ceilings when the funds are deposited to the credit of, or in which the entire beneficial interest is held by, an individual pursuant to an IRA agreement or Keogh (H.R.10) plan. Such time deposits must have a minimum maturity of 18 months, and additions may be made to the time deposit at any time before its maturity without extending the maturity of all or a portion of the balance of the account.

Time deposits of 3½ years or more. Effective May 1, 1982, depository institutions are authorized to offer negotiable or nonnegotiable time deposits with a minimum original maturity of 3½ years or more that are not subject to interest rate ceilings. Such time deposits have no minimum denomination, but must be made available in a $500 denomination. Additional deposits may be made to the account during the first year without extending its maturity.

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14. Margin Requirements[1]

Percent of market value

Effective date	For credit extended under Regulation T (brokers and dealers), U (banks), G (others than brokers, dealers, or banks), and X (borrowers)			
	Margin stocks	Convertible bonds	Short sales, T only	Writing options, T only[2]
1934—Oct. 1	25–45	.....	(3)	.....
1936—Feb. 1	25–55	.....	(3)	.....
Apr. 1	55	.....	(3)	.....
1937—Nov. 1	40	.....	50	.....
1945—Feb. 5	50	.....	50	.....
July 5	75	.....	75	.....
1946—Jan. 21	100	.....	100	.....
1947—Feb. 1	75	.....	75	.....
1949—Mar. 3	50	.....	50	.....
1951—Jan. 17	75	.....	75	.....
1953—Feb. 20	50	.....	50	.....
1955—Jan. 4	60	.....	60	.....
Apr. 23	70	.....	70	.....
1958—Jan. 16	50	.....	50	.....
Aug. 5	70	.....	70	.....
Oct. 16	90	.....	90	.....
1960—July 28	70	.....	70	.....
1962—July 10	50	.....	50	.....
1963—Nov. 6	70	.....	70	.....
1968—Mar. 11	70	50	70	.....
June 8	80	60	80	.....
1970—May 6	65	50	65	.....
1971—Dec. 6	55	50	55	.....
1972—Nov. 24	65	50	65	.....
1974—Jan. 3	50	50	50	.....
1977—Jan. 1	50	50	50	30

1. Regulations T, U, G, and X, adopted by the Board of Governors pursuant to the Securities Exchange Act of 1934, limit the amount of credit to purchase and carry "margin securities" and "margin stock" (as defined in the regulations) when such credit is collateralized by securities. Margin requirements are the difference between the market value (100 percent) and the maximum loan value of collateral as prescribed by the Board. Regulation T was adopted effective Oct. 15, 1934; Regulation U, effective May 1, 1936; Regulation G, effective Mar. 11, 1968; and Regulation X, effective Nov. 1, 1971.

2. The margin is expressed as a percent of the current market value of the stock underlying the option.

3. The requirement was the margin "customarily required" by the brokers and dealers.

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15. Principal Assets and Liabilities, and Number of Insured Commercial Banks, by Class of Bank, June 30, 1982 and 1981 [1]

Asset and liability items shown in millions of dollars

Item	Insured commercial banks				Insured nonmember banks
	Total	Member banks			
		Total	National	State	
	June 30, 1982				
Loans and investments, total	1,396,530,061	1,009,655,435	780,667,097	228,988,338	396,874,626
Loans					
Gross	1,064,111,055	796,524,833	614,070,085	182,454,748	267,586,222
Net	1,032,708,466	774,416,606	597,080,537	177,336,069	258,291,860
Investments	332,419,006	213,130,602	166,597,012	46,533,590	119,288,404
U.S. Treasury securities	102,647,217	62,982,045	48,580,474	14,401,571	39,665,172
Other[2]	229,771,789	150,148,557	118,016,538	32,132,019	79,623,232
Cash assets, total	188,303,129	149,397,441	111,754,636	37,642,805	38,905,688
Deposits, total	1,292,282,619	916,428,968	720,651,972	195,776,996	375,853,651
Interbank	60,588,650	57,215,839	37,924,377	19,291,462	3,372,811
Other demand	307,125,361	226,028,487	172,186,397	53,842,090	81,096,874
Other time	924,568,557	633,184,631	510,541,202	122,643,429	291,383,926
Total equity capital	123,326,781	88,705,972	68,614,684	20,091,288	34,620,809
Number of banks	14,414	5,538	4,506	1,032	8,876
	June 30, 1981				
Loans and investments, total	1,254,421,202	896,060,439	698,551,950	197,508,489	1,254,421,202
Loans					
Gross	935,344,629	688,185,284	536,702,702	151,482,582	935,344,629
Net	906,046,456	668,064,557	521,110,004	146,954,553	906,046,456
Investments	319,076,573	207,875,155	161,849,248	46,025,907	319,076,573
U.S. Treasury securities	104,364,322	66,055,466	50,423,955	15,631,511	104,364,322
Other[2]	214,712,251	141,819,689	111,425,293	30,394,396	214,712,251
Cash assets, total	205,148,743	169,096,631	115,756,522	53,340,109	205,148,743
Deposits, total	1,210,720,048	861,723,042	664,475,770	197,247,272	1,210,720,048
Interbank	75,300,099	72,030,999	40,427,802	31,603,197	75,300,099
Other demand	332,030,778	244,334,669	182,377,437	61,957,232	332,030,778
Other time	803,389,126	545,357,350	441,670,516	103,686,834	803,389,126
Total equity capital	113,279,656	81,288,763	62,996,277	18,292,486	113,279,656
Number of banks	14,443	5,472	4,453	1,019	8,971

1. All insured commercial banks in the United States.
2. Includes trading accounts for banks with assets of less than $100 million.

NOTE. Details may not add to totals because of rounding.

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16. Reserves of Depository Institutions, Federal Reserve Bank Credit, and Related Items—Year-End 1918–82, and Month-End 1982

Millions of dollars

Period	Factors supplying reserve funds										
	Federal Reserve Bank credit outstanding								Gold stock[4]	Special drawing rights certificate account	Treasury currency outstanding[5]
	U.S. government securities			Loans	Float[1]	All other[2]	Other Federal Reserve assets[3]	Total			
	Total	Bought outright	Held under repurchase agreement								
1918	239	239	0	1,766	199	294	0	2,498	2,873	0	1,795
1919	300	300	0	2,215	201	575	0	3,292	2,707	0	1,707
1920	287	287	0	2,687	119	262	0	3,355	2,639	0	1,709
1921	234	234	0	1,144	40	146	0	1,563	3,373	0	1,842
1922	436	436	0	618	78	273	0	1,405	3,642	0	1,958
1923	134	80	54	723	27	355	0	1,238	3,957	0	2,009
1924	540	536	4	320	52	390	0	1,302	4,212	0	2,025
1925	375	367	8	643	63	378	0	1,459	4,112	0	1,977
1926	315	312	3	637	45	384	0	1,381	4,205	0	1,991
1927	617	560	57	582	63	393	0	1,655	4,092	0	2,006
1928	228	197	31	1,056	24	500	0	1,809	3,854	0	2,012
1929	511	488	23	632	34	405	0	1,583	3,997	0	2,022
1930	739	686	43	251	21	372	0	1,373	4,306	0	2,027
1931	817	775	42	638	20	378	0	1,853	4,173	0	2,035
1932	1,855	1,851	4	235	14	41	0	2,145	4,226	0	2,204
1933	2,437	2,435	2	98	15	137	0	2,688	4,036	0	2,303
1934	2,430	2,430	0	7	5	21	0	2,463	8,238	0	2,511
1935	2,431	2,430	1	5	12	38	0	2,486	10,125	0	2,476
1936	2,430	2,430	0	3	39	28	0	2,500	11,258	0	2,532
1937	2,564	2,564	0	10	19	19	0	2,612	12,760	0	2,637
1938	2,564	2,564	0	4	17	16	0	2,601	14,512	0	2,798
1939	2,484	2,484	0	7	91	11	0	2,593	17,644	0	2,963
1940	2,184	2,184	0	3	80	8	0	2,274	21,995	0	3,087
1941	2,254	2,254	0	3	94	10	0	2,361	22,737	0	3,247
1942	6,189	6,189	0	6	471	14	0	6,679	22,726	0	3,648
1943	11,543	11,543	0	5	681	10	0	12,239	21,938	0	4,094
1944	18,846	18,846	0	80	815	4	0	19,745	20,619	0	4,131
1945	24,262	24,262	0	249	578	2	0	15,091	20,065	0	4,339
1946	23,350	23,350	0	163	580	1	0	24,093	20,529	0	4,562
1947	22,559	22,559	0	85	535	1	0	23,181	22,754	0	4,562
1948	23,333	23,333	0	223	541	1	0	24,097	24,244	0	4,589
1949	18,885	18,885	0	78	534	2	0	19,499	24,427	0	4,598
1950	20,778	20,725	53	67	1,368	3	0	22,216	22,706	0	4,636
1951	23,801	23,605	196	19	1,184	5	0	25,009	22,695	0	4,709
1952	24,697	24,034	663	156	967	4	0	25,825	23,187	0	4,812
1953	25,916	25,318	598	28	935	2	0	26,880	22,030	0	4,894
1954	24,932	24,888	44	143	808	1	0	25,885	21,713	0	4,985
1955	24,785	24,391	394	108	1,585	29	0	26,507	21,690	0	5,008
1956	24,915	24,610	305	50	1,665	70	0	26,699	21,949	0	5,066
1957	24,238	23,719	519	55	1,424	66	0	25,784	22,781	0	5,146
1958	26,347	26,252	95	64	1,296	49	0	27,755	20,534	0	5,234
1959	26,648	26,607	41	458	1,590	75	0	28,771	19,456	0	5,311
1960	27,384	26,984	400	33	1,847	74	0	29,338	17,767	0	5,398
1961	28,881	30,478	159	130	2,300	51	0	31,362	16,889	0	5,585
1962	30,820	28,722	342	38	2,903	110	0	33,871	15,978	0	5,567
1963	33,593	33,582	11	63	2,600	162	0	36,418	15,513	0	5,578
1964	37,044	36,506	538	186	2,606	94	0	39,930	15,388	0	5,405

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16.—Continued

Factors absorbing reserve funds										
Currency in circulation	Treasury cash holdings[6]	Deposits, other than reserves, with Federal Reserve Banks			Other Federal Reserve accounts[3]	Other Federal Reserve liabilities and capital[3]	Member bank reserves			
		Treasury	Foreign	Other			With Federal Reserve Banks	Currency and coin[7]	Required[8]	Excess[8]
4,951	288	51	96	25	118	0	1,636	0	1,585	51
5,091	385	31	73	28	208	0	1,890	0	1,822	68
5,325	218	57	5	18	298	0	1,781	0	0	0
4,403	214	96	12	15	285	0	1,753	0	1,654	99
4,530	225	11	3	26	276	0	1,934	0	0	0
4,757	213	38	4	19	275	0	1,898	0	1,884	14
4,760	211	51	19	20	258	0	2,220	0	2,161	59
4,817	203	16	8	21	272	0	2,212	0	2,256	−44
4,808	201	17	46	19	293	0	2,194	0	2,250	−56
4,716	208	18	5	21	301	0	2,487	0	2,424	63
4,686	202	23	6	21	348	0	2,389	0	2,430	−41
4,578	216	29	6	24	393	0	2,355	0	2,428	−73
4,603	211	19	6	22	375	0	2,471	0	2,375	96
5,360	222	54	79	31	354	0	1,961	0	1,994	−33
5,388	272	8	19	24	355	0	2,509	0	1,933	576
5,519	284	3	4	128	360	0	2,729	0	1,870	859
5,536	3,029	121	20	169	241	0	4,096	0	2,282	1,814
5,882	2,566	544	29	226	253	0	5,587	0	2,743	2,844
6,543	2,376	244	99	160	261	0	6,606	0	4,622	1,984
6,550	3,619	142	172	235	263	0	7,027	0	5,815	1,212
6,856	2,706	923	199	242	260	0	8,724	0	5,519	3,205
7,598	2,409	634	397	256	251	0	11,653		6,444	5,209
8,732	2,213	368	1,133	599	284	0	14,026	0	7,411	6,615
11,160	2,215	867	774	586	291	0	12,450	0	9,365	3,085
15,410	2,193	799	793	485	256	0	13,117	0	11,129	1,988
20,499	2,303	579	1,360	356	339	0	12,886	0	11,650	1,236
25,307	2,375	440	1,204	394	402	0	14,373	0	12,748	1,625
28,515	2,287	977	862	446	495	0	15,915	0	14,457	1,458
28,952	2,272	393	508	314	607	0	16,139	0	15,577	562
28,868	1,336	870	392	569	563	0	17,899	0	16,400	1,499
28,224	1,325	1,123	642	547	590	0	20,479	0	19,277	1,202
27,600	1,312	821	767	750	106	0	16,568	0	15,550	1,018
27,741	1,293	668	895	565	714	0	17,681	0	16,509	1,172
29,206	1,270	247	526	363	746	0	20,056	0	19,667	389
30,433	1,270	389	550	455	777	0	19,950	0	20,520	−570
30,781	761	346	423	493	839	0	20,160	0	19,397	763
30,509	796	563	490	441	907	0	18,876	0	18,618	258
31,158	767	394	402	554	925	0	19,005	0	18,903	102
31,790	775	441	322	426	901	0	19,059	0	19,089	−30
31,834	761	481	356	246	998	0	19,034	0	19,091	−57
32,193	683	358	272	391	1,122	0	18,504	0	18,574	−70
32,591	391	504	345	694	841	0	18,174	310	18,619	−135
32,869	377	485	217	533	941	0	17,081	2,544	18,988	637
33,918	422	465	279	320	1,044	0	17,387	2,544	18,988	96
35,338	380	597	247	393	1,007	0	17,454	3,262	20,071	645
37,692	361	880	171	291	1,065	0	17,049	4,099	20,677	471
39,619	612	820	229	321	1,036	0	18,086	4,151	21,663	574

For notes see last two pages of table.

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16. Reserves of Depository Institutions, Federal Reserve Bank Credit, and Related Items—Year-End 1918–82, and Month-End 1982—Continued

Millions of dollars

Period	Factors supplying reserve funds										
	Federal Reserve Bank credit outstanding								Gold stock[4]	Special drawing rights certificate account	Treasury currency outstanding[5]
	U.S. government securities[9]			Loans	Float[1]	All other[2]	Other Federal Reserve assets[3]	Total			
	Total	Bought outright[10]	Held under repurchase agreement								
1965	40,768	40,478	290	137	2,248	187	0	43,340	13,733	0	5,575
1966	44,316	43,655	661	173	2,495	193	0	47,177	13,159	0	6,317
1967	49,150	48,980	170	141	2,576	164	0	52,031	11,982	0	6,784
1968	52,937	52,937	0	186	3,443	58	0	56,624	10,367	0	6,795
1969	57,154	57,154[10]	0	183	3,440	64	2,743	63,584	10,367	0	6,852
1970	62,142	62,142	0	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
1975	94,124	92,789	1,335	211	3,688	1,126	3,312	102,461	11,599	500	10,218
1976	104,093	100,062	4,031	25	2,601	991	3,182	110,892	11,598	1,200	10,810
1977	111,274	108,922	2,352	265	3,810	954	2,442	118,745	11,718	1,250	11,331
1978	118,591	117,374	1,217	1,174	6,432	587	4,543	131,327	11,671	1,300	11,831
1979	126,167	124,507	1,660	1,454	6,767	704	5,613	140,705	11,172	1,800	13,083
1980	130,592	128,038	2,554	1,809	4,467	776	8,739	146,383	11,160	2,518	13,427
1981	140,348	136,863	3,485	1,601	1,762	195	9,230	153,136	11,151	3,318	13,687
1982	148,837	144,544	4,293	717	2,735	1,480	9,890	163,659	11,148	4,618	13,786
1982											
Jan.	137,422	134,025	3,397	2,217	1,635	597	9,689	151,560	11,151	3,318	14,523
Feb.	134,436	134,436	0	1,180	2,959	0	9,043	147,618	11,150	3,568	14,579
Mar.	134,684	133,005	1,679	2,646	1,882	488	9,029	148,729	11,150	3,568	13,734
Apr.	144,261	137,996	6,265	1,799	1,507	768	10,394	158,729	11,149	3,818	13,756
May	138,415	138,415	0	1,058	1,776	0	8,635	149,884	11,149	3,818	13,767
June	136,007	136,007	0	1,638	2,545	0	8,813	149,003	11,149	3,818	13,781
July	141,641	141,641	0	458	1,713	0	9,956	153,768	11,149	4,018	13,786
Aug.	142,042	140,624	1,418	449	1,446	565	9,141	153,643	11,148	4,018	13,786
Sept.	144,343	139,540	4,803	1,123	550	813	9,673	156,502	11,148	4,218	13,786
Oct.	141,023	141,023	0	438	1,168	0	10,131	152,760	11,148	4,218	13,786
Nov.	146,619	146,619	0	374	2,401	0	9,685	159,079	11,148	4,418	13,786
Dec.	148,837	144,544	4,293	717	2,735	1,480	9,890	163,659	11,148	4,618	13,786

1. Beginning with 1960, figures reflect a minor change in concept; see *Federal Reserve Bulletin*, vol. 47 (February 1961), p. 164.
2. Data consist principally of acceptances and, until Aug. 21, 1959, industrial loans, authority for which expired on that date.
3. Before Apr. 16, 1969, this category includes the total of Federal Reserve Bank capital paid in, surplus, other capital accounts, and other liabilities and accrued dividends less the sum of bank premises and other assets, and was reported as "Other Federal Reserve accounts"; thereafter, "Other Federal Reserve assets" and "Other Federal Reserve liabilities and capital" are shown separately.
4. Before Jan. 30, 1934, data include gold held in Federal Reserve Banks and in circulation.
5. These figures include currency and coin (other than gold) issued directly by the Treasury. The largest components are fractional and dollar coins. For details see the regular table, "Currency and Coin in Circulation," in the *Treasury Bulletin*.
6. This category consists of the coin and paper currency held by the Treasury, as well as any gold in excess of the gold certificates issued to the Reserve Bank.
7. Between Dec. 1, 1959, and Nov. 23, 1960, part of the amount was allowed as reserves; thereafter all was allowed.
8. These figures are estimated through 1958. Before 1929, they were available only on call dates (in 1920 and 1922, the call dates were Dec. 29). Beginning Sept. 12, 1968, the amount is based on close-of-business figures for the reserve period 2 weeks previous to the report date.
9. Beginning Dec. 1, 1966, these securities include federal agency obligations held under repurchase agreements and beginning Sept. 29, 1971, federal agency issues bought outright.
10. *Includes*, beginning 1969, securities loaned—fully guaranteed by U.S. government securities pledged with Federal Reserve Banks—and *excludes* (if any) securities sold and scheduled to be bought back under matched sale-purchase transactions.

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16.—Continued

Factors absorbing reserve funds											
Currency in circulation	Treasury cash holdings[6]	Deposits, other than reserves, with Federal Reserve Banks			Other Federal Reserve accounts[3]	Required clearing balances	Other Federal Reserve liabilities and capital[3]	Member bank reserves[11]			
		Treasury	Foreign	Other				With Federal Reserve Banks	Currency and coin[7]	Required[8]	Excess[8,12]
42,056	760	668	150	355	211	0	0	18,447	4,163	22,848	-238
44,663	1,176	416	174	588	-147	0	0	19,779	4,310	24,321	-232
47,226	1,344	1,123	135	653	-773	0	0	21,092	4,631	25,905	-182
50,961	695	703	216	747	-1,353	0	0	21,818	4,921	27,439	-700
53,950	596	1,312	134	807	0	0	1,919	22,085	5,187	28,173	-901
57,093	431	1,156	148	1,233	0	0	1,986	24,150	5,423	30,033	-460
61,068	460	2,020	294	999	0	0	2,131	27,788	5,743	32,496	1,035
66,516	345	1,855	325	840	0	0	2,143	25,647	6,216	32,044	98 [12]
72,497	317	2,542	251	1,419[13]	0	0	2,669	27,060	6,781	35,268	-1,360
79,743	185	3,113	418	1,275[13]	0	0	2,935	25,843	7,370	37,011	-3,798
86,547	483	7,285	353	1,090	0	0	2,968	26,052	8,036	35,197	-1,103 [14]
93,717	460	10,393	352	1,357	0	0	3,063	25,158	8,628	35,461	-1,535
103,811	392	7,114	379	1,187	0	0	3,292	26,870	9,421	37,615	-1,265
114,645	240	4,196	368	1,256	0	0	4,275	31,152	10,538	42,694	-893
125,600	494	4,075	429	1,412	0	0	4,957	29,792	11,429	44,217	-2,835
136,829	441	3,062	411	617	0	0	4,671	27,456	13,654	40,558	675
144,774	443	4,301	505	781	0	117	5,261	25,111	15,576	42,145	-1,442
154,908	429	5,033	328	1,033	0	436	4,990	26,053	16,666	41,391	1,328
140,475	462	8,285	333	393	0	135	5,539	24,931	16,341	42,300	-1,028
140,525	470	3,835	416	414	0	139	6,291	24,825	15,007	40,542	-710
141,673	484	2,866	421	425	0	167	4,955	26,190	14,914	38,824	2,280
143,044	491	12,239	966	450	0	176	5,561	24,526	15,888	40,115	299
145,523	477	2,540	308	523	0	189	5,784	23,274	15,441	38,922	-207
147,134	460	4,099	586	437	0	213	4,837	19,985	15,872	39,804	-3,947
147,051	418	3,275	982	663	0	221	5,359	24,752	16,040	39,701	1,091
148,310	418	3,234	348	502	0	247	4,791	24,745	15,814	40,066	493
148,093	423	10,975	396	405	0	300	5,047	20,015	16,752	39,737	-2,970
148,922	444	2,309	327	450	0	356	4,783	24,321	16,877	40,701	497
152,895	444	2,247	387	717	0	408	5,209	26,124	17,103	41,355	1,872
154,908	429	5,033	328	1,033	0	436	4,990	26,053	16,666	41,391	1,328

11. Beginning November 1979, includes reserves of member banks, Edge Act corporations, and U.S. agencies and branches of foreign banks. Beginning Nov. 13, 1980, includes reserves of all depository institutions.

12. Beginning with the week ending Nov. 15, 1972, figures include $450 million of reserve deficiencies on which Federal Reserve 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.

13. Beginning July 1973, this item includes certain deposits of domestic nonmember banks and foreign-owned banking institutions held with member banks and redeposited in full with Federal Reserve 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 Federal Reserve Banks that are associated with marginal reserves are no longer reported. However, two amounts are reported: (1) deposits voluntarily held as reserves by agencies and branches of foreign banks operating in the United States, and (2) Eurodollar liabilities.

14. Beginning with the week ending Nov. 19, 1975, figures are adjusted to include waivers of penalties for reserve deficiencies, in accordance with change in Board policy that became effective Nov. 19, 1975.

NOTE. For a description of figures and discussion of their significance, see "Member Bank Reserves and Related Items," Section 10 of *Banking and Monetary Statistics, 1941–1970* (Board of Governors of the Federal Reserve System, Sept. 1, 1976), pp. 507–23.

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17. Changes in Number of Banking Offices in the United States, 1982

Type of office and change	All banks	Commercial banks (including stock savings banks and nondeposit trust companies)						Mutal savings banks	
		Total	Member			Nonmember			
			Total	National	State	Insured	Noninsured	Insured	Noninsured
Banks, Dec. 31, 1981	**15,323**	**14,882**	**5,474**	**4,454**	**1,020**	**8,927[r]**	**481[r,1]**	**330**	**111**
Changes during 1982									
New banks	378	378	240	199	41	77	61	....	....
Ceased banking operation	−1	−1	....	....	....	−1	−1	....	....
Voluntary liquidation	−4	−4	....	....	....	....	−4	....	....
Suspensions	−1	−1	....	....	....	−1	....	....	....
Placed in receivership	−6	−6	−1	−1	....	−3	−2	....	....
Banks converted into branches	−262	−246	−116	−87	−29	−130	....	−15	−1
Other	−45	−42	−16	−15	−1	−18	−8	−2	−1
Interclass changes									
Nonmember to national	....	....	36	36	....	−36	....	....	....
Nonmember to state member	....	....	11[2]	....	11[2]	−10	....	....	....
State member to national	....	....	....	9	−9	....	....	....	....
State member to nonmember	....	....	−3	....	−3	3	....	....	....
National to state member	....	....	....	−8	8	....	....	....	....
National to nonmember	....	....	−9	−9	....	9	....	....	....
Noninsured national to national	1	1	1	1	....	....	....	....	....
Noninsured mutual to insured mutual	....	....	....	....	....	....	....	6	−6
Noninsured nonmember to state member	....	....	2	....	2	....	−2	....	....
Noninsured to insured	....	....	....	....	....	1	−1	....	....
Noninsured state member to noninsured	1	1	....	....	....	....	1	....	....
Noninsured nonmember to insured	1	1	....	....	....	1[3]	....	....	....
Insured mutual to insured nonmember	....	2	....	....	....	2	....	−2	....
Insured mutual to federal mutual	−2	....	....	....	....	....	....	−2	....
Net change	**60**	**83**	**145**	**125**	**20**	**−106**	**44**	**−15**	**−8**
Dec. 31, 1982	**15,383**	**14,965**	**5,619**	**4,579**	**1,040**	**8,821**	**525**	**315**	**103**

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17.—Continued

Type of office and change	All banks	Commercial banks (including stock savings banks and nondeposit trust companies)						Mutual savings banks	
		Total	Member			Nonmember		Insured	Non-insured
			Total	National	State	Insured	Non-insured		
Branches and additional offices, Dec. 31, 1981[6]	**43,547**	**40,405**	**25,761**	**20,598**	**5,163**	**14,584**	**60**	**2,872**	**270**
Changes during 1982									
De novo	1,666	1,575	847	691	156	727	1	86	5
Banks converted	264	247	174	140	34	73		17	
Discontinued	−443	−393	−274	−229	−45	−119		−48	−2
Sale of branch		−5	−1	5	−6	−4		5	
Interclass changes									
Nonmember to national			383	383		−383			
Nonmember to state member	46[3]	46[3]	104		104	−58			
Nonmember to insured mutual		−2				−2		2	
State member to national				184	−184				
State member to nonmember			−14		−14	14			
National to state member				−160	160				
National to nonmember			−26	−26		26			
Noninsured mutual to insured mutual								27	−27
Insured mutual to federal mutual	−25							−25	
Insured mutual to insured nonmember		37				37		−37	
Insured mutual to national		2	2	2				−2	
Other	−4	−4	−3	−3		1	−2	−2	2
Discontinued ATM branches[5]	−2,888	−2,429	−1,818	−1,423	−395	−611		−459	
Net change	**−1,384**	**−926**	**−626**	**−436**	**−190**	**−299**	**−1**	**−436**	**−22**
Dec. 31, 1982[6]	**42,163**	**39,479**	**25,135**	**20,162**	**4,973**	**14,285**	**59**	**2,436**	**248**
Banking facilities Dec. 31, 1981[7]	**154r**	**154r**	**129r**	**117r**	**12r**	**25**			
Changes during 1982									
Interclass changes									
State member to national				1	−1				
Other	−4	−4	−4	−4					
Net change	**−4**	**−4**	**−4**	**−3**	**−1**				
Dec. 31, 1982[7]	**150**	**150**	**125**	**114**	**11**	**25**			

1. As of Dec. 1982, includes 13 state member noninsured and 1 noninsured national trust companies.
2. Reflects 1 insured nonmember bank in Puerto Rico that was admitted to Federal Reserve membership.
3. Reflects 1 noninsured nonmember bank in Puerto Rico that became insured by the FDIC.
4. Branches of insured nonmember bank in Puerto Rico that was admitted to Federal Reserve membership.
5. The Board no longer maintains ATMs.
6. Figures exclude banking facilities.
7. Data include facilities provided at military and other government establishments through arrangements made by the Treasury.
r Revised.

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18. Mergers, Consolidations, Acquisitions of Assets or Assumptions of Liabilities Approved by the Board of Governors, 1982

United Jersey Bank/Southwest, Camden, New Jersey, ***to acquire certain assets and assume the deposit liabilities*** **of a branch of The Bank of New Jersey, Camden, New Jersey**

SUMMARY REPORT BY THE ATTORNEY GENERAL (2/19/82)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (2/4/82)
United Jersey Bank/Southwest (Applicant), with assets of $106 million, proposes to acquire certain assets and assume the deposit liabilities of the Pine Hill office (Branch), with assets of $7 million, of The Bank of New Jersey.

The relevant market in this proposal is the Philadelphia-Camden market, in which Applicant ranks twenty-third among forty-five commercial banks, with 0.5 percent of the area's commercial bank deposits. The proposed merger would not alter Applicant's rank in the market and would not substantially increase Applicant's share of market deposits. The proposal would have no significant effect on competition.

The proposal would not alter the generally satisfactory condition of Applicant, and it would allow continued operation of an office that The Bank of New Jersey had intended to discontinue in carrying out a decision to curtail retail operations. Thus the proposal would have a positive effect on the convenience and needs of the area immediately surrounding Branch.

Michigan Bank-Port Huron, Port Huron, Michigan, ***to merge with*** **Marine Bank & Trust, Marine City, Michigan**

SUMMARY REPORT BY THE ATTORNEY GENERAL
(No report received.)

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (2/19/82)
Michigan Bank-Port Huron (Applicant), a proposed state member bank, with assets of $239 million, proposes to merge Marine Bank & Trust (Bank), with assets of $44 million. Applicant is a subsidiary of Michigan National Corporation, Bloomfield Hills, Michigan (MNC), which ranks second among Michigan's commercial banking organizations, with about 12 percent of the deposits held by banking offices in the state.

The relevant market in this proposal is the Detroit area, in which MNC ranks fourth among forty-nine commercial banking organizations, with 11.5 percent of area deposits. If the proposed merger took place, MNC would continue to rank fourth in the market and would increase its share of market deposits by 0.2 percentage point. The two closest commercial banking offices to the sole office of Bank are both branches of Applicant. Two savings and loan associations, with organizational deposits of $167 million and $449 million, operate offices in Marine City. Overall, the competitive effect of the proposal would not be sufficiently adverse to warrant disapproval.

Both Applicant and Bank are in satisfactory condition, and the condition of the resulting bank would be satisfactory.

The proposal would improve the services at the Bank's current office. Among the new services that would be offered are automatic payrolls, a foreign department, issuance of credit cards, and electronic funds transfers. Further, trust services would be expanded, interest rates on passbook savings accounts raised, and Saturday lobby hours would be expanded. The convenience and needs of the community to be served are such as to outweigh any adverse competitive effects. Accordingly, consummation of the proposal is consistent with the public interest.

The Toledo Trust Company, Toledo, Ohio, ***to merge with*** **The Peoples Bank, Carey, Ohio**

SUMMARY REPORT BY THE ATTORNEY GENERAL (2/19/82)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (2/24/82)
The Toledo Trust Company (Applicant), with assets of $1 billion, proposes to merge The Peoples Bank (Bank), with assets of $23 million. Applicant is a subsidiary of Toledo Trustcorp, Inc. (TTI), which ranks thirteenth among Ohio's commercial banking organizations, with 2 percent of the deposits.

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18.—Continued

Bank ranks third among five commercial banks in the Wyandot County banking market, with 13.6 percent of total deposits. Neither Applicant nor any banking affiliate of TTI is represented in the Wyandot market. The proposal would not have a significant effect on competition.

The proposal would add trust powers and leasing services to the banking services available in the Wyandot County market. The convenience and need factors, including those relating to the Community Reinvestment Act, are consistent with approval.

The financial and managerial resources of Applicant are satisfactory, and the banking factors are consistent with approval.

Guardian State Bank, Salt Lake City, Utah, ***to merge with*** **Empire State Bank, Salt Lake City, Utah**

SUMMARY REPORT BY THE ATTORNEY GENERAL (4/2/82)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (3/30/82)
Guardian State Bank (Applicant), with assets of $5 million, proposes to merge Empire State Bank (Bank), with assets of $14 million.

In view of the financial condition of Bank, the Utah Commissioner of Financial Institutions has recommended expeditious action by the Federal Reserve System to prevent the failure of Bank. Thus the Reserve Bank requested that reports about competitive factors be furnished within 10 days. The convenience and need factors, as well as the competitive factors, are consistent with approval.

Peoples Bank of Danville, Danville, Virginia, ***to acquire certain assets and assume substantially all of the liabilities*** **of Aquia Bank and Trust Company, Stafford, Virginia**

SUMMARY REPORT BY THE ATTORNEY GENERAL
(No report received. Requests for reports on the competitive factors were dispensed with, as authorized by the Bank Merger Act, to permit the Reserve Bank to act immediately to safeguard depositors of Aquia Bank and Trust Company.)

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (4/5/82)
Peoples Bank of Danville (Applicant), with assets of $32 million, proposes to acquire certain assets and assume substantially all of the liabilities of Aquia Bank and Trust Company (Bank), with assets of $14 million.

On the basis of information before the Reserve Bank, an emergency situation clearly exists so that, pursuant to the provisions of the Bank Merger Act, the Reserve Bank is required to act immediately to safeguard Bank's depositors.

Bank has experienced financial and managerial problems that have reduced its competitiveness. The financial and managerial resources and prospects of the proposed organization would benefit the operations at the office now occupied by Bank without diminishing Applicant's prospects. The financial and managerial resources and prospects of Applicant are satisfactory, and, as a result of this proposal, Bank's customers would be served by a stronger organization.

First Virginia Bank-Highlands, Covington, Virginia, ***to merge with*** **The Bath County National Bank, Hot Springs, Virginia**

SUMMARY REPORT BY THE ATTORNEY GENERAL (5/14/82)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (5/20/82)
First Virginia Bank-Highlands (Applicant), with assets of $54 million, proposes to merge The Bath County National Bank (Bank), with assets of $19 million. Applicant is a subsidiary of First Virginia Bank, Inc., Falls Church, Virginia, which ranks seventh among Virginia's commercial banking organizations, with about 7 percent of the deposits held by banking offices in the state.

The relevant market in the proposal is the Bath County area, in which Bank is the only bank. The merger would have no significant adverse effects on competition, and would improve the services available at the offices now operated by Bank. The financial and convenience and need factors are consistent with approval.

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18. Mergers, Consolidations, Acquisitions of Assets or Assumptions of Liabilities Approved by the Board of Governors, 1982—Continued

The Connecticut Bank and Trust Company, Hartford, Connecticut, ***to merge with*** **Orange National Bank, Orange, Connecticut**

SUMMARY REPORT BY THE ATTORNEY GENERAL (5/28/82)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (8/13/82)
The Connecticut Bank and Trust Company (Applicant), with assets of $3.6 billion, proposes to merge Orange National Bank (Bank), with assets of $35 million. Applicant is the sole banking subsidiary of CBT Corporation, Hartford, which is the largest commercial banking organization in the state, holding 20.0 percent of the deposits. If the proposed merger took place, CBT Corporation would hold 20.2 percent of the deposits held by commercial banking offices in Connecticut.

The closest offices of the participating banks are 1.2 miles apart. The relevant market in this case is the New Haven banking market, in which Applicant ranks fourth among fourteen commercial banking organizations, with 12.2 percent of the area's commercial bank deposits. If the proposed merger were consummated, Applicant would continue to rank fourth in the New Haven market and would hold 14.1 percent of area deposits. However, mutual savings banks control 73 percent of time and savings deposits at offices of commercial and mutual savings banks in the New Haven market; and the town of Orange would no longer have home office protection after this merger.

Applicant proposes to offer the following new services at the Orange office of the resulting bank: automated teller machines, negotiable order of withdrawal accounts, trust services, and international services. Convenience and need factors lend weight to approval.

Bank has experienced problems that have reduced its competitiveness. The resources and prospects of the proposed organization would benefit the operations at the offices now occupied by Bank without diminishing Applicant's prospects. The financial and managerial resources and prospects of Applicant are satisfactory and, as a result of this proposal, Bank's customers would be served by a stronger organization.

United Virginia Bank, Richmond, Virginia, ***to merge with*** **The First National Bank of Martinsville and Henry County, Fieldale, Virginia**

SUMMARY REPORT BY THE ATTORNEY GENERAL (8/6/82)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE SECRETARY OF THE BOARD OF GOVERNORS (9/7/82)
United Virginia Bank (Applicant), with assets of $3.9 billion, proposes to merge The First National Bank of Martinsville and Henry County (Bank), with assets of $203 million. Applicant is a subsidiary of United Virginia Bankshares Incorporated, Richmond (UVB),which ranks first among banking organizations in Virginia, with about 13.6 percent of deposits in the state.

The closest offices of the participating banks are about 40 miles apart. Applicant is not represented in the Henry County market, in which Bank, with 39.1 percent of area deposits, ranks first among six banks. The proposed merger would not have a significant effect on competition.

Applicant proposes to expand the trust services available to Bank's customers. Business and commercial interests in the Henry County market should benefit from higher loan limits.

The banking factors are consistent with approval.

United Virginia Bank, Richmond, Virginia, ***to merge with*** **Citizens National Bank, New Market, Virginia**

SUMMARY REPORT BY THE ATTORNEY GENERAL
(No report received.)

BASIS FOR APPROVAL BY THE SECRETARY OF THE BOARD OF GOVERNORS (9/7/82)
United Virginia Bank (Applicant), with assets of $3.9 billion, proposes to merge Citizens National Bank (Bank), with assets of $36 million.

The closest offices of the participating banks are 20 miles apart. Applicant does not now operate offices in the relevant Shenandoah County market, in which Bank ranks third among

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commercial banks, with 17.3 percent of market deposits. The proposal would not have a significant effect on competition.

With respect to convenience and need factors, Applicant plans to provide at the offices now operated by Bank several new or enhanced services, such as industrial development assistance, investment advisory services, and a wide array of trust services.

The banking factors are consistent with approval.

St. Joseph Valley Bank, Elkhart, Indiana, ***to merge with*** **First National Bank of Goshen, Goshen, Indiana**

SUMMARY REPORT BY THE ATTORNEY GENERAL (5/14/82)

St. Joseph Valley Bank (Applicant) is the only banking subsidiary of SJV Corporation and is the second largest bank in Elkhart County, with total deposits of $286 million including $57 million in demand deposits of individuals, partnerships, and corporations (IPCs), and net income for 1981 of $2 million. Applicant has fourteen banking offices, twelve located in various parts of Elkhart City, and one office each in Nappanee and Bristol. Applicant also has five electronic funds transfer units in Elkhart City and offices of affiliated corporations in Elkhart City and Goshen, Indiana, and Decatur, Illinois.

First National Bank of Goshen (Bank) is an independent bank with five offices, all in Goshen. As of December 31, 1981, Bank had total deposits of $72 million, including $13 million in IPC demand deposits. For the year ending December 31, 1981, Bank had net income of $912,000.

Both Applicant and Bank are in Elkhart County, which is in northern Indiana, bordering on Michigan to the north, St. Joseph County (where South Bend is located) on the west, and the primarily rural counties of LaGrange on the east and Kosciusko on the south. In 1970, Elkhart County had a population of 126,529 and had experienced a growth rate of 4.9 percent over the previous decade; population in St. Joseph County had declined 7 percent during the same period. Population estimates for 1978 indicated that the city and county of Elkhart continued their growth, whereas South Bend and St. Joseph County lost population.

In 1979, Elkhart County was designated as a standard metropolitan statistical area (SMSA). Goshen, the second largest city in the county, is approximately 10 miles from Elkhart, the largest city. That city has about 93 separate companies with 50 or more employees and several large employers with over 1,000 employees. Its industrial development is primarily on the east side. Goshen has four companies with 300 or more employees and an industrial park south of the city with 2,500 employees. The largest shopping center in Elkhart County, outside of downtown Elkhart, is the Concord Mall, located southeast of Elkhart about halfway to Goshen.

Adjacent to the Elkhart SMSA is the South Bend SMSA, which consists of St. Joseph and Marshall Counties and includes the cities of South Bend and Mishawaka. While Elkhart and St. Joseph Counties are contiguous and the distance between Elkhart City and South Bend is relatively short (about 13.5 miles), the true travel distances may be longer because of the way industry is located in the various areas. The South Bend SMSA has substantial industrial development to the west and southwest of South Bend and toward the south of Mishawaka. The statistics from the 1970 census (the latest available) indicate that only a few people commute between Elkhart County and St. Joseph County. Furthermore, both counties have high unemployment at present (over 12 percent), so that commuting may be substantially lower than in 1970. The nearest major shopping area in St. Joseph County for Elkhart County residents is downtown Mishawaka. Another shopping center is located just west of downtown Mishawaka.

Another significant factor in determining the geographic market is the very restrictive branching and bank holding company laws of Indiana. Branching is permitted only within the county of a bank's home office and only single bank holding companies are permitted. Thus banks in neither county have the opportunity to compete with banks in the other by establishing branches there. [Because of federal and state law the same conclusion holds for Michigan banks north of Elkhart County. There may be some commuting between Michigan and Elkhart County.]

Therefore, we believe that the relevant geographic market for analyzing this acquisition is Elkhart County.

Applicant and Bank compete in the relevant geographic market. The nearest offices of Applicant and Bank are a little over five miles apart, at the Concord Mall on U.S. Route 33 south

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18. Mergers, Consolidations, Acquisitions of Assets or Assumptions of Liabilities Approved by the Board of Governors, 1982—Continued

of Elkhart and at U.S. Route 33 west and Bashor Road, on the northwest end of Goshen respectively. Twelve of Applicant's offices are within 10 miles of one of Bank's offices.

Applicant is the second largest bank and depository institution in the market, with total deposits of $286 million, accounting for 26.5 percent of the total deposits of all depository institutions in the market. [All commercial bank data are as of June 30, 1981; savings and loan association data are as of September 30, 1980; and credit union data are as of January 1, 1981.] Bank is the fourth largest bank and fifth largest financial institution, with total deposits of $72 million, accounting for 6.9 percent of total deposits in the market. The four-firm concentration ratio is 80.7 percent, and the Herfindahl Index is 2067 (including savings and loan associations and assuming 1 percent market shares for each of the 24 credit unions in the market). The resulting bank would be the largest financial institution in the market, with total deposits of $358 million, or 33.4 percent of total deposits. The four-firm concentration ratio would increase to 87.6 percent and the Herfindahl Index would increase almost 400 basis points, to 2433.

The proposed transaction would eliminate direct competition and substantially increase concentration levels in the relevant geographic market, and thus would have a significantly adverse effect on competition.

Basis for Approval by the Board of Governors (9/28/82)

St. Joseph Valley Bank (Applicant), with assets of $356 million, proposes to merge First National Bank of Goshen (Bank), with assets of $85 million. Applicant has concurrently applied for membership in the Federal Reserve System. All offices of Applicant are at least five miles from any office of Bank.

Applicant and Bank are in the "South Bend Ranally Metro Area," as defined by the Rand McNally Commercial Atlas, in which Applicant ranks fourth among twenty-two commercial banking organizations, controlling 11 percent of market deposits. Upon consummation of the proposed merger, Applicant would become the market's second largest commercial banking organization and would control 13.9 percent of the total deposits in commercial banks in this market, which has a relatively low level of concentration. The Board concludes that the proposed merger would not have a significant adverse effect on existing or potential competition.

With respect to convenience and need factors, Applicant plans to provide at the offices now operated by Bank several new or enhanced services such as industrial development assistance, investment advisory services, and a wide array of trust services.

The financial and managerial resources of Applicant, its parent, and Bank are regarded as generally satisfactory and their prospects appear favorable. As a result, the banking factors are consistent with approval.

First Colbert National Bank, Sheffield, Alabama, *to merge with* Bank of Florence, Florence, Alabama

Summary Report by the Attorney General (12/17/82)

The proposed transaction would not be significantly adverse to competition.

Basis for Approval by the Board of Governors (10/18/82)

First Colbert National Bank (Applicant), with assets of $59 million, proposes to merge Bank of Florence (Bank), with assets of $15 million. Applicant proposes to convert to a state-chartered institution, and has also applied for membership in the Federal Reserve System. Applicant ranks fourth among eight banking organizations in the Florence banking market, with 10.2 percent of total deposits. The bank resulting from the proposed merger would rank third in the Florence market, with 12.7 percent of the area's commercial bank deposits. This merger would increase the four-bank concentration to 88.3 percent; but, in fact, the two banks have been affiliated by virtue of common ownership and director interlocks since the establishment of Bank in 1975. Thus initial control of Bank did not eliminate any existing competition or increase market concentration; the relationship between Bank and Applicant appears to be such that little if any meaningful competition has ever developed between the two banks. In this light, the Board does not regard the effects of the proposed acquisition on competition in the relevant banking market as significant.

The financial and managerial resources of Applicant, its parent, and Bank are regarded as

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Federal Reserve Bank of St. Louis

18.—Continued

generally satisfactory, and their prospects appear favorable. The banking factors thus are consistent with approval. The convenience and needs factors of the community to be served are also consistent with approval. Accordingly, the Board has determined that consummation of the transaction would be consistent with the public interest and that the application should be approved.

First Virginia Bank-Franklin County, Rocky Mount, Virginia, *to merge with* Farmers and Merchants Bank, Boones Mill, Virginia

SUMMARY REPORT BY THE ATTORNEY GENERAL (10/29/82)
The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (11/9/82)
First Virginia Bank-Franklin County (Applicant), with assets of $60 million, proposes to merge Farmers and Merchants Bank (Bank), with assets of $17 million. Applicant is a subsidiary of First Virginia Bank, Inc., Falls Church, Virginia (FVB), which ranks seventh among Virginia's commercial banking organizations, with about 7 percent of the deposits held by banking offices in the state.

The relevant market in this proposal is the Roanoke market, in which FVB ranks fifth among fourteen banking organizations, with 8.7 percent of the area's commercial bank deposits. Following the proposed merger, FVB would rank fourth in the Roanoke market, with 9.9 percent of area deposits. The proposal would not have a significant effect on competition.

Bank has had financial and managerial problems that have reduced its competitiveness. The financial and managerial resources and prospects of the proposed organization would benefit the operations at the offices now occupied by Bank without diminishing Applicant's prospects. The financial and managerial resources and prospects of Applicant are satisfactory and, as a result of this proposal, Bank's customers would be served by a stronger organization.

Mergers Approved Involving Wholly Owned Subsidiaries of the Same Bank Holding Company

The following transactions involve banks that are subsidiaries of the same bank holding company. In such case, the Summary Report by the Attorney General indicates that because the banks are wholly owned subsidiaries of the same bank holding company, their proposed merger is essentially a corporate reorganization and therefore will have no effect on competition. The Board of Governors, the Federal Reserve Bank, or the Secretary of the Board of Governors, whichever approved the application, determined that the competitive effects of the proposed transaction, the financial and managerial resources, and the prospects of the banks concerned, as well as the convenience and needs of the community to be served, were consistent with approval.

Name of bank, type of transaction, and other banks involved[1]	Assets (millions of dollars)	Date of approval by Board or Reserve Bank
Fidelity Union Bank, Newark, New Jersey	1,349	3-1-82
Merger		
Fidelity Union Bank, N.A., Red Bank, New Jersey	498	
Fidelity Union Bank, N.A., Garden State, Paramus, New Jersey	828	
The Toledo Trust Company, Toledo, Ohio	1,018	3-23-82
Merger		
Northwest Ohio Bank, Bowling Green, Ohio	42	
The Oak Harbor State Bank Company, Oak Harbor, Ohio	34	
National Bank of Fulton County, Delta, Ohio	23	

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18. Mergers, Consolidations, Acquisitions of Assets or Assumptions of Liabilities Approved by the Board of Governors, 1982—Continued

Name of bank, type of transaction, and other banks involved[1]	Assets (millions of dollars)	Date of approval by Board or Reserve Bank
First Virginia Bank, Falls Church, Virginia	680	4–7–82
Merger		
First Virginia Bank-Loudoun, Leesburg, Virginia	29	
First Virginia Bank-Eastern, Warrenton, Virginia	7	
The Bank of New Jersey, Camden, New Jersey	550	4–8–82
Merger		
Prospect Park National Bank, Wayne, New Jersey	285	
First Virginia Bank-Shenandoah Valley, Woodstock, Virginia	69	5–4–82
Merger		
Bank of Frederick County, Stephens City, Virginia	11	
Central Bank of the South, Birmingham, Alabama	2,231	5–27–82
Merger		
Central Bank, N.A., Mobile, Alabama	83	
AmeriTrust Company, Cleveland, Ohio	4,662	6–23–82
Merger		
AmeriTrust Company of Toledo, Toledo, Ohio	6	
Royal Trust Bank of Tampa, Tampa, Florida	17	7–1–82
Merger		
Royal Trust Bank of St. Petersburg, Gulfport, Florida	58	
Royal Trust Bank of Orlando, Orlando, Florida	21	
American Bank and Trust Company, Lansing, Michigan	373	8–11–82
Merger		
American Bank of Perry, Perry, Michigan	16	
First Virginia Bank of the Southwest, Christiansburg, Virginia	48	10–21–82
Merger		
First Virginia Bank-Bland County, Bland, Virginia	15	

1. Each proposed transaction was to be effected under the charter of the first-named bank. The table is in chronological order of approval.

Mergers Approved Involving a Nonoperating Institution with an Existing Bank

The following transactions have no significant effect on competition; they merely facilitate the acquisition of the voting shares of a bank (or banks) by a holding company. In such cases, the Summary Report by the Attorney General indicates that the transaction will merely combine an existing bank with a nonoperating institution; in consequence, and without regard to the acquisition of the surviving bank by the holding company, the merger would have no effect on competition. The Board of Governors, the Federal Reserve Bank, or the Secretary of the Board of Governors, whichever approved the application, determined that the proposal would, in itself, have no adverse competitive effects, and that the financial and convenience and need factors were consistent with approval.

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18.—Continued

Name of bank, type of transaction, and other banks involved[1]	Assets (millions of dollars)	Date of approval by Board or Reserve Bank
DB Banking Co., Youngstown, Ohio	(2)	1–7–82
Merger		
The Dollar Savings and Trust Company, Youngstown, Ohio	572	
The Interim Dime Bank of Marietta, Marietta, Ohio	(2)	2–12–82
Merger		
The Dime Bank of Ross County, N.A., Adelphi, Ohio	9	
The Dime Bank, Marietta, Ohio	30	
The FTB Fifth Bank, Russellville, Ohio	(2)	2–17–82
Merger		
The Bank of Russellville, Russellville, Ohio	21	
The FTB Sixth Bank, Fairborn, Ohio	(2)	3–4–82
Merger		
The Farmers and Merchants Bank, Fairborn, Ohio	41	
Whitley Banking Co., Columbia City, Indiana	(2)	3–22–82
Merger		
The Farmer's Loan and Trust Company, Columbia City, Indiana	45	
Cullman County Bank, Cullman, Alabama	(2)	3–29–82
Merger		
Parker Bank and Trust Company, Cullman, Alabama	36	
Indiana Southern Bank of Sellersburg, Sellersburg, Indiana	41	4–16–82
Merger		
Indiana Sointerim Bank of Sellersburg, Sellersburg, Indiana	(2)	
City Bank and Trust Company, Dixon, Illinois	47	4–16–82
Merger		
Third Bank of Dixon, Dixon, Illinois	(2)	
The Scott County State Bank, Scottsburg, Indiana	47	4–16–82
Merger		
Scottsburg Bank, Scottsburg, Indiana	(2)	
New Valley Bank of Nevada, Las Vegas, Nevada	(2)	6–4–82
Merger		
Valley Bank of Nevada, Las Vegas, Nevada	915	
Bank One of Geauga County, Chardon, Ohio	(2)	6–11–82
Merger		
The Chardon Savings Bank Company, Chardon, Ohio	94	
The DeKalb Bank, DeKalb, Illinois	78	7–8–82
Merger		
The DeKalb Interim Bank, DeKalb, Illinois	(2)	

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18. Mergers, Consolidations, Acquisitions of Assets or Assumptions of Liabilities Approved by the Board of Governors, 1982—Continued

Name of bank, type of transaction, and other banks involved[1]	Assets (millions of dollars)	Date of approval by Board or Reserve Bank
First Virginia Bank-Tazewell, Tazewell, Virginia	(2)	7-8-82
Merger		
Tazewell National Bank, Tazewell, Virginia	52	
Brownsburg Service Bank, Brownsburg, Indiana	(2)	7-28-82
Merger		
Hendricks County Bank and Trust Company, Brownsburg, Indiana	45	
American Bank Company, Princeton, West Virginia	(2)	8-2-82
Merger		
Princeton Bank & Trust Company, Princeton, West Virginia	140	
The Union Bank & Savings Company, Bellevue, Ohio	59	8-12-82
Merger		
Bellevue Interim Bank, Bellevue, Ohio	(2)	
Bank of Pontiac, Pontiac, Illinois	62	8-25-82
Merger		
Pontiac State Bank, Pontiac, Illinois	(2)	
HC State Bank, Harbor Beach, Michigan	(2)	8-30-82
Merger		
Huron County Bank, Harbor Beach, Michigan	25	
Elliott State Bank, Jacksonville, Illinois	128	8-31-82
Merger		
ES Bank, Jacksonville, Illinois	(2)	
State Bank of Waupun, Waupun, Wisconsin	39	9-30-82
Merger		
Waupun Interim Bank, Waupun, Wisconsin	(2)	
First Peoples State Bank, Cedar Rapids, Iowa	(2)	10-19-82
Merger		
Peoples Bank and Trust Company, Cedar Rapids, Iowa	150	
First Trust & Savings Bank of Kankakee, Kankakee, Illinois	135	11-23-82
Merger		
Midwest Trust and Savings Bank of Kankakee, Kankakee, Illinois	(2)	
The New Bank, Vienna, Virginia	(2)	12-9-82
Merger		
The Business Bank of the United States, Vienna, Virginia	6	
Peoples Liberty Bank and Trust Company, Covington, Kentucky	128	12-10-82
Merger		
Plibco Bank, Inc., Covington, Kentucky	(2)	

1. Each proposed transaction was to be effected under the charter of the first-named bank. The table is in chronological order of approval.
2. This is a newly organized bank, not in operation.

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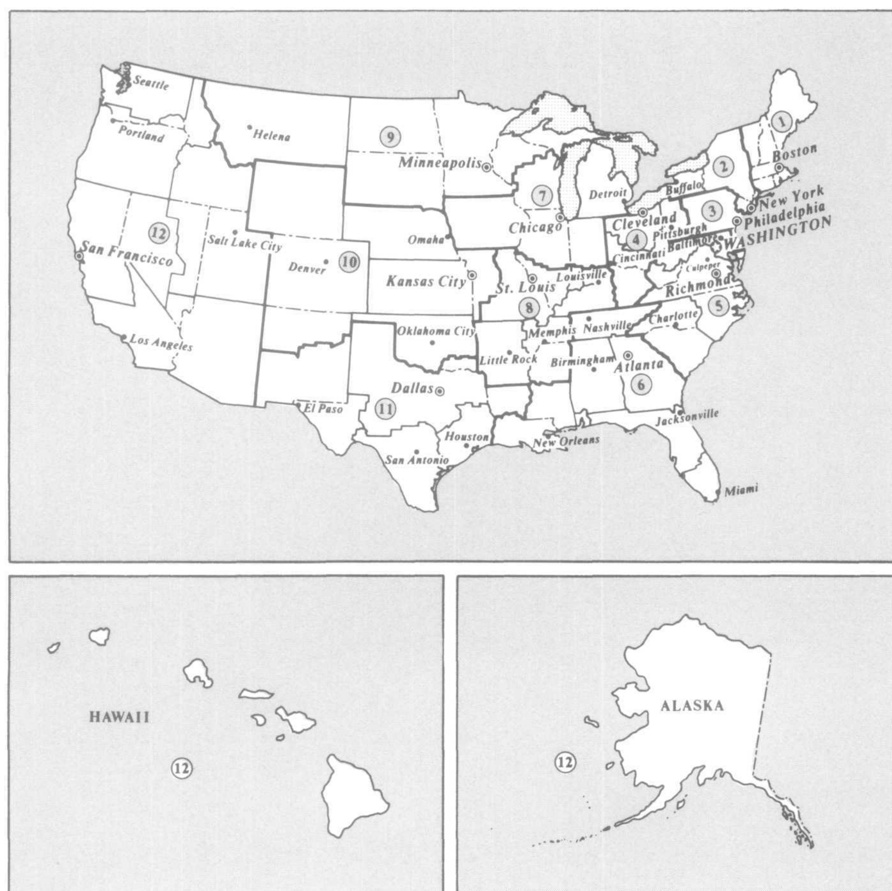
The Federal Reserve System

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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Federal Reserve Bank of St. Louis

Board of Governors of the Federal Reserve System

December 31, 1982

	Term expires
PAUL A. VOLCKER of New Jersey, *Chairman* [1]	January 31, 1992
PRESTON MARTIN of California, *Vice Chairman* [1]	January 31, 1996
NANCY H. TEETERS of Indiana	January 31, 1984
J. CHARLES PARTEE of Virginia	January 31, 1986
HENRY C. WALLICH of Connecticut	January 31, 1988
EMMETT J. RICE of New York	January 31, 1990
LYLE E. GRAMLEY of Missouri	January 31, 1994

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DONALD J. WINN, *Assistant to the Board*
FRANK O'BRIEN, JR., *Deputy Assistant to the Board*
ANTHONY F. COLE, *Special Assistant to the Board*
WILLIAM R. JONES, *Special Assistant to the Board*
WILLIAM R. MALONI, *Special Assistant to the Board*
NAOMI P. SALUS, *Special Assistant to the Board*

OFFICE OF STAFF DIRECTOR FOR MONETARY AND FINANCIAL POLICY

STEPHEN H. AXILROD, *Staff Director*
EDWARD C. ETTIN, *Deputy Staff Director*
MURRAY ALTMANN, *Assistant to the Board*
STANLEY J. SIGEL, *Assistant to the Board*
NORMAND R.V. BERNARD, *Special Assistant to the Board*

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EDWARD T. MULRENIN, *Assistant Staff Director*
JOSEPH W. DANIELS, SR., *Federal Reserve System EEO Program Adviser*

OFFICE OF STAFF DIRECTOR FOR FEDERAL RESERVE BANK ACTIVITIES

THEODORE E. ALLISON, *Staff Director*

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GILBERT T. SCHWARTZ, *Associate General Counsel*
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NANCY P. JACKLIN, *Assistant General Counsel*
MARYELLEN A. BROWN, *Assistant to the General Counsel*

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1. The designations as Chairman and Vice Chairman expire on August 6, 1983, and March 30, 1986, respectively unless the services of these members of the Board shall have terminated sooner.

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Federal Reserve Bank of St. Louis

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ROBERT S. PLOTKIN, *Assistant Director*
THOMAS A. SIDMAN, *Assistant Director*
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LAURA M. HOMER, *Securities Credit Officer*

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DOLORES S. SMITH, *Assistant Director*

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JOHN R. WEIS, *Assistant Director*
CHARLES W. WOOD, *Assistant Director*

DIVISION OF SUPPORT SERVICES

DONALD E. ANDERSON, *Director*
ROBERT E. FRAZIER, *Associate Director*
WALTER W. KREIMANN, *Associate Director*

OFFICE OF THE CONTROLLER

GEORGE E. LIVINGSTON, *Controller*

DIVISION OF DATA PROCESSING

CHARLES L. HAMPTON, *Director*
BRUCE M. BEARDSLEY, *Deputy Director*
ULYESS D. BLACK, *Associate Director*
GLENN L. CUMMINS, *Assistant Director*
NEAL H. HILLERMAN, *Assistant Director*
ELIZABETH A. JOHNSON, *Assistant Director*
WILLIAM C. SCHNEIDER, JR., *Assistant Director*
ROBERT J. ZEMEL, *Assistant Director*

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Federal Reserve Bank of St. Louis

Federal Open Market Committee

December 31, 1982

Members

PAUL A. VOLCKER, *Chairman* (Board of Governors)

ANTHONY M. SOLOMON, *Vice Chairman* (elected by Federal Reserve Bank of New York)

JOHN J. BALLES (elected by Federal Reserve Banks of Minneapolis, Kansas City, and San Francisco)

ROBERT P. BLACK (elected by Federal Reserve Banks of Boston, Philadelphia, and Richmond)

WILLIAM F. FORD (elected by Federal Reserve Banks of Atlanta, St. Louis, and Dallas)

LYLE E. GRAMLEY (Board of Governors)

KAREN N. HORN (elected by Federal Reserve Banks of Chicago and Cleveland)

PRESTON MARTIN (Board of Governors)

J. CHARLES PARTEE (Board of Governors)

EMMETT J. RICE (Board of Governors)

NANCY H. TEETERS (Board of Governors)

HENRY C. WALLICH (Board of Governors)

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NANCY M. STEELE, *Deputy Assistant Secretary*

MICHAEL BRADFIELD, *General Counsel*

JAMES H. OLTMAN, *Deputy General Counsel*

ROBERT E. MANNION, *Assistant General Counsel*

JAMES L. KICHLINE, *Economist*

JOHN M. DAVIS, *Associate Economist*

RICHARD G. DAVIS, *Associate Economist*

EDWARD C. ETTIN, *Associate Economist*

MICHAEL W. KERAN, *Associate Economist*

DONALD L. KOCH, *Associate Economist*

JAMES PARTHEMOS, *Associate Economist*

MICHAEL J. PRELL, *Associate Economist*

CHARLES J. SIEGMAN, *Associate Economist*

EDWIN M. TRUMAN, *Associate Economist*

JOSEPH S. ZEISEL, *Associate Economist*

PETER D. STERNLIGHT, *Manager for Domestic Operations, System Open Market Account*

SAM Y. CROSS, *Manager for Foreign Operations, System Open Market Account*

During 1982, the Federal Open Market Committee held eight regularly scheduled meetings. (See "Record of Policy Actions of the Federal Open Market Committee" in this REPORT.)

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Federal Reserve Bank of St. Louis

Federal Advisory Council

December 31, 1982

Members

District No. 1—WILLIAM S. EDGERLY, *Chairman of the Board and President,* State Street Bank and Trust Company, Boston, Massachusetts

District No. 2—DONALD C. PLATTEN, *Chairman of the Board,* Chemical Bank, New York, New York

District No. 3—JOHN H. WALTHER, *Chairman of the Board,* New Jersey National Corporation and New Jersey National Bank, Trenton, New Jersey

District No. 4—JOHN G. MCCOY, *Chairman,* Banc One Corporation, Columbus, Ohio

District No. 5—VINCENT C. BURKE, JR., *Chairman of the Board,* The Riggs National Bank of Washington, D.C., Washington, D.C.

District No. 6—ROBERT STRICKLAND, *Chairman,* Trust Company of Georgia, Atlanta, Georgia

District No. 7—ROBERT M. SURDAM, *Chairman,* National Bank of Detroit, Detroit, Michigan

District No. 8—RONALD TERRY, *Chairman of the Board,* First Tennessee Bank, N.A., Memphis, Tennessee

District No. 9—CLARENCE G. FRAME, *Vice Chairman,* First Bank System, Inc., Minneapolis, Minnesota

District No. 10—GORDON E. WELLS, *Chairman of the Board,* First National Bank of Kansas City, Kansas City, Missouri

District No. 11—T.C. FROST, JR., *Chairman,* Cullen/Frost Bankers, Inc., San Antonio, Texas

District No. 12—JOSEPH J. PINOLA, *Chairman and Chief Executive Officer,* First Interstate Bancorporation, Los Angeles, California

Officers

DONALD C. PLATTEN, *President*

ROBERT M. SURDAM, *Vice President*

HERBERT V. PROCHNOW, *Secretary*

WILLIAM J. KORSVIK, *Associate Secretary*

Directors

WILLIAM S. EDGERLY

CLARENCE G. FRAME

JOHN H. WALTHER

Meetings of the Federal Advisory Council were held on February 4–5, May 20–21, September 16–17, and November 4–5, 1982. The Board of Governors met with the council on February 5, May 21, September 17, and November 5, 1982. The council, which is composed of 12 representatives of the banking industry, one from each Federal Reserve District, is required by law to meet in Washington at least four times a year and is authorized by the Federal Reserve Act to consult and advise the Board on all matters within the jurisdiction of the Board.

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Consumer Advisory Council

December 31, 1982

CHARLOTTE H. SCOTT, Charlottesville, Virginia, *Chairman*
MARGARET REILLY-PETRONE, Upper Montclair, New Jersey, *Vice Chairman*

ARTHUR F. BOUTON,
Little Rock, Arkansas
JULIA H. BOYD,
Alexandria, Virginia
ELLEN BROADMAN,
Washington, D.C.
GERALD R. CHRISTENSEN,
Salt Lake City, Utah
JOSEPH N. CUGINI,
Westerly, Rhode Island
RICHARD S. D'AGOSTINO,
Wilmington, Delaware
SUSAN PIERSON DE WITT,
Springfield, Illinois
JOANNE S. FAULKNER,
New Haven, Connecticut
MEREDITH FERNSTROM,
New York, New York
ALLEN J. FISHBEIN,
Washington, D.C.
E.C.A. FORSBERG, SR.,
Atlanta, Georgia
LUTHER R. GATLING,
New York, New York
VERNARD W. HENLEY,
Richmond, Virginia
JUAN J. HINOJOSA,
McAllen, Texas
SHIRLEY T. HOSOI,
Los Angeles, California
GEORGE S. IRVIN,
Denver, Colorado
HARRY N. JACKSON,
Minneapolis, Minnesota
F. THOMAS JUSTER,
Ann Arbor, Michigan
ROBERT J. MCEWEN, S.J.,
Chestnut Hill, Massachusetts
STAN L. MULARZ,
Chicago, Illinois
WILLIAM J. O'CONNOR, JR.,
Buffalo, New York
WILLARD P. OGBURN,
Boston, Massachusetts
JANET J. RATHE,
Portland, Oregon
RENE REIXACH,
Rochester, New York
PETER D. SCHELLIE,
Washington, D.C.
NANCY Z. SPILLMAN,
Los Angeles, California
CLINTON WARNE,
Cleveland, Ohio
FREDERICK T. WEIMER,
Chicago, Illinois

Meetings between the Consumer Advisory Council and members of the Board of Governors were held on January 27–28, April 28–29, July 28–29, and October 27–28, 1982. The council, which is composed of creditors, consumers, and others, was established pursuant to the Equal Credit Opportunity Act to advise the Board on consumer-related matters.

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Federal Reserve Bank of St. Louis

Federal Reserve Banks, Branches, and Offices

December 31, 1982

FEDERAL RESERVE BANK, branch	Chairman[1] Deputy Chairman	President First Vice President	Vice President in charge of branch
BOSTON[2]	Robert P. Henderson Thomas I. Atkins	Frank E. Morris James A. McIntosh	
NEW YORK[2]	Robert H. Knight, Esq. Boris Yavitz	Anthony M. Solomon Thomas M. Timlen	
Buffalo	Frederick D. Berkeley III		John T. Keane
PHILADELPHIA	Jean A. Crockett Robert M. Landis	Edward G. Boehne Richard L. Smoot	
CLEVELAND[2]	J.L. Jackson William H. Knoell	Karen N. Horn William H. Hendricks	
Cincinnati	Clifford R. Meyer		Robert E. Showalter
Pittsburgh	Milton G. Hulme, Jr.		Harold J. Swart
RICHMOND[2]	Steven Muller Paul E. Reichardt	Robert P. Black Jimmie R. Monhollon	
Baltimore	Edward H. Covell		Robert D. McTeer, Jr.
Charlotte	Naomi G. Albanese		Stuart P. Fishburne
Culpeper[3]			Albert D. Tinkelenberg
ATLANTA	William A. Fickling, Jr. John H. Weitnauer, Jr.	William F. Ford Robert P. Forrestal	
Birmingham	William H. Martin III		Fred R. Herr
Jacksonville	Copeland D. Newbern		Charles D. East
Miami	Eugene E. Cohen		Patrick K. Barron
Nashville	Cecelia Adkins		Jeffrey J. Wells
New Orleans	Leslie B. Lampton		James D. Hawkins
Atlanta			Delmar Harrison
CHICAGO	John Sagan Stanton R. Cook	Silas Keehn Daniel M. Doyle	
Detroit	Russell G. Mawby		William C. Conrad
ST. LOUIS	Armand C. Stalnaker W.L. Hadley Griffin	Lawrence K. Roos Donald W. Moriarty, Jr.	
Little Rock	Richard V. Warner		John F. Breen
Louisville	James F. Thompson		Donald L. Henry
Memphis	Donald B. Weis		Randall C. Sumner
MINNEAPOLIS	William G. Phillips John B. Davis, Jr.	E. Gerald Corrigan Thomas E. Gainor	

For notes see last page of listing.

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BANK, branch	Chairman[1] Deputy Chairman	President First Vice President	Vice President in charge of branch
Helena	Ernest B. Corrick		Robert F. McNellis
KANSAS CITY	Paul H. Henson Doris M. Drury	Roger Guffey Henry R. Czerwinski	
Denver	James E. Nielson		Wayne W. Martin
Oklahoma City	Christine H. Anthony		William G. Evans
Omaha	Robert G. Lueder		Robert D. Hamilton
DALLAS	Gerald D. Hines. John V. James	Robert H. Boykin William H. Wallace	
El Paso	A.J. Losee		Joel L. Koonce, Jr.
Houston	Jerome L. Howard		J.Z. Rowe
San Antonio	Lawrence L. Crum		Thomas H. Robertson
SAN FRANCISCO	Caroline L. Ahmanson Alan C. Furth	John J. Balles John B. Williams	
Los Angeles	Bruce M. Schwaegler		Richard C. Dunn
Portland	John C. Hampton		Angelo S. Carella
Salt Lake City	Wendell J. Ashton		A. Grant Holman
Seattle	John W. Ellis		Gerald R. Kelly

1. The Chairman of a Federal Reserve Bank, by statute, also serves as Federal Reserve Agent.

2. Additional offices of these Banks are located at Lewistown, Maine; Windsor Locks, Connecticut; Cranford, New Jersey; Jericho, New York; Utica at Oriskany, New York; Columbus, Ohio; Columbia, South Carolina; Charleston, West Virginia; Des Moines, Iowa; Indianpolis, Indiana; and Milwaukee, Wisconsin.

3. Culpeper Communications and Records Center is a facility.

Conference of Chairman

The chairmen of the Federal Reserve Banks are organized into a Conference of Chairmen that meets to consider matters of common interest and to consult with and advise the Board of Governors. Such meetings, attended also by the deputy chairmen, were held in Washington on May 23–24 and December 2–3, 1982.

The Executive Committee of the Conference of Chairmen during 1982 comprised John Sagan, Chairman, William A. Fickling, Vice Chairman, and Paul H. Henson, member.

On December 2, 1982, Robert P. Henderson was elected chairman of the conference and of its Executive Committee to serve for the succeeding year; William G. Phillips was elected vice chairman of the conference and a member of the Executive Committee; and Steven Muller was elected as the other member of the Executive Committee.

Conference of Presidents

The presidents of the Federal Reserve Banks are organized into a Conference of Presidents that meets periodically to consider matters of common interest and to consult and advise the Board of Governors. At a meeting held September 14–15, 1981, Lawrence K. Roos, President of the Federal Reserve Bank of St. Louis, was elected Chairman, and Anthony M. Solomon, President of the Federal Reserve Bank of New York, was elected Vice Chairman for 1982. Lynn A. David of the Federal Reserve Bank of St. Louis was appointed Secretary, and Thomas J. Campbell of the Federal Reserve Bank of New York was appointed Assistant Secretary. Bradley K. Sabel of the Federal Reserve Bank of New York replaced Mr. Campbell as Assistant Secretary on October 6, 1982.

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Conference of First Vice Presidents

The Conference of First Vice Presidents of the Federal Reserve Banks was organized in 1969 to meet periodically for the consideration of operational and other matters. On October 8, 1981, Donald W. Moriarty, Jr., First Vice President of the Federal Reserve Bank of St. Louis, was elected Chairman, and Thomas M. Timlen, First Vice President of the Federal Reserve Bank of New York, was elected Vice Chairman of the conference for 1982. Lynn A. David and Thomas J. Campbell were appointed Secretary and Assistant Secretary respectively. Mr. Campbell was replaced by Bradley K. Sabel on October 6, 1982.

Directors

Class A and Class B directors are elected by the member banks of a Federal Reserve District. Class C directors are appointed by the Board of Governors of the Federal Reserve System. One term in each class of directors expires each year. Directors are chosen without discrimination as to race, creed, color, sex, or national origin.

The Class A directors are chosen as representatives of member banks and, as a matter of practice, are active officers of member banks. Class B and Class C directors represent the public and are selected with due, but not exclusive, consideration to the interests of agriculture, commerce, industry, services, labor, and consumers. Class B and Class C directors may not be officers, directors, or employees of any bank, nor may Class C directors be stockholders of any bank. Annually, the Board of Governors designates one Class C director of each Reserve Bank to serve as chairman of the Bank and one to serve as deputy chairman.

Branches of Federal Reserve Banks have either five or seven directors, of whom a majority are appointed by the board of directors of the parent Federal Reserve Bank. The others are appointed by the Board of Governors of the Federal Reserve System. The chairmen of branch boards are selected from among directors appointed by the Board of Governors.

District 1—BOSTON

		Term expires Dec. 31
Class A		
H. Alan Timm	President, Bank of Maine, N.A., Augusta, Maine	1982
Henry S. Woodbridge, Jr.	Chairman of the Board and Chief Executive Officer, Rhode Island Hospital Trust National Bank, Providence, Rhode Island	1983
James Stokes Hatch	President and Chief Executive Officer, The Canaan National Bank, Canaan, Connecticut	1984
Class B		
Carol R. Goldberg	Senior Vice President, The Stop & Shop Companies, Inc., Boston, Massachusetts	1982
Joseph A. Baute	Chairman and Chief Executive Officer, Markem Corporation, Keene, New Hampshire	1983
George N. Hatsopoulos	President, Thermo Electron Company, Waltham, Massachusetts	1984

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		Term expires Dec. 31
Class C		
Thomas I. Atkins	General Counsel, National Association for the Advancement of Colored People, New York, New York	1982
Michael J. Harrington	Harrington Company, Peabody, Massachusetts	1983
Robert P. Henderson	Chairman and Chief Executive Officer, Itek Corporation, Lexington, Massachusetts	1984

District 2—NEW YORK

Class A		
Gordon T. Wallis	Chairman of the Board, Irving Trust Company, New York, New York	1982
Peter D. Kiernan	Chairman and President, Norstar Bancorp Inc., Albany, New York	1983
Robert A. Rough	President, The National Bank of Sussex County, Branchville, New Jersey	1984
Class B		
William S. Cook	President, Union Pacific Corporation, New York, New York	1982
John R. Opel	President and Chief Executive Officer, International Business Machines Corporation, Armonk, New York	1983
Edward L. Hennessy, Jr.	Chairman of the Board, Allied Chemical Corporation, Morristown, New Jersey	1984
Class C		
Boris Yavitz	Paul Garrett Professor of Public Policy and Business Responsibility, Columbia University, New York, New York	1982
Robert H. Knight	Senior Partner, Shearman and Sterling, Attorneys, New York, New York	1983
Gertrude G. Michelson	Senior Vice President, R.H. Macy & Company, Inc., New York, New York	1984

BUFFALO BRANCH

Appointed by Federal Reserve Bank		
M. Jane Dickman	Partner, Touche Ross & Co., Buffalo, New York	1982
Arthur M. Richardson	Chairman of the Board and Chief Executive Officer, Security Trust Company, Rochester, New York	1982
Carl F. Ulmer	President, The Evans National Bank of Angola, Angola, New York	1983
Edward W. Duffy	Chairman of the Board, Marine Midland Bank, N.A., Buffalo, New York	1984
Appointed by Board of Governors		
Frederick D. Berkeley III	Chairman of the Board and President, Graham Manufacturing Company, Inc., Batavia, New York	1982

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		Term expires Dec. 31
John R. Burwell	President, Rollins Container Corporation, Rochester, New York	1983
George L. Wessel	President, Buffalo AFL/CIO Council, Buffalo, New York	1984

District 3—PHILADELPHIA

Class A

Donald J. Seebold	President, The First National Bank of Danville, Danville, Pennsylvania	1982
Roger S. Hillas	Chairman and President, Provident National Bank, Philadelphia, Pennsylvania	1983
Douglas Eugene Johnson	President, Ocean County National Bank, Point Pleasant Beach, New Jersey	1984

Class B

Eberhard Faber, IV	Chairman of the Board and Chief Executive Officer, Eberhard Faber, Inc., Wilkes-Barre, Pennsylvania	1982
Harry A. Jensen	President and Chief Executive Officer, Armstrong World Industries, Inc., Lancaster, Pennsylvania	1983
Richard P. Hauser	Chairman and Chief Executive Officer, John Wanamaker, Philadelphia, Pennsylvania	1984

Class C

Jean A. Crockett	Chairman, Department of Finance, Wharton School, University of Pennsylvania, Philadelphia, Pennsylvania	1982
Robert M. Landis	Partner, Dechert Price & Rhoads, Philadelphia, Pennsylvania	1983
George E. Bartol III	Chairman of the Board, Hunt Manufacturing Company, Philadelphia, Pennsylvania	1984

District 4—CLEVELAND

Class A

John W. Alford	Chairman of the Board and Chief Executive Officer, The Park National Bank, Newark, Ohio	1982
J. David Barnes	Chairman of the Board, Mellon Bank, N.A., Pittsburgh, Pennsylvania	1983
Raymond D. Campbell	Director, The Oberlin Savings Bank Co., Oberlin, Ohio	1984

Class B

John W. Kessler	President, John W. Kessler Company, Columbus, Ohio	1982
E. Mandell de Windt	Chairman of the Board, Eaton Corporation, Cleveland, Ohio	1983
Richard D. Hannan	Chairman of the Board and President, Mercury Instruments, Inc., Cincinnati, Ohio	1984

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Class C		*Term expires Dec. 31*
John D. Anderson	Senior Partner, The Andersons, Maumee, Ohio	1982
William H. Knoell	President and Chief Executive Officer, Cyclops Corporation, Pittsburgh, Pennsylvania	1983
J.L. Jackson	Executive Vice President and President, Coal Unit, Diamond Shamrock Corporation, Lexington, Kentucky	1984

CINCINNATI BRANCH

Appointed by Federal Reserve Bank		
Oliver W. Birckhead	Chairman of the Board and Chief Executive Officer, The Central Trust Company, N.A., Cincinnati, Ohio	1982
O.T. Dorton	President, Citizens National Bank, Paintsville, Kentucky	1983
Richard Fitton	President and Chief Executive Officer, First National Bank of Southwestern Ohio, Hamilton, Ohio	1984
Sherrill Cleland	President, Marietta College, Marietta, Ohio	1984
Appointed by Board of Governors		
Sister Grace Marie Hiltz	President, Sisters of Charity Health Care Systems, Inc., Cincinnati, Ohio	1982
Clifford R. Meyer	Executive Vice President, Cincinnati Milacron Inc., Cincinnati, Ohio	1983
Don Ross	Owner, Dunreath Farm, Lexington, Kentucky	1984

PITTSBURGH BRANCH

Appointed by Federal Reserve Bank		
William D. McKain	President, Wheeling National Bank, Wheeling, West Virginia	1982
Ernest L. Lake	President, The National Bank of North East, North East, Pennsylvania	1983
Robert C. Milsom	President, Pittsburgh National Bank, Pittsburgh, Pennsylvania	1984
James S. Pasman, Jr.	Executive Vice President of Finance, Aluminum Company of America, Pittsburgh, Pennsylvania	1984
Appointed by Board of Governors		
Robert S. Kaplan	Dean, Graduate School of Industrial Administration, Carnegie-Mellon University, Pittsburgh, Pennsylvania	1982
Milton G. Hulme, Jr.	President and Chief Executive Officer, Mine Safety Appliances Company, Pittsburgh, Pennsylvania	1983
Quentin C. McKenna	President and Chief Executive Officer, Kennametal Inc., Latrobe, Pennsylvania	1984

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District 5—RICHMOND

		Term expires Dec. 31
Class A		
William M. Dickson	President and Senior Trust Officer, The First National Bank in Ronceverte, Ronceverte, West Virginia	1982
J. Banks Scarborough	Chairman and President, Pee Dee State Bank, Timmonsville, South Carolina	1983
Joseph A. Jennings	Chairman and Chief Executive Officer, United Virginia Bankshares Inc. and United Virginia Bank, Richmond, Virginia	1984
Class B		
James A. Chapman, Jr.	Chairman of the Board and Chief Executive Officer, Inman Mills, Inman, South Carolina	1982
Leon A. Dunn, Jr.	Chairman, President, and Chief Executive Officer, Guardian Corporation and Subsidiaries, Rocky Mount, North Carolina	1983
Paul G. Miller	Chairman of the Board and Chief Executive Officer, Commercial Credit Company, Baltimore, Maryland	1984
Class C		
Paul E. Reichardt	Chairman of the Board and Chief Executive Officer, Washington Gas Light Company, Washington, D.C.	1982
Steven Muller	President, The Johns Hopkins University, Baltimore, Maryland	1983
William S. Lee III	Chairman of the Board and Chief Executive Officer, Duke Power Company, Charlotte, North Carolina	1984

BALTIMORE BRANCH

Appointed by Federal Reserve Bank		
Hugh D. Shires	Senior Vice President, First National Bank of Maryland, Cumberland, Maryland	1982
A.R. Reppert	President, The Union National Bank of Clarksburg, Clarksburg, West Virginia	1982
Joseph M. Gough, Jr.	President, The First National Bank of St. Mary's, Leonardtown, Maryland	1983
Pearl C. Brackett	Deputy Manager, Baltimore Regional Chapter of the American Red Cross, Baltimore, Maryland	1984
Appointed by Board of Governors		
Edward H. Covell	Vice President for Governmental and Industry Affairs, Country Pride Foods Limited, Easton, Maryland	1982
Robert L. Tate	Chairman, Tate Industries, Baltimore, Maryland	1983

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		Term expires Dec. 31
Thomas H. Maddux	Executive Vice President and Chief Operating Officer, Easco Corporation, Baltimore, Maryland	1984

CHARLOTTE BRANCH

Appointed by Federal Reserve Bank

W.B. Apple, Jr.	President, First National Bank of Reidsville, Reidsville, North Carolina	1982
Marvin D. Trapp	President and Chief Executive Officer, The National Bank of South Carolina, Sumter, South Carolina	1982
Nicholas W. Mitchell	Chairman of the Board, Piedmont Federal Savings and Loan Association, Winston-Salem, North Carolina	1983
Hugh M. Chapman	Chairman of the Board, The Citizens & Southern National Bank of South Carolina, Columbia, South Carolina	1984

Appointed by Board of Governors

Naomi G. Albanese	Dean, School of Home Economics, University of North Carolina at Greensboro, Greensboro, North Carolina	1982
Wallace J. Jorgenson	President, Jefferson-Pilot Broadcasting Co., Charlotte, North Carolina	1983
Henry Ponder	President, Benedict College, Columbia, South Carolina	1984

District 6—ATLANTA

Class A

Dan B. Andrews	President, First National Bank, Dickson, Tennessee	1982
Hugh M. Willson	President, Citizens National Bank, Athens, Tennessee	1983
Guy W. Botts	Chairman of the Board, Barnett Banks of Florida, Inc., Jacksonville, Florida	1984

Class B

Jean McArthur Davis	President, McArthur Dairy, Inc., Miami, Florida	1982
Harold B. Blach, Jr.	President, Blach's Inc., Birmingham, Alabama	1983
Horatio C. Thompson	President, Horatio Thompson Investment, Inc., Baton Rouge, Louisiana	1984

Class C

John H. Weitnauer, Jr.	Chairman and Chief Executive Officer, Richway, Atlanta, Georgia	1982
William A. Fickling, Jr.	Chairman and Chief Executive, Charter Medical Corporation, Macon, Georgia	1983
Jane C. Cousins	President and Chief Executive Officer, Merrill Lynch Realty/Cousins, Miami, Florida	1984

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BIRMINGHAM BRANCH

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Appointed by Federal Reserve Bank

Name	Position	Term expires Dec. 31
C. Gordon Jones	President and Chief Executive Officer, First National Bank of Decatur, Decatur, Alabama	1982
Martha A. McInnis	Executive Vice President, Alabama Environmental Quality Association, Montgomery, Alabama	1982
Henry A. Leslie	President and Chief Executive Officer, Union Bank and Trust Company, Montgomery, Alabama	1983
William M. Schroeder	Chairman and President, Central State Bank, Calera, Alabama	1984

Appointed by Board of Governors

Name	Position	Term expires Dec. 31
William H. Martin III	President and Chief Executive Officer, Martin Industries, Inc., Florence, Alabama	1982
Samuel R. Hill, Jr.	President, University of Alabama in Birmingham, Birmingham, Alabama	1983
Louis J. Willie	Executive Vice President, Booker T. Washington Insurance Co., Birmingham, Alabama	1984

JACKSONVILLE BRANCH

Appointed by Federal Reserve Bank

Name	Position	Term expires Dec. 31
Whitfield M. Palmer, Jr.	Chairman, Mid-Florida Mining Company, Ocala, Florida	1982
Billy J. Walker	President, Atlantic Bancorporation, Jacksonville, Florida	1982
Gordon W. Campbell	President and Chief Executive Officer, Exchange Bancorporation, Inc., Tampa, Florida	1983
Lewis A. Doman	President, The Citizens and Peoples National Bank, Pensacola, Florida	1984

Appointed by Board of Governors

Name	Position	Term expires Dec. 31
Copeland D. Newbern	Chairman of the Board, Newbern Groves, Inc., Tampa, Florida	1982
Joan W. Stein	Chairman, Regency Square Properties, Inc., Jacksonville, Florida	1983
Jerome P. Keuper	President, Florida Institute of Technology, Melbourne, Florida	1984

MIAMI BRANCH

Appointed by Federal Reserve Bank

Name	Position	Term expires Dec. 31
M.G. Sanchez	President and Chief Executive Officer, First Bankers Corporation of Florida, Pompano Beach, Florida	1982
Daniel S. Goodrum	Senior Executive Vice President, Sun Banks of Florida, Ft. Lauderdale, Florida	1983

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		Term expires Dec. 31
E. Llwyd Ecclestone, Jr.	President and Chief Executive Officer, National Investment Co., West Palm Beach, Florida	1984
Stephen G. Zahorian	President, Barnett Bank of Fort Myers, N.A., Fort Myers, Florida	1984

Appointed by Board of Governors

Sue McCourt Cobb	Attorney, Greenberg, Traurig, Askew, Hoffman, Lipoff, Quentel, and Wolff, P.A., Miami, Florida	1982
Eugene E. Cohen	Chief Financial Officer and Treasurer, Howard Hughes Medical Institute, Coconut Grove, Florida	1983
Roy Vandegrift, Jr.	President, Vandegrift-Williams Farms, Inc., Pahokee, Florida	1984

NASHVILLE BRANCH

Appointed by Federal Reserve Bank

Charles J. Kane	Chairman and Chief Executive Officer, Third National Bank in Nashville, Nashville, Tennessee	1982
John R. King	President, The Mason and Dixon Lines, Inc., Kingsport, Tennessee	1982
James F. Smith, Jr.	Chairman and Chief Executive Officer, Park National Bank, Knoxville, Tennessee	1983
Michael T. Christian	President and Chief Executive Officer, First National Bank of Greeneville, Greeneville, Tennessee	1984

Appointed by Board of Governors

Cecelia Adkins	Executive Director, Sunday School Publishing Board, Nashville, Tennessee	1982
Robert C.H. Mathews, Jr.	Managing General Partner, R.C. Mathews, Contractor, Nashville, Tennessee	1983
C. Warren Neel	Dean, College of Business Administration, The University of Tennessee, Knoxville, Tennessee	1984

NEW ORLEANS BRANCH

Appointed by Federal Reserve Bank

Patrick A. Delaney	Chairman and President, Whitney National Bank of New Orleans, New Orleans, Louisiana	1982
Ben M. Radcliff	President, Ben M. Radcliff Contractor, Inc., Mobile, Alabama	1982
Paul W. McMullan	Chairman and Chief Executive Officer, First Mississippi National Bank, Hattiesburg, Mississippi	1983
Jerry W. Brents	President and Chief Executive Officer, First National Bank, Lafayette, Louisiana	1984

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Appointed by Board of Governors

Name	Position	Term expires Dec. 31
Sharon A. Perlis	Attorney, Metairie, Louisiana	1982
Leslie B. Lampton	President, Ergon, Inc., Jackson, Mississippi	1983
Roosevelt Steptoe	Professor, Southern University, Baton Rouge Campus, Baton Rouge, Louisiana	1984

District 7—CHICAGO

Class A

Name	Position	Term expires Dec. 31
Patrick E. McNarny	President, First National Bank of Logansport, Logansport, Indiana	1982
Ollie Jay Tomson	President, The Citizens National Bank of Charles City, Charles City, Iowa	1983
Roger E. Anderson	Chairman of the Board, Continental Illinois National Bank and Trust Company of Chicago, Chicago, Illinois	1984

Class B

Name	Position	Term expires Dec. 31
Mary Garst	Manager of Cattle Division, Garst Company, Coon Rapids, Iowa	1982
Leon T. Kendall	Chairman of the Board and Chief Executive Officer, Mortgage Guaranty Insurance Corp., Milwaukee, Wisconsin	1983
Dennis W. Hunt	President, Hunt Truck Lines, Inc., Rockwell City, Iowa	1984

Class C

Name	Position	Term expires Dec. 31
Stanton R. Cook	President, Tribune Company, Chicago, Illinois	1982
John Sagan	Vice President–Treasurer, Ford Motor Company, Dearborn, Michigan	1983
Edward F. Brabec	Business Manager, Chicago Journeymen Plumbers, Local Union 130, U.A., Chicago, Illinois	1984

DETROIT BRANCH

Appointed by Federal Reserve Bank

Name	Position	Term expires Dec. 31
Dean E. Richardson	Chairman, Manufacturers National Bank of Detroit, Detroit, Michigan	1982
Lawrence A. Johns	President, Isabella Bank and Trust, Mount Pleasant, Michigan	1983
James H. Duncan	Chairman and Chief Executive Officer, First American Bank Corporation, Kalamazoo, Michigan	1984
Thomas R. Ricketts	Chairman and President, Standard Federal Savings and Loan Association, Troy, Michigan	1984

Appointed by Board of Governors

Name	Position	Term expires Dec. 31
Russell G. Mawby	President and Trustee, W.K. Kellogg Foundation, Battle Creek, Michigan	1982

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		Term expires Dec. 31
Karl D. Gregory	Professor; Management and Economic Consultant, School of Economics and Management, Oakland University, Rochester, Michigan	1983
Robert E. Brewer	Executive Vice President, Finance, K Mart Corporation, Troy, Michigan	1984

District 8—ST. LOUIS

Class A

Donald L. Hunt	President, First National Bank of Marissa, Marissa, Illinois	1982
Clarence C. Barksdale	Chairman and Chief Executive Officer, Centerre Bank National Association, St. Louis, Missouri	1983
George M. Ryrie	President, First National Bank & Trust Co., Alton, Illinois	1984

Class B

Mary P. Holt	President, Clothes Horse, Little Rock, Arkansas	1982
Frank A. Jones, Jr.	President, Dietz Forge Company, Memphis, Tennessee	1983
Jesse M. Shaver	Consultant, Allis-Chalmers Corporation, Louisville, Kentucky	1984

Class C

Armand C. Stalnaker	Chairman of the Board, General American Life Insurance Co., St. Louis, Missouri	1982
Vacancy		1983
W.L. Hadley Griffin	Chairman of the Board, Brown Group, Inc., St. Louis, Missouri	1984

LITTLE ROCK BRANCH

Appointed by Federal Reserve Bank

William H. Bowen	Chairman and Chief Executive Officer, The Commercial National Bank of Little Rock, Little Rock, Arkansas	1982
William H. Kennedy, Jr.	Chairman of the Board, National Bank of Commerce of Pine Bluff, Pine Bluff, Arkansas	1983
Gordon E. Parker	Chairman of the Board and President, The First National Bank of El Dorado, El Dorado, Arkansas	1984
Shirley J. Pine	Department of Communicative Disorders, University of Arkansas at Little Rock, Little Rock, Arkansas	1984

Appointed by Board of Governors

E. Ray Kemp, Jr	Vice Chairman of the Board and Chief Administrative Officer, Dillard Department Stores, Inc., Little Rock, Arkansas	1982

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		Term expires Dec. 31
Richard V. Warner	Group Vice President, Wood Products Group, Potlatch Corporation, Warren, Arkansas	1983
Sheffield Nelson	Chairman of the Board, President, and Chief Executive Officer, Arkla, Inc., Little Rock, Arkansas	1984

LOUISVILLE BRANCH

Appointed by Federal Reserve Bank

Howard Brenner	Vice Chairman of the Board, Tell City National Bank, Tell City, Indiana	1982
Frank B. Hower, Jr.	Chairman and Chief Executive Officer, Liberty National Bank and Trust Company, Louisville, Kentucky	1983
R.I. Kerr, Jr.	President and Managing Officer, Greater Louisville First Federal Savings and Loan Association, Louisville, Kentucky	1984
John E. Darnell, Jr.	Chairman of the Board, President, and Chief Executive Officer, The Owensboro National Bank, Owensboro, Kentucky	1984

Appointed by Board of Governors

James F. Thompson	Professor of Economics, Murray State University, Murray, Kentucky	1982
William C. Ballard, Jr.	Executive Vice President–Finance and Administration, Humana, Inc., Louisville, Kentucky	1983
Sister Eileen M. Egan	President, Spalding College, Louisville, Kentucky	1984

MEMPHIS BRANCH

Appointed by Federal Reserve Bank

Earl L. McCarroll	President, The Farmers Bank & Trust Co., Blytheville, Arkansas	1982
Wayne W. Pyeatt	President, Memphis Fire Insurance Company, Memphis, Tennessee	1983
Edgar H. Bailey	Chairman and President, Leader Federal Savings and Loan Association, Memphis, Tennessee	1984
William M. Matthews, Jr.	Chairman of the Board and Chief Executive Officer, Union Planters National Bank of Memphis, Memphis, Tennessee	1984

Appointed by Board of Governors

Patricia W. Shaw	Executive Vice President, Universal Life Insurance Company, Memphis, Tennessee	1982
Donald B. Weis	President, Tamak Transportation Corp., West Memphis, Arkansas	1983
G. Rives Neblett	Attorney, Neblett, Bobo & Chapman, Shelby, Mississippi	1984

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District 9—MINNEAPOLIS		
Class A		
Henry N. Ness	Senior Vice President, The Fargo National Bank, Fargo, North Dakota	1982
Vern A. Marquardt	President, Commercial National Bank of L'Anse, L'Anse, Michigan	1983
Dale W. Fern	President and Chairman of the Board, The First National Bank of Baldwin, Wisconsin, Baldwin, Wisconsin	1984
Class B		
Joe F. Kirby	Chairman, Western Surety Company, Sioux Falls, South Dakota	1982
Harold F. Zigmund	President and Chief Executive Officer, Blandin Paper Company, Grand Rapids, Minnesota	1983
William L. Mathers	President, Mathers Land Co., Inc., Miles City, Montana	1984
Class C		
Sister Generose Gervais	Administrator, St. Mary's Hospital, Rochester, Minnesota	1982
William G. Phillips	Chairman and Chief Executive Officer, International Multifoods, Minneapolis, Minnesota	1984
John B. Davis, Jr.	President, Macalester College, St. Paul, Minnesota	1984
HELENA BRANCH		
Appointed by Federal Reserve Bank		
Jase O. Norsworthy	President, The N.R.G. Company, Billings, Montana	1982
Harry W. Newlon	President, First National Bank, Bozeman, Montana	1982
Roger H. Ulrich	President, The First State Bank of Malta, Malta, Montana	1983
Appointed by Board of Governors		
Ernest B. Corrick	Vice President and General Manager, Champion International Corporation, Timberlands-Rocky Mountain Operation, Missoula, Montana	1982
Gene J. Etchart	Past President, Hinsdale Livestock Company, Glasgow, Montana	1983
District 10—KANSAS CITY		
Class A		
Howard K. Loomis	President, The Peoples Bank, Pratt, Kansas	1982
Wayne D. Angell	President, Council Grove National Bank, Ottawa, Kansas	1983

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John D. Woods	Chairman and Chief Executive Officer, The Omaha National Bank, Omaha, Nebraska	1984

Class B

Charles C. Gates	President and Chairman of the Board, Gates Rubber Company, Denver, Colorado	1982
James G. Harlow, Jr.	President and Chief Executive Officer, Oklahoma Gas and Electric Co., Oklahoma City, Oklahoma	1983
Duane Acker	President, Kansas State University, Manhattan, Kansas	1984

Class C

Paul H. Henson	Chairman, United Telecommunications, Inc., Kansas City, Missouri	1982
John F. Anderson	President and Chief Executive Officer, Farmland Industries, Inc., Kansas City, Missouri	1983
Doris M. Drury	Professor of Economics; Director of Public Affairs Program, University of Denver, Englewood, Colorado	1984

DENVER BRANCH

Appointed by Federal Reserve Bank

Delano E. Scott	President and Chairman, The Routt County National Bank of Steamboat Springs, Steamboat Springs, Colorado	1982
George S. Jenks	Chairman and Chief Executive Officer, Albuquerque National Bank, Albuquerque, New Mexico	1982
Kenneth C. Naramore	President, Stockmen's Bank & Trust Company, Gillette, Wyoming	1983
Donald D. Hoffman	Chairman, Central Bank of Denver, Denver, Colorado	1984

Appointed by Board of Governors

Alvin F. Grospiron	Denver, Colorado	1982
Ralph F. Cox	Executive Vice President and Director, Atlantic Richfield Company, Denver, Colorado	1983
James E. Nielson	President and Chief Executive Officer, J.N., Inc., Cody, Wyoming	1984

OKLAHOMA CITY BRANCH

Appointed by Federal Reserve Bank

Marcus R. Tower	Vice Chairman of the Board; Chairman of the Credit Policy Committee, Bank of Oklahoma, Tulsa, Oklahoma	1982
W.L. Stephenson, Jr.	Chairman and Chief Executive Officer, Central National Bank and Trust Company, Enid, Oklahoma	1982

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		Term expires Dec. 31
William H. Crawford	President and Chief Executive Officer, First National Bank and Trust Company, Frederick, Oklahoma	1983

Appointed by Board of Governors

Samuel R. Noble	Chairman of the Board, Noble Affiliates, Inc., Ardmore, Oklahoma	1982
Christine H. Anthony	Oklahoma City, Oklahoma	1983

OMAHA BRANCH

Appointed by Federal Reserve Bank

Donald J. Murphy	Chairman and Chief Executive Officer, United States National Bank of Omaha, Omaha, Nebraska	1982
Joseph J. Huckfeldt	President, Gering National Bank and Trust Company, Gering, Nebraska	1983
William W. Cook, Jr	President, Beatrice National Bank and Trust Company, Beatrice, Nebraska	1983

Appointed by Board of Governors

Robert G. Lueder	President, Lueder Construction Company, Omaha, Nebraska	1982
Gretchen S. Velde	Chairman of the Board, Swanson Enterprises, Inc., Omaha, Nebraska	1983

District 11—DALLAS

Class A

John P. Gilliam	President and Chief Executive Officer, First National Bank in Valley Mills, Valley Mills, Texas	1982
Miles D. Wilson	Chairman of the Board and President, The First National Bank of Bellville, Bellville, Texas	1983
Lewis H. Bond	Chairman of the Board and Chief Executive Officer, Texas American Bancshares Inc., Ft. Worth, Texas	1984

Class B

Robert D. Rogers	President, Texas Industries, Inc., Dallas, Texas	1982
Kent Gilbreath	Associate Dean, Hankamer School of Business, Baylor University, Waco, Texas	1983
J. Wayland Bennett	Professor of Agricultural Finance and Associate Dean, College of Agricultural Sciences, Texas Tech University, Lubbock, Texas	1984

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		Term expires Dec. 31
Class C		
Margaret S. Wilson	Chairman of the Board and Chief Executive Officer, Scarbroughs Stores, Austin, Texas	1982
John V. James	Chairman of the Board, Dresser Industries, Inc., Dallas, Texas	1983
Gerald D. Hines	Owner, Gerald D. Hines Interests, Houston, Texas	1984

EL PASO BRANCH

Appointed by Federal Reserve Bank		
Stanley J. Jarmiolowski	Chairman of the Board and President, First International Bank in El Paso, N.A., El Paso, Texas	1982
Claude E. Leyendecker	President, Mimbres Valley Bank, Deming, New Mexico	1983
Ernest M. Schur	Chairman of the Executive Committee, The First National Bank of Odessa, Odessa, Texas	1984
Gerald W. Thomas	President, New Mexico State University, Las Cruces, New Mexico	1984
Appointed by Board of Governors		
A.J. Losee	Shareholder, Losee, Carson, & Dickerson, Professional Association, Artesia, New Mexico	1982
Chester J. Kesey	C.J. Kesey Enterprises, Pecos, Texas	1983
Mary Carmen Saucedo	Associate Superintendent, Central Area, El Paso Independent School District, El Paso, Texas	1984

HOUSTON BRANCH

Appointed by Federal Reserve Bank		
Will E. Wilson	Chairman of the Board and Chief Executive Officer, First Security Bank of Beaumont, N.A., Beaumont, Texas	1982
Raymond L. Britton	Labor Arbitrator, and Professor of Law, University of Houston, Houston, Texas	1983
Ralph E. David	President, First Freeport National Bank, Freeport, Texas	1984
Thomas B. McDade	Vice Chairman, Texas Commerce Bancshares, Inc., Houston, Texas	1984
Appointed by Board of Governors		
Jerome L. Howard	Chairman of the Board and Chief Executive Officer, Mortgage & Trust, Inc., Houston, Texas	1982

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		Term expires Dec. 31
Paul N. Howell	Chairman of the Board and President, Howell Corporation, Houston, Texas	1983
George V. Smith, Sr.	President, Smith Pipe & Supply, Inc., Houston, Texas	1984

SAN ANTONIO BRANCH

Appointed by Federal Reserve Bank

George Brannies	Chairman of the Board and President, The Mason National Bank, Mason, Texas	1982
John H. Garner	President and Chief Executive Officer, Corpus Christi National Bank, Corpus Christi, Texas	1983
Charles E. Cheever, Jr.	President, Broadway National Bank, San Antonio, Texas	1984
Joe D. Barbee	President and Chief Executive Officer, Barbee-Neuhaus Implement Company, Weslaco, Texas	1984

Appointed by Board of Governors

Pat Legan	Owner, Legan Properties, San Antonio, Texas	1982
Lawrence L. Crum	Professor of Banking and Finance, The University of Texas at Austin, Austin, Texas	1983
Carlos A. Zuniga	Partner, Zuniga Freight Services, Inc., Laredo, Texas	1984

District 12—SAN FRANCISCO

Class A

Frederick G. Larkin, Jr.	Chairman of the Executive Committee, Security Pacific National Bank, Los Angeles, California	1982
Ole R. Mettler	President and Chairman, Farmers & Merchants Bank of Central California, Lodi, California	1983
Robert A. Young	Chairman and President, Northwest National Bank, Vancouver, Washington	1984

Class B

Clair L. Peck, Jr.	Chairman of the Board, C.L. Peck Contractor, Los Angeles, California	1982
J.R. Vaughan	Senior Member, Richards, Watson, Dreyfuss & Gershon, Los Angeles, California	1983
George H. Weyerhauser	President and Chief Executive Officer, Weyerhauser Company, Tacoma, Washington	1984

Class C

Caroline L. Ahmanson	Chairman of the Board, Caroline Leonetti, Ltd., Hollywood, California	1982

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		Term expires Dec. 31
Fred W. Andrew	President and Chief, Operating Officer, Superior Farming Company, Bakersfield, California	1983
Alan C. Furth	President, Southern Pacific Company, San Francisco, California	1984

LOS ANGELES BRANCH

Appointed by Federal Reserve Bank

Bram Goldsmith	Chairman of the Board, City National Bank, Beverly Hills, California	1982
William L. Tooley	Managing Partner, Tooley and Company, Investment Builders, Los Angeles, California	1982
James D. McMahon	President, Santa Clarita National Bank, Valencia, California	1983
Robert R. Dockson	Chairman and Chief Executive Officer, California Federal Savings, Los Angeles, California	1984

Appointed by Board of Governors

Togo W. Tanaka	President, Gramercy Enterprises, Los Angeles, California	1982
Lola M. McAlpin-Grant	Assistant Dean, Loyola Law School, Los Angeles, California	1983
Bruce M. Schwaegler	President, Bullock's-Bullocks Wilshire, Los Angeles, California	1984

PORTLAND BRANCH

Appointed by Federal Reserve Bank

Herman C. Bradley, Jr.	President and Chief Executive Officer, Tri-County Banking Company, Junction City, Oregon	1982
William S. Naito	Vice President, Norcrest China Company, Portland, Oregon	1983
Jack W. Gustavel	President and Chief Executive Officer, The First National Bank of North Idaho, Coeur d'Alene, Idaho	1984
John A. Elorriaga	Chairman of the Board and Chief Executive Officer, United States National Bank of Oregon, Portland, Oregon	1984

Appointed by Board of Governors

Phillip W. Schneider	Former Northwest Regional Executive, National Wildlife Federation, Portland, Oregon	1982
John C. Hampton	Chairman and President, Willamina Lumber Company, Portland, Oregon	1983
Carolyn S. Chambers	Executive Vice President and Treasurer, Liberty Communications, Inc., Eugene, Oregon	1984

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SALT LAKE CITY BRANCH

		Term expires Dec. 31
Appointed by Federal Reserve Bank		
Fred H. Stringham	President, Valley Bank and Trust Company, South Salt Lake, Utah	1982
Albert C. Gianoli	President and Chairman of the Board, First National Bank of Ely, Ely, Nevada	1983
Spencer F. Eccles	President and Chief Executive Officer, First Security Corporation, Salt Lake City, Utah	1984
Lela M. Ence	Executive Director, University of Utah Alumni Association, Salt Lake City, Utah	1984
Appointed by Board of Governors		
Robert A. Erkins	Geothermal Agri/Aquaculturist, White Arrow Ranch, Bliss, Idaho	1982
J.L. Terteling	President, The Terteling Company, Inc., Boise, Idaho	1983
Wendell J. Ashton	Publisher, Deseret News, Salt Lake City, Utah	1984

SEATTLE BRANCH

		Term expires Dec. 31
Appointed by Federal Reserve Bank		
Donald L. Mellish	Chairman of the Board, National Bank of Alaska, Anchorage, Alaska	1982
Lonnie G. Bailey	Chief Operating Officer and Executive Vice President, Farmers & Merchants Bank of Rockford, Spokane, Washington	1983
John N. Nordstrom	Co-Chairman of the Board, Nordstrom, Inc., Seattle, Washington,	1984
G. Robert Truex, Jr.	Chairman, Rainier Bancorporation and Rainier National Bank, Seattle, Washington	1984
Appointed by Board of Governors		
Merle D. Adlum	President, Puget Sound District Council, Maritime Trades Department, AFL/CIO, Seattle, Washington	1982
Virginia L. Parks	Vice President for Finance, and Treasurer, Seattle University, Seattle, Washington	1983
John W. Ellis	President and Chief Executive Officer, Puget Sound Power & Light Company, Bellevue, Washington	1984

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