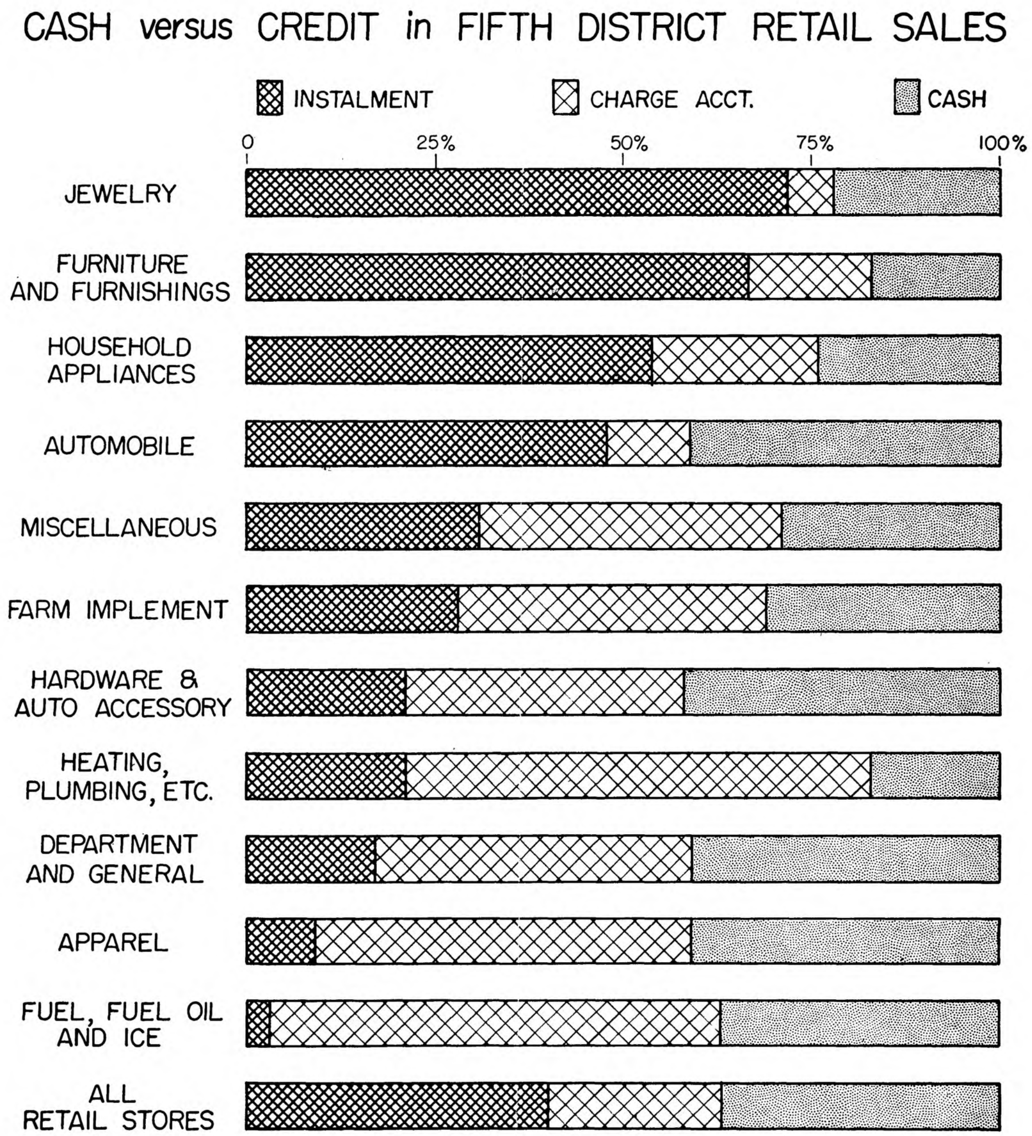
FEDERAL RESERVE BANK OF RICHMOND

Monthly Review

APRIL 1951

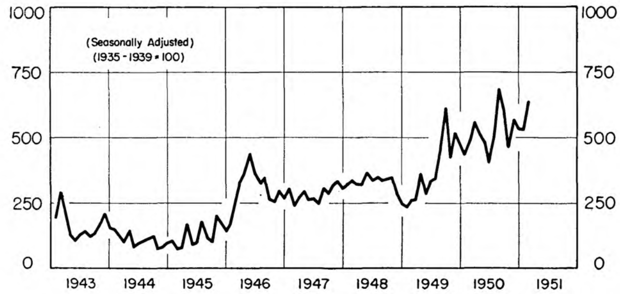


THE reports of more than 10,000 business firms in the Fifth District registering under Regulation W shed considerable light on credit sales and instalment lending in the District. The above chart indicates how financing took place at District stores, and the article beginning on page 3 analyzes consumer financing of reporting firms throughout the District.

Also In This Issue - -

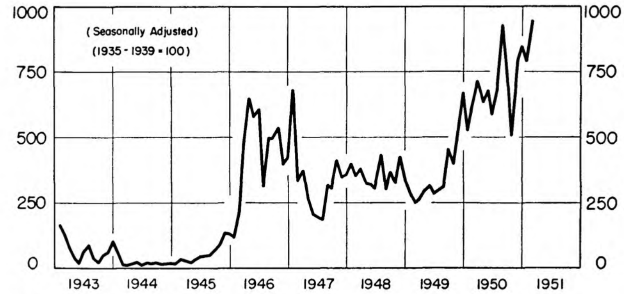
FIFTH DISTRICT TRENDS

TOTAL BUILDING CONTRACT AWARDS



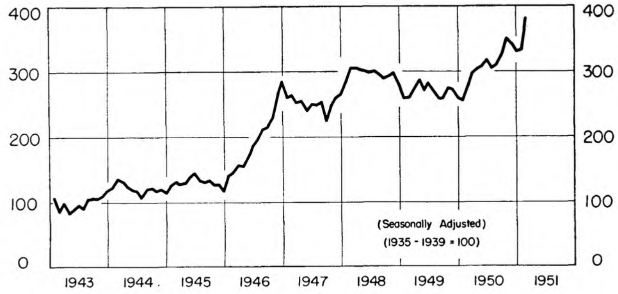
Due mainly to large gains in factory and residential construction, total adjusted contract awards in February have been exceeded in only one previous month of record. Commercial construction, as a consequence of the freeze, dropped 32% from January to February.

BUILDING CONTRACT AWARDS - ONE and TWO FAMILY HOUSES



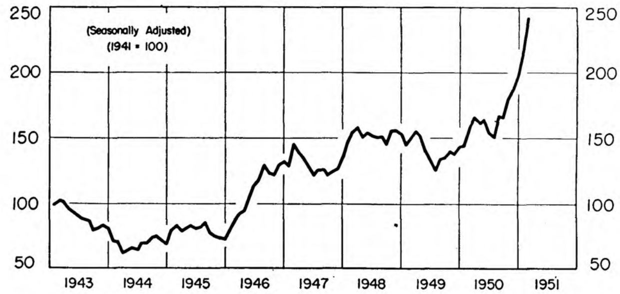
Despite the tightening of credit and the expected cutback later on, one- and two-family house construction in February was at a new high level. Contract awards for this type of house rose 19% from January to February, on an adjusted basis, to 48% ahead of a year ago.

DEPARTMENT STORE INVENTORIES



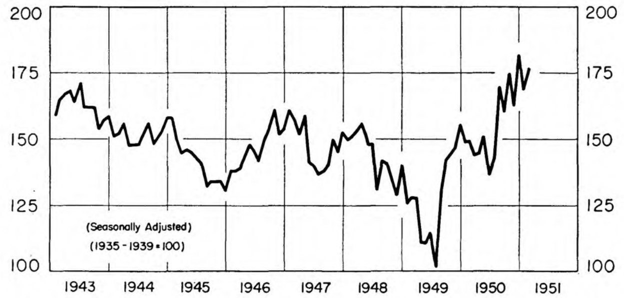
Adjusted sales of department stores dropped 8% from January to February, but store inventories continued to rise, gaining 10% during the month. Relative to a year ago, department store sales were up 14% while inventories were up 25%.

RETAIL FURNITURE STORE INVENTORIES



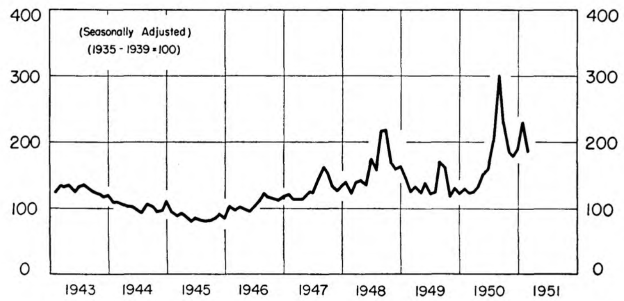
Anticipations of furniture shortages had their influence on store inventories which in February rose 13% over January on an adjusted basis to a level 54% ahead of a year ago. Although adjusted sales rose 3% from January to February, they were 2% smaller than a year ago.

COTTON CONSUMPTION



Despite the stalemate in new business of cotton mills during February, the backlog of orders was sufficient to warrant a rising level of production. Adjusted mill consumption in cotton rose 4% from January to February to a levele 18% ahead of a year ago.

WHOLESALE HARDWARE SALES

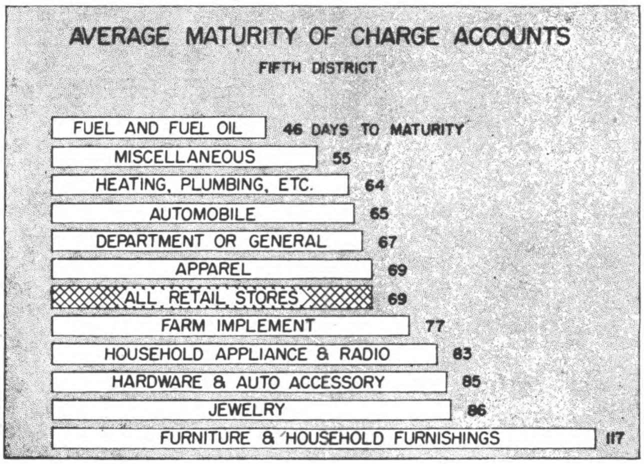


Hardware wholesalers experienced a reduction in sales of more than seasonal proportion from January to February, but February sales were running 52% ahead of last year. Undoubtedly large retail stocks have influenced the February reduction.

Consumer Credit in the Fifth District

More than ten thousand business firms, carrying almost $1.5 billion of consumer debt, had filed Regulation W resigstration statements with the Federal Reserve Bank of Richmond by the end of 1950. The 8,037 retail sellers registered had annual sales of $3 billion, and held over $350 million of receivables on September 30. The 2,511 lending agencies registered held over $1.1 billion of consumer instalment loans at the end of September.

The above facts were obtained from Regulation W registration statements submitted to the Federal Reserve Bank of Richmond by Fifth District businesses, and there follows an analysis of the financing habits ot Fifth District businesses. Each business making instalment sales of any listed article, making instalment loans, or purchasing, discounting or lending on instalment credit obligations as defined in Regulation W was required to file a statement with the Federal Reserve bank of the District in which the main office of the registrant is located.



It is noteworthy that the period covered by the registration statement, i.e., the year ended September 30, 1950, was one of sharp expansion in economic activity. While the demand for consumer goods increased during the first half of 1950, a buying rush followed the outbreak of war in Korea. Increased sales were reflected in the rise in consumer debt. The Federal Reserve Board's consumer credit statistics show that consumer debt for goods and services rose from $17.7 billion at the end of June to $19.3 billion at the end of September, and the figure for the latter month was nearly $4.4 billion greater than a year earlier. Consumers owed $4.2 billion on automobiles at the end of September, $400 million more than at the end of June and $1.3 billion more than a year earlier.

Sellers

In the retail field, instalment sales accounted for 40% of total sales volume; charge account sales, 23%. Instalment account receivables of registering dealers on September 30 represented 19% of total instalment sales made during the previous twelve months.

Outstanding were automobile dealers who had a higher dollar volume of sales than all other reporting retailers combined. This not only reflects the high unit value of their sales but also the large number of automobile dealers among registrants—nearly two out of five. (Automobile dealers more typically extend credit subject to Regulation W than do many other retail businesses.)

Among reporting stores, one dollar in five was spent in department and general stores while one dollar in ten went to furniture dealers. No other line of trade accounted for as much as three per cent of the total sales volume, except household appliance dealers and fuel and oil dealers whose shares were 4% and 3% of the total respectively.

Of cash purchases of goods made at reporting retail stores, three dollars out of five was rung up by automobile dealers' cash registers and one dollar out of five went into department and general store tills. Furniture dealers were next in importance, but their share was only 4% of the total cash volume reported.

Automobile dealers accounted for 63% of total instalment sales made by reporting institutions in the year ended September 30. Furniture and home furnishings establishments ranked second in importance in the District, so far as instalment sales were concerned, and a much greater proportion of total sales reported by these concerns was instalment sales than in the case of automobile dealers. Department and general stores made 8% of instalment sales reported by regisrants while household appliance dealers made 5% of the total.

Charge account sales at department and general stores were responsible for 36% of the sales of this type reported by registrants. Automobile dealers accounted for a smaller proportion of all registrants' charge-account sales than was the case for either cash or instalment sales. They accounted, however, for 25% of the total volume reported. Other dealers of importance in the over-all picture included fuel and ice, heating and plumbing, and furniture.

Reporting hardware stores sold a greater proportion (42%) of their goods for cash than did any other line. Hardware stores were followed by automobile dealers, department and general stores, and apparel stores, all of which reported 41% of the sales as cash. At the other end of the scale were furniture dealers and heating and plumbing dealers, each of whom sold only 17% of their wares for cash.

Instalment credit made up 72% of jewelry store sales, 67% of furniture sales, 54% of household appliance and radio store sales, and 48% of automobiles firms' sales in the year ending September 30. Only 9% of apparel store sales and 3% of ice and fuel dealers' sales were on an instalment basis. Customarily instalment sales in these two lines represent a very small percentage of total sales.

Heating and plumbing dealers made the most of charge account sales, charging 62% of their total sales. Other dealers using charge accounts extensively included fuel and ice, apparel, department and general, and farm implement.

Registrants carried their charge accounts 69 days on the average, though it should be noted that this was on September 30 when charge accounts outstanding were below their seasonal peak. Longest credit terms were extended by furniture stores, which carried their charge account sales an average of 116 days. Outstandings of jewelry, hardware and household appliance stores were carried longer than those of the typical registrant. Department and general store credit averaged 67 days. The shortest credit terms (46 days) were those of fuel and ice dealers.

Instalment Paper Sold

Reporting dealers sold 41% of instalment paper acquired during the year. Largest sellers of this paper were automobile dealers, who accounted for more than four-fifths of the total. By far the greater share of instalment paper arising out of the sale of automobiles was sold, mostly to sales finance companies and other wholesale lenders. Automobile dealers themselves held instalment receivables representing less than 4% of their total instalment sales.

Household appliance and radio stores sold more than half of their instalment paper, but were a distant second to automobile dealers in the over-all dollar volume of instalment paper sold. Although two-thirds of furniture sales were instalment, furniture dealers held title to the greater share of their own instalment paper, and their receivables represented 55% of total instalment sales for the year. The negligible amount of instalment paper sold by other registrants indicated they found it relatively profitable to do their own instalment financing, and were able to do so.

Lenders

Sales finance companies held title to nearly one-half of the $1.1 billion of instalment receivables held by registering Fifth District lending agencies. One very large company which does a nationwide business was responsible for a large portion of receivables owned by this type of lender, and helped to push sales finance companies to first place among instalment lenders in the District. Commercial banks, with over one-third of the total instalment credit outstanding, ranked second; miscellaneous financial institutions were in third place.

Commercial banks made more than half of the direct instalment loans reported. Remaining direct loans were fairly evenly distributed among the other types of financial agencies, such as state-licensed small loan companies (11% of the total), industrial loan companies and industrial banks (8%) and credit unions (6%).

Credit unions and small loan companies purchased practically no instalment paper. Nearly 100% of credit union instalment lending and 95% of small loan company lending was in direct loans. On the other hand, only 4% of instalment loans made by sales finance companies were direct instalment. Instalment loans made by commercial banks were divided 62% direct, and 38% purchased paper.

CONSUMER INSTALMENT LOANS, FIFTH DISTRICT BY LENDING AGENCY
SEPTEMBER 30, 1950
(Dollar Amounts in Millions)

Kind of Lending Institution	No. of Registrants	Total Instalment Paper	Direct Loans	Paper Purchased
Sales Finance Companies	205	$ 540.5	$ 20.0	$520.5
Commercial Banks and Trust Companies	740	381.6	236.8	144.8
Industrial Loan Companies and Industrial Banks	129	44.1	32.8	11.3
State-licensed Small Loan Companies	350	47.0	44.6	2.4
Credit Unions	489	26.7	26.7	*
Other Financial Businesses	598	67.6	63.2	4.4
All Lenders	2,511	$1,107.4	$424.1	$683.4

*Less than $100,000.

Sales finance companies held more than three-fourths of purchased instalment paper outstanding. Commercial banks held practically all of the rest.

Use of Lenders' Instalments Loans

Almost three-fourts of all instalment loan credit was used to finance retail purchases. Automobile financing alone accounted for over one-half of all instalment credit extended. Personal instalment cash loans made up one-fifth of the total with the rest going into home repair and modernization.

Lenders extended direct instalment credit mainly for two purposes—personal instalment cash loans and retail instalment sales financing. Personal loans accounted for more than half of the total and retail sale financing, two-fifths of the total.

Ninety- four per cent of the paper purchased by lenders originated as instalment sales credit, and nearly all of the rest originated as FHA insured repair and modernization loans.

CONSUMER INSTALMENT LOANS FIFTH DISTRICT LENDING AGENCIES
SEPTEMBER 30, 1950
BY TYPE OF LOAN
(Dollar Amounts in Millions)

Type of Loan	Direct Loans	Purchased Paper	Total Direct Loans and Purchased Paper
Retail Automobile Instalment Credit	$143.0	$513.1	$ 656.1
Other Retail Instalment Credit	24.3	127.9	152.2
FHA Insured Repair and Modernization Credit	24.2	37.5	61.7
Other Repair and Modernization Credit	11.7	3.8	15.5
Personal Instalment Cash Loans	220.9	1.1	222.0
Total	$424.1	$683.4	$1,107.5

1950--Record Year for State and Municipal Bond Offerings

States and municipalities as well as individuals and businesses achieved new borrowing records in 1950. These governmental units tapped the money market for a record amount of funds with sales of long-term bond issues totaling \$3.6 billion—an increase of 28% over the preceding year. Even this rate of expansion was exceeded in the Fifth District—here bond offerings amounting to \$366 million were half again as much as the amount borrowed by the District states and localities in 1949. Incidentally, these borrowings amounted to more than \$25 for every person in the District.

Over half this total was accounted for by state issues. North Carolina led the parade by selling three issues for \$107.5 million, including \$75 million for road construction. In fact, almost two-thirds of all funds borrowed by states in the District last year was for this purpose.

North Carolina and Maryland were the only states to borrow for school building and improvements—the former with a \$25 million issue and the latter with three issues totaling \$29.4 million. Maryland, the second largest state borrower in the District, sold two other issues: one for \$25 million for highways and one of \$5.4 million for various public improvements. West Virginia sold four highway bond issues amounting to \$18.5 million and one public improvement issue for \$1.7 million. South Carolina sold five issues during the year for a total of \$17.2 million, \$14 million of which was for highway building and improvement. Virginia was the only state in the District that did not sell long-term bonds—continuing a practice with respect to general obligation bonds that extends back over a decade.

A feature of the 1950 bond offerings of local governments in this District was the unusual number of large issues. The Elizabeth River Tunnel District, for example, marketed a \$23 million issue, Baltimore sold \$19.5 million of water bonds, Richmond had a \$5.9 million public improvement issue, and Charlotte increased the supply with \$5.8 million of water bonds. All told, Fifth District localities sold some 218 issues for \$161 million—a substantially smaller number of issues but for a substantially larger total amount of funds than in 1949.

Continued High Volume Expected

Barring controls and restrictions definitely curtailing state and local public works programs, indications point to another year of heavy bond financing—although the total will probably not measure up to the 1950 record. Four District states have already been to the market since January 1: Maryland with a \$17.6 million general improvement issue, South Carolina with \$15.3 million of electric revenue bonds, West Virginia with \$7.5 million of road bonds, and North Carolina with a \$5.2 million sale of public improvement obligations. The latter state is preparing for sale in April \$75 million of road bonds as the final installment of the \$200 million issue authorized by voters in June 1949. And West Virginia will be back in the market this spring with a \$60 million offering as the first installment of its \$90 million bonus bond issue—the first World War II bonus payment approved in the District. A bill was offered on March 15 to the North Carolina legislature for a state bonus to veterans of both World Wars, but to date no action has been taken to hold public hearings on the proposal.

An offset to the anticipated decline in state and local financing due to restrictions and shortages of labor and materials, may arise from the long-awaited Public Housing Administration bonds. Although these obligations of local housing authorities will not be the concern of state and local governments, they will be exempt, by Congressional Act, from Federal income taxes and will probably sell at yields comparable with those on top-quality state and municipal bonds. According to recent reports, however, the snags run into by the housing bill (HR 2988) preclude realization this year of the volume of public housing bonds that had been anticipated.

STATE AND MUNICIPAL OFFERINGS—1950

	Maryland			Virginia			West Virginia			North Carolina			South Carolina			Fifth District		
	No. of Issues	Amt. \$000	Per Cent	No. of Issues	Amt. \$000	Per Cent	No. of Issues	Amt. \$000	Per Cent	No. of Issues	Amt. \$000	Per Cent	No. of Issues	Amt. \$000	Per Cent	No. of Issues	Amt. \$000	Per Cent
School Building and Improvements	4	4,185	4.2	7	7,392	12.7	9	1,485	5.3	23	14,776	10.3	19	4,553	12.8	62	32,391	8.8
	3*	29,367	29.1	—	—	—	—	—	—	1*	25,000	17.5	—	—	—	4*	54,367	14.9
Water, Sewer, and Drainage Systems	9	29,600	29.4	15	13,621	23.5	22	5,767	20.6	41	11,642	8.1	13	7,162	20.1	100	67,792	18.5
Street, Highway, and Bridge Building and Improvement	—	—	—	2	23,018[2]	39.7	2	30	0.1	10	3,585	2.5	2	700	2.0	16	27,333	7.5
	1*	25,000	24.8	—	—	—	4*	18,500	65.9	1*	75,000	52.3	3*	14,000	39.4	9*	132,500	36.2
Public Improvement	2	6,194	6.2	5	9,845	17.0	—	—	—	5	1,397	1.0	3	1,500	4.2	15	18,936	5.2
	1*	5,373	5.3	—	—	—	1*	1,700	6.1	1*	7,500	5.2	—	—	—	3*	14,573	4.0
Public Utility Systems (Excl. water systems)	1	150	0.1	2	600	1.0	2	74	0.3	2	182	0.1	3,	1,250	3.5	10	2,256	0.6
Hospitals	—	—	—	—	—	—	—	—	—	9	1,815	1.3	7	1,495	4.2	16	3,310	0.9
Refunding	1	225	0.2	2	2,575	4.4	—	—	—	15	728	0.5	2	150	0.4	20	3,678	1.0
Miscellaneous	3*	720	0.7	4	965	1.7	4	493	1.7	9	1,717	1.2	5	1,590	4.5	25	5,485	1.5
													2*	3,150	8.9	2*	3,150	0.9
Total[1]	16	100,814	100.0	32	58,016	100.0	44	28,049	100.0	84	143,342	100.0	57	35,550	100.0	233	365,771	100.0

* State issues.

[1] Total will not equal the sum of the individual items as some issues are divided among more than one category.

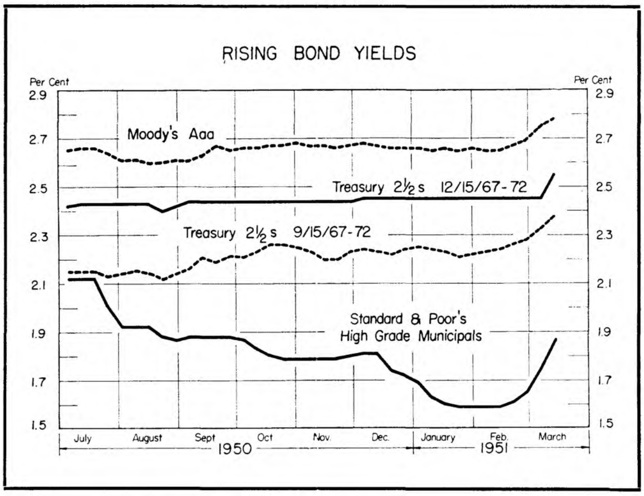
[2] Includes \$23,000,000 issue for construction of toll bridge and tunnel by Elizabeth River Tunnel District.

Source: Weekly listings in "The Commercial and Financial Chronicle."

The adequacy of demand for tax-exempt obligations appears basically satisfactory despite uncertainties and a relatively unsettled bond market. A further increase in tax rates, renewed interest of insurance companies the last half of the year consequent upon curtailed mortgage investments and working off of current commitments, a continued increase in municipal holdings by commercial banks, and the growth of pension funds—all combine to promise an active market for the unique tax-exempt securities offered by states and local governments.

Reaction in the Municipal Market

So far this year the municipal market has been characterized by divergent price movements and sharp changes in buying activity by investors. Contrary to its usual dullness at the turn of the year, trading in the municipal market in early 1951 was active. Serious consideration of another boost in tax rates helped to reduce dealers' inventories of unsold securities from the record amount of $260 million on hand November 15, 1950 to $101 million at mid-January. As a consequence, prices of tax-exempts continued to follow the sharp upward trend established in December and by the end of January had risen to the highest level since the summer of 1946.



This was a spectacular prelude to the sharp change in bond market fundamentals set off by the Treasury announcement on March 3 of its plan to issue new nonmarketable 2¾% long-term bonds. These Treasury bonds are available only to holders of existing 2½% bank-ineligibles maturing June and December 1972 on a par-for-par conversion. Although the new bonds are not directly redeemable in cash, holders can exchange them at the Treasury for new 1½% five-year notes which in turn can be sold in the market for cash. The $19.6 billion of restricted bonds eligible for exchange are held mostly by life insurance companies, savings banks, pension funds, and other long-term investors. Thus, the market for municipals will depend to an important extent on the nature of investor attitudes which will gradually emerge from the currently fluid conditions in the Government and corporate markets.

Altered levels and yields in the Government bond market, with prices of Treasury bonds below par for the first time since the Nazis invaded Poland in 1939, were naturally reflected in the municipal market. In fact, the magnitude of price deterioration during the first two weeks of March was greater there than in the other bond markets. As shown in the accompanying chart, the average yield on long-term municipals rose 22 basis points during the fortnight—a price decline of over $4 per $100 bond.

Obviously, the whole decline cannot be ascribed to developments in the Government bond market inasmuch as the municipal market had already begun to react to the sharp rise in municipal prices that had taken place in the period since July 1950. By the beginning of February considerable resistance had developed to the peak prices of the past 4½ years in the municipal market and dealer inventories began to climb back up from the mid-January low of $101 million. However, since long-run prospects still appeared basically bullish, dealers made no marked price concessions, and prices held at the peak from mid-January to mid-February before they began to slide off. The decline was accentuated by the developments already noted in the Government market, and by March 14 (latest data available) long-term municipals showed a rise in average yield equal to over one-half of the drop in the period from July 1950, when President Truman proposed sharply higher tax rates, to February 14, 1951.

Although indications are that considerable delay will ensue before passage of a new tax bill, the municipal market is likely before long to begin discounting the prospective boost in the corporate tax rate. Meanwhile, the market has been confronted with the new offering of the Treasury 2¾'s, the decline that occurred in the price of bank-eligible Government 2½'s, some uncertainty regarding short-term Government yields, fairly heavy dealer inventories, and, over the longer run, such factors as the prospective liberalizing of restrictions on life insurance investments.

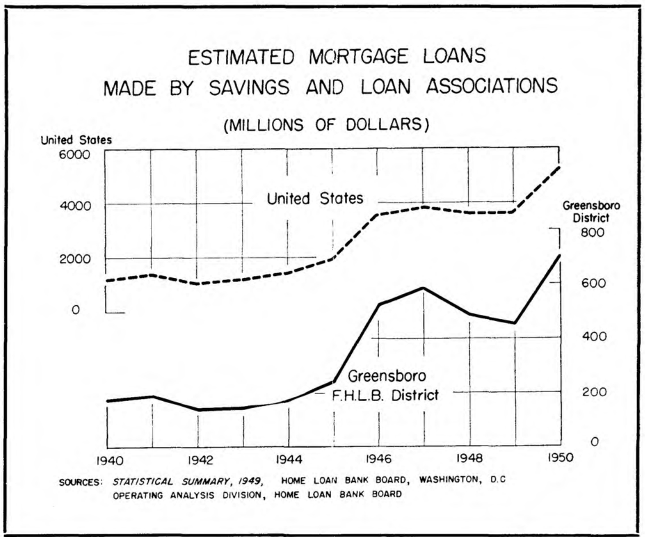
Finally, the market is faced with a renewal of the perennial argument that interest from state and local bonds should be subjected to Federal taxation. Vehement protests against the proposal were expressed at the hearings that got under way on February 26 before the House Way and Means Committee, and the general reaction appears to be that this attempt to remove this "tax refuge" will not be any more successful than were the efforts of 1938, 1940, and 1942. Should Congress take affirmative action, however, the matter would certainly be tested in the courts inasmuch as this tax immunity is based not only on a statutory exemption set forth in the internal revenue code but on our fundamental political traditions.

Residential Mortgage Lenders
The Savings and Loan Associations

Recent developments, such as the vast expansion in residential construction and the heavy extension of mortgage credit involved, an unprecedented growth of consumer credit, and the greatly enlarged defense program, with its requirements for labor and materials, have served to focus attention on the activities, not only of commercial banks, but other lending institutions as well. Important among nonbank lenders are savings and loan associations, life insurance companies, sales finance companies and mortgage companies. The article below constitutes the first of a series describing characteristics and operations of these lenders.

Savings and loan associations as a class have become the most important residential mortgage lenders in the United States. Their share of residential mortgage holdings has grown in the past fifteen years from less than one-fifth to almost one-third of the total residential mortgage debt. In 1950 these associations recorded over $5 billion of nonfarm mortgages of $20,000 and under—half again as much as commercial banks, and three times as much as insurance companies.

The share of nonfarm residential mortgage lending done by savings and loan associations in the Southeast does not differ markedly from the national average. This is shown by data for the Greensboro Federal Home Loan Bank district, which covers all of the Fifth Federal Reserve District states with the exception of West Virginia, and in addition includes Georgia, Alabama, and Florida. In this district, residential mortgage activity of these associations is almost three times that of commercial banks. This is due to the fact that banks initiate a smaller proportion of residential mortgages in the Southeast than in the United States as a whole.



Savings and loan associations held 7.4% of all long-term savings of individuals in this country in 1949. Last year the net flow of savings into insured associations was 5.5% greater than in 1949, whereas in the Greensboro district the comparable figure was 18.1%.

In the postwar period savings and loan associations (also termed building and loan associations, mutual loan associations, building societies, etc.) have scored the largest relative gains in personal savings of any type of savings institution, with a percentage rate of increase double that of life insurance companies, the next largest gainers.

These associations are usually described as cooperative institutions owned exclusively by their members and their capital consists entirely of members' accounts. In part because of their nature and in part because of legal restrictions they usually confine their lending activities within a small geographic area. Loans consist largely of long-term direct reduction residential mortgages, in which equal monthly payments are used to meet interest due on the unpaid balance and to reduce the amount of loan outstanding.

Federally chartered associations may make mortgage loans only on first liens on homes (or combination home and business properties) not in excess of $20,000 on any one property. Mortgage loans are further restricted to property located within fifty miles of the home office. As much as 15% of the assets of the association may be loaned without regard to either the $20,000 limitation on size or the fifty-mile limit on distance. Loans may also be made to shareholders when secured by shares of the association. There is no limit on the amount which can be invested in U. S. Government securities or in the stock of Federal home loan banks. Lending and investing activities of state-chartered associations are subject to the supervision of the state authorities, and vary considerably.

Savings and loan associations operate under either state or Federal charters. Conversion from state to Federal charter or from Federal to state charter may be effected at any time on a majority vote of members. Federal savings and loan associations must belong to the Federal Home Loan Bank System, which consists of eleven regional banks under the Home Loan Bank Board. Membership in the System is optional for state chartered associations.

The FHLB may make either short or long-term loans to Federal associations to a maximum of 50% of the share capital of the institution. Loans to state chartered members are limited by state laws, but in general may equal from 25% to 50% of share capital. Credit may also be extended to nonmember associations. FHLB advances to members outstanding almost doubled with the residential housing boom of 1950, rising from $427 million to $810 million. FHLB funds come from capital stock (more than half owned by members and the rest by the U. S. Government), deposits of members, and sale of consolidated FHLB oobligations (which are not guaranteed by the Government).

Federally chartered institutions are required to join the Federal Savings and Loan Insurance Corporation, an institution similar in organization to the FDIC. State chartered associations may join the FSLIC at their option. In contrast to FDIC coverage, which includes all Federal Reserve System member banks, FHLB state chartered members are not required to join the FSLIC, although they customarily do so.

Examinations of savings and loan associations under Federal supervision are conducted by the Home Loan Bank Board, which has supervisory authority over all Federal associations, state chartered insured associations, and uninsured state chartered FHLB members. Last year Congress gave the FHLB System power to require members to maintain reserves of cash and Government securities equal to from 4% to 8% of withdrawable accounts at the discretion of the Board. Currently all members are required to keep a reserve of 6%.

The FSLIC insures individual and joint accounts to a maximum of $10,000, and each of the holders of a joint account can hold a separate insured account. Thus a husband and wife can hold joint and separate accounts insured to a maximum of $30,000. Insured institutions make annual payments to an insurance reserve equal to at least 0.3% of insured accounts. Payment of premiums continues until the accumulated insurance reserve equals 5% of insured accounts of the association. This level must be reached within twenty years.

The corporation acts in two ways to protect accounts against loss. An attempt may be made to prevent the default of an insured institution through cash contributions, loans, or purchase of assets with cash. If liquidation does occur, the owner of an account may choose payment in cash or may choose an insured account in another operating institution.

Most accounts fall in either of two classes—certificate accounts or book accounts. The former are usually evidenced by formal certificates in round denominations ($100, $200, etc.), the latter by pass books. All shares are evidences of ownership, and have equal rights to dividends. Most shares may be "repurchased" (sold back to the association) after thirty days' notice, although formality of notice is usually waived.

Several types of shares are issued, most of them falling in the two-fold classification noted above; most associations issue at least two types. The most commonly used types of shares include "instalment," "optional," "prepaid," and "full-paid" shares. "Instalment" shares are bought through periodic payments, and can usually be exchanged for "full-paid" shares on maturity. "Optional" shares may be purchased in any amount at any time. "Prepaid" shares involve payment of a lump sum equal to the discounted par value of the matured share. "Full-paid" shares are bought by lump sum payments of full-par value, with dividends payable in cash.

In order to encourage systematic purchase of shares, the associations sometimes give a bonus on instalment accounts. These bonuses, which range from ¼% to 1%, are forfeited if any monthly payment is as much as sixty days late, or if application has been made for withdrawal of any part of the account. Bonuses are also forfeited on the amount of any prepayments made more than twelve months in advance. Bonuses are payable semiannually, if the withdrawal value of the account equals or exceeds a prescribed minimum.

Dividends on all accounts are declared on a pro rata basis semiannually, at a rate determined by the directors on the basis of net profits. Because of the wide base of ownership, the dividend rate of savings and loan associations does not average as high as that paid on, e.g., commercial bank stocks. However, the rate of dividends usually exceeds the rate of interest paid by other savings institutions. The fact that all shares are evidences of ownership, and are therefore subject to the risks of ownership, accounts in part for the higher rate. In addition, only a small part of the available funds of savings and loan associations are invested in low-yield liquid assets, with the vast bulk of funds invested in high-yield long-term residential mortgages. As cooperative institutions, savings and loan associations are exempt from the corporate income tax, though at the present time the House Ways and Means Committee is considering withdrawal of this exemption for these and similar institutions. It is of interest to note that a recent ruling of the Bureau of Internal Revenue states that, as earnings distributed are dividends, rather than interest, associations are required to submit returns giving information as to the amount of dividends paid to each stockholder.

The borrower must be or must become a member of the association, though he is not necessarily required to be an investing member or share purchaser. In some cases he may become a member by the mere fact of receiving a loan.

Lending terms differ between associations. Except as further restricted by the terms of Regulation X, Federally chartered associations can make conventional loans on home properties to a maximum of 80% of value. In recent years more liberal terms have been permitted on GI and FHA loans. Requirements of state institutions vary, but usually run from 65% to 80% of value on home properties. Maturities on savings and loan association mortgages usually run from twelve to fifteen years, with the average maturity running thirteen to fourteen years.

ESTIMATED NONFARM MORTGAGE RECORDINGS $20,000 AND UNDER 1950

	United States		Greensboro, N. C. FHLB District[1]	
	Amount (In millions of dollars)	Per Cent of Total	Amount (In millions of dollars)	Per Cent of Total
Savings and Loan Associations	5,060	31.3	574	30.2
Insurance Companies	1,618	10.0	299	15.7
Banks and Trust Companies	3,365	20.8	222	11.7
Mutual Savings Banks	1,064	6.6	8	0.4
Individuals	2,299	14.2	372	19.5
Other Mortgagers	2,774	17.1	429	22.5
Total	16,180	100.0	1,904	100.0

[1] Includes Md., D. C., Va., N. C., S. C., Ga., Ala., and Fla.

Source: Operating Analysis Division, Home Loan Bank Board, Washington, D. C.

New Developments in Treasury Issues

Because of the widespread interest in the 2¾% Treasury Bonds and in the options available to owners of maturing Series E savings bonds, the official releases describing these two recent innovations are quoted below. Official circulars giving complete details may be obtained from this bank or from any other Federal Reserve Bank.

March 19, 1951

Secretary of the Treasury Snyder today released the official circular governing the offering of 2¾ per cent Treasury Bonds, Investment Series B-1975-80. Holders of 2½ per cent Treasury Bonds of June 15 and December 15, 1967-72 may, at their option, exchange their bonds of either or both series for the new 2¾ per cent Treasury bonds, in authorized denominations. The amount of the offering will be limited to the amount of Treasury Bonds of 1967-72 of either or both of the specified series tendered and accepted.

As announced by the Secretary on March 4, 1951, the subscription books will open on Monday, March 26, for a period of about two weeks, although the Secretary reserves the right to close the books at any time without notice.

The Secretary also today released the offering circular governing the 1½ per cent five-year marketable Treasury notes, which will be available for exchange to owners of the new 2¾ per cent Treasury bonds, at their option, during the life of the bonds. The first issue of the new notes will be dated April 1, 1951, and will be available as soon as the 2¾ per cent bonds are issued.

Pursuant to the provisions of the Public Debt Act of 1941, as amended, interest upon the bonds and notes now offered shall not have any exemption, as such, under the Internal Revenue Code, or laws amendatory or supplementary thereto. The full provisions relating to taxability are set forth in the official circulars released today.

Subscriptions for the bonds will be received at the Federal Reserve Banks and Branches, and at the Treasury Department, Washington, and should be accompanied by a like face amount of the 2½ per cent bonds to be exchanged. Subject to the usual reservations, all subscriptions will be allotted in full.

* * *

March 26, 1951

Secretary Snyder today issued the following statement: "I am sure that the signing today by President Truman of H.R. 2268 will be welcomed by the many holders of Series E savings bonds who have expressed a desire for a convenient reinvestment plan. I was deeply gratified by the dispatch with which Congress passed this necessary legislation to effectuate such a plan.

"An official circular giving the details of the reinvestment privileges available to owners of maturing Series E savings bonds will be issued immediately. In the meantime, I desire to briefly outline the various options which the Treasury will offer holders of these bonds:

"**Option 1. .Cash**—The owner of any Series E bond may receive, if he wishes, full cash payment for his bond at maturity. This is, of course, in accordance with the original terms of his contract. He may receive his cash by presenting his matured bond to any qualified bank or other paying agent, any Federal Reserve bank or branch, or to the United States Treasury. I want to make it absolutely clear that the offerings under Options 2 and 3 with respect to maturing bonds do not in any way restrict this right of the investor to cash his bond at any time.

"**Option 2. Extension of E bonds**—Under this option, the owner will be given the privilege of retaining his bond for a period not to exceed 10 additional years during which time interest will accrue at the rate of 2½ per cent simple interest each year for the first 7½ years, and then increase for the remaining 2½ years to bring the aggregate interest return to approximately 2.9 per cent, compounded semiannually. This choice requires no action on the part of the owner. Any bond which is not turned in for cash at its original maturity date will be extended until such time as the owner does present it for payment. However, again I wish to emphasize that the extended bonds will also be redeemable at the owner's option, and when presented for payment the holder will receive the full face value of the bond plus interest which has accrued at the new rates. Congress has continued the existing option of paying Federal income taxes on interest on Series E bonds currently or in the year in which the extended bonds finally mature or are redeemed.

"**Option 3. Exchange for a Series G Bond**—This third option was specifically designed for those who are desirous of receiving current interest income. Series G bonds are registered bonds issued at face amount and bear interest at the rate of 2½ per cent per annum, payable semiannually from issue date until their maturity in 12 years. A holder of maturing E bonds may exchange such holdings for the current income G bonds within a period of time prescribed by Treasury regulations. He may redeem the G bonds at his option at any time after six months from the issue date upon one calendar month's notice. Also, G bonds issued in exchange for maturing E bonds will be redeemable at full face value whenever they are presented for payment. However, the privilege of deferring taxes on the interest on a Series E bond does not apply if the E bond is exchanged for a G bond.

"The privileges which I have just outlined will apply to all outstanding E bonds as they mature, and will apply to all new series E savings bonds issued in the future.

"The Treasury's program for voluntary reinvestment was decided upon after long deliberation, extensive consultation, and cooperative effort. Many groups and individuals met with officials of the Treasury and gave considerable time and thought to the measures which would be in the best interests of both the Government and the bondholders. I wish to express my sincere appreciation to them and to the Congress for helping to effectuate this program."

Business Conditions and Prospects

The Fifth District business situation in recent weeks can best be characterized as one of considerable backing and filling. This was true in February (latest month for which complete data are available) and for most types of economic activity, though a notable exception has been the volume of construction.

Trade levels generally receded from January peaks during February and inventories at retail and wholesale levels continued to rise. The easing in trade levels was to be expected in view of the record highs established in January and buyers' relaxed attitudes due perhaps to relatively favorable developments on the war and diplomatic fronts. Production trends were mixed with the cotton textile, lumber, shipbuilding, aircraft, and most mechanical industries rising. Food industries held their own, and bituminous coal, rayon, and tobacco industries receded.

Store sales in February were 14% ahead of a year ago and Easter volume was satisfactory, but below expectations. Bank debits, a strong indication of the merry war-induced boom, continued very high in February and were 26% ahead of February 1950.

Construction Still Booms

Strong revival in residential and factory construction was probably responsible for the total contract volume in the Fifth District rising 20% from January to February after seasonal correction to the second highest level on record. Volume of contract awards for one- and two-family houses in February was at a new high seasonally adjusted level and multiple housing structures more than doubled in the same period.

Important new industrial expansion was announced late in February or early in March and included: $6 million cement plant in Roanoke, Virginia; $56 million in new iron and steel facilities at Sparrows Point, Maryland; $1.2 million addition to a synthetic mill at Williamston, South Carolina; $700,000 cotton yarn mill at Camp Croft, South Carolina; $2 million refractory expansion at Baltimore, Maryland; and a $18 million rayon yarn plant at Parkersburg, West Virginia.

Despite uncertainties created by the new ceiling price, the cotton textile industry in the Fifth District expanded cotton consumption by 4% after seasonal adjustment from January to February to a level 18% ahead of a year ago. There has been a relaxation in the attempts at forward coverage of cotton goods and yarns, occasioned in part by heavy inventory positions in all locations beyond the mill level.

Indications of inventory resales have been noted, probably indicating the general questioning regarding further bank credit extension.

Existing textile orders are sufficient to keep the industry operating at peak levels over the next two months and it is not believed that there will be any lack of demand for such goods as can be made with a dwindling cotton supply between May and the new crop.

Bituminous coal production in this District dropped 15% from January to February after seasonal correction. Due to last year's strike February 1951 output was 450% above a year ago. The January to February decline was caused mainly by the switchmen's strike but was also importantly related to mild February weather and the new wage contract given the miners. This wage adjustment had the effect of toning down the demand for stock-piling purposes. Absenteeism at the mines is sizeable in some areas but even so there is still unused capacity available because of lack of demand.

Shipments of rayon in February declined 5% from January, due chiefly to fewer working days in the latter month. There are, however, some indications of reduced operations, occasioned by hold ups in raw materials deliveries resulting from the railroad strike. There is little doubt, however, that rayon output for the rest of the year will be as near capacity levels as materials will permit—in fact a new move to expand capacity is under way.

Weather has been favorable in the logging and lumbering industry and production has continued to rise. In fact production and new orders have been running about in line with each other for several weeks. The lumber price situation appears to be fairly stable and with the general price freeze, yards are less interested in building inventories.

Even though a reduction in residential building is in the offing, the lumber industry expects to continue operating on a full-time basis. A change in the character of the demand, however, will probably necessitate some change in the types and sizes.

Trade Easier

Department store sales (adjusted) in February declined 7% from January but were 14% ahead of last year. Department store inventories continued to rise, gaining 10% (after adjustment) from January to February and stood 26% ahead of a year ago. Although major household appliance sales in February continued substantially ahead of a year ago, soft goods departments accounted for a larger part of the year-to-year gain than in recent months. Soft goods sales in the District, particularly women's apparel and accessories, ran well ahead of the national total during February—probably due to both mild February weather and to the early Easter.

Easter trade, based on the weekly reporting stores appears to have fallen somewhat below expectations, due in part to bad weather in the week of March 17.

Sales of furniture stores have again moved into high ground, but inventories have risen much more sharply. February sales rose 3% over January with a level 9%

above a year ago, while inventories rose 13% to a level 58% ahead of a year ago. This inventory position can hardly fail to have some adverse short-run repercussions upon furniture manufacturers.

All lines of wholesale trade declined after seasonal correction from January to February with the exception of dry goods, which rose 13%. This was a natural reaction to the somewhat easier retail trade levels experienced in February. Relative to a year ago all wholesale trade lines except tobacco show substantial increases ranging from 20% to 246%. Tobacco and its products shows a gain of 11% which is easily explained by adequate supplies and hence no reason for stocking.

Employment Levels Off

Employment in the Fifth District in February continued at a level about the same as in January with declines in seasonal industries offset by gains in nonseasonal industries. Established nonseasonal industries in the District have acquired their complement of workers and except to replace losses to the armed services and job shifts of one type or another, they will not have a very large manpower requirement up to midsummer.

Construction industries, retarded by climatic conditions during the winter, will show seasonal expansion despite the impending cutback in residential construction. The real expansion in labor demand in this District is coming from the war industries and Government—shipyards are stepping up their employment levels substantially and two aircraft factories in the District are doing likewise, while stand-by war production factories in the District are being reactivated. Biggest probable demand will be from the Government—in its regional control offices and at military installations.

The inflationary effects of bank loan expansion in the weekly reporting banks of the Fifth Federal Reserve District have been checked in the consumer and real estate sectors, but commercial and industrial loan totals are still rising and at a rapid pace. It is a moot question as to whether these loans will rise further in view of the faltering in some commodity prices, growing talk and efforts at price and credit control and, hence, the lack of attraction of accumulating further inventories.

The trend of new savings bond sales appears to have flattened out after having declined persistently since the end of World War II, and, though redemptions are relatively heavy, the net redemption is running somewhat less than a few months ago.

DEBITS TO INDIVDUAL ACCOUNTS
(000 omitted)

	February 1951	February 1950	2 Months 1951	2 Months 1950
Dist. of Columbia				
Washington	$ 923,839	$ 676,990	$ 2,055,117	$ 1,482,895
Maryland				
Baltimore	1,079,345	884,415	2,360,931	1,896,161
Cumberland	21,980	18,834	50,323	41,410
Frederick	18,115	15,713	37,288	31,664
Hagerstown	28,269	22,984	61,379	49,912
North Carolina				
Asheville	52,604	43,092	116,408	92,924
Charlotte	313,818	234,606	678,803	505,737
Durham	94,202	63,486	202,644	149,916
Greensboro	92,099	70,907	198,800	147,114
Kinston	14,764	12,370	33,009	26,054
Raleigh	136,815	113,082	286,349	246,206
Wilmington	37,316	30,009	80,153	60,822
Wilson	15,983	14,292	39,591	29,454
Winston-Salem	144,966	115,321	315,048	256,302
South Carolina				
Charleston	68,798	60,038	149,202	118,257
Columbia	114,130	93,201	235,486	193,248
Greenville	104,517	78,263	226,383	163,167
Spartanburg	60,656	46,050	136,849	95,226
Virginia				
Charlottesville	24,621	22,047	52,044	45,087
Danville	30,623	21,899	61,724	48,431
Lynchburg	44,511	33,596	89,907	72,608
Newport News	38,210	24,014	76,418	50,995
Norfolk	193,202	187,956	404,402	385,814
Portsmouth	22,814	18,625	48,484	39,240
Richmond	489,678	424,286	1,062,570	908,501
Roanoke	99,196	80,355	212,743	171,178
West Virginia				
Bluefield	45,486	30,991	96,641	71,848
Charleston	134,552	104,302	301,786	236,219
Clarksburg	31,803	23,317	70,437	54,679
Huntington	58,151	49,802	130,310	106,689
Parkersburg	25,910	21,520	56,842	46,178
District Totals	$ 4,560,973	$ 3,636,363	$ 9,928,071	$ 7,823,937

51 REPORTING MEMBER BANKS—5th DISTRICT
(000 omitted)

ITEMS	Mar. 14, 1951	Change in Amount from Feb. 14, 1951	Mar. 15, 1950
Total Loans	$1,171,962**	+ 24,476	+271,475
Business & Agricultural	582,880	+ 25,317	+172,783
Real Estate Loans	243,503	— 2,932	+ 24,548
All Other Loans	359,723	+ 2,215	+ 77,055
Total Security Holdings	1,607,620	— 37,358	—217,795
U. S. Treasury Bills	106,640	+ 7,105	— 10,286
U. S. Treasury Certificates	0	0	—209,660
U. S. Treasury Notes	379,472	— 12,570	+151,250
U. S. Treasury Bonds	947,937	— 27,862	—171,754
Other Bonds, Stocks & Secur.	173,571	— 4,031	+ 22,655
Cash Items in Process of Col.	292,649	+ 19,763	+ 51,372
Due From Banks	191,535*	— 7,369	+ 16,583
Currency & Coin	71,601	+ 1,163	+ 10,026
Reserve with F. R. Bank	514,606	+ 2,560	+ 62,468
Other Assets	56,879	+ 2,645	+ 5,716
Total Assets	$3,906,852	+ 5,880	+199,845
Total Demand Deposits	$3,028,448	+ 27,131	+193,083
Deposits of Individuals	2,296,911	+ 11,859	+216,812
Deposits of U. S. Govt.	83,077	— 171	— 30,643
Deposits of State & Loc. Gov.	176,609	+ 20,599	— 1,846
Deposits of Banks	419,945*	— 10,602	+ 5,467
Certified & Officers' Checks	51,906	+ 5,446	+ 3,293
Total Time Deposits	605,555	— 1,918	— 9,857
Deposits of Individuals	550,336	— 2,092	— 18,659
Other Time Deposits	55,219	+ 174	+ 8,802
Liabilities for Borrowed Money	1,450	— 21,500	— 3,550
All Other Liabilities	27,593	+ 1,860	+ 7,479
Capital Accounts	243,806	+ 307	+ 12,690
Total Liabilities	$3,906,852	+ 5,880	+199,845

*Net figures, reciprocal balances being eliminated.
**Less reserves for losses on bad loans.

SELECTED FIFTH DISTRICT BUSINESS INDEXES

AVERAGE DAILY 1935-39=100—SEASONALLY ADJUSTED

	Feb. 1951	Jan. 1951	Dec. 1950	Feb. 1950	% Change—Latest Month Prev. Mo.	Year Ago
Automobile Registration[1]	......	238	205	182	+ 16	+ 31
Bank Debits	423	426	391	337	— 1	+ 26
Bituminous Coal Production	132	162	156	24	— 19	+ 450
Construction Contracts Awarded	639	531	533	477	+ 20	+ 34
Business Failures—No.	51	46	62	63	+ 11	— 19
Cigarette Production	231	259	229	208	— 11	+ 11
Cotton Spindle Hours	......	162	164	148	— 1	+ 8
Department Store Sales[2]	341	369	336	299	— 8	+ 14
Electric Power Production	......	......	341	296	— 1	+ 20
Employment—Manufacturing Industries[1]	......	149	150	138	— 1	+ 7
Furniture Manufacturers: Shipments[2]	......	364	333	265	+ 9	+ 49
Life Insurance Sales	283	283	276	259	0	+ 9

[1] Not seasonally adjusted.
[2] Revised Series—back figures available on request.

WHOLESALE TRADE

LINES	Sales in February 1951 compared with Feb. 1950	Jan. 1951	Stocks on February 28, 1951 compared with Feb. 28, 1950	Jan. 31, 1951
Auto supplies (9)	+ 43	— 16	+ 22	+ 8
Electrical goods (7)	+ 65	— 8	+ 24	— 11
Hardware (14)	+ 40	— 22	+ 17	— 1
Industrial supplies (6)	+ 74	— 4	+ 7	0
Drugs (11)	+ 10	— 15	+ 6	+ 2
Dry Goods (16)	+ 52	— 2	+ 18	+ 5
Groceries (55)	+ 19	— 17	+ 19	+ 1
Paper & products (5)	+ 31	— 19	......	......
Tobacco & products (11)	+ 11	— 3	+ 25	0
Miscellaneous (91)	+ 21	— 3	+ 45	+ 1
District Totals (225)	+ 27	— 10	+ 27	+ 2

Number of reporting firms in parentheses.
Source: Department of Commerce.

RETAIL FURNITURE SALES

Percentage comparison of sales in period named with sales in same period in 1950

STATES	Feb. 1951	2 Mos. 1951
Maryland (7)	— 14	— 5
District of Columbia (6)	+ 6	+ 24
Virginia (17)	— 1	+ 5
West Virginia (10)	+ 11	+ 6
North Carolina (14)	— 3	+ 3
South Carolina (6)	— 15	— 2
District (60)	— 1	+ 9
INDIVIDUAL CITIES		
Baltimore, Md. (7)	— 14	— 5
Washington, D. C. (6)	+ 6	+ 24
Richmond, Va. (6)	— 8	— 6
Charleston, W. Va. (3)	— 3	— 6

Number of reporting firms in parentheses.

DEPARTMENT STORE OPERATIONS

(Figures show percentage change)

	Rich.	Balt.	Wash.	Other Cities	Dist. Total
Sales, Feb. '51 vs. Feb. '50	+18	+14	+12	+14	+14
Sales, 2 Mos. '51 vs. 2 Mos. '50	+28	+20	+21	+20	+21
Stocks, Feb. 28, '51 vs. '50	+36	+25	+15	+18	+21
Orders outstanding, Feb. 28, '51 vs. '50	+46	+61	+55	+34	+53
Current receivables Feb. 1 collected in Feb. '51	27	45	42	37	38
Instalment receivables Feb. 1 collected in Feb. '51	13	13	17	15	15

	Md.	D.C.	Va.	W.Va.	N.C.	S.C.
Sales, Feb. '51 vs. Feb. '50	+14	+12	+17	+29	+ 7	+ 9
Sales, 2 Mos. '51 vs. 2 Mos. '50	+19	+21	+25	+34	+14	+13

BUILDING PERMIT FIGURES

	February 1951	February 1950	2 Months 1951	2 Months 1950
Maryland				
Baltimore	$ 5,473,815	$ 6,404,300	$16,480,270	$17,007,750
Cumberland	45,650	124,535	142,410	156,245
Frederick	77,000	50,725	338,225	84,425
Hagerstown	15,550	48,497	99,775	199,772
Salisbury	75,937	59,875	278,462	150,225
Virginia				
Danville	131,113	126,387	241,848	276,098
Lynchburg	186,375	342,836	658,958	620,264
Newport News	67,331	110,576	360,199	182,073
Norfolk	4,014,761	1,829,405	5,729,471	2,672,435
Petersburg	112,405	251,435	443,357	1,044,671
Portsmouth	342,890	272,855	645,395	530,869
Richmond	1,483,741	1,716,363	3,285,220	2,901,211
Roanoke	1,905,866	800,636	4,774,590	4,047,268
West Virginia				
Charleston	312,892	1,156,999	821,238	5,498,999
Clarksburg	39,165	240,800	168,065	268,836
Huntington	305,840	503,136	1,090,840	680,127
North Carolina				
Asheville	146,895	278,285	2,320,292	421,371
Charlotte	4,252,141	1,220,179	6,451,008	3,257,353
Durham	329,337	460,830	1,023,629	6,519,092
Greensboro	594,667	1,002,415	1,658,027	1,606,193
High Point	258,085	218,605	710,394	440,021
Raleigh	299,850	465,450	1,430,431	1,231,290
Rocky Mount	143,264	196,943	489,314	632,668
Salisbury	36,875	587,250	242,915	750,773
Winston-Salem	2,211,167	1,190,703	2,848,862	1,685,888
South Carolina				
Charleston	129,684	220,094	329,378	420,294
Columbia	607,160	588,042	2,761,785	2,315,885
Greenville	941,252	565,033	1,738,709	1,057,093
Spartanburg	78,515	97,000	180,320	182,714
Dist. of Columbia				
Washington	8,559,788	3,248,755	15,208,079	9,037,908
District Totals	$33,179,011	$24,378,944	$72,951,466	$65,879,811

ADDITION TO PAR LIST

The Union Trust Company, Shelby, N. C., has agreed to remit at par, effective March 14, 1951, for all checks drawn on its head office at Shelby received from the Federal Reserve Bank. This bank is located in the territory of the Charlotte Branch of the Federal Reserve Bank of Richmond. The combined ABA transit number-check routing symbol is $\frac{66\text{-}169}{531}$.

The Forest City, Rutherfordton and Spindale branches of the Union Trust Company were already on the Federal Reserve par list.