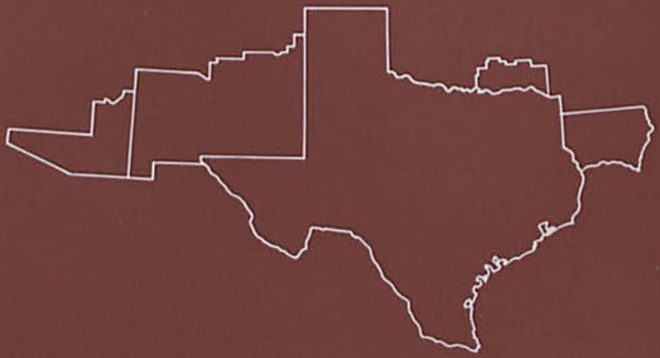
business review



july 1970

FEDERAL RESERVE BANK OF DALLAS

contents

Contemporary developments in liability management

The central concern in bank operations until a few years ago was the appropriate composition of assets needed to achieve the best balance among liquidity, income, and safety. While asset management is still important in attaining these goals, shortages of deposit funds in 1966 and again in 1969 and 1970 have led banks to place greater emphasis on liability management. This shift can be seen in the aggressive development of new sources of funds and in the more intensive use of existing sources of borrowing, such as the Federal funds market.

This article describes the developments that led to greater reliance on liability management at commercial banks and the major instruments and markets banks have used in managing their liabilities, especially the newer methods. It also compares recent practices of liability management used by banks in the Eleventh Federal Reserve District with those used by banks in the nation as a whole.

The need develops

Under the traditional approach to asset and liability management, a bank usually viewed the volume of its own deposit liabilities as determined by the size and economic strength of the community it served. For the bank to grow (in the short run at least), it had to compete with other banks for a larger share of the fairly fixed volume of total deposits in the community. Since the volume of deposits of an individual bank was assumed to be largely beyond the bank's immediate control, its primary task was the allocation of funds — channeling the funds it received to loans and investments according to its needs for liquidity, income, and safety.[1] With the use of the surplus funds of the immediate postwar period and the steady rise in loans, by the early 1960's, banks in the major metropolitan areas, especially New York and Chicago, began looking beyond asset allocation as a means of meeting customer loan demands.

Demand deposits at New York banks, for example, showed almost no growth in the 1950's. The fairly steady rise in interest rates on money market instruments was a major factor in the reduced expansion of corporate demand deposits at large money-center banks. As rates rose, corporate treasurers were provided with a new incentive to hold demand deposits at a minimum and invest excess balances in earning assets.

Also contributing to the slower growth in demand deposits were changes in the services some banks offered. By offering such services as lockbox collection and account reconciliation plans, banks made it possible for corporate customers to hold their demand deposit balances to a minimum.

At the same time, most large money market banks faced heavy loan demand, especially from corporate borrowers seeking larger commercial and industrial loans. The greater demand for business loans primarily reflected increased requirements for fixed and working capital as the size of corporate businesses ex-

[1] Paul S. Nadler, *Commercial Banking in the Economy,* Random House Series in Money and Banking (New York, 1968), pp. 186-90.

panded. These expanded capital requirements were reflected, in turn, in larger individual loan requests at commercial banks.

Since the maximum amount a bank can loan any one borrower is limited by law — the amount determined usually by the size of the bank's capital and unimpaired surplus account — only large banks could accommodate many businesses needing larger loans. As a result, having little deposit growth, large money market banks steadily reduced their holdings of securities to meet the greater loan demand.

Federal funds. This change, with its resulting reduction in banks' portfolio liquidity, led to greater emphasis on liability management — the structuring of deposits, other types of bank liabilities, and capital. The first notable sign of greater reliance on liability management was the expansion in banks' net purchases of Federal funds.

Rather than looking on the Federal funds market as merely a place where they could meet reserve deficiencies temporarily by buying excess reserves held by other banks, aggressive money managers began to view the Federal funds market as a new and continuing source of loanable funds. Major banks, in fact, began bidding actively for Federal funds not only when rates on these funds were no higher than the Federal Reserve discount rate but also when the cost of Federal funds was well above the discount rate.

Negotiable CD's. In 1961, money market banks in New York began issuing negotiable time certificates of deposit in large denominations. A certificate of deposit is written evidence of a time deposit, showing that the purchaser agrees to leave funds with a bank for some specified period of more than 30 days. A large-denomination CD is negotiable because ownership of the deposit can be sold in secondary markets before the instrument matures. In fact, the creation of secondary markets for CD's greatly enhanced the ability of banks to issue them and was crucial to their development as important money market instruments.[2]

The practice of using CD's to attract large amounts of funds spread quickly beyond New York. Faced with this new competition, large banks outside New York began offering CD's as a means of preventing a loss of deposits to banks already issuing these instruments. By July 1966, the volume of negotiable CD's outstanding at the nation's large banks had risen to $18.3 billion.

The need intensifies

In 1964 and 1965, the Board of Governors of the Federal Reserve System raised Regulation Q ceiling rates on time and savings deposits in response to increases in short-term market rates of interest. These upward adjustments in the maximum rates banks were permitted to pay enabled banks to continue issuing negotiable CD's and, thereby, compete effectively for the available supply of short-term funds.

But in 1966, reflecting its concern that large banks might be able to avoid the full impact of monetary restraint by continuing to attract funds through the issuance of CD's, the Board of Governors held Regulation Q ceiling rates unchanged even though money market rates advanced sharply. As a result, between July and November 1966, banks lost about $2.8 billion in large-denomination CD's. Unable to continue tapping the CD market, many banks were confronted with serious liquidity problems.

In 1967 and 1968, as rates fell to competitive levels, large banks were again able to add substantially to the volume of their outstanding CD's. But the performance of 1969 was a re-

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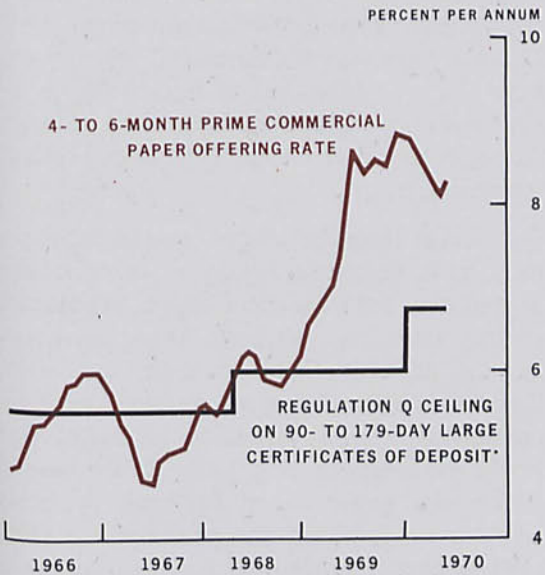
[2] For an elaboration, see A. Gilbert Heebner, "Negotiable Certificates of Deposit: The Development of a Money Market Instrument," *The Bulletin*, Institute of Finance, Graduate School of Business Administration, New York University, No. 53-54 (New York, 1969).

RATES ON PRIME COMMERCIAL PAPER AND SELECTED LARGE CERTIFICATES OF DEPOSIT



*Negotiable certificates of deposit issued in denominations of $100,000 or more.
SOURCE: Board of Governors, Federal Reserve System.

peat of 1966, except on a larger scale. From November 1968 through December 1969, with Regulation Q ceiling rates held unchanged as market rates advanced, negotiable CD's outstanding at large commercial banks declined almost $13.5 billion, or to roughly the level of early 1964.

Eurodollar borrowing. The sharp losses of funds due to CD runoffs led to several innovations in liability management, one of the most important of which was the use of Eurodollars. The term "Eurodollars" refers generally to U.S. dollars loaned and borrowed by foreign financial institutions, including foreign branches of American banks. Funds borrowed in the Eurodollar market represent dollar deposits of American banks that were acquired earlier by foreigners but redeposited subsequently in banks outside the United States. Since most Eurodollar borrowing by American banks consists of short-term dollar loans made by the foreign branches (usually for less than a year), the measure of Eurodollar borrowing commonly used is gross liabilities of U.S. banks to their foreign branches. Eurodollars are also borrowed, however, from branches in U.S. territories and possessions and from foreign banks not affiliated with the borrowing institution.

American banks borrowed few Eurodollars until the credit crunch of 1966, and most of what demand there was came from a few large banks in New York City. Beginning in mid-1966, however, many large banks, and especially those in New York, began actively bidding for Eurodollars to help meet the prevailing heavy loan demand and maintain minimum liquidity requirements during a time of severe deposit drains. In July-November 1966 — a period in which weekly reporting banks in the nation as a whole lost about $2.8 billion in large CD's — liabilities of U.S. banks to their foreign branches increased almost $1.8 billion.

From late January through June 1969, when CD attrition at large banks amounted to $5.8 billion, these institutions turned increasingly to the Eurodollar market as a source of funds. Large banks, in fact, increased their Eurodollar borrowings by $4.7 billion in the first half of 1969, an amount large enough to offset a substantial portion of the loss of funds due to the heavy CD runoff.

Several factors accounted for the growing importance of Eurodollar borrowing in the management of bank liabilities. Since Eurodollar borrowings, whether from foreign branches or unaffiliated foreign banks, were not subject to Regulation Q ceilings, banks were free to pay going market rates of interest for these funds. Moreover, in the early stages of this development, banks could afford to pay higher rates for Eurodollar borrowings because funds so acquired were not subject to reserve requirements or FDIC insurance assessment.

In the summer of 1969, however, the Board of Governors of the Federal Reserve System moved to moderate the flow of Eurodollars to domestic banks in the United States by placing marginal reserve requirements on these borrowings. Subject to certain qualifications not detailed here, amendments to Federal Reserve regulations concerning reserve requirements (Regulation D) and activities of foreign branches (Regulation M) became effective in September, requiring that banks hold a 10-percent reserve against all Eurodollar borrowings that exceeded the daily average amount outstanding in the four weeks ended May 28. Sales of assets by member banks to their foreign branches were also brought under the 10-percent marginal reserve requirement, as was credit extended by foreign branches to residents of the United States. By making these changes, the Board increased the cost of Eurodollar funds without imposing a ceiling on the level of borrowing.

Commercial paper. With the effective cost of Eurodollar borrowings raised by official action, new incentives were created for banks to find other sources of funds. One of the innovations banks had been using on a limited basis was the issuance of commercial paper through bank-related corporations. After the announcement of restrictions on Eurodollar borrowing, bank use of commercial paper increased rapidly. By late May 1970, outstanding commercial paper of bank-related organizations amounted to $7.5 billion, compared with $1.9 billion in late July 1969.

Commercial paper consists of short-term promissory notes of nonfinancial commercial organizations, usually with maturities of less than 270 days and normally unsecured. Amendments to Regulations D and Q in 1966, making bank issues of notes with maturities of less than two years subject to the same restrictions as deposits, effectively eliminated the option for banks to issue short-term notes directly. But since these restrictions did not explicitly cover holding companies, their nonbank subsidiaries, and operating subsidiaries of member banks, commercial paper issued through bank-related organizations came into broad use in mid-1969. Through these uses of commercial paper, banks were able to tap sources of funds with an instrument that, unlike negotiable CD's, exempts the issuer from interest rate ceilings and reserve requirements.

Proceeds from the sale of commercial paper by a bank holding company or other related organization can be used, of course, to purchase existing loans from the bank. These purchases, in turn, allow the bank to make new loans, thereby accommodating its customers and increasing its earning assets to an extent that would not otherwise be possible. In the case of commercial paper issued by bank operating subsidiaries, however, the proceeds are often used to finance other activities, such as mortgage servicing, without bringing any additional pressure on the bank's own funds.

While pursuing the objective of general monetary restraint, the Board of Governors proposed in October 1969 that if the proceeds from sale of commercial paper by a bank holding company, one of its nonbank subsidiaries, or an operating subsidiary of a member bank were used to supply funds to the bank, the sale would be subject to Regulation Q interest rate ceilings. As a somewhat broader measure, the Board subsequently proposed that member banks be required to meet a 10-percent reserve requirement against funds channeled into banks from the issuance of commercial paper by related corporations. In February 1970, however, the Board announced an indefinite postponement of both proposals. With this postponement, issues of commercial paper through bank affiliates were left uncovered with respect to both the reserve requirements of Regulation D and the interest rate ceilings of Regulation Q.

Other techniques. Another technique of liability management used by banks was to make the Federal funds market available to corporate customers. In mid-1969, some banks began purchasing overnight funds from their corporate customers, usually paying the going market rate on Federal funds. With rates on Federal funds sometimes as high as 10 percent, it was to the corporate treasurer's advantage to leave idle balances at commercial banks rather than invest them in other money market instruments — a development that allowed aggressive money managers at many banks to hold existing corporate deposits and attract new funds.

Since this practice appeared to be closely akin to payment of interest on demand deposits, the Board of Governors announced in June 1969 that, in its view, such transactions should not be exempt from the requirements of Regulations D and Q. Consequently, effective in February 1970, the Board narrowed the category of Federal funds transactions exempt from these regulations and, in effect, eliminated direct corporate access through commercial banks to the Federal funds market.

Another innovation was the sale of loans (or participations in loans) under repurchase agreements. Loans sold under repurchase agreements carry a commitment that the selling bank will repurchase such loans on demand or at some specified date. As in the case of purchases of Eurodollars or sales of commercial paper, these transactions enhanced the lending and investing capability of banks selling the loans. Loans sold under repurchase agreements continued to be serviced by the originating bank, and borrowers whose notes were sold under repurchase agreements were often never aware of the transaction.

The sale of participations in loans to correspondent banks is a practice of long standing among both large and small banks and, in fact, implicitly sanctioned by existing Federal banking regulations. The new aspect of these transactions introduced in 1969 was the inclusion of nonbanks as buyers, a practice that allowed the issuing banks to offer corporate customers and other investors highly liquid earning assets at rates and maturities not subject to Regulation Q restrictions. Moreover, the liability for loans sold under repurchase agreements was not considered a deposit and was, therefore, exempt from legal reserve requirements.

Regulations D and Q were amended, effective in July 1969, to provide that repurchase agreements entered into after that date with anyone except a bank — on any asset except U.S. Government securities or Government agency obligations or obligations directly guaranteed by the Government — would be classified as a deposit and, therefore, be considered subject to reserve requirements and interest rate ceilings. The effect was a reduction in the volume of sales under these agreements from nearly \$2 billion in July 1969 to about \$800 million in May 1970. At that level, loans sold under repurchase agreements were no longer an important source of nondeposit funds.

Another source of funds recently used by banks is the small-denomination note. In October 1969, the First Virginia Bankshares Corporation, a multibank holding company, offered a \$14 million issue of capital notes that included denominations as small as \$500. These small-denomination notes (with three-year call protection) were sold to investors to yield 7½ percent per annum over a ten-year term. The rest of the issue, offered at 8 percent a year, was sold in a minimum denomination of \$20,000. In January 1970, the First Pennsylvania Banking and Trust Company sold \$20 million of 30-month, 7¼-percent notes in minimum denominations of \$100.

Such notes offer the issuing banks several advantages. First, since they do not represent deposit liabilities and, therefore, are not subject to reserve requirements, their effective cost to banks is reduced. Second, they are sold to small savers at substantially lower rates than would be required for a conventional debt offering in the institutional market. Third, there is no underwriting fee, as there would be under conventional financing, because the notes are sold directly to investors. Introduction of these small-denomination notes represented a considerable innovation in liability management since, until then, most efforts by banks to obtain new funds had focused on money market sources. In June 1970, the Board of Governors extended the coverage of Regulations D and Q to include subordinated debentures of less than seven years' original maturity or in amounts of less than $500.

A practice involving "brokered CD's" has also entered into the management of bank liabilities. Use of this technique grew out of the long-standing practice of borrowers' maintaining compensating balances at lending banks. Under conditions of tight money, some banks began to allow CD's purchased by third parties, usually brokers, to serve as the compensating balance of a borrowing customer. For this service, of course, the borrower pays the broker a fee. Under such an arrangement, the borrower gets the full amount of his loan, the broker earns a return on his funds in excess of Regulation Q ceilings, and the bank maintains the deposit.

Some banks have also used various types of guarantee arrangements to facilitate their customers' short-term financing requirements, without actually using the banks' own funds. Some, for example, have issued irrevocable letters of credit guaranteeing commercial paper issued by customers. These guarantees make the customer-issued paper easier to sell and sometimes reduce the interest cost to customers borrowing in the open market.

For providing the guarantee, a bank usually charges a small fee, mainly to compensate for the risk. Since the paper is distributed through a commercial paper dealer, the bank becomes involved only if the borrower fails to pay the note at maturity. In such case, the investor has an automatic claim on the bank for payment.

Some banks have also experimented with ineligible bankers' acceptances as a means of financing unsecured loans. A draft or bill of

NONDEPOSIT SOURCES OF FUNDS AT WEEKLY REPORTING COMMERCIAL BANKS

(As of last Wednesday of month)

Item	Percentage distribution			
	United States		Eleventh District	
	May 1970	June 1969	May 1970	June 1969
Eurodollars	62	85	25	17
Through branches outside United States				
Foreign	58	79	17	0
Territories and possessions	2	3	—	—
Through brokers and dealers[1]	1	[2]2	—	—
Direct[1]	1	[2]1	8	17
Commercial paper issued by a bank holding company or other bank affiliates	32	7	54	52
Loans or participation in pools of loans sold under repurchase agreements	3	7	6	29
To bank holding companies, affiliates, or subsidiaries	3	2	0	0
To other than banks and bank-related affiliates or subsidiaries	([3])	5	6	29
Guaranteed customer paper	1	1	8	2
Ineligible acceptances	2	0	7	0
TOTAL	100	100	100	100

[1] Includes an indeterminate amount of Federal funds purchases from U.S. agencies of foreign banks.
[2] Derived from a partly estimated volume.
[3] Less than one-half of 1 percent.
SOURCES: Board of Governors of the Federal Reserve System.
Federal Reserve Bank of Dallas.

exchange used in financing international trade and domestic transactions involving major staple commodities is a banker's acceptance when a bank guarantees to redeem it at maturity. An ineligible banker's acceptance is merely a banker's acceptance that arises out of other types of transactions and, therefore, is not eligible for a bank to use as loan collateral at the Federal Reserve discount window.

The District and the nation

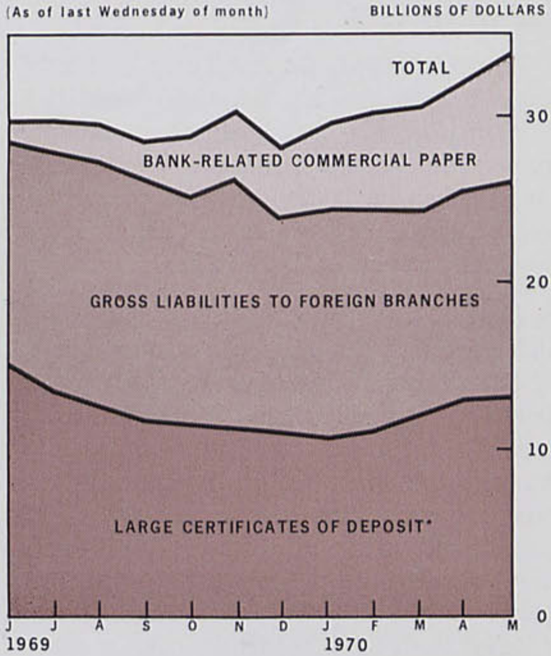
Beginning in the late spring of 1969, the Board of Governors began collecting weekly data from member banks on their use of various nondeposit sources of funds. These include Eurodollars borrowed directly from foreign banks or through brokers and dealers, liabilities of banks to their own branches in U.S. territories and possessions, commercial paper issued by bank holding companies or other bank-related corporations, loans or participation in pools of loans sold under repurchase agreements by banks, customer paper guaranteed by banks, and ineligible acceptances created by banks.

These items, combined with gross liabilities to foreign branches (data for which were already available), constitute the major sources of nondeposit funds. Examination of these data for June 1969 through May 1970 reveals striking differences between the practices of banks in the Eleventh District and banks in the nation as a whole. There were also some interesting similarities.

Eurodollar borrowings were the primary source of nondeposit funds for banks in the nation, followed by issues of commercial paper. But the reverse was true in the District. Eurodollar borrowings became more important in the District during this period, however, while they became less important in the nation as a whole. And while the use of commercial paper became more significant in the nation, its standing was essentially unchanged in the District.

SELECTED SHORT-TERM LIABILITIES AT WEEKLY REPORTING U.S. COMMERCIAL BANKS

(As of last Wednesday of month)



*Negotiable certificates of deposit issued in denominations of $100,000 or more.

SOURCES: Board of Governors, Federal Reserve System. Federal Reserve Bank of New York.

These divergent trends can be attributed in part to the fact that, until recently, banks in the District have not had extensive and well-developed international contacts. Eurodollar borrowing by banks in the District has been limited to only a few large Texas banks, and even they were late in using this source of funds.

The first Eurodollar borrowing by Texas banks occurred in the summer of 1968, and by the end of that year, only two Texas banks were making regular use of funds from the Eurodollar market. At the end of May 1969 (the first date for which estimates appear to be reliable), four large Texas banks reported a total of about $62 million of outstanding Eurodollar borrowings. Until the late summer of 1969, all contact between Texas banks and the Eurodollar market was through unaffiliated foreign banks. Even with this limited contact, however, Texas banks increased their Eurodollar borrowings to nearly $142 million by the end of July 1969.

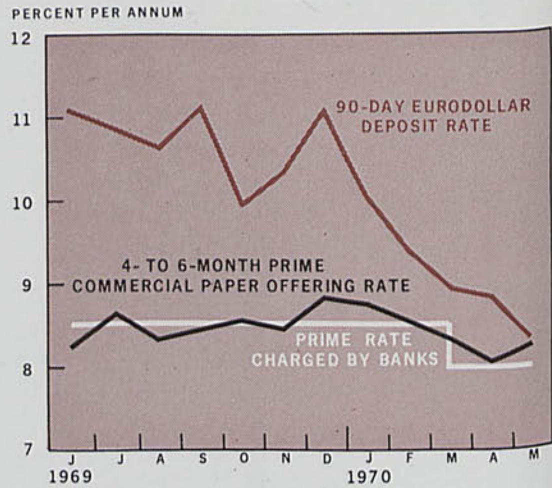
In August 1969, the first Texas bank established a branch in Nassau, and by mid-1970, five branches of Texas banks were authorized or operating in the Bahamas. Two branches were authorized in London, and one of them was in operation. Two Texas banks had also acquired interests in London banks.

Banks in the District and in the nation also differed in their use of certain other nondeposit sources of funds. Most of the commercial paper issued by trusteed affiliates of banks in the Eleventh District, for example, was guaranteed by an irrevocable letter of credit or some similar bank document. But this was not generally the case for the nation as a whole. The difference was probably due to most of the commercial paper in the District being issued through trusteed bank affiliates. In the nation, most of the commercial paper was issued through one-bank holding companies.[3]

Banks in the District also relied more heavily on ineligible acceptances and guaranteed customer paper. In May 1970, these two items accounted for only 3 percent of the funds banks in the nation raised from nondeposit sources. But they amounted to 15 percent of the total in the District. No bank in the District reported purchases of Federal funds from corporate customers. Nor did any of the banks issue small-denomination subordinated notes.

[3] Since a holding company owning a bank has access to the bank's assets, a letter of credit from the bank guaranteeing the holding company's commercial paper is not needed. But because an operating subsidiary or trusteed affiliate has no claim on the assets of its parent organization, a letter of credit is important in the case of commercial paper issued in this manner. For a bank issuing paper through a subsidiary to obtain the lowest market rate of interest, it needs to attach an irrevocable guarantee to the subsidiary's paper, assuring purchasers that the issuer has the same credit standing as the bank.

PRIME RATE AND SELECTED MARKET RATES



SOURCE: Board of Governors, Federal Reserve System.

Despite these differences in the District and the nation in the relative use of various nondeposit sources of funds, there were some similarities. Loans sold under repurchase agreements declined in both the District and the nation between June 1969 and May 1970, since this practice was made subject to the provisions of Regulations D and Q. Most commercial paper issues of banks in the nation were placed directly, rather than through brokers or dealers. The same was true for banks in the District.

Summary of impact

As a result of these innovations in bank liability management, the total volume of funds commercial banks raised through unconventional means rose enough — in the District and the nation — between mid-1969 and May 1970 to offset the runoff in large-denomination CD's. In fact, the total volume of funds obtained from the three principal sources — negotiable CD's, Eurodollar borrowings, and commercial paper issues — remained almost unchanged during the second half of 1969 and showed a small gain for the entire 11-month period. In the early summer of 1969, increased Eurodollar borrowing roughly matched the attrition in CD's. Eurodollar borrowings were used less, however, after marginal reserve requirements were placed on them. Instead, increased issues of commercial paper were used to compensate for the continued runoff in CD's.

That banks could offset heavy attrition of CD's through the increased use of these unconventional sources of funds has at least two implications of some significance. First, it shows the high priority banks give to the maintenance of established customer relationships, especially the weight placed on the need to meet customer borrowing requirements. Despite the high interest rates on commercial paper and Eurodollar borrowing, banks preferred to continue accommodating customer loan demands by obtaining funds in these markets. Second, and more important, it is clear that commercial banks, as a group, have been quite innovative in their efforts to avoid the deposit restraint imposed by interest rate ceilings.

LACY H. HUNT, II

new member bank

The American National Bank, Humble, Texas, a newly organized institution located in the territory served by the Houston Branch of the Federal Reserve Bank of Dallas, opened for business June 19, 1970, as a member of the Federal Reserve System. The new member bank has capital of $200,000, surplus of $200,000, and undivided profits of $100,000. The officers are: Haden E. McKay, Chairman of the Board; LeRoy Page, President; Edgar W. Robbins, III, Vice President; and Mrs. Rachel W. Smith, Cashier.

District highlights

The seasonally adjusted Texas industrial production index declined fractionally in May to 179.5 percent of the 1957-59 base. Manufacturing accounted for all the decline. Mining output increased slightly, and utilities were unchanged. Within manufacturing, the largest declines were in machinery output, textile production, and petroleum refining.

The total index was 4 percent higher than a year before. Utilities continued to lead the year-to-year advance, followed by mining and manufacturing. In the manufacture of nondurable goods, the greatest gain was made by the petrochemical industry. Production of durable goods declined, with transportation equipment accounting for most of the drop.

Further indication of the slowdown in Texas production can be seen in the persistence of the decline in the industrial production index. Through May, the total index in 1970 declined 1.8 percent, compared with a rise of 3.2 percent last year. The index for total manufacturing declined 3.7 percent in the first five months of the year, compared with an increase of 2 percent last year. The manufacture of durable goods accounted for most of the drop, declining 5.2 percent, while output of nondurable goods edged downward 1.8 percent. Mining output this year increased at only half the rate recorded over the same period last year. Production by utilities has remained steady this year, compared with a 2-percent gain last year.

Total nonagricultural wage and salary employment in the five southwestern states increased seasonally in May to 6,368,300. Manufacturing employment, declining for the fifth consecutive month, continued to be the major source of weakness. Nonmanufacturing employment rose for the fourth consecutive month, with trade, finance, and services showing the greatest strength. Construction and government employment failed to increase seasonally.

Employment in these five states was 3.0 percent higher than a year before. The greatest gains were in finance, which increased 5.6 percent, and construction, which increased 5.1 percent. Employment rose 4.5 percent in services, 4.0 percent in trade, and 3.6 percent in government. The only year-to-year declines were in manufacturing, down 0.8 percent, and mining, down 0.5 percent.

The Texas Employment Commission reported a decline in the number of unemployment insurance claims processed in the four weeks ended May 27. Initial claims fell 4.4 percent to 4,300. Continued claim actions dropped 4.9 percent to nearly 35,000 claims. During this period, however, the total number of payments on such claims rose 7.2 percent and the total benefits paid out increased 7.9 percent to $1.1 million. All these indicators doubled from their levels a year before.

Texas oil allowables were reduced from 59 percent of maximum permitted production in June to 55.5 percent in July. This was the third consecutive month that the Texas Railroad Commission reduced the state's rate of output. The cutback resulted apparently from lower producer requests for Texas oil and high levels of inventories in the hands of producers. Louisiana allowables were reduced for the second consecutive month, from 49 percent of maximum efficient production in June to 47 percent in July. This change was also apparently because of lower nominations and high stocks.

For southeastern New Mexico, daily allowables were held at the June level of 70 barrels per well. The level of output in New Mexico had been set lower in June than demand conditions warranted, because the high level of production in May had resulted in excessive flaring of casinghead gas.

Although the main season for gasoline consumption has started, demand has been less than expected, and oil companies are finding it hard to maintain the price increase in gasoline introduced in March. Heavy stocks of gasoline at refineries have brought cut-rate sales to distributors, encouraging retail price wars. Major oil companies were not able to make price increases stick in 1969. Because of a shortage of coal and the concern over pollution, demand for fuel oil, on the other hand, remains unseasonally strong.

Total loans and investments at weekly reporting banks in the Eleventh District declined slightly in May and the first two statement weeks in June. The reduction, which totaled $70 million, reflected sales of loans out of bank portfolios, as well as continued weak loan demand and some bank liquidation of security holdings in response to a decline in total deposits. The reduction in deposits resulted entirely from a drop in demand deposits. Time and savings deposits remained essentially unchanged. In view of these deposit outflows, banks substantially increased their borrowing in the commercial paper and Eurodollar markets.

From April 29 through the statement week ended June 10, total loans declined $23 million. The decline reflected continued slack demand for most types of loans. Although real estate loans outstanding in early June were about the same as at the end of April, loans to consumers and to businesses fell — the latter partly in response to the sale of business loans by banks. Loans to brokers and dealers also declined moderately, probably in response to recent reductions in dealer inventories of securities.

Even with depressed loan demands, reporting banks responded to deposit outflows by reducing their security holdings by $49 million. Nearly all of this liquidation represented net sales of short-term municipals, following sizable acquisition of these securities by banks in the District in April.

The decline in total deposits amounted to $197 million. About half this decline reflected a reduction in U.S. Government demand deposits. A small decline in large CD's outstanding — probably reflecting the general increase in money market rates during the six-week period — was just offset by a rise in savings deposits and other types of time deposits, leaving time and savings deposits essentially unchanged.

The estimate of this year's wheat production in states of the Eleventh District was revised downward on June 1 to 172 million bushels. The revision, which resulted from an adverse turn in the weather in May, brings the estimate to a level 10 percent lower than on May 1 and 13 percent lower than the harvest last year.

Because of rain and hail, cotton had to be replanted in some areas of the High Plains and Lower Rio Grande Valley. Grain sorghum was making good progress in most areas of the District. Range conditions deteriorated slightly in Texas but were still better than usual for early summer.

Expansion of Texas feedlot operations seems to be slowing. In three of the five months from December through April, the number of cattle placed in Texas feedlots was smaller than a year earlier. This was a marked change in the trend in placements since the midsixties. Until December, monthly placements were almost always larger than a year earlier. Placements were up again in May, however, showing a gain of 112 percent over April and 20 percent over May 1969. This upturn should offset the decline of earlier months and help provide an adequate supply of fed cattle in the early winter months.

Cash receipts from farm marketings in District states were 8 percent higher in the first four months of this year than in the same period last year. Livestock receipts were 17 percent higher, but this gain was partially offset by a 10-percent decline in receipts from crop marketings.

Prices received by Texas farmers and ranchers on May 15 were 3 percent less than at mid-April and 1 percent less than a year earlier. The all-crops index was 3 percent higher than both a month before and a year before. Conversely, the livestock and livestock products index was 6 percent lower than in April and 3 percent lower than a year earlier.

Registrations of new passenger automobiles in the major metropolitan reporting areas of Texas — Dallas, Fort Worth, Houston, and San Antonio — were 7 percent lower in May than in April. Total registrations were also 7 percent lower than in May 1969. The cumulative total for the first five months of 1970 was 8 percent lower than registrations in the same period a year before.

Department store sales in the Eleventh District were 2 percent higher in the four weeks ended June 27 than in the corresponding period last year. Cumulative sales through that date were also 2 percent higher than a year earlier.

FEDERAL RESERVE BANK OF DALLAS

11-K

DALLAS, TEXAS

STATISTICAL SUPPLEMENT

to the

BUSINESS REVIEW

July 1970

FEDERAL RESERVE BANK
OF DALLAS

CONDITION STATISTICS OF WEEKLY REPORTING COMMERCIAL BANKS

Eleventh Federal Reserve District

(In thousands of dollars)

Item	June 24, 1970	May 27, 1970	June 25, 1969[1]
ASSETS			
Federal funds sold and securities purchased under agreements to resell	537,750	496,025	6,545,119
Other loans and discounts, gross	6,039,341	5,917,150	
Commercial and industrial loans	2,949,883	2,909,601	3,137,014
Agricultural loans, excluding CCC certificates of interest	106,133	109,783	115,294
Loans to brokers and dealers for purchasing or carrying:			
U.S. Government securities	500	500	501
Other securities	34,313	36,136	44,753
Other loans for purchasing or carrying:			
U.S. Government securities	1,265	1,089	548
Other securities	391,563	398,889	377,390
Loans to nonbank financial institutions:			
Sales finance, personal finance, factors, and other business credit companies	136,251	137,338	163,949
Other	371,247	343,355	419,682
Real estate loans	622,825	594,113	620,751
Loans to domestic commercial banks	6,175	11,174	245,423
Loans to foreign banks	9,695	9,772	8,053
Consumer instalment loans	727,465	732,641	685,456
Loans to foreign governments, official institutions, central banks, international institutions	0	175	0
Other loans	682,026	632,584	726,305
Total investments	2,523,865	2,540,349	2,500,914
Total U.S. Government securities	879,588	875,727	946,219
Treasury bills	32,797	39,244	36,778
Treasury certificates of indebtedness	0	0	0
Treasury notes and U.S. Government bonds maturing:			
Within 1 year	137,249	153,464	105,978
1 year to 5 years	607,571	598,247	608,548
After 5 years	101,971	84,772	194,915
Obligations of states and political subdivisions:			
Tax warrants and short-term notes and bills	12,612	7,151	16,481
All other	1,479,804	1,514,551	1,315,657
Other bonds, corporate stocks, and securities:			
Certificates representing participations in Federal agency loans	82,513	74,892	134,445
All other (including corporate stocks)	69,348	68,028	88,112
Cash items in process of collection	1,113,923	1,066,318	1,022,306
Reserves with Federal Reserve Bank	670,182	682,276	714,698
Currency and coin	89,486	86,944	85,405
Balances with banks in the United States	423,800	421,903	474,431
Balances with banks in foreign countries	8,256	5,975	5,817
Other assets (including investments in subsidiaries not consolidated)	524,051	513,732	394,576
TOTAL ASSETS	11,930,654	11,730,672	11,743,266
LIABILITIES			
Total deposits	9,059,979	9,042,932	9,394,022
Total demand deposits	5,655,875	5,642,053	5,716,118
Individuals, partnerships, and corporations	3,823,457	3,932,895	3,960,810
States and political subdivisions	335,653	327,355	302,392
U.S. Government	219,113	129,307	217,159
Banks in the United States	1,179,025	1,151,453	1,116,301
Foreign:			
Governments, official institutions, central banks, international institutions	3,982	3,654	2,811
Commercial banks	23,308	23,069	29,393
Certified and officers' checks, etc.	71,337	74,320	87,252
Total time and savings deposits	3,404,104	3,400,879	3,677,904
Individuals, partnerships, and corporations:			
Savings deposits	923,398	918,260	997,872
Other time deposits	1,703,954	1,679,164	1,989,030
States and political subdivisions	734,335	757,455	644,838
U.S. Government (including postal savings)	9,478	7,193	11,657
Banks in the United States	17,389	23,247	27,017
Foreign:			
Governments, official institutions, central banks, international institutions	14,200	14,210	7,000
Commercial banks	1,350	1,350	490
Federal funds purchased and securities sold under agreements to repurchase	1,038,453	814,890	1,031,965
Other liabilities for borrowed money	219,766	270,622	
Other liabilities	471,309	463,907	236,485
Reserves on loans	133,883	133,251	117,786
Reserves on securities	14,290	13,278	n.a.
Total capital accounts	992,974	991,792	963,008
TOTAL LIABILITIES, RESERVES, AND CAPITAL ACCOUNTS	11,930,654	11,730,672	11,743,266

[1] Because of format revisions as of July 2, 1969, earlier data are not fully comparable.
n.a. — Not available.

RESERVE POSITIONS OF MEMBER BANKS

Eleventh Federal Reserve District

(Averages of daily figures. In thousands of dollars)

Item	4 weeks ended June 3, 1970	5 weeks ended May 6, 1970	4 weeks ended June 4, 1969
RESERVE CITY BANKS			
Total reserves held	734,308	760,527	754,589
With Federal Reserve Bank	680,488	709,339	704,086
Currency and coin	53,820	51,188	50,503
Required reserves	736,306	754,176	753,028
Excess reserves	—1,998	6,351	1,561
Borrowings	33,647	50,627	36,379
Free reserves	—35,645	—44,276	—34,818
COUNTRY BANKS			
Total reserves held	782,505	780,976	781,606
With Federal Reserve Bank	601,303	602,650	605,153
Currency and coin	181,202	178,326	176,453
Required reserves	754,778	764,382	748,976
Excess reserves	27,727	16,594	32,630
Borrowings	12,986	4,784	18,707
Free reserves	14,741	11,810	13,923
ALL MEMBER BANKS			
Total reserves held	1,516,813	1,541,503	1,536,195
With Federal Reserve Bank	1,281,791	1,311,989	1,309,239
Currency and coin	235,022	229,514	226,956
Required reserves	1,491,084	1,518,558	1,502,004
Excess reserves	25,729	22,945	34,191
Borrowings	46,633	55,411	55,086
Free reserves	—20,904	—32,466	—20,895

CONDITION OF THE FEDERAL RESERVE BANK OF DALLAS

(In thousands of dollars)

Item	June 24, 1970	May 27, 1970	June 25, 1969
Total gold certificate reserves	369,380	259,887	330,703
Discounts for member banks	78,060	101,085	140,733
Other discounts and advances	5,040	5,040	0
U.S. Government securities	2,463,455	2,487,243	2,292,655
Total earning assets	2,546,555	2,593,368	2,433,388
Member bank reserve deposits	1,208,827	1,179,910	1,220,887
Federal Reserve notes in actual circulation	1,774,603	1,746,729	1,589,762

CONDITION STATISTICS OF ALL MEMBER BANKS

Eleventh Federal Reserve District

(In millions of dollars)

Item	May 27, 1970	April 29, 1970	May 28, 1969
ASSETS			
Loans and discounts, gross[1]	11,621	11,589	11,231
U.S. Government obligations	1,988	2,026	2,201
Other securities	3,323	3,375	3,152
Reserves with Federal Reserve Bank	1,180	1,240	1,136
Cash in vault	262	264	251
Balances with banks in the United States	1,161	1,162	1,136
Balances with banks in foreign countries[e]	9	11	9
Cash items in process of collection	1,224	1,259	1,184
Other assets[e]	936	815	726
TOTAL ASSETS[e]	21,704	21,741	21,026
LIABILITIES AND CAPITAL ACCOUNTS			
Demand deposits of banks	1,502	1,485	1,408
Other demand deposits	8,671	8,778	8,700
Time deposits	7,395	7,379	7,674
Total deposits	17,568	17,642	17,782
Borrowings	1,151	1,238	882
Other liabilities[e]	1,225	1,097	667
Total capital accounts[e]	1,760	1,764	1,695
TOTAL LIABILITIES AND CAPITAL ACCOUNTS[e]	21,704	21,741	21,026

[1] Before July 2, 1969, this item was published on a net basis.
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]: May 1970 (Annual-rate basis)	Percent change: May 1970 from April 1970	Percent change: May 1970 from May 1969	Percent change: 5 months, 1970 from 1969	DEMAND DEPOSITS[1]: May 31, 1970	Annual rate of turnover: May 1970	Annual rate of turnover: April 1970	Annual rate of turnover: May 1969
ARIZONA: Tucson	$ 5,981,820	4	18	17	$ 245,130	25.5	25.1	23.6
LOUISIANA: Monroe	2,724,612	0	14	12	86,712	32.2	33.5	28.0
Shreveport	8,330,112	—20	9	33	235,952	35.9	44.6	33.4
NEW MEXICO: Roswell[2]	915,564	—6	13	16	35,228	25.6	25.6	22.4
TEXAS: Abilene	2,100,084	0	6	5	99,618	21.2	21.1	19.6
Amarillo	5,795,352	3	10	14	160,477	36.4	35.5	35.2
Austin	8,876,100	5	—4	0	335,902	26.1	26.4	31.6
Beaumont-Port Arthur-Orange	5,946,552	—5	—3	4	232,199	25.7	26.7	26.1
Brownsville-Harlingen-San Benito	1,750,776	—10	7	13	74,203	23.6	26.0	22.7
Corpus Christi	4,981,536	2	2	8	204,920	24.2	23.5	23.8
Corsicana[2]	459,168	—4	8	6	30,946	14.7	15.3	14.1
Dallas	112,532,112	—4	12	11	2,173,496	52.8	55.3	47.5
El Paso	6,551,436	—7	11	9	233,491	28.1	30.8	27.2
Fort Worth	26,443,884	23	32	15	718,374	39.0	33.5	32.8
Galveston-Texas City	2,737,932	4	12	14	111,275	24.8	24.6	23.4
Houston	99,426,372	—3	15	14	2,455,141	40.9	41.6	36.5
Laredo	829,704	—12	6	11	36,810	21.9	24.0	21.1
Lubbock	4,135,044	—8	—3	0	155,919	26.6	29.3	27.4
McAllen-Pharr-Edinburg	1,645,224	—5	5	4	100,260	16.7	17.7	17.8
Midland	1,847,820	—5	—4	1	133,056	14.0	14.8	14.6
Odessa	1,533,012	—7	9	13	90,130	18.2	20.8	19.2
San Angelo	1,225,860	0	14	10	67,973	18.3	18.1	16.5
San Antonio	16,782,756	—2	12	12	630,240	26.5	27.0	24.7
Sherman-Denison	1,052,172	—7	9	12	62,061	16.6	17.5	15.7
Texarkana (Texas-Arkansas)	1,400,772	—6	—7	—8	73,593	20.0	21.7	20.8
Tyler	2,189,232	0	—1	5	90,702	24.6	24.2	24.3
Waco	2,915,868	—8	9	14	117,981	25.3	27.8	23.9
Wichita Falls	2,217,072	0	6	—2	116,214	19.1	19.0	17.9
Total—28 centers	$333,327,948	—2	12	12	$9,108,003	37.1	38.1	34.1

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

BUILDING PERMITS

Area	NUMBER: May 1970	NUMBER: 5 mos. 1970	VALUATION (Dollar amounts in thousands): May 1970	VALUATION: 5 mos. 1970	Percent change: May 1970 from April 1970	Percent change: May 1970 from May 1969	Percent change: 5 months, 1970 from 1969
ARIZONA							
Tucson	590	2,990	$ 4,331	$ 21,018	54	—37	—12
LOUISIANA							
Monroe-West Monroe	80	309	1,078	6,757	—36	—29	7
Shreveport	451	2,003	2,260	12,252	37	27	—34
TEXAS							
Abilene	43	189	653	3,529	—16	—49	—41
Amarillo	358	2,615	1,215	20,918	—39	—76	44
Austin	429	1,834	16,755	49,775	79	17	—36
Beaumont	164	755	650	4,362	—24	—25	—12
Brownsville	71	356	210	1,272	7	—67	—75
Corpus Christi	304	1,616	1,132	12,708	—59	—69	6
Dallas	2,478	9,815	41,592	156,945	67	—17	3
Denison	44	175	93	1,745	—67	7	—8
El Paso	428	2,220	4,988	39,314	—34	—48	—10
Fort Worth	417	1,881	4,700	31,805	—34	1	—22
Galveston	69	353	354	3,096	—57	—90	—73
Houston	2,793	14,312	44,934	183,652	8	78	—1
Laredo	52	252	2,168	3,792	496	942	101
Lubbock	175	915	3,233	21,720	—62	24	50
Midland	100	293	645	1,829	85	17	—19
Odessa	69	342	1,308	4,821	242	564	2
Port Arthur	95	373	123	918	—14	—88	—79
San Angelo	60	264	386	4,923	40	—54	88
San Antonio	1,221	5,870	7,710	40,564	—18	69	12
Sherman	78	310	556	5,419	6	145	122
Texarkana	30	141	138	4,144	—91	—76	17
Waco	215	970	6,755	18,980	87	292	138
Wichita Falls	87	346	1,561	5,443	—15	—15	—34
Total—26 cities	10,901	51,499	$149,528	$661,701	14	4	—4

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
1968: May	9,460	4,382	5,078	6,950	2,840	4,110
1969: May	10,231	4,777	5,454	7,676	2,962	4,714
December	10,692	4,947	5,745	7,203	2,628	4,575
1970: January	10,793	4,910	5,883	7,108	2,568	4,540
February	10,256	4,625	5,631	7,145	2,554	4,591
March	10,284	4,727	5,557	7,231	2,581	4,650
April	10,497	4,819	5,678	7,328	2,634	4,694
May	10,233	4,671	5,562	7,394	2,659	4,735

VALUE OF CONSTRUCTION CONTRACTS

(In millions of dollars)

Area and type	May 1970	April 1970	March 1970	January—May 1970	January—May 1969
FIVE SOUTHWESTERN STATES[1]	596	711	1,011	3,351	2,866
Residential building	252	256	254	1,159	1,185
Nonresidential building	190	272	332	1,095	911
Nonbuilding construction	154	183	425	1,097	771
UNITED STATES	5,417	6,757	6,140	28,057	27,909r
Residential building	2,123	2,466	1,974	9,375	10,631
Nonresidential building	1,750	2,413	2,191	10,639	10,527
Nonbuilding construction	1,545	1,878	1,975	8,043	6,751r

[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.

WINTER WHEAT

Area	ACREAGE (In thousands of acres) For harvest: Crop of 1970	Harvested: Crop of 1969	Harvested: Crop of 1968	PRODUCTION (In thousands of bushels) Crop of 1970[1]	Crop of 1969	Crop of 1968
Arizona	134	73	52	9,246	4,526	2,704
Louisiana	43	38	96	1,161	874	2,112
New Mexico	196	159	305	5,880	5,088	7,625
Oklahoma	3,735	4,150	5,321	93,375	118,275	122,383
Texas	2,611	2,869	3,825	62,664	68,856	84,150
Total	6,719	7,289	9,599	172,326	197,619	218,974

[1] Indicated June 1.
SOURCE: U.S. Department of Agriculture.

DAILY AVERAGE PRODUCTION OF CRUDE OIL

(In thousands of barrels)

Area	May 1970	April 1970	May 1969r	Percent change from April 1970	Percent change from May 1969
FOUR SOUTHWESTERN STATES	6,829.6	6,878.2	6,543.0	—0.7	4.4
Louisiana	2,476.3	2,492.0	2,374.0	—.6	4.3
New Mexico	365.6	359.0	351.3	1.8	4.1
Oklahoma	622.6	618.3	612.7	.7	1.6
Texas	3,365.1	3,408.9	3,205.0	—1.3	5.0
Gulf Coast	686.4	694.7	650.3	—1.2	5.6
West Texas	1,591.7	1,616.3	1,507.2	—1.5	5.6
East Texas (proper)	207.8	207.0	163.8	.4	26.9
Panhandle	79.1	82.7	83.9	—4.4	—5.7
Rest of state	800.1	808.2	799.8	—1.0	.0
UNITED STATES	9,606.8	9,677.8	9,332.8	—.7	2.9

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: May 1970p	April 1970	May 1969r	Percent change May 1970 from April 1970	May 1969
Total nonagricultural wage and salary workers	6,368,300	6,360,500	6,182,100	0.1	3.0
Manufacturing	1,156,800	1,164,300	1,165,600	—.7	—.8
Nonmanufacturing	5,211,500	5,196,200	5,016,500	.3	3.9
Mining	229,400	229,300	230,500	.0	—.5
Construction	412,000	409,400	392,100	.6	5.1
Transportation and public utilities	462,900	462,000	448,300	.2	3.3
Trade	1,465,500	1,462,800	1,409,500	.2	4.0
Finance	321,900	320,800	304,900	.3	5.6
Service	1,020,800	1,012,000	976,900	.9	4.5
Government	1,299,000	1,299,900	1,254,300	—.1	3.6

[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	May 1970p	April 1970	March 1970	May 1969
TEXAS				
Total industrial production	179.5	180.6	180.1r	172.5
Manufacturing	200.4	202.6	203.2r	194.5r
Durable	212.2	216.3	218.4	216.0
Nondurable	192.6	193.5	193.0r	180.2r
Mining	135.0	134.6	132.6r	128.7r
Utilities	257.2	257.3	256.9r	236.9r
UNITED STATES				
Total industrial production	169.0	170.4	171.1	172.5r
Manufacturing	168.4	170.0	170.9r	173.8r
Durable	166.9	168.6	170.6r	176.7
Nondurable	170.2	171.7	171.2r	170.3
Mining	134.7	134.5	135.8r	130.3r
Utilities	231.5	231.5	230.3r	213.6r

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