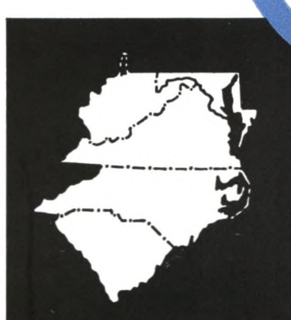
FEDERAL RESERVE BANK OF RICHMOND

MONTHLY REVIEW

FEDERAL RESERVE BANK OF RICHMOND · INCORPORATED MAY 18, 1914 · 5-E



JULY 1968

The Federal National Mortgage

Among the alphabet soup of Federal bureaus and agencies, the Federal National Mortgage Association is probably one of the most familiar by virtue of its nickname, Fannie Mae. In addition, credit conditions and Federal Budgetary maneuvers over the past three years, along with recent changes in the Agency's method of acquiring mortgages, have put Fannie Mae in the news. This article will discuss the Agency's various functions, its relationship to monetary policy, and its changing status in the Federal budget.

Fannie Mae was chartered in 1938 by the Congress to encourage investors to participate in the Federal Housing Administration program established several years earlier. It was rechartered under the Housing Act of 1954 as a self-supporting corporate instrumentality of what is now the U. S. Department of Housing and Urban Development. The Secretary of that Department is the Chairman of Fannie Mae's Board of Directors. While the Directors establish general policy guidelines, day to day affairs are administered by a President, as Chief Executive Officer. Since 1954, Fannie Mae has performed three distinct functions, each of which is administered as a separate corporation with separate financing, portfolios, and accountability.

Virtually all of Fannie Mae's functions involve the buying, selling, and servicing of mortgages insured by the Federal Housing Administration (FHA) or guaranteed by the Veteran Administration (VA). Recently mortgages insured by the Farmers Home Administration also have become eligible. As of February 1968, Fannie Mae's mortgage portfolio totaled $9.5 billion, approximately 12% of all Government-insured mortgages on nonfarm residential properties. About three-fourths of its holdings were FHA-insured.

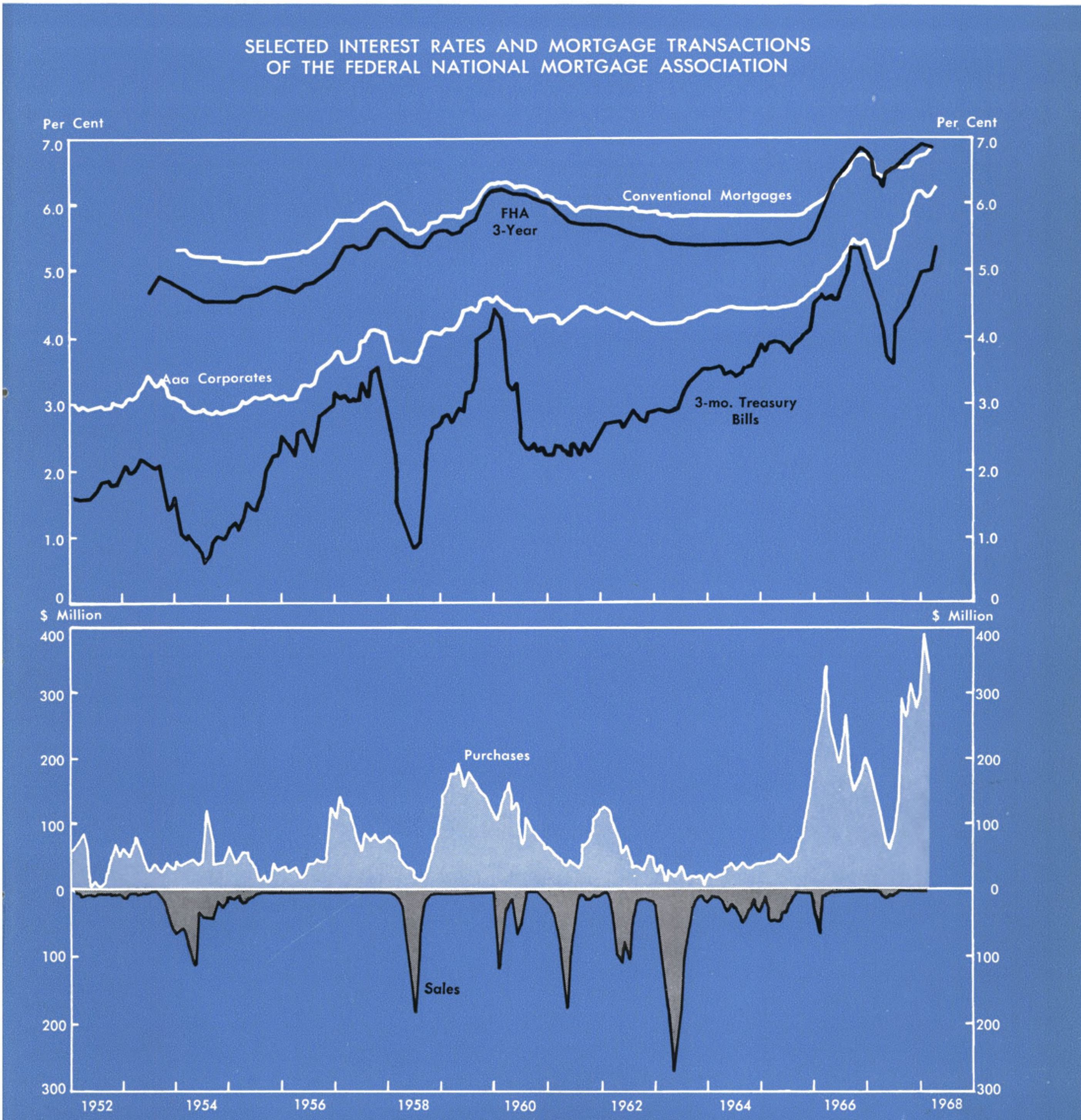
Management and Liquidating Functions These functions involve managing and liquidating mortgages acquired, or contracted for, prior to the 1954 reorganization, and also those purchased subsequently from other agencies. As of December 1967, the portfolio of mortgages held by the Management and Liquidating Functions totaled $1.6 billion, mostly FHA-insured loans, a portion of which were subject to liquidation trusts as collateral for certificates of participation (PC's). In the past, the Management and Liquidating Functions were financed primarily by direct borrowings from the Treasury. In addition, three bond issues totaling $2.2 billion were sold between 1955 and 1965; none is now outstanding. In recent years sales of PC's have become the principal source of funds.

Under its Management and Liquidating Functions, Fannie Mae is trustee of the Government Mortgage Liquidating Trust. As trustee it supervises the pooling of assets of six Governmental departments and agencies. Certificates of participation in these pools of assets are then sold to the public. Each certificate represents a beneficial interest in the interest and principal payments which accrue to the pooled mortgages. These payments are used to service the certificates, and may be supplemented by Congressional appropriations when necessary. The total of PC's outstanding has climbed from $2.1 billion in June 1966 to $5.7 billion in December 1967, of which $1.6 billion were backed by Fannie Mae assets.

Special Assistance Functions The purpose of this operation is to provide special assistance in financing of home mortgages on urban renewal properties, housing for the aged, and low income housing. Because this is a support-type operation, Fannie Mae buys mortgages at prices above the prevailing market level. Limits on mortgage purchases and commitments are established by the Congress, and both the President and Congress may designate the types of mortgages eligible for special assistance. This operation is funded in the same manner as the Management and Liquidating Functions, with PC sales now playing a major role. The portfolio of the Special Assistance Functions was about $1.7 billion in December 1967, a portion of which are in trusts for PC's.

Secondary Market Operations Fannie Mae's third function consists of Secondary Market Operations. This function is theoretically designed to enhance the liquidity of Government-backed mortgages by purchasing them when and where mortgage funds are in short supply, and selling them when and where funds are plentiful. Mortgages are purchased from an approved list of holders, including mortgage companies, banks, savings and loan associations, life insurance companies, and from any Federal agencies authorized to sell mortgages and to acquire Fannie

Association



Source: Board of Governors of the Federal Reserve System.

Mae common stock. Generally, about 70%-80% of total purchases are from mortgage companies, many of which originate mortgages exclusively for resale to Fannie Mae. The Secondary Market Operations' portfolio is larger than those of the other two functions combined, totaling $5.8 billion in February 1968. This is 36% larger than in December 1966, and more than double the 1965 year-end total.

Fannie Mae's capitalization is based on its Secondary Market Operations. It is a hybrid "public-private" corporation with preferred stock held by the Secretary of the Treasury, and common stock by private investors. The Agency pays the Treasury the equivalent of the full corporate income tax on its earnings from secondary market operations. As of December 1967, the Secretary held $141.8 million of preferred stock and was authorized to hold $317.8 million. This stock may be retired by the Agency from its undistributed earned surplus funds. Common stock is sold to those from whom the Agency buys mortgages. The mortgage sellers are required to buy an amount of stock currently equal to 1% (and not more than 2%) of the unpaid principal amount of the mortgages sold. Common stock is also sold to those to whom Fannie Mae makes short-term loans secured by Government-backed mortgages. Borrowers currently must buy stock equal to ½ of 1% of the amount borrowed. There is an over-the-counter secondary market for Fannie Mae common stock. Stockholders number about 9.5 million. Dividends on both the preferred and common stock accrue monthly and are paid semi-annually, at the current rate of 32 cents per share per month.

The bulk of all funds for Secondary Market Operations is derived ultimately from the sale of Fannie Mae corporate debentures and short-term discount notes to private investors. The debentures are sold through the Agency's fiscal agent in New York and a syndicate of brokers and dealers. The discount notes, which are tailored to meet the needs of institutional investors, are sold in New York at published rates. The total of debentures and notes may not exceed 15 times the sum of the Agency's capital, surplus, and undistributed earnings. As of December 1967, there were $3.6 billion debentures outstanding with an average maturity of two years, four months. On the same date there were $1.3 billion discount notes outstanding, with maturities ranging from one to nine months. Between financings, funds for Secondary Market Operations are obtained through direct borrowing from the Treasury. These borrowings are repaid from sales of debentures and notes and from portfolio liquidations. Unlike the other two functions, mortgages in the Secondary Market Operations' portfolio are not eligible for pooling for PC sales.

Method of Purchasing Mortgages Early in May of this year, Fannie Mae instituted an important change in its mortgage purchasing technique under its Secondary Market Operations. The method employed since 1954 had proved to be undesirable for a number of reasons. Under the old system, the Agency announced a series of prices supposedly within the going market range which it would pay for qualified Government-backed mortgages. Ordinarily the qualifications were stated in terms of the maximum size of the unpaid principal of the mortgage and the time lapse since the date of the insurance or guarantee. The Agency stood ready to purchase all eligible mortgages offered to it at its announced prices, either on an immediate or commitment basis. During times of credit stringency the quantity of offerings rose sharply, as can be seen in the chart. Under conditions of tightening credit, mortgage companies turned more and more to Fannie Mae as inflows of funds to insurance companies and other institutional mortgage investors began to dry up. Moreover, these latter institutions would tend to sell part of their portfolios to Fannie Mae to acquire funds to meet their outstanding commitments. The Agency could attempt to reduce its purchases by lowering its prices, stiffening its qualifications, increasing the price of its common stock and the amounts which must be purchased, and raising other fees and charges. These techniques were only partially successful in discouraging the flood of mortgages offered for sale, partly because private buyers tended to set their prices slightly below Fannie Mae's. Thus, the Agency became in many instances the buyer of first resort in its efforts to mitigate the effects of spiraling rates. In 1966, for example, the Agency was deluged with mortgages despite repeated stiffening of its purchasing terms. As a result, Fannie Mae nearly exhausted its funds, and in order to continue aiding the mortgage market, its borrowing authorization was increased in emergency September legislation from 10 to the present 15 times capital and surplus.

To remedy the problems caused by the old system, Fannie Mae has adopted the auction technique on an experimental basis. Unlike most auctions which involve offers to sell, these auctions are concerned with offers to buy. This method gives Fannie Mae control over its volume of purchases, while the price is set by market forces. Each week the Agency announces the total amount of mortgages it is willing to commit itself to purchase. Private mortgage holders then submit sealed bids specifying the amount they wish to sell, the price desired, and the terms of commitment desired (three, six, or twelve months). The Agency accepts bids starting with those most advantageous to it, that is, the lowest priced, until the preannounced volume of funds is committed. A maximum is set for each bid so that a single seller, or area, cannot completely dominate the auction. As in weekly Treasury bill auctions, noncompetitive bids may be entered, and are awarded at the average price of accepted competitive bids.

Sale of Mortgages Fannie Mae is prepared to sell mortgages from the portfolios of all three functions. Sale prices presumably are established with regard to prices of comparable mortgages in the private secondary market, and to the requirement that Fannie Mae remain a self-supporting agency. Mortgages which are pooled for PC sales are not eligible for sale, and mortgages which have been in the Secondary Market Operations' portfolio for more than two years are also ineligible unless a resale agreement was negotiated at the time of the original purchase. Because an aggressive sales policy would conflict with the Agency's aim of encouraging new home building and home ownership, particularly during periods of credit restraint, sales are confined largely to periods of inexpensive and abundant credit. Sales have averaged only about one-fourth of purchases, and have exceeded purchases only in 1963.

Fannie Mae and the Mortgage Market From 1961 to 1965, Fannie Mae purchases ranged from 3% to 10% of total FHA-VA mortgages issued, but in 1966 the Agency's share leaped to 27%. At this level Fannie Mae played a significant role in the willingness of mortgagors to originate Government-backed mortgages and in the mortgage market as a whole. With the improvement of conditions in the mortgage market in 1967, the Agency's purchases eased to 21% of total Government-backed mortgages issued.

Under traditional methods of operation Fannie Mae has often been accused of insulating the mortgage market from the effects of monetary policy. While this was true to a considerable extent before the 1954 reorganization, when the Agency was required to buy all mortgages at par, it has been true to a much lesser degree since that time. The Agency's share of the FHA-VA market is generally not large enough to insulate that market significantly from general credit conditions. Moreover, Fannie Mae debentures which are issued to finance its mortgage purchases may draw savings away from the other mortgage lenders. Fannie Mae's operations can be described more accurately as having a cushioning rather than an insulating effect, particularly since the adoption of new purchasing techniques.

Fannie Mae and the Budget Prior to the adoption of the new unified budget, proceeds from the sale of certificates of participation were offset against the expenditures or loan disbursements of the agencies involved, thereby reducing budget totals and the Federal deficit by a corresponding amount. This accounting technique reflected the view that agencies were selling their assets to raise funds to conduct their operations. In point of fact, however, titles to the pooled loans never changed hands; the investor was simply acquiring a beneficial interest in them. In the new budget, sales of PC's are treated as part of total Government borrowing and no longer produce a reduction in spending and deficit totals.

The unified budget may present something of a problem for Fannie Mae. Under the old administrative budget, Secondary Market Operations did not show up in total Government expenditures. Now, however, outlays for mortgage purchases are included in total Government spending and net lending. Because a budget deficit is least desirable when the economy is booming and credit is tightening, Fannie Mae conceivably could find its spending authorization pruned at the very time when increased mortgage purchases were needed to aid the residential housing market. To free the Agency from such budgetary policy, the Administration is proposing that Secondary Market Operations become wholly privately owned by the common stockholders. The preferred stock owned by the Treasury would be retired, as provided for in the 1954 charter. Despite the transition in ownership the Government would retain considerable influence over the Agency through its ability to borrow up to $2,250 million from the Treasury, and through a Board of Directors composed partially of Government appointees. It is possible, however, that private ownership would provide the Agency with enough latitude to develop a true secondary market. Along with plans to more or less sever the largest part of Fannie Mae from the Government, there are plans which call for converting the Special Assistance and Management and Liquidating Functions into the Government National Mortgage Association, or Ginnie Mae. This new Federal agency would be empowered to insure PC's issued by the new privately owned Fannie Mae, as well as similar securities sold by other private mortgage companies. These guarantees would be designed to increase the flow of private funds into the housing market by enhancing the marketability of mortgage-backed instruments. *Jane F. Nelson*

Fifth District Ports—VIRGINIA

The ports of Virginia were among the busiest in the nation in 1967. Hampton Roads, which includes the ports of Norfolk, Newport News, Portsmouth, and Chesapeake, surged ahead vigorously with significant expansion in the tonnage of general cargo handled and in facilities for handling such cargo. In addition, and perhaps more indicative of the course of future development, they registered a dramatic gain in "containerized" traffic and in facilities for handling containers. The State's river ports, Richmond, Hopewell, and Alexandria, also experienced substantial development.

Virginia State Ports Authority officials are looking ahead to what they term "the most phenomenal growth and development to be realized by Virginia ports in their 355-year history." A major factor in the projected growth is the so-called "container revolution" now underway. Containerization, the shipping of goods in sealed vans, promises to generate the most drastic changes in cargo handling ever experienced. Containerized tobacco shipments are already being tested in Virginia ports, which lead the nation in tobacco exports.

General cargo trade in Virginia in 1966 showed a 22.4% gain over 1965. Complete data for 1967 are not yet available, but it is clear that they will show another substantial gain. According to figures provided by Virginia Ports Authority officials, Virginia is the only state on the Eastern or Gulf Coasts that has shown a notable increase in the percentage of total U. S. foreign trade tonnage, having risen from 8.24% to 9.28% since 1953. A new $8 million pier at Newport News is heralded as one of the fastest general cargo handling facilities on the Atlantic Ocean.

Coal continues to dominate export tonnage through the ports of Hampton Roads. Last year more than 38 million tons were exported from Norfolk and Newport News alone, an increase of 6 million tons over 1966. Recent deepening of channels has opened the Roads to large supercolliers. This has been a major factor in the large annual gains in coal tonnage.

Hampton Roads is a spacious, well sheltered, and strategically located natural harbor serving a rapidly developing hinterland. Excellent rail and highway connections provide overnight transportation service to an area inhabited by 35 million people. Partly for this reason, many shipping companies have been attracted to the area.

With the anticipated deepening of the James River Channel, further growth in the Port of Richmond is expected, accompanied by accelerated industrial development in the state. The attractiveness of the Richmond area for water-oriented industries would probably be materially enhanced. Virginia's economic planners give high priority to a deepening of the James since the urban corridor extending from Northern Virginia through Richmond and to the ocean is one of the fastest growing sections of the United States.

HAMPTON ROADS MARITIME ASSOCIATION

HAMPTON ROADS MARITIME ASSN.

AYCOX PHOTORAMIC, INC.

M. G. BALLOU

VIRGINIA STATE PORTS AUTHORITY

M. G. BALLOU

1. Norfolk & Western Railway's coal handling facilities at Lamberts Point, Norfolk, are the largest and most modern in the world.
2. Construction continues at Portsmouth Marine Terminal, the newest installation of this type in the country.
3. A freighter steams up the James River to the Port of Richmond.
4. Bustling activity goes on at this three-berth general cargo pier at Newport News.
5. Ships representing major shipping firms dock at excellent pier facilities throughout the entire Hampton Roads area.

The Gold Cover

In the past gold has been held by the United States Treasury for two purposes. One purpose has been to provide international reserves, i.e., a means of international payment. The United States Government agrees to sell gold for United States dollars held by foreign governments and foreign central banks. Another purpose was to provide a reserve backing for our money. This has generally been referred to as the gold cover.

On March 19, 1968, President Johnson signed a bill eliminating the gold cover for Federal Reserve notes and for United States notes and Treasury notes of 1890. All of these types of currency have been, or are, part of our money.

The removal of the gold cover was somewhat obscured in various news media by headlines surrounding the international financial crisis of mid-March. On the weekend of March 16-17, the members of the London Gold Pool, meeting in Washington, had established the two-market gold system, and on the day before this meeting the Federal Reserve System had raised the discount rate by one-half percentage point to 5%. Furthermore, the much-awaited British budget was presented on the same day the gold cover was removed.

Prior to the removal of the gold cover each Federal Reserve Bank was required to hold a gold certificate reserve of not less than 25% against its Federal Reserve note liability, i.e., each Bank's Federal Reserve notes outstanding minus those of its own notes held by the issuing Bank. Before March 19, the Treasury was also required by law to hold a gold reserve of $156 million against United States notes and Treasury notes of 1890. By far the most important of these reserves in terms of size was the reserve behind Federal Reserve notes. The total Federal Reserve note liability for all Federal Reserve Banks combined was over $41 billion at the end of February. United States notes outstanding, on the other hand, totaled only $323 million. Treasury notes of 1890 are no longer issued and less than $500 thousand are estimated to be in circulation.

History The earliest legal recognition of the necessity of a gold reserve in the United States occurred in the Bank Act of July 12, 1882. This law provided that the issue of gold certificates, which were authorized in the same law, would be suspended whenever the gold coin and gold bullion reserved in the Treasury for the redemption of United States notes, or greenbacks, fell below $100 million.

The Gold Standard Act of March 14, 1900, increased the gold reserves held for redemption of United States notes and Treasury notes of 1890. Under this Act, the Secretary of the Treasury was required to hold a gold reserve of $150 million for the redemption of such notes.

The percentage reserve requirements of recent years were inaugurated as part of the Federal Reserve Act of 1913. The twelve District Banks were required to maintain a 40% gold reserve behind Federal Reserve notes and were also required to hold a 35% reserve in gold or lawful money behind member bank deposits at Federal Reserve Banks (member banks hold the larger part of their required reserves as deposits at Federal Reserve Banks).

Through the same Act and through another Act in 1923, the Secretary of the Treasury was authorized to apply earnings of Federal Reserve Banks and Federal Intermediate Credit Banks to the reserve for United States notes and Treasury notes of 1890. About $6 million was added to the reserve in this way, making the total of $156 million which was held in reserve until March of this year.

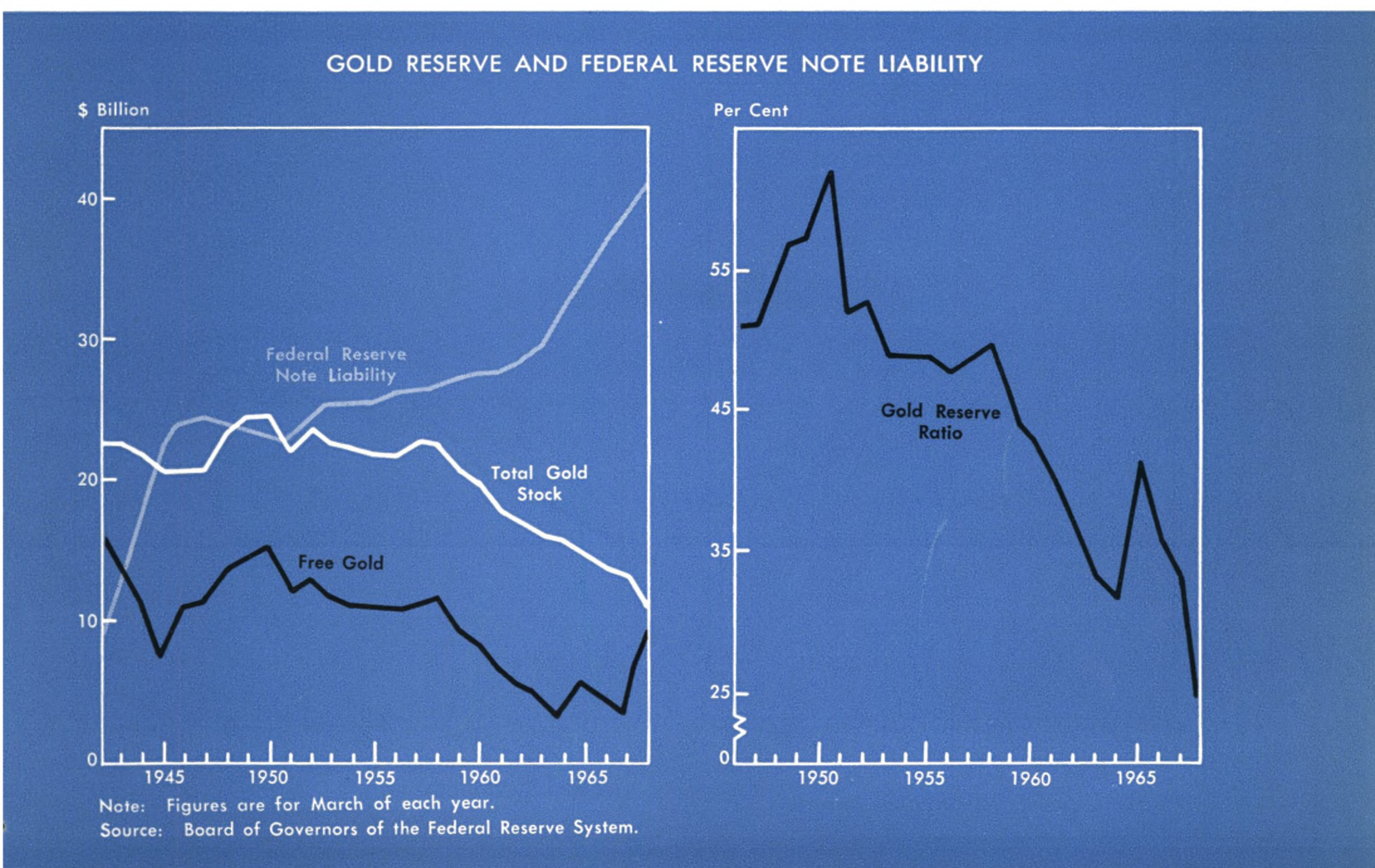
Prior to 1933, United States citizens could redeem currency for gold. The Emergency Banking Act of that year in effect prohibited persons subject to United States jurisdiction from holding gold. In 1934, the Gold Reserve Act provided, among other things, for the gold held by Federal Reserve Banks to be replaced by gold certificates. The gold was transferred to the Treasury which then issued gold certificates to the Federal Reserve Banks against its gold stock.

In 1945 the gold reserve requirement was reduced to 25% for both Federal Reserve notes and the reserve deposits of member banks. At the same time, the law was also changed to exclude legal tender such as silver certificates and greenbacks as legally acceptable reserves against deposits of member banks with Federal Reserve Banks. Due to the reserve requirement change, the amount of free gold in the United States at that time, i.e., gold not required to be held for reserve purposes, rose substantially, as may be seen in the accompanying chart. Before March of this year, the amount of free gold was used by many persons to indicate the ability of this country to settle foreign dollar claims in gold.

Following 1950, the volume of free gold in the United States started to decline. The increase in total Federal Reserve note liabilities and in member bank deposits, and the outflow of gold from the United States to redeem dollars presented by foreign official institutions accounted for the decline. The level of free gold continued to drop until the reserve requirements established in 1945 were changed in 1965. In March of that year the reserve requirement against deposits was eliminated. Just prior to this change, the level of free gold had declined to less than $2 billion, over $1 billion below the $3 billion level shown in the chart for March 1964. The 1965 Act freed over $4 billion of gold and the free gold supply accordingly jumped up to nearly $6 billion.

From 1950 to 1965 the gold reserve ratio curve, comparing the total gold stock with the Federal Reserve note liability plus deposits of member banks with Federal Reserve Banks, dropped sharply. In February 1965 the ratio of gold to notes and deposits had fallen to nearly 28%. The sharp rise in the curve in 1965 reflects the change in the law. The gold stock is then compared only with the Federal Reserve note liability and consequently the gold reserve ratio rose markedly in 1965 before plummeting again over the next three years. When the gold cover requirement was removed in March, the ratio of our gold stock to the total Federal Reserve note liability stood at 25.0084%.

Foreign Countries Gold reserve requirements in most countries were either repealed or suspended quite some time ago. During the pre-World War I period of the gold standard, most major countries of the world had a gold reserve requirement at one time or another. During World War I, however, all of the belligerent countries except the United States went off the gold standard. Most of them returned to some form of gold standard after the War, only to abandon it in the 1930's.



Among the countries which still have gold reserve requirements for their currency are Belgium, Mexico, the Netherlands, South Africa, and Switzerland. Some countries that still have reserve requirements allow these requirements to be met in part by foreign exchange in lieu of gold, e.g., Mexico and the Netherlands.

Rationale for Removal Various pros and cons surrounded the removal of the gold cover. International and domestic confidence in the dollar, and the related issues of inflation and controlling the growth of the money supply were focal points of discussion.

In Congressional testimony, William McChesney Martin, Chairman of the Board of Governors of the Federal Reserve System, stated that removal of the gold cover "would make absolutely clear that the United States' gold stock is fully available to serve its primary purpose as an international reserve." At the same time, however, he emphasized that domestic developments would necessitate some change in the gold cover requirement in the relatively near future even if there were no further net sales of gold to foreigners. As the volume of our currency grew in response to the growth in our economy, the amount of gold required as a backing for the currency would have soon outstripped our supply. The increase in Federal Reserve notes in 1967 was about $2 billion, which added $500 million to the amount of gold required to be held as reserves under the old law. In addition to the growth in Federal Reserve notes, our free gold was being reduced by industrial and artistic uses for gold over and above domestic production. This excess amounted to $160 million last year.

Despite the obvious need to remove the gold cover for the aforementioned reasons, there was concern for the possible detrimental affect of such a move on confidence in the dollar. Fears were expressed that the international and domestic communities would lose a measure of faith in the dollar as a universal, stable means of exchange. Qualms about international confidence were answered by Chairman Martin's testimony. As he stated, "the primary function performed by gold today is not as a reserve against domestic currency but as a monetary reserve for use internationally." Removing the gold cover should improve foreign confidence in the dollar by clarifying our ability and intention to convert foreign-held dollars for gold. No longer should our international reserve position in gold be understated or misunderstood. It should be absolutely clear that the United States' gold stock is fully available to meet foreign-held dollar claims.

The matter of domestic confidence in the dollar primarily involved the question of control over the money supply. Removal of the gold cover would, it was thought, abolish an effective limitation on the supply of money in the country. The argument continued that this would promote inflation and degrade the value of the dollar.

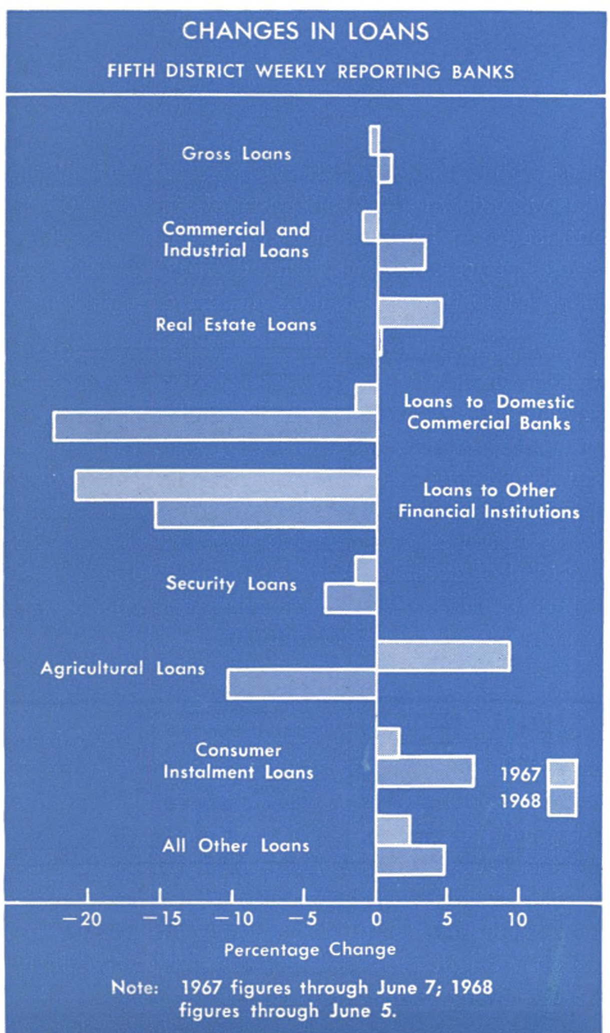
As originally set up, the gold reserve requirements were intended to place an upper limit on the expansion of the domestic money supply (the money supply is most often defined as currency plus demand deposits at commercial banks, and in April totaled nearly $185 billion, of which $41 billion was currency). The gold reserve requirements were a reflection of the gold standard philosophy which was prevalent at the time the Federal Reserve Act was passed. According to this philosophy, domestic monetary conditions were to be determined largely by fluctuations in the gold stock. Thus, the Federal Reserve Act attempted to tie the money supply to the gold stock. Even at the time the Federal Reserve Act was passed, however, the gold standard philosophy was on the way out. Like a number of other provisions of the original legislation, the attempt to tie the money supply to the gold stock became more and more anachronistic as time passed.

Certainly the gold reserve requirements have not limited the expansion of the money supply in recent decades, if ever. The United States has had enough gold in excess of required gold so that the reserve requirements imposed no limitation on monetary expansion. And when the reserve requirements threatened to become a limiting factor in 1945 and 1965, the law was changed. Thus, the growth of the domestic money supply has, in reality, been determined by the Federal Reserve, which attempts to achieve a rate of growth which will contribute to maintenance of orderly economic growth, full employment, price stability, and balance of payments equilibrium. The most recent change in the law, therefore, represents no change from past practices.

Conclusion Reaction since the removal of the gold cover in March has been negligible, as was the case in 1965 when the gold reserve behind deposits was removed. Hopefully, the parallel will end there. Subsequent to that change our stock of gold continued to fall sharply. To prevent the continuation of that decline, fiscal and monetary policy must work together to put our international accounts in order and maintain stable economic conditions in this country.

Joseph C. Ramage

The Fifth District



Gross loans at the 28 weekly reporting banks in the Fifth District rose by $36.5 million in the first five months of 1968, bringing the total outstanding to $7.1 billion as of June 5. This increase contrasts with a decrease of $21.9 million for the comparable period last year. The growth in total investments was smaller than in 1967, reflecting primarily greater tightness of monetary policy. Total investments grew by only $39.2 million, in marked contrast to the sizable $284.1 million growth for the same time-span in 1967.

Four Loan Categories Expand The upward trend in gross loans began in early April and was primarily attributable to increases in four loan categories: consumer instalment loans, business loans, the "all other loan" category, and real estate loans. During the first week in June, a $97.8 million gain in consumer instalment loans was the largest single advance noted for the year. Consumer instalment loans in the District generally paralleled the growth of these loans for the nation as a whole. From mid-April through early June consumer instalment loans rose at a steady pace. By June they were well ahead of the 1.6 percentage increase registered for the same period last year.

From January to the first week in June commercial and industrial loans climbed $72.9 million—a substantial increase when compared to last year's decline of $12.4 million. During the sharp upswing that characterized business loans in March and early April, such loans grew by $122 million. Around the time of the April 15 tax date business loans leveled off and then declined by $36 million between April 24 and June 5.

The "all other loan" category for the 28 weekly reporting banks registered a $25.8 million advance for the first five months of this year. The percentage increase as of the first week in June 1968 more than doubled that of 1967: the figures stood at 4.9% and 2.4%, respectively.

Real estate loans rose $6.2 million by June 5; a small increase that remained well below the gains noted for the comparable period in both 1967 and 1966. By the first week in June last year, real estate loans had advanced $67.4 million.

Other Loans Contract Declines for the first five months of this year were noted in loans to the financial sector, agricultural loans, and security loans, but decreases in these categories were not enough to offset the previously mentioned gains. Decreases in loans to the financial sector were responsible for a considerable portion of the total decline. Loans to domestic commercial banks fell $45.6 million, and loans to other financial institutions dropped $98.7 million, somewhat smaller than the $122.3 million reduction in 1967. Loans to domestic commercial banks, however, registered a much larger decline this year than last. In percentage terms the decrease for the comparable period in 1967 was 1.5%, compared with a 22.5% reduction this year. Agricultural loans were down $12.2 million as of June 5, 1968, in contrast to an increase of $5.6 million in the same period last year. Security loans declined $9.7 million, compared to the $2.6 million decline of a year ago.

Business Loans by Industry In a sample of 13 weekly reporting banks which break down commercial and industrial loans by industry, loans to commodity dealers were the only type of business loan registering a decline. The $36.8 million drop in loans to commodity dealers was larger than any of the increases noted in the remaining categories. The total of classified loans climbed $67.3 million as of June 5, 1968. During the comparable period last year, the total fell $29.8 million.

Loans to manufacturing and mining establishments, which were up $26.0 million, and loans to wholesale firms, which gained $23.9 million, were responsible for a large part of the increase. Loans to construction firms, which declined $18.9 million last year, gained $4.5 million as of the first week in June 1968. For the five-month period in 1967, loans to retail firms decreased $6.2 million; for the comparable time-span this year they increased $16.6 million. Slight to moderate gains were noted in all the remaining loan categories.

Carla W. Russell