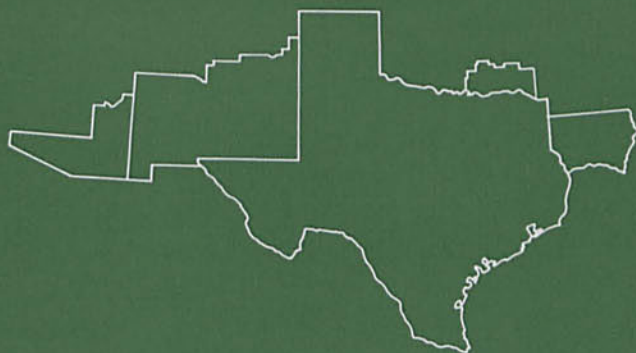
business review



april 1969

FEDERAL RESERVE
BANK OF DALLAS

contents

moment of truth for consumer credit

July 1, 1969, might well be called the moment of truth for consumer credit. This is the date the Federal Truth in Lending Act takes effect.

What is truth in lending? Why do we have it? How will it work? These questions are being asked more and more frequently as the effective date of the act approaches. This is all to the good; any program concerned with informing the public, as this one is, needs a broad measure of public understanding if it is to succeed. Beyond that, however, the Nation's creditors have pressing reasons of their own to ask these questions, for it will be largely up to them to carry out the mandate of the act after July 1.

This article will go into those questions — the whats, whys, and hows of truth in lending. It will attempt to explain what truth in lending is and what it is not. It will also examine the new vocabulary which truth in lending will superimpose on the field of consumer credit and which may be the program's principal long-run contribution.

the program

To begin with, it might be well to set out in general terms just what truth in lending is. Essentially, it is a new Federal program intended to see that the consumer gets complete and accurate information as to the cost of credit. The program has three principal parts. The first is disclosure. The act will require creditors to give their customers certain cost information — including, in most cases, the annual percentage rate of the finance charge — in connection with each extension of consumer credit. The second is advertising, with the act establishing rules to be followed in advertising consumer credit. The third is rescission, a new rule applicable mainly in home improvement and second mortgage situations but actually having much broader applicability; this part of the program will give the customer three days to rescind (that is, cancel) any consumer credit transaction which involves a lien on his residence. The rescission rule will not apply in most home purchase situations.

Having said what truth in lending is, it is now necessary to say what it is not. It is *not* Federal regulation of the terms of consumer credit contracts. Regulation of the terms is left to the states. Creditors will continue to look to state law to see how much they can charge for credit. The theory of truth in lending is that, once the terms of the contract have been decided, the creditor must then go forward and make disclosure to the customer, using standardized rules and concepts established by Federal law.

Of course, to predict that truth in lending will have no effect on industry practices would

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be a mistake. The likelihood is that it will. The effect, however, will be indirect. Creditors will change their practices to facilitate the mechanics of disclosure or to disclose more favorable rates. As one example, many lenders now require the borrower to insure the collateral with insurance purchased from the lender. After July 1, some of these lenders may allow the borrower to use a policy purchased elsewhere in order to exclude the premium from the finance charge under truth in lending — a practice which, in turn, allows disclosure of a lower rate. Strictly speaking, these lenders will not be changing because truth in lending requires it but because competition does. In actuality, though, the rather subtle distinction between direct and indirect effects on trade practices will probably be overlooked more often than not.

the reasons

Why do we have truth in lending? There are a number of ways to approach this question. One answer is that Congress has been increasingly concerned with consumer protection in the last few years, and truth in lending is but a logical continuation of this trend.

Other trends, however, have played a part. One is the increasing tempo of legislation dealing with the problems of the disadvantaged. Another is what appears to be a long-standing congressional attitude that full disclosure legislation is inherently worthwhile on its own. As these trends converged, the prospects for Federal truth in lending legislation improved markedly.

This is not to say that disclosure legislation in the field of consumer credit is a new idea, for it is not. Virtually every state has long had one or more disclosure laws on the books; and by the early 1960's, such laws were proliferating. As they did, a problem of fragmentation became apparent. The consumer credit industry is highly diversified, and each category of lenders uses procedures uniquely its own. Credit unions, for example, traditionally compute interest on a monthly basis. Banks, on the other hand, tend to use the add-on annual rate in their consumer instalment loans. The typical state disclosure law applies to one type of creditor and follows the lending practices of that type. For this reason, most of the state laws convey information to the public but do little to facilitate meaningful cost comparisons among different types of lenders.

A new approach was taken in 1966. In that year, Massachusetts enacted the first broadly based truth in lending law, one which imposed uniform disclosure across the entire spectrum of consumer credit. By 1968, a handful of other states had joined Massachusetts.

The idea of a Federal truth in lending law, however, goes back even earlier. In 1960, then-Senator Paul H. Douglas of Illinois, along with a number of others, introduced the first Federal truth in lending bill. Eight years were necessary to obtain enactment, and, in the interim, Douglas retired from the Senate. Others took up his campaign, though, notably Senator William Proxmire of Wisconsin and Representative Leonor K. Sullivan of Missouri; and the bill was ultimately signed into law on May 29, 1968. In the legislative process, a number of additional provisions were attached to the bill; the Truth in Lending Act is actually Title I of an expanded statute called the Consumer Credit Protection Act.

What is truth in lending expected to accomplish? The proponents do not speak with a single voice on this matter. One segment, perhaps the largest, talks in terms of permitting the consumer to comparison-shop for credit. To these advocates, the principal value of the program is the creation of a uniform yardstick by which the cost of consumer credit can be measured.

Other proponents make the allegation, documented in numerous studies, that merchants and

lenders in the ghettos tend to impose high charges for credit and to disguise these charges in various ways, such as costly "no charge for credit" sales. These practices create the illusion of easy credit to the ghetto dwellers but, in reality, keep them mired in poverty. It is hoped that truth in lending, by bringing the practices into the open, will discourage some of the higher charges for credit and will make ghetto residents more aware of how much of their income is being siphoned off to pay for credit.

the approach

Having run briefly through the whats and whys of truth in lending, let us now turn to the hows. A logical place to start is the question of coverage. To which transactions will truth in lending apply?

The answer is deceptively simple. Truth in lending applies to any extension of *consumer credit* made or arranged for by a *creditor,* unless one of the exemptions is applicable. The difficulty comes in defining the terms. Here we encounter the new truth in lending vocabulary, which is expected by many to become a sort of 20th-century lingua franca for the consumer credit industry. We also encounter a few surprises.

Consider first the definition of consumer credit. It is defined as any extension of credit —

- ☐ To an individual;
- ☐ Primarily for personal, family, household, or agricultural purposes; and
- ☐ For which a finance charge is or may be imposed, *or* which is payable, by agreement, in more than four instalments.

One surprise in this definition is that agricultural credit is included. Another is that consumer credit is not limited to instalment credit. If a finance charge is or may be imposed, the transaction is covered whether payable singly or by instalments. When there is no stated finance charge, a transaction is covered if there is an agreement that it will be payable in more than four instalments. The more than four instalments rule is intended to bring "no charge for credit" sellers under the Truth in Lending Act.

A third surprise is that real estate credit is included. In a number of areas, by the way, real estate credit is given special treatment, and these will be mentioned from time to time in the remainder of the article.

A second necessary definition is the one for creditor. A creditor is a person or firm that regularly extends or arranges for consumer credit in the ordinary course of business. The surprise here is the inclusion of persons who *arrange for* credit. For example, many banks have arrangements whereby an automobile dealer writes up loan papers on automobile credit extended by the bank. More than likely, the dealer will receive a fee for this service. Under truth in lending, both the dealer and the bank are creditors, and both are responsible for disclosure.

The exemptions referred to earlier are:

- Credit to organizations (including partnerships and corporations) and governmental units.
- Credit for business and commercial purposes (for truth in lending, agriculture is not considered a business purpose).
- Credit in excess of $25,000 except when secured by real estate (when secured by real estate, consumer credit is covered no matter what the amount is).
- Securities and commodities accounts with a broker-dealer registered with the Securities and Exchange Commission.
- Bills for public utility services, where the tariff and the discounts or penalties are under some form of governmental surveillance.

To summarize coverage, truth in lending slices out for itself a much broader segment of the credit industry than has up to now been thought of as "consumer instalment credit" and will require disclosure of credit information by many who have not up to now thought of themselves as being in the credit business.

supervision

Before leaving this general area, some attention should be given to the supervisory struc-

ture which will oversee the program. The Board of Governors of the Federal Reserve System was directed to write implementing regulations, and the result is regulation Z, which was issued in February of this year and constitutes the principal reference document for truth in lending compliance. The Board, however, was not given actual supervision of the entire program. Congress divided the day-to-day supervisory responsibility among several agencies, thereby utilizing much of the existing Federal supervisory structure.

The three-way split of Federal banking supervision among the Comptroller of the Currency (national banks), the Federal Reserve System (state member banks), and the Federal Deposit Insurance Corporation (insured nonmember banks) was preserved for truth in lending. The Federal Home Loan Bank Board will oversee the program at insured savings and loan associations. Other agencies involved are the Bureau of Federal Credit Unions, the Civil Aeronautics Board, the Interstate Commerce Commission, and the U.S. Department of Agriculture. For all creditors not otherwise supervised — and this is doubtless the majority — the Federal Trade Commission has responsibility. Thus, FTC will supervise retailers, finance companies, mortgage companies, and a host of others.

The supervisory agencies will not be without teeth in their enforcement efforts. Most will have the full panoply of enforcement tools, such as the right to issue cease and desist orders, obtain court injunctions, and subpoena records. Criminal prosecution is possible for willful and knowing violations. The public, too, may play a significant part in enforcement. The act makes provision for civil liability for failure to disclose or incorrect disclosure; in such a suit, the aggrieved customer can recover twice the finance charge, with upper and lower limits of $1,000 and $100, respectively, plus attorney fees and court costs. In some instances, an assignee of the original creditor is also subject to civil liability.

the new vocabulary

Assuming, then, a transaction to be covered by truth in lending, what happens? This question can be answered most easily, and the new truth in lending vocabulary best examined, in the context of a typical consumer credit transaction. This might be, say, an instalment loan made by a bank.

In such a loan, disclosure must be made before the credit is extended, though there is provision for delayed disclosure in mail and telephone order situations. Regulation Z does not set specific requirements for the sizes of type used in disclosure documents except for numerical amounts and percentages; the disclosures must, however, be clear and conspicuous. In many cases, specified terminology is required; when the terms "annual percentage rate" and "finance charge" are required, they must be more conspicuous than other required terminology. The customer must be provided a copy of the disclosures, which may be in the note, in some other document that is a part of the transaction, or in a separate disclosure statement.

The object of the whole truth in lending effort, of course, is to reach the annual percentage rate. To do this requires that two other figures be determined: the "amount financed," analogous to the principal, and the "finance charge." These terms are central to truth in lending and bear further examination.

The amount financed is essentially the amount of credit which will actually be available to the customer. It is determined, in the case of a loan, by starting with the base amount of the credit. To this are added any other charges imposed on the customer which serve to increase the amount of the credit but which are not part of the finance charge — for example, license and registration fees that are added to the loan balance. From the total (base credit plus other charges) must be subtracted any amounts which, in practice, decrease the credit actually available. Thus, if any portion of the finance charge is payable in cash, to the creditor or otherwise, it must be deducted as a prepaid finance charge. Such would be the case when so-called points are payable to the creditor in connection with the transaction.

The next order of business is the determination of the "finance charge," another important new consumer credit term. Here as well, truth in lending takes a no-nonsense approach. The creditor must include in the finance charge every amount which the customer will pay, directly or indirectly, to obtain the credit. Interest, of course, is one such charge, but there are others. Some components of the finance charge may be payable to someone other than the creditor, but they must be included. An example of this situation would be a finder's fee.

There are a number of specific and highly technical rules for computing the finance charge. Insurance is a case in point. Property and liability insurance premiums must be included if the creditor refuses to allow the customer to supply his own policies. Different rules apply to premiums for credit life and similar insurance. The premium for FHA insurance must always be included.

There are two special rules applicable in real estate situations. Certain closing costs — they are specified in regulation Z — are not includable in the finance charge when the transaction is secured by real property. Again, the dollar amount of the finance charge need not be disclosed in first mortgage home purchase situations.

the apr

After finding the amount financed and the finance charge, the creditor is in a position to determine the annual percentage rate. Even now, this term is being referred to as "APR," but the regulation will not permit the use of this abbreviation in actual disclosures. The annual percentage rate is the most important element of truth in lending, since it provides the key yardstick by which the credit costs of all types of transactions can be measured against one another.

For typical instalment and single-payment transactions, the APR is determined by what is called the actuarial method, sometimes referred to as the simple annual rate. The formulas for the actuarial method are complex, so much so that they are included in a supplement to regulation Z and not printed in the regulation itself. They will be primarily of interest to producers of rate charts or creditors with sufficient computer capability to make their own computations.

Most creditors, however, will compute their rates through the use of tables. Regulation Z contains detailed guidelines for their production, and official tables — the Regulation Z Annual Percentage Rate Tables — are produced by the Board of Governors and made available through the Board or the Federal Reserve banks. Presumably, though, the bulk of the tables will be prepared by commercial publishers.

Irregular payment schedules will cause some difficulty. Various irregularities are fairly common, such as a final payment that is a few dollars over or under the other payments. These minor irregularities may be disregarded in line with certain limitations found in the regulation. Others, however, must be fully compensated for in computing the rate. The Board's tables have a supplement of instructions for making arithmetical adjustments to handle irregularities.

In certain transactions with a small finance charge, disclosure of the APR is not required. Thus, when the amount financed is over $75, the APR is not required if the finance charge is $7.50 or less. When the amount financed is $75 or under, the APR is not required if the finance charge is $5 or less. Also, until January 1, 1971, the creditor may, at his option, state the APR as dollars finance charge per year per $100 of unpaid balance. This provision does not allow him to state the so-called add-on rate, only to restate the actuarial percentage in terms of dollars.

In addition to the three major items — amount financed, finance charge, and APR — truth in lending requires other disclosures. The payment schedule must be set out, with a warning about any balloon payments. Security for the indebtedness must be clearly identified. Information must be furnished as to the conditions under which the loan can be prepaid and the charges which will be made in the event of default.

open-end credit

The rules for disclosure in instalment and single-payment transactions are not workable in another large segment of consumer credit, typified by department store revolving credit, check-credit plans, and most of the credit cards. Consequently, another set of disclosure rules was devised for this area, which for truth in lending purposes is called open-end credit. A caveat is necessary here: Do not confuse the truth in lending use of this term with its traditional use. The time-honored open-end mortgage is not open-end credit for truth in lending. Truth in lending applies "open-end" to a type of account characterized by a fluctuating balance, with a finance charge imposed periodically — usually monthly — and generally based on the size of the balance.

For open-end credit, point-of-transaction disclosure is abandoned. Disclosures are required before the account is opened — and in periodic statements which must be furnished thereafter — but generally not at the time the loan or sale is made. For active accounts in existence on July 1, disclosure equivalent to the preopening disclosure must be made by July 31, 1969.

Preopening disclosure is concerned largely with setting out the terms on which the account will be handled. Periodic disclosure involves such items as the opening and closing balances (called previous and new balances, respectively), debits and credits during the period, the finance charge added, the periodic rates, and the APR. There is no APR exemption for open-end credit.

The concept of APR for open-end credit is also entirely different. Two methods of computation are available. In one, the various periodic rates are annualized to produce the annual rates; thus, a finance charge of 1½ percent per month would produce an APR of 18 percent. In the other method, the finance charge is divided by the balance on which it is based, and the resulting percentage annualized. Creditors will probably prefer to use the former method, since it will preclude the need to compute the APR each month. The terms of the account can be adjusted so that this procedure will be permissible.

the comparative index

One difficulty in the open-end field is that terms other than the rate can make a considerable difference in the cost of credit. For example, consider two accounts which charge 1½ percent per month. One computes the monthly charge on the previous balance (the opening balance of the billing cycle in question); the other, on the balance after payments during the billing cycle have been deducted. Each will carry an APR of 18 percent, but the effective rate on the latter account will be less.

Truth in lending seeks to disclose this difference by a device called the Comparative Index of Credit Cost. This is an optional disclosure; to compute it, the creditor runs a standardized hypothetical transaction through his account and determines the rate that would be achieved. If utilized, this device should provide an effective index to the relative cost of various open-end accounts.

advertising

The second component of truth in lending — advertising — is probably of almost equal importance in getting information to consumers but is not nearly as complex in its details as is disclosure.

One point to be remembered is that "advertising" is an all-inclusive term. It includes newspaper and magazine advertisements; messages on radio and television; direct mail literature; billboards, window displays, and posters; point-of-sale literature; catalogs; price tags — in short, every sort of commercial message. Advertising for consumer credit is covered even though it is not by a creditor. For example, consumer credit advertising by an association of creditors would be covered.

The principal rules applicable to advertising are three in number. First, if a creditor advertises certain specific credit terms, he must make them usually and customarily available. Thus, an advertisement of "$25 down" or "$7.50 per month" means that the creditor will be required to offer those terms to all who apply for them if their credit standing justifies. Second, if any specific credit terms are advertised, the creditor must also advertise his whole credit package. Finally, rate advertising must be on an annual basis and in line with the APR approach of truth in lending.

the three-day rule

The final aspect of truth in lending is the three-day rescission rule. The purpose of the rule is to give customers time to think things over when confronted by the fast-talking home improvement gyp artists who have been plaguing homeowners of late. There is no question that this has become a serious problem; many states, on their own, have enacted laws with the same objective. The rule as enacted by Congress, however, has implications far beyond the home improvement field, and this important point should be kept in mind.

What the rule says is this: In any consumer credit transaction in which a lien is or may be obtained *by any party* on the customer's principal residence, other than a first lien purchase money mortgage, the creditor must allow the customer three business days from the "consummation" of the transaction or from the making of all disclosures required by truth in lending, whichever is later, in which to cancel the transaction. The creditor must, in addition to other required disclosures, give the customer a specific notice of this right, and a copy of the notice can be used to exercise it.

The customer has up to midnight of the third business day following the beginning of the period in which to rescind. The creditor is not permitted to advance any money except in escrow, to start work, or, in many cases, even to deliver materials until he is satisfied that the customer has not rescinded. If rescission does not occur, the transaction goes through as agreed.

If rescission is exercised, any lien on the residence arising as a result of the transaction becomes invalid, and the creditor must remove the lien from public records. The creditor also must promptly return any money or property of the customer which he has acquired. The customer must thereupon return to the creditor any property which the creditor has delivered to him; if it would be impractical to do so, the customer need only return the fair value of the item.

There is provision for the customer to waive the right of rescission in a bona fide personal financial emergency. To do so, the customer furnishes the creditor a separate dated and signed statement describing the situation; the use of printed forms for this purpose is prohibited. Waiver will allow the customer to obtain credit quickly in emergency situations, such as when his furnace goes out in the middle of the winter.

The three-day rule will probably cause major adjustments to be made in loan closing procedures for home improvement and second mortgage situations. One important fact to be remembered is that the rule comes into play even though the creditor himself does not or will not acquire a lien. For example, suppose a bank makes an unsecured loan for home improvement purposes. The home improvement contractor will acquire a mechanic's lien by virtue of performing construction work. The three-day rule would then come into play.

state laws

Some of the knottiest questions under truth in lending involve the interplay between state and Federal laws. One aspect of this — and perhaps the ultimate solution to the problem — is the exemption provided in Section 123 of the act. This section allows the Board of Governors to exempt from the Federal law any class of transactions which is subject to substantially similar state requirements and for which there is adequate provision for enforcement. At the time of this writing, the Board is still in the process of drafting guidelines for the granting of such exemptions. One can only speculate whether the states will flock to secure exemptions of this type or will prefer to let Federal money supervise credit disclosure.

The Uniform Consumer Credit Code may be a factor here. It has been suggested for adoption by the states, and the drafters of the code hope that their final effort will contain disclosure provisions which, if adopted, will support a Section 123 exemption. Of course, there is more to it than that; there must also be adequate enforcement, and a state's regulations must comply as well. The UCCC currently is bogged down in controversy, but the controversy does not necessarily relate to its disclosure aspects. Otherwise, there is no reason why a state not wanting to adopt the UCCC cannot work out its own disclosure statutes and obtain an exemption that way.

In the meantime, there is the question of conflict between existing state disclosure laws and Federal truth in lending. This is a difficult area; regulation Z takes the position that any state law touching on an area covered by Federal truth in lending and requiring disclosures which are different is "inconsistent" with Federal law. It is recognized, however, that some creditors may prefer to continue to comply with both state and Federal laws, at least until legislation or an authoritative court decision clarifies the matter. To do this, a creditor will be required to place his inconsistent state disclosures on a separate sheet from his Federal disclosures or, if they are on the same sheet, place the state disclosures below a conspicuous demarcation line and identify them as inconsistent.

That, in short, is truth in lending. No summary of a complex subject can take account of all the twists and turns. For those who must comply, there is no substitute for thorough study of regulation Z and the act; articles like this can only point the way.

Other efforts to point the way are increasingly in evidence as the task of gearing up for July 1 moves ahead. The Board of Governors has prepared a pamphlet containing regulation Z, the act, a question-and-answer series, and specimen forms; and the pamphlet is being distributed to creditors by the various supervisory agencies. (Any creditor who does not receive the pamphlet should contact the appropriate supervisory agency, as indicated in the accompanying box.)

Seminars are being held to acquaint personnel of the supervisory agencies with the new regulation. Trade associations are active; speakers from the Board, the Federal Reserve banks, and other enforcement agencies are addressing trade association conventions and seminars on the subject of regulation Z, and many associations themselves are preparing educational materials and presentations for their members. New forms are being printed, tables prepared, computers programmed, and sales and lending personnel trained — all with the goal of regulation Z compliance on July 1.

No one wanted truth in lending to be complex, but it covers a complex field. There is not a great deal of similarity between a 25-year loan for the purchase of a $75,000 house, a seasonal line of credit to a farmer, and the sale of a watch for "$1 down, $1 a week," but all three come under truth in lending. In the congressional hearings, a number of witnesses expressed doubts that a workable truth in lending program could be devised. One has been devised, however, and it will work. It will require the efforts of many between now and July 1 — creditors, supervisory agencies, the publishers of charts and forms — but, in the end, the public, through increased ability to shop for credit, will be the winner. And that, after all, is what truth in lending is all about.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

What you ought to know about

FEDERAL RESERVE REGULATION

Z

Truth In Lending

Consumer Credit Cost Disclosure

THIS NEW FEDERAL LEGISLATION GOES INTO EFFECT JULY 1, 1969

Truth in Lending Inquiries

The article points out that a number of Federal agencies are responsible for truth in lending supervision with respect to particular types of creditors. Questions regarding truth in lending which concern a specific type of creditor should be directed to the office of the appropriate agency as set out below.

National Banks
Comptroller of the Currency
United States Treasury Department
Washington, D.C. 20220

State Member Banks
Federal Reserve Bank serving the area in which the state member bank is located.

Nonmember Insured Banks
Federal Deposit Insurance Corporation Supervising Examiner for the District in which the nonmember insured bank is located.

Savings Institutions Insured by the FSLIC and Members of the FHLB System (Except for Savings Banks Insured by FDIC)
The FHLB's Supervising Agent in the Federal Home Loan Bank District in which the institution is located.

Federal Credit Unions
Regional Office of the Bureau of Federal Credit Unions, serving the area in which the Federal Credit Union is located.

Creditors Subject to Civil Aeronautics Board
Director, Bureau of Enforcement
Civil Aeronautics Board
1825 Connecticut Avenue, N.W.
Washington, D.C. 20428

Creditors Subject to Interstate Commerce Commission
Office of Proceedings
Interstate Commerce Commission
Washington, D.C. 20523

Creditors Subject to Packers and Stockyards Act
Nearest Packers and Stockyards Administration area supervisor.

Retail, Department Stores, Consumer Finance Companies, and All Other Creditors
Truth in Lending
Federal Trade Commission
Washington, D.C. 20580

district highlights

During February, the seasonally adjusted Texas industrial production index rose nearly 1 percent to 168.5 percent of its 1957-59 base. The increase in total manufacturing accounted for all of the rise, since mining was down slightly and utilities were unchanged. In the manufacturing categories, nondurable goods made a stronger gain than did durable goods. The changes for the nondurable goods sectors ranged from moderate declines to substantial increases, while there was little change in most durable goods sectors. Among the nondurable goods, the largest monthly output gains occurred in chemicals and petroleum refining (reflecting, in part, the strike in petroleum refining in January), as well as in "other" nondurables. The decrease in crude petroleum output was responsible for the lower mining index.

The industrial production index for the State in February was almost 3 percent above the same month in 1968. Both total manufacturing and utilities showed gains, but mining output declined nearly 9 percent. Total durable goods exhibited considerably more strength than total nondurable goods. Among all the manufactures, only the textile mill products sector posted a decrease from a year earlier. There was a 10-percent gain for utilities, buoyed by a strong rise in electricity generation. As was the case in the month-to-month change, a decline in crude petroleum output accounted for the reduced level of mining activity.

Nonagricultural wage and salary employment in the five southwestern states in February, at a level of 6,025,900 persons, was fractionally ahead of the previous month and was 5 percent over February 1968. The month-to-month increase in total employment was more buoyant than seasonally expected. All sectors posted stronger-than-seasonal gains with the exception of transportation and public utilities employment, which was little changed from the preceding month. Manufacturing employment exhibited the largest above-seasonal gain.

As compared with a year ago, all the nonagricultural employment sectors in the five states showed increases in February. The percentage gains in the mining, construction, and service sectors each exceeded the rise in total employment. Transportation and public utilities posted the smallest year-to-year gain in employment.

Registrations of new passenger automobiles in the major metropolitan areas of Dallas, Fort Worth, Houston, and San Antonio decreased 8 percent during February. Among the individual centers, only Fort Worth reported an increase over January. Combined February registrations were down 11 percent from those for a year earlier. Cumulative data for the first 2 months of 1969 show that registrations in the four markets were 5 percent below the same period last year.

Department store sales in the Eleventh District for the 4 weeks ended March 22 were 8 percent ahead of the comparable period a year ago. Cumulative sales thus far in 1969 were 12 percent higher than in the corresponding 1968 period.

Daily average production of crude oil in the southwestern states of Louisiana, New Mexico, Oklahoma, and Texas decreased 1.0 percent during February to a level that was 6.4 percent below a year earlier. The yearly decline was concentrated in Louisiana and Texas, as New Mexico and Oklahoma showed only small changes. The decline from a year ago reflected the very strong demand for crude petroleum in the winter of 1968 that resulted from the Middle East crisis and unusually cold weather. Stocks of crude petroleum, which had risen more rapidly than seasonal needs earlier this year because of the strike by refinery workers, eased to normal levels in February.

The oil allowable for Texas was 42.8 percent of the Maximum Efficient Rate of production in February and was raised to 45.6 percent for March; for April, it has been set at 49.9 percent. The Oklahoma allowable, which had been 90 percent of permissible production for several months, was raised to 100 percent in March and will be the same for April. The allowable has been raised slightly in Louisiana and in the southeastern part of New Mexico. These somewhat higher allowables can be attributed to the fact that April is a transitional month for the oil industry, when preparations are made for the summer travel season.

Planting of corn and sorghums is active in the southern part of the Eleventh District and will begin in the northeastern section as soon as fields become dry enough for working. Cool, damp weather is delaying cotton seeding in most parts of the District except the Lower Rio Grande Valley. Winter wheat prospects continue to improve, especially in the western areas, where recent rains have benefited the crop's development. Southwestern vegetables are generally in good supply.

According to the U.S. Department of Agriculture, farmers in the five southwestern states indicated at the beginning of March that they intend to plant about 28.4 million acres to major spring crops this year. If such intentions are carried out, this acreage would be almost 5 percent larger than actual plantings in 1968. Acreages of most crops are expected to increase; the exceptions are rice, sorghums, and hay, acreages for which are expected to be down only slightly. The additional cotton acreage would account for nearly three-fourths of the gain in the total acreage of major crops.

Ranges and livestock are generally in good condition for this time of year. However, cold weather has caused some loss of livestock weight and forced the continuation of supplemental feeding in a few areas as a result of the slow development of permanent grasses.

The number of cattle and calves on feed in Texas on March 1, 1969, totaled 1,039,000 head. This figure is 4 percent below a month earlier but 38 percent greater than a year ago. The number of cattle and calves on feed in Arizona, at 430,000 head, was also 4 percent below a month earlier but was 19 percent larger than on March 1, 1968.

Prices received by Texas farmers and ranchers for all farm products during January-February averaged 7 percent above the same period last year. A 20-percent increase in prices for livestock more than offset an 8-percent decrease in those for crops.

Cash receipts from farm marketings in the Eleventh District states during January were slightly below the corresponding month last year. Crop income registered an 8-percent decrease, but receipts from livestock and livestock products were 8 percent larger.

Reflecting seasonal factors and the reduced availability of funds, all major balance sheet items except loans adjusted decreased at the weekly reporting commercial banks in the Eleventh District in the 4 weeks ended March 12. Large certificates of deposit declined further as a result of the continued payment of higher rates for other short-term investments.

Loans adjusted gained $57 million, as loans to nonbank financial institutions increased $30 million and business loans expanded $17 million. Real estate loans rose almost $4 million, or more than double the advance for the comparable period last year. Consumer instalment loans, however, were up only marginally, about in line with the year-earlier gain.

Total investments declined $69 million, due to decreases of $49 million in U.S. Government security holdings and $28 million in holdings of municipal securities. In the comparable 4-week period a year ago, total investments rose $14 million.

On the liability side of the balance sheet, total demand deposits decreased $112 million, with U.S. Government deposits and deposits of states and political subdivisions declining $43 million and $84 million, respectively. Interbank deposits fell $32 million, but demand deposits of individuals, partnerships, and corporations gained $46 million.

Total time and savings deposits declined $24 million, as the reduction of $63 million in "other" IPC time deposits more than offset an increase of $36 million in deposits of states and municipalities. The runoff in large certificates of deposit amounted to $73 million in the 4 weeks ended March 12.

new par bank

The Bank of Baytown, Baytown, Texas, an insured nonmember bank located in the territory served by the Houston Branch of the Federal Reserve Bank of Dallas, was added to the Par List on its opening date, March 14, 1969. The officers are: Fred Hartman, Chairman of the Board; L. A. Hill, President; J. Evans Attwell, Vice President; John D. Lazrine, Cashier; and Linda Otis, Assistant Cashier.

STATISTICAL SUPPLEMENT

to the

BUSINESS REVIEW

April 1969

FEDERAL RESERVE BANK
OF DALLAS

CONDITION STATISTICS OF WEEKLY REPORTING COMMERCIAL BANKS

Eleventh Federal Reserve District

(In thousands of dollars)

Item	Mar. 26, 1969	Feb. 26, 1969	Mar. 27, 1968
ASSETS			
Net loans and discounts	6,307,405	6,317,739	5,390,513
Valuation reserves	*119,311*	*119,913*	*107,266*
Gross loans and discounts	6,426,716	6,437,652	5,497,779
Commercial and industrial loans	3,070,509	3,055,587	2,697,398
Agricultural loans, excluding CCC certificates of interest	105,871	103,939	98,436
Loans to brokers and dealers for purchasing or carrying:			
U.S. Government securities	1,001	1,001	16,774
Other securities	74,966	134,471	25,890
Other loans for purchasing or carrying:			
U.S. Government securities	400	368	431
Other securities	412,113	408,650	337,203
Loans to nonbank financial institutions:			
Sales finance, personal finance, factors, and other business credit companies	130,589	140,404	167,593
Other	413,447	370,014	267,287
Real estate loans	616,372	608,053	536,801
Loans to domestic commercial banks	256,761	300,665	175,052
Loans to foreign banks	7,637	6,512	5,372
Consumer instalment loans	647,046	642,338	553,358
Loans to foreign governments, official institutions, central banks, international institutions	0	0	0
Other loans	690,004	665,650	616,184
Total investments	2,716,523	2,674,735	2,484,919
Total U.S. Government securities	1,079,412	1,113,552	1,194,441
Treasury bills	86,641	109,716	100,664
Treasury certificates of indebtedness	0	0	0
Treasury notes and U.S. Government bonds maturing:			
Within 1 year	123,576	129,204	213,494
1 year to 5 years	667,969	666,275	616,381
After 5 years	201,226	208,357	263,902
Obligations of states and political subdivisions:			
Tax warrants and short-term notes and bills	33,701	28,256	7,012
All other	1,352,509	1,301,441r	1,094,741
Other bonds, corporate stocks, and securities:			
Participation certificates in Federal agency loans	154,482	150,174	112,034
All other (including corporate stocks)	96,419	81,312r	76,691
Cash items in process of collection	986,554	1,001,624	884,739
Reserves with Federal Reserve Bank	793,240	716,519	776,791
Currency and coin	84,560	85,046	81,336
Balances with banks in the United States	472,982	465,880	446,677
Balances with banks in foreign countries	6,250	5,976	4,354
Other assets	377,784	363,249	360,210
TOTAL ASSETS	11,745,298	11,630,768	10,429,539
LIABILITIES			
Total deposits	9,578,402	9,581,106	8,893,608
Total demand deposits	5,729,107	5,684,777	5,312,533
Individuals, partnerships, and corporations	3,974,620	3,971,317	3,696,866
States and political subdivisions	304,388	317,684	304,544
U.S. Government	163,210	159,093	120,188
Banks in the United States	1,180,314	1,120,980	1,094,387
Foreign:			
Governments, official institutions, central banks, international institutions	3,672	2,396	4,092
Commercial banks	24,029	22,212	24,303
Certified and officers' checks, etc.	78,874	91,095	68,153
Total time and savings deposits	3,849,295	3,896,329	3,581,075
Individuals, partnerships, and corporations:			
Savings deposits	1,015,121	1,009,109	1,092,905
Other time deposits	2,038,785	2,092,472	1,796,344
States and political subdivisions	749,286	750,530	660,602
U.S. Government (including postal savings)	10,983	11,983	8,688
Banks in the United States	27,530	24,745	19,036
Foreign:			
Governments, official institutions, central banks, international institutions	7,100	7,000	3,300
Commercial banks	490	490	200
Bills payable, rediscounts, and other liabilities for borrowed money	957,705	850,624	406,333
Other liabilities	264,170	252,324	228,011
CAPITAL ACCOUNTS	945,021	946,714	901,587
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	11,745,298	11,630,768	10,429,539

r — Revised.

RESERVE POSITIONS OF MEMBER BANKS

Eleventh Federal Reserve District

(Averages of daily figures. In thousands of dollars)

Item	4 weeks ended Mar. 5, 1969	5 weeks ended Feb. 5, 1969	4 weeks ended Mar. 6, 1968
RESERVE CITY BANKS			
Total reserves held	741,387	769,728	698,261
With Federal Reserve Bank	689,590	712,600	651,662
Currency and coin	51,797	57,128	46,599
Required reserves	740,265	755,492	692,990
Excess reserves	1,122	14,236	5,271
Borrowings	45,414	29,292	3,003
Free reserves	—44,292	—15,056	2,268
COUNTRY BANKS			
Total reserves held	766,901	775,262	700,371
With Federal Reserve Bank	591,715	589,814	537,146
Currency and coin	175,186	185,448	163,225
Required reserves	736,284	747,418	665,965
Excess reserves	30,617	27,844	34,406
Borrowings	10,534	9,046	1,181
Free reserves	20,083	18,798	33,225
ALL MEMBER BANKS			
Total reserves held	1,508,288	1,544,990	1,398,632
With Federal Reserve Bank	1,281,305	1,302,414	1,188,808
Currency and coin	226,983	242,576	209,824
Required reserves	1,476,549	1,502,910	1,358,955
Excess reserves	31,739	42,080	39,677
Borrowings	55,948	38,338	4,184
Free reserves	—24,209	3,742	35,493

CONDITION OF THE FEDERAL RESERVE BANK OF DALLAS

(In thousands of dollars)

Item	Mar. 26, 1969	Feb. 26, 1969	Mar. 27, 1968
Total gold certificate reserves	379,795	340,893	365,747
Discounts for member banks	95,096	26,140	34,499
Other discounts and advances	0	0	855
U.S. Government securities	2,111,555	2,113,276	2,113,582
Total earning assets	2,206,651	2,139,416	2,148,936
Member bank reserve deposits	1,274,108	1,235,867	1,215,948
Federal Reserve notes in actual circulation	1,517,219	1,519,065	1,391,160

CONDITION STATISTICS OF ALL MEMBER BANKS

Eleventh Federal Reserve District

(In millions of dollars)

Item	Feb. 26, 1969	Jan. 29, 1969	Feb. 28, 1968
ASSETS			
Loans and discounts	11,027	10,808	9,523
U.S. Government obligations	2,466	2,539	2,606
Other securities	3,141	3,155	2,680
Reserves with Federal Reserve Bank	1,236	1,260	1,133
Cash in vault	258	266	239
Balances with banks in the United States	1,155	1,193	1,090
Balances with banks in foreign countries[e]	7	9	6
Cash items in process of collection	1,129	1,117	1,008
Other assets[e]	616	488	456
TOTAL ASSETS[e]	21,035	20,835	18,741
LIABILITIES AND CAPITAL ACCOUNTS			
Demand deposits of banks	1,408	1,441	1,368
Other demand deposits	8,778	8,851	8,206
Time deposits	7,730	7,645	6,904
Total deposits	17,916	17,937	16,478
Borrowings	885	952	412
Other liabilities[e]	568	311	309
Total capital accounts[e]	1,666	1,635	1,542
TOTAL LIABILITIES AND CAPITAL ACCOUNTS[e]	21,035	20,835	18,741

e — Estimated.

BANK DEBITS, END-OF-MONTH DEPOSITS, AND DEPOSIT TURNOVER

(Dollar amounts in thousands, seasonally adjusted)

Standard metropolitan statistical area	DEBITS TO DEMAND DEPOSIT ACCOUNTS[1] February 1969 (Annual-rate basis)	Percent change: February 1969 from January 1969	Percent change: February 1969 from February 1968	Percent change: 2 months, 1969 from 1968	DEMAND DEPOSITS[1] February 28, 1969	Annual rate of turnover: February 1969	Annual rate of turnover: January 1969	Annual rate of turnover: February 1968
ARIZONA: Tucson	$ 4,917,768	0	9	11	$ 211,032	23.4	23.9	26.9
LOUISIANA: Monroe	2,422,428	8	13	9	83,867	27.9	25.4	26.8
Shreveport	6,848,592	3	6	6	227,867	29.5	27.9	28.9
NEW MEXICO: Roswell[2]	772,764	0	16	12	32,796	23.6	22.3	20.2
TEXAS: Abilene	1,984,008	3	9	11	96,797	20.0	18.6	19.1
Amarillo	5,180,904	3	2	3	148,371	35.2	33.5	37.5
Austin	8,560,884	8	56	47	267,560	30.5	27.3	24.0
Beaumont-Port Arthur-Orange	5,608,656	—6	1	5	229,319	24.5	25.3	25.0
Brownsville-Harlingen-San Benito	1,556,400	—6	4	5	72,507	21.9	23.7	20.1
Corpus Christi	4,717,296	0	4	6	201,603	23.7	23.1	23.5
Corsicana[2]	382,356	—9	8	2	32,131	12.4	14.1	12.5
Dallas	98,511,468	—8	33	33	2,107,175	47.2	49.9	40.7
El Paso	6,032,892	—8	19	17	212,460	28.1	29.2	25.5
Fort Worth	18,898,536	3	8	11	610,971	31.3	30.3	31.9
Galveston-Texas City	2,563,896	—1	4	6	105,200	23.9	23.8	24.9
Houston	83,580,228	—5	11	16	2,450,824	35.2	37.6	35.9
Laredo	803,460	2	20	18	38,967	20.6	20.5	20.2
Lubbock	3,616,476	—2	5	10	151,757	24.5	25.2	24.4
McAllen-Pharr-Edinburg	1,511,592	—5	13	14	89,729	17.0	17.5	15.9
Midland	1,925,268	—1	16	15	129,446	14.8	15.0	13.6
Odessa	1,384,896	—6	12	16	76,774	18.4	20.7	18.9
San Angelo	1,095,372	1	9	9	65,524	17.0	16.7	16.5
San Antonio	14,701,296	—2	—2	4	622,236	24.1	24.9	27.4
Sherman-Denison	920,280	—7	10	9	59,026	15.0	16.3	15.4
Texarkana (Texas-Arkansas)	1,511,196	—4	10	13	71,804	21.8	23.2	22.2
Tyler	1,870,248	—9	10	14	91,861	20.5	21.8	20.2
Waco	2,625,132	1	13	13	108,700	23.6	22.6	20.3
Wichita Falls	2,250,024	—6	11	13	119,545	19.2	20.9	18.0
Total—28 centers	$286,754,316	—4	17	19	$8,715,849	33.3	34.6	31.7

[1] Deposits of individuals, partnerships, and corporations and of states and political subdivisions.
[2] County basis.

BUILDING PERMITS

Area	NUMBER Feb. 1969	NUMBER 2 mos. 1969	VALUATION (Dollar amounts in thousands) Feb. 1969	VALUATION 2 mos. 1969	Percent change: Feb. 1969 from Jan. 1969	Percent change: Feb. 1969 from Feb. 1968	Percent change: 2 months, 1969 from 1968
ARIZONA							
Tucson	544	1,002	$ 3,463	$ 4,875	145	71	31
LOUISIANA							
Monroe-West Monroe	48	125	1,753	2,761	74	116	6
Shreveport	358	770	4,148	6,578	71	115	81
TEXAS							
Abilene	41	73	1,135	1,409	314	584	118
Amarillo	169	321	1,552	4,043	—38	—27	0
Austin	459	835	15,111	25,249	49	17	24
Beaumont	89	185	1,051	2,112	—1	—26	—25
Brownsville	55	111	302	3,275	—90	—50	278
Corpus Christi	299	621	1,340	2,819	—9	—38	—69
Dallas	1,656	3,474	22,061	49,967	—21	20	47
Denison	32	64	648	1,100	43	341	366
El Paso	410	811	13,332	19,221	126	128	22
Fort Worth	462	926	6,719	19,401	—47	—24	56
Galveston	98	178	532	919	37	—23	—19
Houston	2,515	4,567	39,651	81,090	—4	—3	5
Laredo	40	74	766	1,044	176	287	247
Lubbock	119	241	3,245	4,893	97	171	34
Midland	71	145	494	950	8	—42	—38
Odessa	54	98	1,300	1,668	253	272	85
Port Arthur	70	114	213	590	—44	—28	18
San Angelo	71	114	635	1,054	52	—28	—21
San Antonio	971	1,864	6,386	16,615	—38	—56	—48
Sherman	56	105	668	989	108	72	80
Texarkana	30	51	368	484	217	—47	—54
Waco	190	396	1,973	3,169	65	67	—4
Wichita Falls	73	143	2,217	4,300	6	251	265
Total—26 cities	8,980	17,408	$131,063	$260,575	1	9	11

GROSS DEMAND AND TIME DEPOSITS OF MEMBER BANKS

Eleventh Federal Reserve District

(Averages of daily figures. In millions of dollars)

Date	GROSS DEMAND DEPOSITS Total	Reserve city banks	Country banks	TIME DEPOSITS Total	Reserve city banks	Country banks
1967: February	8,902	4,020	4,882	6,091	2,721	3,370
1968: February	9,561	4,391	5,170	6,863	2,851	4,012
September	10,066	4,722	5,344	7,255	3,058	4,197
October	10,201	4,751	5,450	7,394	3,116	4,278
November	10,365	4,776	5,589	7,498	3,145	4,353
December	10,682	5,007	5,675	7,598	3,185	4,413
1969: January	10,752	4,935	5,817	7,627	3,135	4,492
February	10,328	4,734	5,594	7,707	3,091	4,616

VALUE OF CONSTRUCTION CONTRACTS

(In millions of dollars)

Area and type	February 1969	January 1969	December 1968	January—February 1969	January—February 1968r
FIVE SOUTHWESTERN STATES[1]	568	588	648	1,154	841
Residential building	220	237	180	456	388
Nonresidential building	214	164	260	377	268
Nonbuilding construction	135	187	208	321	185
UNITED STATES	4,802	4,766	4,542	9,539	7,395
Residential building	1,820	1,746	1,742	3,562	2,949
Nonresidential building	1,885	2,145	1,849	4,006	2,593
Nonbuilding construction	1,097	875	951	1,971	1,853

[1] Arizona, Louisiana, New Mexico, Oklahoma, and Texas.
r — Revised.
NOTE. — Details may not add to totals because of rounding.
SOURCE: F. W. Dodge, McGraw-Hill, Inc.

TOTAL OIL WELLS DRILLED

Area	Fourth quarter 1968	Third quarter 1968	Percent change	1968 cumulative	Percent change from 1967 cumulative
FOUR SOUTHWESTERN STATES	1,812	1,855	—2.3	6,984	—11.8
Louisiana	343	351	—2.3	1,353	14.3
Offshore	130	127	2.4	481	27.6
Onshore	213	224	—4.9	872	8.1
New Mexico	119	118	.8	514	—14.2
Oklahoma	310	383	—19.1	1,328	—4.1
Texas	1,040	1,003	3.7	3,789	—20.2
Offshore	2	0	—	8	—66.7
Onshore	1,038	1,003	3.5	3,781	—20.0
UNITED STATES	4,207	3,793	10.9	14,331	—6.5

SOURCE: American Petroleum Institute.

DAILY AVERAGE PRODUCTION OF CRUDE OIL

(In thousands of barrels)

Area	February 1969	January 1969	February 1968	Percent change from January 1969	Percent change from February 1968
FOUR SOUTHWESTERN STATES	6,147.0	6,206.9	6,566.3	—1.0	—6.4
Louisiana	2,183.0	2,181.2	2,326.3	.1	—6.2
New Mexico	356.0	356.0	349.4	.0	1.9
Oklahoma	614.0	612.4	619.6	.3	—.9
Texas	2,994.0	3,057.3	3,271.0	—2.1	—8.5
Gulf Coast	584.8	601.0	655.0	—2.7	—10.7
West Texas	1,413.7	1,441.8	1,522.6	—2.0	—7.2
East Texas (proper)	134.8	138.6	159.8	—2.8	—15.7
Panhandle	90.0	90.8	95.1	—.9	—5.4
Rest of State	770.7	785.1	838.5	—1.8	—8.1
UNITED STATES	8,960.0	9,030.3	9,319.0	—.8	—3.9

SOURCES: American Petroleum Institute.
U.S. Bureau of Mines.
Federal Reserve Bank of Dallas.

NONAGRICULTURAL EMPLOYMENT

Five Southwestern States[1]

Type of employment	Number of persons: February 1969p	January 1969	February 1968r	Percent change Feb. 1969 from: Jan. 1969	Feb. 1968
Total nonagricultural wage and salary workers	6,025,900	6,002,600	5,736,100	0.4	5.1
Manufacturing	1,117,600	1,103,400	1,070,900	1.3	4.4
Nonmanufacturing	4,908,300	4,899,200	4,665,200	.2	5.2
Mining	231,500	231,600	213,800	—.1	8.3
Construction	389,100	390,700	354,200	—.4	9.9
Transportation and public utilities	441,300	441,200	431,100	.0	2.4
Trade	1,355,600	1,361,100	1,295,100	—.4	4.7
Finance	295,800	293,800	282,300	.7	4.8
Service	926,000	920,500	877,900	.6	5.5
Government	1,269,000	1,260,300	1,210,800	.7	4.8

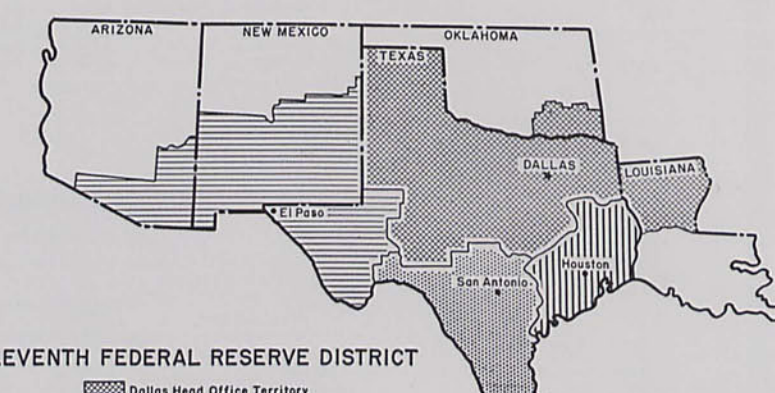
1 Arizona, Louisiana, New Mexico, Oklahoma, and Texas.
p — Preliminary.
r — Revised.
SOURCE: State employment agencies.

INDUSTRIAL PRODUCTION

(Seasonally adjusted indexes, 1957-59 = 100)

Area and type of index	February 1969p	January 1969	December 1968	February 1968r
TEXAS				
Total industrial production	168.5	167.4	166.1	164.4
Manufacturing	193.8	190.7	190.6	181.3
Durable	213.4	212.6	208.9	193.4
Nondurable	180.7	176.2	178.3	173.3
Mining	119.2	120.8	118.3	130.6
Utilities	236.0	236.0	231.6	214.8
UNITED STATES				
Total industrial production	169.5	169.1	168.7	162.0
Manufacturing	170.9	170.4	170.1	163.6
Durable	173.7	172.7	172.4	167.6
Nondurable	167.4	167.4	167.3	158.6
Mining	126.1	127.5	127.9	123.9
Utilities	214.5	211.0	210.1	199.0

p — Preliminary.
r — Revised.
SOURCES: Board of Governors of the Federal Reserve System.
Federal Reserve Bank of Dallas.



ELEVENTH FEDERAL RESERVE DISTRICT

Dallas Head Office Territory
Houston Branch Territory
San Antonio Branch Territory
El Paso Branch Territory