The World Bank Group
Mortgage Terms
State and Local Borrowing in 1966
The Fifth District
The World Bank Group comprises three institutions. At the heart is the Bank itself, which is more officially known as the International Bank for Reconstruction and Development (IBRD). Founded at the Bretton Woods conference of 1944, on the same occasion as the International Monetary Fund, the Bank bears witness to the spirit of cooperation in which the nations of the world try to solve a major economic problem of our time.

The aim of the Bank is to make long-term loans to member countries on more or less conventional market terms. Immediately following World War II, the organization was solely concerned with financing the reconstruction of war-torn nations. Since 1948, however, it has focused its attention on the financing of economic development. During its fiscal year ending June 30, 1967, it made 47 loans amounting to almost $877 million; about 80% of this sum was channeled into the developing countries of Asia, Africa, and Latin America. In the twenty-one years of its operations the Bank has lent a total of some $10 billion.

The IBRD is flanked by its two daughter organizations, the International Development Association (IDA) and the International Finance Corporation (IFC). The former provides "soft loans" to those countries whose debt servicing problems would be critical if they had to borrow all the funds needed for development on conventional terms. During the past fiscal year, IDA extended credit amounting to about $350 million. The IFC, on the other hand, operates exclusively in the private sector where it can invest in share capital or make loans to private borrowers without government guarantees.

The World Bank Group

Structure and Organization of the World Bank
The Bank has a corporate structure with, at present, 109 member governments acting as stockholders of $22.9 billion of capital stock. Unless stated otherwise, however, the figures used in this article will refer to the situation as of June 30, 1967; on that date the IBRD had 106 members and a capital stock of $22.8 billion. According to the Bank's charter, the capital subscription of each member is composed of three parts. Two per cent of the subscription is payable in gold or U. S. dollars while another 18% is payable in the member's own currency or in its non-negotiable, noninterest-bearing demand notes. The remaining 80% is not available to the Bank for lending but can be called, if necessary, to meet the obligations on its own borrowings or on the loans that it has guaranteed. On June 30, 1967, each nation had paid in 10% of its total subscription, thus leaving some $20.5 billion subject to call.

The World Bank is an intergovernmental institution, that is, it has no supranational powers. The top-ranking body is the Board of Governors on which each member country is represented by one Governor, usually its finance minister. The Board meets once a year and deals with broad issues. With few exceptions, such as the admission of new members and changes in the capital stock, it has delegated its powers to the 19 Executive Directors who are responsible for the Bank's general operations. The five largest stockholders, the United States, the United Kingdom, Germany, France, and India, appoint one permanent Director each, while the other Directors are elected by groups of members. For instance, Canada, Ireland, Jamaica, and Guyana form a pool which is at present represented by a Canadian. All Directors serve two-year terms and meet frequently at the Bank's headquarters in Washington, D. C. In voting procedures the votes of the members are weighted as follows: each nation has 250 votes plus one vote for each $100,000 of subscribed capital. Thus the U. S., with the largest ($6.35 billion) subscription, has 63,750 votes or 25% of the total voting power. The five largest stockholders together hold almost 48% of the total voting power.

The 1,450 member staff of the Bank is headed by a President who is selected by the Executive Directors. At present this post is held by Mr. Robert McNamara who is in charge of the day-to-day operations of the Bank. Both the President and the members of the staff have international servant status and owe no responsibility to any national government.

Financial Resources of the Bank
A large part of the Bank's resources stems from the portion that members have paid in on their capital subscription. On June 30, 1967, such funds amounted to around $2.3 billion. The provision of loans from these resources is subject to the following rules. The 2%
### World Bank Loans by Purpose and Area

Cumulative totals on June 30, 1957, and June 30, 1967  

(Initial commitments net of cancellations and refundings, in millions of U. S. dollars)

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<td><strong>Total Africa</strong></td>
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<tr>
<td>Total</td>
<td>3,025</td>
<td>10,342</td>
<td>367</td>
<td>1,347</td>
<td>575</td>
<td>3,515</td>
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<td>520</td>
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<td>145</td>
<td>567</td>
<td>137</td>
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<td>185</td>
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<td>General Development</td>
<td>205</td>
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<td>40</td>
<td>75</td>
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<td>90</td>
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<td>Postwar Reconstruction</td>
<td>497</td>
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<td>40</td>
<td>40</td>
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**Note:** Parts may not add to totals due to rounding.

**Source:** Annual reports of the World Bank, 1956-57 and 1966-67.

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of a subscription that is paid in gold or dollars can be used freely for all purposes. The other 18% that is contributed in the various national currencies may only be used with consent of the member whose currency is involved.

Another major source of the Bank's loanable funds is the private capital market. The marketability of the Bank's notes and bonds has been greatly enhanced by the provision that its paper is guaranteed by the callable capital. Before issuing paper in a certain market, the organization needs the approval of the country concerned. Thereafter, the acquired funds are freely convertible into other currencies.

On June 30, 1967, the aggregate outstanding funded debt of the Bank amounted to just over $3 billion, up $269 million from the previous year. During the last fiscal year new borrowings totaled $390 million, $250 million of which was placed in the United States. The average cost of all issues offered in 1966-1967 was 5.54%, an increase from 5.08% in 1965-1966. The highest offering yield on any World Bank issue yet, 6.41%, was paid in Canada in November 1966.

The U. S. capital market has been the scene of more Bank borrowing operations than any other capital market. Since the first issue was floated here in 1947 the organization's funded debt denominated in dollars has increased to $2.3 billion, or about 75% of the total debt outstanding on June 30, 1967. This figure includes a minor portion of securities denominated in dollars but privately placed outside the U. S. Lately, many issues have also been floated in Germany, Switzerland, and Canada. The growth of the American market for the Bank's issues has been greatly facilitated by the gradual removal of legal barriers which prevented banks and institutional investors from purchasing these securities. Moreover, in 1949 the U. S. Congress permitted national banks and state banks that are members of the Federal Reserve System to deal in and underwrite the IBRD's securities.

Besides the paid-in capital subscriptions and borrowed money, the Bank gets additional funds from its earnings, from sales of portfolio loans, and from principal repayments. Net earnings for the fiscal year 1966-1967 amounted to about $170 million, increasing total reserves to just over $1 billion. The income was derived mainly from investments and loans whereas expenditures consisted mostly of interest on borrowings and administrative outlays. During the same year the Bank sold $69 million worth of assets that it had acquired in the course of its lending activities. These sales are another means by which private sources of funds can be tapped to finance economic development.

**The Lending Policy of the Bank**

Lending operations of the Bank can take any of three forms: (1)
it can guarantee a loan made by a private investor; (2) it can provide funds from its own resources; or (3) it can raise funds in the capital market of a member country and in turn lend those. The total amount of outstanding loans made or guaranteed by the Bank can at no time exceed 100% of the total unimpaired subscribed capital, reserves, and surplus.

The practice of Bank guarantees has never caught on, partly because private investors have shown little interest and partly because of technical difficulties attached to such operations. In its lendings activities the Bank may deal with governments, with political subdivisions thereof, or with any private enterprise. However, if the borrower is not a government, the loan must be guaranteed by the government of the party involved. The Bank, moreover, will provide the money only if the borrower is unable to obtain a loan on "reasonable" terms elsewhere. Funds can only be made available for specific development projects. The IBRD sees to it that the loan serves the purpose that it was given for and that the money is used efficiently. Contrary to most bilateral aid, the Bank's multilateral assistance does not tie the recipient to a particular source of supply in using the funds. Thus the recipient is free and indeed has to make the purchases where he can get the best value.

The terms of each loan are negotiated individually. However, in addition to its interest rate, the Bank always charges a commission of around 1% on the outstanding principal of its loans. During the fiscal year ended June 30, 1967, the Bank charged a rate of interest that ranged between 6% on new loans to the less developed countries to 7% on new loans to the more advanced members. Since that date the former rate has been raised twice, bringing it to 6 1/2%. The maturities of these new loans varied between 10 and 31 years. As a consequence of the Bank's practice not to finance the entire cost of any project or program, it frequently cooperates with private investment banks.

Although the World Bank may handle each loan application in a slightly different way, a certain standard procedure has developed. After preliminary, informal contacts, during which the IBRD determines whether the project is eligible for its support, the loan request goes through two separate phases. In the first phase the Bank investigates the economic situation in the borrowing country and evaluates the significance of the specific project in the context of the nation's needs and potentials. It can also make suggestions about a change in priority of the various components of a development program. If the result of this investigation is favorable, a thorough examination of the financial and technical aspects of the project will follow. In this phase the Bank can recommend changes in the financial and economic policy of the member government. Usually the survey will be completed with an on-the-spot investigation by a team of its own or independent experts. Upon negotiation of the terms of the loan, the President of the Bank will then submit the request for approval to the Executive Directors. Once the agreement is signed an extensive "follow-up" machinery comes into action, scrutinizing the construction and operation of the project and constantly checking on the economic and financial developments in the country. Funds will be disbursed only as the costs for specified goods and services are incurred.

Another important line of the organization's activities is its technical assistance program. The IBRD has repeatedly and upon request sent missions to various nations to analyze their over-all economy and to recommend a long-term development plan. The Bank, moreover, has assisted in the founding of several development banks.

Loan Operations As shown in the table, the cumulative adjusted total of loans made by the Bank since its inception amounted to around $10.3 billion on June 30, 1967. This is exclusive of a $100 million loan made to the IFC during the last fiscal year. The 1967 figure was up $777 million from the previous year and represented a 242% increase over the cumulative total on June 30, 1957.

More than one-third of all loans has been channeled into Asia and the Middle East. Since 1957 loans to this region have also grown at a faster rate than loans to any other area. India and Japan have been the largest recipients in this region, obtaining respectively around $1 billion and $850 million. Indeed, India has received more Bank funds than any other single member. Among Western Hemisphere nations, Mexico takes first place with receipts of some $625 million, while the Republic of South Africa leads in Africa with about $242 million. The Bank's earliest operations took place in Europe. In 1947 the IBRD lent some $495 million to several war-torn nations, mainly France and the Netherlands, in the form of reconstruction aid. After adoption of the Marshall Plan, however, the Bank discontinued such assistance to Europe and it has since occupied itself with the finance of economic development.

Among the purposes for which loans have been made, electric power projects rank first, followed closely by transportation projects. Loans for the improvement of roads and railways constituted about 85% of the total loans in the latter category.
Over the 21 years of its existence, the Bank has received aggregate principal repayments in the amount of $1.263 billion. In addition to this, the Bank has sold over $2 billion of its loans to investors. Thus, disregarding minor adjustments, the Bank held on June 30, 1967 a total of $7.126 billion in loans.

**International Development Association (IDA)**

The IDA, founded in late 1960, aims at providing funds for development on more liberal terms than the Bank. It may also finance projects that would be outside the Bank’s realm. Membership in IDA is open only to Bank members and though the two organizations have separate resources, they share the same administration.

On June 30, 1967, IDA’s funds, contributed by its 97 members, amounted to $1.7 billion, of which the U.S. had contributed one-third. Since that date two more countries have joined the organization. Also, a $1.2 billion supplement was recently agreed upon. The members are divided into two groups: developing nations that are potential recipients of IDA credits, and highly developed nations that are in principal only contributors. On June 30, 1967, the latter group had supplied around $1.5 billion in fully convertible currencies to IDA’s resources. IDA, moreover, has received $200 million in grants from the World Bank.

The Association follows mostly the same operating policy as the IBRD where selection and preparation of projects are concerned. The terms of its credits are, however, considerably easier. No interest is charged except for a 1/4 of 1% per annum service charge on the outstanding amount to cover its administration costs. Furthermore, maturities run up to 50 years and repayment, due in foreign exchange, does not start until after 10 years.

On June 30, 1967, the cumulative total of IDA’s credits amounted to about $1.7 billion, up $354 million from the previous year. Thus, almost all of its resources have been committed. India and Pakistan have been the leading recipients, accounting together for almost three-fourths of all allotted funds. Around a third of IDA’s resources has been channeled into transportation projects, although in recent years the finance of industrial imports has gained much in importance.

**The International Finance Corporation**

The IFC was established in 1956 to stimulate the growth of private enterprise in the organization’s member countries. To this end it provides financing, in association with private investors and without government guarantee, for the establishment, improvement, and expansion of private enterprises in cases where sufficient private capital is not available on “reasonable” terms. The terms of the investments are determined in each individual case. The IFC also tries to create new investment opportunities by bringing investors and management together. The administration of the Corporation is largely interlocked with the Bank’s.

On June 30, 1967, the organization’s capital, contributed by its 83 members, amounted to about $100 million. The U.S. contributed about a third of this sum. During the fiscal year 1966-1967, the IFC also received a $100 million line of credit from the World Bank.

The Corporation can replenish its resources by selling its investments to private interests, thus mobilizing private capital for development purposes. During the first years of its operation, however, the IFC was seriously restricted in this. Since it was not allowed to make equity investments it had to resort to other types of investments, such as loans in the form of convertible debentures. These were less marketable and therefore less attractive to private investors. Thus the restriction hampered an easy revolving of funds and threatened the growth of the Corporation’s operations. In 1961 the organization’s charter was amended to permit equity investment. On June 30, 1967, cumulative sales of loans and equities had yielded $41 million.

At the end of fiscal 1967 the cumulative total of operational investments amounted to $196 million, of which around 40% consisted of shares. Approximately half of the commitments has been made in Latin America, notably in Mexico and Brazil. The vast majority of enterprises financed by the IFC have been manufacturing industries, with chemical and iron and steel industries alone accounting for about 35% of total commitments. A substantial amount, $20 million, has been devoted to another line of the Corporation’s activities: participation in development finance companies.

**Conclusion**

The World Bank Group has become the most important institution devoted to the financing of economic development. Over the 21 years of its activities, the Bank has gained a wealth of experience that enables it to advise member governments as an expert on the whole range of development problems. The policy to serve as a “lender of last resort,” as well as the thorough way in which it investigates loan applications have contributed to the organization’s prestige. The close cooperation between the three members of the Group has resulted in maximum efficiency in the use of available funds.

*Jan H. W. Beunderman*
In the first quarter of this year, interest rates on real estate loans surpassed the previous highs set during the "credit crunch" of 1966. Rates continued to rise in the second quarter, establishing new records. In April the yield on 30-year FHA loans reached 6.94%, slightly higher than the previous peak of 6.81% in November 1966. Following the removal of the 6% statutory ceiling and the enactment of an 8% administrative ceiling in May, the yield on FHA-insured mortgages jumped to 7.75% in June. Conventional first mortgage rates on new homes have also risen above recent records. The FHA series for such rates averaged 7.25% in June, well above the 6.70% high recorded in October and November of 1966. The Federal Home Loan Bank Board series for such rates averaged 7.25% in June, 44 basis points above the peak reached in January 1967. Unlike rates for rate terms, as reported by the FHLBB, have not been as restrictive as in the 1966 period. Average maturities, after touching lows in the fall of 1966, rose sharply in early 1967 and since that time have trended gradually upward. In June 1968, the latest month for which information is available, average maturities on new and existing homes were 25.4 and 22.6 years, respectively. Loan-to-price ratios have followed a similar upward pattern. The ratio in June of this year was 74.4% on new homes and 73.1% on existing homes. Despite relatively high loan-to-price ratios, average down payments have risen because of increased selectivity toward borrowers on upgraded or more expensive structures and because of sharply higher prices for housing. The average purchase price of a new home financed by a conventional first mortgage, for example, was $30,400 in June, up 12.2% from the fall of 1966. The average price of an existing home rose 13.1% during the same period. Reflecting the higher prices of homes, the average down payment on a new home financed by a conventional first mortgage was $7,800 in June, somewhat above the high of $7,600 reached during the tight money period of 1966. Over the same time span the average down payment on existing homes rose from $6,400 to $6,800.
The effects of tight money are felt, with varying intensity, by all sectors of the economy. The housing sector, for example, is especially sensitive to restrictive credit conditions, due in part to certain statutory and institutional rigidities which channel funds away from mortgage markets in periods of tight money. Experience in the credit crunch of 1966 suggests that the borrowing and spending plans of state and local governmental units might also bear a disproportionate share of the burden of tight money.

To study the effects of the 1966 tight money episode on the financing plans of state and local units the Federal Reserve System recently conducted a two-stage nationwide survey of both large and small state and local governmental units. Specifically, the survey was aimed at determining how, if at all, the financing and spending plans of these units were affected by the tight money conditions that existed in 1966. Results of the survey of large units over the nation as a whole have been tabulated and analyzed in an article in the July 1968 issue of the Federal Reserve Bulletin. Detailed survey data are now available by Federal Reserve Districts and the results in the Fifth District are reviewed in this article.

Survey Participants The first stage of the survey, directed exclusively at large state and local governmental units, embraced the following types of units above the specified minimum size:

- Counties: 250,000 population
- Cities or Townships: 50,000 population
- Special local districts: $5 million debt outstanding
- Local school districts: 25,000 enrollees
- States
- State agencies: All except very small
- State and local institutions of higher education: All except very small

Of the approximately 1,000 such units surveyed in the nation as a whole, 64 were located in the Fifth District.

The survey attempted to record the borrowing and spending experiences only of governmental units which had definite intentions to borrow in 1966. Respondents indicating no intention to borrow were not questioned further. The criterion for judging the definiteness of intentions to borrow was whether the appropriate officials had actually arrived at a decision, whether or not publicized, to go through with a bond issue some time in 1966. Because of its informal and somewhat subjective nature, this admittedly imprecise criterion may be the source of some bias in the survey results.

State and Local Financing Needs Since World War II state and local government programs and facilities have been growing by leaps and bounds. To finance increased spending for such programs, local units have been large sellers of bonds. Between 1946 and 1966 new issues of long-term municipals increased from $1.2 billion to $11.1 billion per year. Between 1956 and 1966 total state and local government securities outstanding rose from $47.4 billion to $104.8 billion. These governments currently finance about half of their capital outlays from the sale of bonds.

The increased demand for funds from state and local units as well as from corporations, the Federal Government, and others has been a major factor raising borrowing costs over the last several years. Over much of this period the market for municipal securities has grown rapidly, most notably through increasing commercial bank participation. Nevertheless, state and local borrowers have had to raise offering yields to attract funds. Rising capital market rates, of course, increase the cost of financing new projects and municipal units must either be prepared to pay more for money or abandon or post-
In 1966

pone borrowing. In some cases statutory limitations on interest rates that can be paid have kept some municipal borrowers out of the market.

Changes in Borrowing Plans In both the Fifth District and the nation as a whole, most survey respondents noted that their borrowing plans were moderately curtailed in 1966. Of the 64 Fifth District units, 37, or almost 58%, indicated having had definite plans to borrow long-term (over one year) in 1966. Of these 37, only four cancelled or postponed beyond 1966 all of their borrowing plans. At the national level, just over half of the 983 reporting units indicated definite plans to borrow and 11% of these completely canceled or postponed beyond 1966 their intended offerings. Furthermore, of the 33 District units which did borrow in 1966, five altered their original plans in some way, in most cases by postponing, abandoning, or reducing at least some issues. This experience matches closely the national figures, which show that just over 15% of all units which borrowed altered their original plans in some way. Thus, of all units that expressed a definite intention to borrow in 1966, about a fourth indicated some change in their original plans. This fraction holds both nationally and for the Fifth District.

Of the 440 units across the nation which borrowed long-term in 1966 there were 185 cities and townships, 80 state institutions of higher education, 43 special districts, 39 counties, 36 school districts, 34 state agencies, and 23 states. Borrowing units in the District included 16 cities and townships, 5 counties, 4 states, 4 special districts, 2 school districts, and 2 state agencies.

For the entire nation, the surveyed units completed $6.20 billion of long-term borrowing in 1966, about 82% of the $7.56 billion total originally planned. Of the $1.36 billion shortfall, $1.29 billion represented abandonments, i.e., issues canceled indefinitely or delayed until 1967. Another $0.1 billion represented reductions, i.e., a scaling down of the amount originally planned. Increases in offerings amounted to only $34 million, thus giving the net $1.36 billion shortfall of borrowing. Postponements, or issues delayed but sold later in 1966, and accelerations amounted to $0.4 billion and $0.1 billion, respectively, but did not affect annual totals.

In the Fifth District, the net change in planned borrowing amounted to a decrease of $56 million. This amounted to 9.5% of the planned level of $591 million, a notably lower level than the 18% for the nation as a whole. As in the national figures, abandonments accounted for the largest part of the cutback, $44 million. There were $12 million of reductions and no increases in the District. Postponements in the District amounted to $54 million and there was no offering whose issue date was accelerated.

The primary cause of alterations in borrowing plans was high interest costs. In some cases government officials deemed the going market rates to be excessively high and in other cases interest rate ceilings established by bond referenda or statutory or constitutional law prevented the sale of securities. Nationally, units which abandoned offerings, by far the largest and most frequent way in which plans were altered, indicated that 78% of all abandonments were primarily due to high interest rates. In the Fifth District no other primary reasons were cited. Similarly, over 75% of all postponements in the nation were due to credit market conditions and in the Fifth District it was the only primary reason cited. High interest rates and expectations of higher
rates were also variously the causes of all reductions, accelerations, and increases in offerings occurring in this District.

**Characteristics of Offerings** For the nation as a whole, the number of municipal offerings by large units in 1966 totaled 741, of which 414 were general obligation securities. In the Fifth District there were 46 offerings, of which 37 were general obligations. The distribution of these offerings among borrowing units showed that, on the national level, 279 units had one offering, 95 units had two offerings, 31 units had three offerings, and 35 units had four or more offerings. Of the 33 borrowing units in the District, 23 had one offering, eight had two offerings, two had three offerings, and there were no units with four or more offerings.

For the nation as a whole, nearly all long-term borrowing in 1966 was effected through the private market. Nationally, only $271 million was sold exclusively and directly to other governmental units, including the Federal Government. The remainder of the $6.2 billion total was from private sources. In the Fifth District, only $2 million was borrowed directly from other governmental units out of the total of $535 million of long-term borrowing.

Of the $6.2 billion borrowed in the United States during 1966, almost $2.0 billion was for educational purposes. The next largest amount, $1.7 billion, was destined for transportation facilities. Another billion dollars was intended for utilities. The remainder was divided among health and welfare projects, administrative facilities, and other purposes. In the District, $212 million was for education facilities, $173 million for transportation, and $72 million for utilities.

While borrowing for education was larger than for any other activity, the volume of abandonments across the nation which had been intended originally for education, $166 million, was significantly below the volume of abandonments for transportation, $568 million, and the $231 million of abandoned borrowing intended for utilities. Health and welfare projects also accounted for a disproportionately high $107 million of abandonments. In the District, abandonments of borrowings for education were largest, nearly $15 million, with utilities ranking second with $13 million, and transportation next with $9 million. The pattern for reductions, increases, accelerations, and postponements did not show variations as significant as those just mentioned, in part because of the small amounts involved.

**Capital Spending** The cutback of long-term borrowing in 1966 had a relatively small immediate impact on the spending plans of large municipal units across the nation during 1966. Twenty-six units reported canceling or postponing about $120 million of contract awards in 1966 because of borrowing difficulties. This is less than one-tenth of the total shortfall from planned borrowing. The very large part of the cutbacks in awards was associated with abandonments rather than temporary postponements or reductions of offerings. In the Fifth District only one unit reported a cutback of contract awards. This amounted to $2.29 million.

Three principal reasons appear to explain large government units’ ability to continue with their 1966 capital spending plans despite cutbacks in borrowing in 1966. Over half of the national total of $1.1 billion of capital outlays which were continued despite abandonments of borrowing was apparently due to the length of time between borrowing dates and the letting of contracts. Abandonments were not seen to be affecting 1966 spending because the funds would be needed only in the future. In essence, the units were reducing their liquidity. The substitution of short- for long-term borrowing and the drawing down of large liquid assets were apparently equally responsible for most of the rest of the $1.1 billion. Approximately $240 million of spending was maintained by each method.

**Memorandum** While the tight money period of 1966 appears to have had a definite effect on borrowing of large municipal units during the year and a somewhat limited effect on capital spending, generalizations about all municipal units are not in order. Results of the survey of smaller units are being tabulated now and may show some different characteristics.

Joseph C. Ramage
The rapid expansion that characterized total investments at Fifth District weekly reporting banks in 1967 all but disappeared in the first seven months of this year. From January through July of 1967 total investments increased by 12.5%, while over the same period in 1968 the cumulative increase was a mere 0.7%. The cause of this sharp contrast lies mainly with the shift in credit conditions. Last year the Federal Reserve was injecting reserves into the banking system at a fast pace. This situation, coupled with slack loan demand, left banks with funds to buy securities, and so total investments rose quickly and substantially. But this year monetary policy has been tighter, and the demand for loans greater. Reflecting these changes in conditions, banks have slightly reduced their holdings of Government securities and added to their holdings of other securities at a considerably slower pace.

**Loan-Deposit Ratio** The change in the ratio of total loans to total deposits, a measure of the banking system’s ability to meet future loan demand, is indicative of the contrast between this year and last. Deposits have grown less rapidly this year than in 1967, while loans have shown more strength. Consequently, District banks are in a more “loaned-up” condition than in 1967. Depicting these changes, the loan-deposit ratio for such banks rose from 64.1% in July 1967 to 64.5% in July 1968.
Changes in Investments  As the growth of time deposits slowed from 1967 and investors allowed maturing certificates of deposits to run off in the presence of high market rates, banks were faced with the decision of how to accommodate loan demand. To increase their supply of funds, banks began to liquidate their holdings of U. S. Government securities. One-to-five year Federal Government issues declined as early as November of last year, remained practically unchanged from February to May, and then dropped substantially in both June and July. Holdings of long-term Governments have fluctuated narrowly for most of 1968, while remaining well below the level of the comparable seven-month period last year. Holdings of short-term Governments began decreasing in February, reached a low point in April and May, and then rose in June and July. Treasury financing of $4 billion tax anticipation bills in early July could have influenced this upward movement. With the beginning of 1968, banks also began investing less heavily in tax-exempt state and local government securities. Municipals leveled off at the first of the year to increase only slightly through July. The general movement, then, of total investments suggests that banks have reduced their investment portfolios to meet the changes brought about by the rising demand for loans.

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