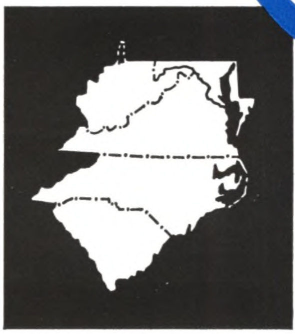
FEDERAL RESERVE BANK OF RICHMOND

MONTHLY REVIEW

The Changing District Banking Structure
Monetary And Financial Variables
The Export-Import Bank
The Fifth District



JULY 1969

THE CHANGING DISTRICT BANKING STRUCTURE

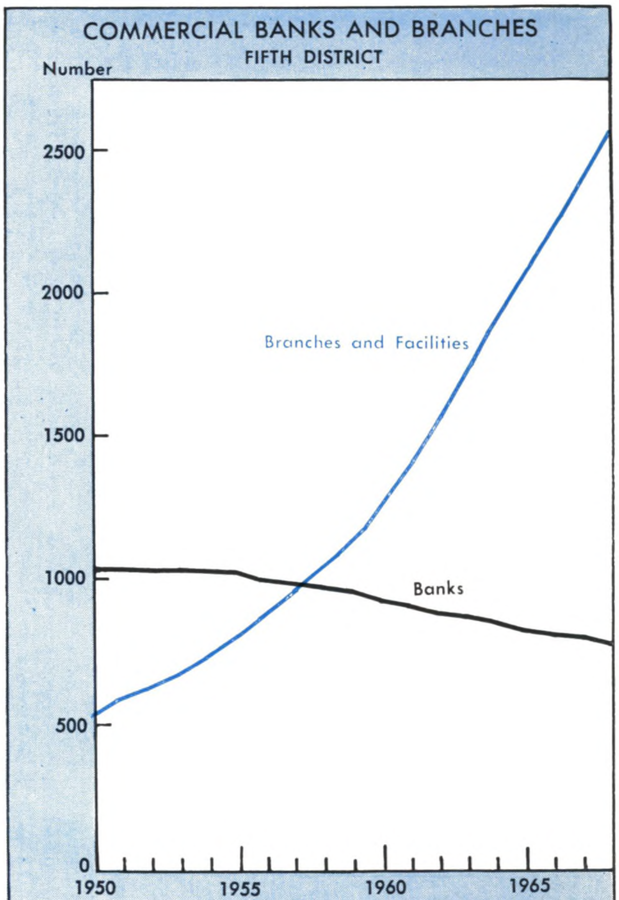
The evolution of the banking structure of the United States has been a continuing story throughout the history of the nation. The process of economic growth involves continuous change, and the changes that accompanied the development of the economy of the United States gave rise to important changes in the demands on the banking system. These changing demands were met not only by changes in the kinds of services provided by banks, but also by significant changes in the structure of the banking system.

Although change in the banking structure has been almost continuous, the rate at which change has occurred has been by no means steady. In the first two decades of this century, for example, the number of commercial banks increased by about two and one-half times, to a total of about 30,000. The number was reduced substantially by suspensions and mergers in the 1920's and even more sharply by the virtual collapse of the banking system in the early 1930's. Following these severe shocks, there was little change in banking structure from the mid-1930's through the decade of the 1940's. From 1934 through 1951, for example, the number of banking offices changed very little as the number of banks declined by almost 1,400 while the number of branches and facilities increased by almost 2,150.

The period since 1950, however, has been marked by dramatic changes in the nature of the banking business and in the structure of the banking system. This was a period of great social and economic change, with rapid growth in population and income, dramatic shifts in the distribution of population, and the birth and development of important new industries. These dynamic developments not only increased the demands upon the banking system, but they created demands for new kinds of services. Because of the underlying shifts that had occurred in demographic and industrial patterns, these demands were focused on areas that often were served inadequately by existing banking offices. Moreover, some banks were poorly equipped to meet some of the demands for new kinds of services on the part of their customers.

Changes in banking structure in particular areas are influenced to a considerable degree by the legal constraints applicable to various kinds of bank expansion. Commercial banks in the United States operate in a unique legal environment, with Federal and state chartered banking systems operating side by side in each state, and with most types of bank expansion subject to both Federal and state law. In each state, state law determines the status of branch banking for national as well as state banks. Most bank mergers and holding company activities, on the other hand, fall under the provisions of Federal law, and Federal supervisory agencies exercise important powers in these areas. Moreover, in recent years the Department of Justice has played an important role in the area of bank merger and holding company activities.

Thus, in some states the formation of statewide, regional, and local branch organizations has been a prominent feature of bank expansion in recent years. In states where multi-office banking is prohibited or severely restricted, change has been reflected mainly in the size and number of banks. Some states have experienced a rapid growth in the number and size of bank holding companies, while others have had both branch and holding company activity.



Source: Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve System.

The Fifth District This article is concerned mainly with changes in the structure of banking in the Fifth Federal Reserve District from the beginning of 1960 through 1968. As the chart on page 2 suggests, however, the change in the general structure of Fifth District banking in the past nine years was for the most part a continuation of trends that began earlier in the postwar period. Since 1950, for example, there has been a continuing decline in the number of banks in the District and a large increase in the number of branches and facilities. The changes since the beginning of this decade, however, have been larger than those in the decade of the 1950's. From 1950 through 1959, for example, the number of banks fell by 66; since the beginning of 1960 the number has fallen by 176. On the other hand, the number of branches increased by 586 from 1950 through 1959, and by 1,428 in the 1960's.

Although the tempo of change has increased in recent years, the pace of change has not been uniform among Fifth District states. This is mainly because of differences in the banking laws of the District states. At one extreme, West Virginia is a strict unit-banking state that prohibits all forms of multi-office banking organizations. On the other extreme, Maryland and the two Carolinas permit statewide branching, and in recent years banks in these states have engaged in widespread merger and branching operations. Between these extremes, Virginia since 1962 has been adjusting to a new branch banking law and has experienced extensive holding company activity. Finally, banks in the District of Columbia are permitted to branch, but the narrow geographical area within which they operate has limited merger and branching activity.

Changes by State Not surprisingly, the greatest number of changes occurred in Virginia, partly because of the 1962 changes in the banking law. For some years prior to 1962 the establishment of new branches was restricted to the limits of the city, town, or county in which the parent bank was located. Branching through merger or absorption of an existing bank was permitted provided the merged bank was in the same or adjoining county or within 25 miles of the parent bank, and provided that each of the banks had been in operation five years or more. In 1962, the law was amended to permit branching through merger anywhere in the state, but the five-year limitation was retained. The restriction on *de novo* branching was liberalized somewhat to permit the establishment of new branches in contiguous political subdivisions.

CHANGES IN NUMBER OF BANKS AND BRANCHES

Fifth District

1960-1968

All Commercial Banks	District of Columbia	Maryland	North Carolina	South Carolina	Virginia	West Virginia	Total
Number of Banks (December 31, 1959)	12	140	192	145	309	159	957
New Banks	4	17	6	13	43	12	95
Mergers and Absorptions	2	35	77	39	114	2	269
Voluntary Liquidations and Suspensions	-	-	-	1	1	-	2
Number of Banks (December 31, 1968)	14	122	121	118	237	169	781
Net Change	+ 2	− 18	− 71	− 27	− 72	+ 10	− 176
Branches and Facilities							
Number of Branches and Facilities (December 31, 1959)	64	226	452	134	255	-	1,131
New Branches	33	219	435	184	344	-	1,215*
Conversions, New Facilities, and Replacements	4	41	77	43	124	-	289
Branches and Facilities Discontinued	1	17	34	10	14	-	76
Number of Branches and Facilities (December 31, 1968)	100	469	930	351	709	-	2,559
Net Change	+ 36	+243	+478	+217	+454	-	+1,428
Change in Banking Offices	+ 38	+225	+407	+190	+382	+ 10	+1,252

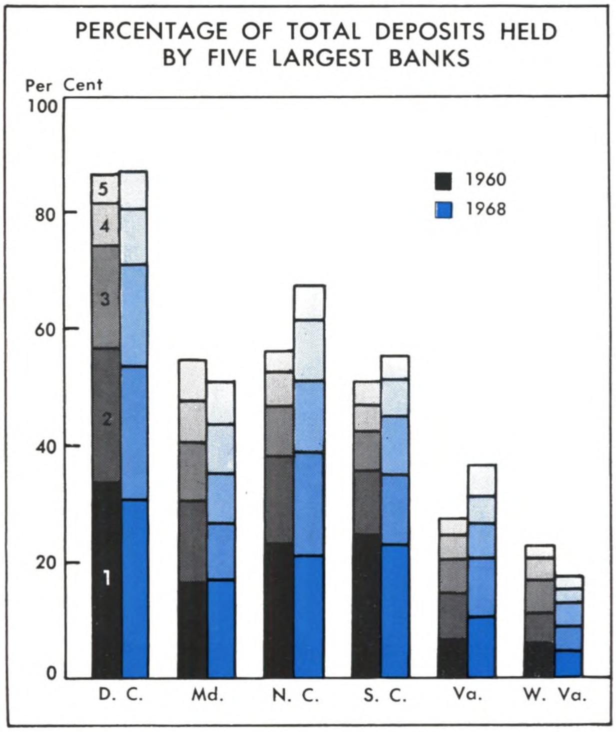
* Does not include four drive-in facilities in West Virginia.

Source: Federal Deposit Insurance Corporation and Board of Governors of the Federal Reserve System.

The accompanying tables indicate the extent of the changes in Virginia's banking structure in the decade of the 1960's. The 43 new banks formed accounted for some 45% of all new banks established in the District. The 1962 changes in the banking law stimulated a wave of mergers, and the 114 banks eliminated by merger or absorption accounted for about 42% of the District total. All of these changes, together with one voluntary liquidation, reduced the number of banks in the state by 72.

Despite the reduction in the number of banks, there was a substantial increase in the number of banking offices in Virginia, as the number of branches and facilities rose by 454. In addition to the banks converted to branches through merger, a large number of *de novo* branches were established. Finally, the formation and growth of bank holding companies has been a prominent feature of the banking picture in Virginia in recent years.

The North Carolina banking structure also underwent numerous changes in the period. Unlike Virginia, North Carolina banks were not responding to a sudden change in the banking law. Rather, the merger and branching activity represented a continuation of trends dating back to the early 1950's. Nevertheless, the 77 mergers in North Carolina exceeded by a considerable margin the number in any other District state except Virginia. Moreover, the increase in the number of branches was larger than that of any other District state, mainly because of the establishment of 435 *de novo* branches. On the other hand, only six new banks were established in North Carolina during this nine-year period.



Developments in Maryland and South Carolina were quite similar in nature. In both states the number of mergers exceeded the number of new banks established, so there was a moderate decline in the number of banks. Each state had a substantial growth in banking offices, however, mainly reflecting the establishment of *de novo* branches.

Changes in the banking structure of the District of Columbia are limited by the highly urbanized character of the area and by its limited geographical scope. Nevertheless, there were changes in the years 1960 through 1968. Four new banks were organized and two became branches of other banks through merger. In addition, the number of branches and facilities increased by 36.

West Virginia showed the least number of changes in banking offices during the period, mainly because of its prohibition of branch banking. Twelve new banks were established and two were eliminated through merger. There were no branches during the period, although several banks established drive-in facilities.

Bank Holding Companies The formation and growth of bank holding companies has been one of the significant developments in Fifth District banking in the past decade. As used in this article, the term bank holding company refers to the effective control of the operating policies of two or more banks through ownership of stock by a separate company established for that purpose. Thus, this discussion will be concerned with those holding companies that are required to register under the provisions of the Bank Holding Company Act, but not with the numerous one-bank holding companies that have been formed in recent years.

At the end of 1960, there were two bank holding companies in the Fifth District. One, a Virginia corporation with its activities largely confined to northern Virginia, was registered under the Bank Holding Company Act. At the end of 1960, this group included four Virginia banks with eight offices, holding $60.8 million of deposits. The other holding company was exempt from the provisions of the Bank Holding Company Act in 1960, but this exemption was subsequently eliminated. In 1960, it owned shares in banks in Virginia, Maryland, and the District of Columbia, as well as in several states outside the Fifth District.

The accompanying table indicates the extent of the growth in bank holding companies since 1960.

At the end of 1960, the two holding companies in the Fifth District controlled nine banks with 25 offices and $276 million of deposits. Between 1960 and the end of 1968, three new holding companies were formed, all in Virginia. At the end of 1968, five holding companies controlled 54 Fifth District banks operating 375 offices and holding over $3 billion in deposits.

Holding company banking has had a particular impact on the banking picture in Virginia. At the end of 1968, 48 of the 237 banks in Virginia were members of holding company groups. These banks operated more than one-third of the banking offices in the state and held 39% of the total deposits. Three of the state's five largest banks were lead banks in holding companies at the end of 1968, and six of the ten largest were included in such groups.

Effects of Changes The changes in banking structure in the Fifth District in recent years are to a considerable degree a part of the general change in the nature of the banking industry, one feature of which might be called a trend toward "consumer" or "retail" banking. As a result of rapidly growing population and incomes and changes in the nature of the demands on the banking industry, commercial banks have been faced with the necessity of providing more convenient and readily accessible banking facilities. In some cases the demands for new services could be met only by larger banking institutions. All of these factors are reflected in the banking statistics for Fifth District states.

With the total volume of deposits increasing sharply and the number of banks declining, the size of the average bank in the District increased. Aside from the District of Columbia (which may be considered a special case), the largest increase in average size was in North Carolina. The size of the average bank in Maryland also increased substantially, while those in Virginia and South Carolina showed significant percentage gains. Because West Virginia is a unit-banking state, and because it is the only District state showing an increase in the number of banks in the past nine years, the growth in the size of the average West Virginia bank was relatively small.

The degree of concentration of banking resources in District states has also been influenced by the many changes described in this article. The percentage of total deposits in a particular state or area held by the largest banks is one measure of concentration. The accompanying chart shows for each of the District states and the District of Columbia how this measure changed between 1960 and 1968. Not surprisingly, the highest degree of concentration of resources throughout the period was in the District of Columbia, although there was almost no change between 1960 and 1968 in the percentage of total deposits held by the five largest banks. North Carolina showed the highest degree of concentration for any District state, and it also recorded a significant increase in concentration during the period. At the end of 1968, the five largest banks in North Carolina held about two-thirds of the state's deposits. Virginia showed a significant increase in concentration during the period, but the degree of concentration at the end of 1968 was relatively low. If bank holding companies are considered single banking organizations, however, concentration in Virginia is substantially increased. Looked at this way, the five largest banking organizations held about 48% of the state's deposits, and two-thirds of the deposits were held by the ten largest organizations. Maryland and West Virginia each showed a small decline in the degree of concentration.

Aubrey N. Snellings

BANK HOLDING COMPANIES

Fifth District

	December 1960				December 1968			
	Holding Companies*	Banks	Offices	Deposits ($ millions)	Holding Companies*	Banks	Offices	Deposits ($ millions)
District of Columbia	1	2	7	$156.1	1	2	14	$ 292.0
Maryland	1	1	3	27.2	1	4	21	142.0
Virginia	2	6	15	92.7	5	48	340	2,668.0
Total	2	9	25	$276.0	5	54	375	$3,102.0

* One holding company controlled banks in Maryland, Virginia, and the District of Columbia. In 1960 this holding company was not registered with the Board of Governors; in 1968 it was registered.

Monetary And Financial Variables

This article is included in the revised 1969 edition of ***Keys for Business Forecasting.*** *This booklet describes in nontechnical terms key statistical series and techniques used in professional appraisal of economic conditions. The publication also includes a listing of reference sources for current and historical data.*

Keys for Business Forecasting *(1969 edition) is available upon request from this Bank.*

Total spending by consumers, businesses, and governments affects the general level of economic activity. In turn, decisions to spend depend to a great extent upon the availability and cost of money and credit. Thus, there is a strong interdependence between economic changes and financial changes.

The business forecaster, therefore, must understand the role of money and credit in a free market economy. The Federal Reserve System has the responsibility of fostering a flow of credit and money to facilitate orderly economic growth and a stable dollar. To perform this task the Federal Reserve collects and publishes a mass of statistical data on the country's banking and monetary system. Some of the key measures used in assessing the financial climate in the nation are discussed below.

Member Bank Reserves In fostering orderly economic growth, the Federal Reserve System relies primarily on its ability to increase or decrease the volume and cost of member bank reserves. The System requires each member bank to hold a fraction of its deposits as "reserves" at the Federal Reserve Banks. The ability of the System to vary the fraction for "required reserves" is one tool of monetary policy. In addition to deposits held at Reserve Banks, member banks have been allowed to count vault cash as reserves since 1960. The difference between total reserves and the required minimum is called "excess reserves." When member bank borrowings from the Federal Reserve are deducted from excess reserves, the result is termed "free reserves" if the figure is positive, and "net borrowed reserves" if negative.

Federal Reserve Credit The analyst, however, must look behind the "reserve measures" to the factors supplying or absorbing reserves. The Board of Governors publishes a weekly statement showing the credit and currency factors which affect member bank reserves. The sum of three items—total Reserve Bank credit, gold stock, and Treasury currency—equals the sum of the following items: currency in circulation, Treasury deposits, foreign deposits and other deposits at the Federal Reserve Banks, other Federal Reserve liabilities and capital, and member bank reserves. Increases in the first three items supply reserve funds and decreases in them absorb reserve funds. The reverse is true of the other factors.

In establishing its credit policy, the System takes into consideration the movements of each of these factors affecting reserves. The System, however, controls directly only two components of Federal Reserve credit—its holdings of U. S. Government securities and bankers' acceptances, and borrowings of member banks. The other components of Reserve Bank credit are Federal Reserve float, a bookkeeping item connected with its function in the check collection process, and other Federal Reserve assets.

It is primarily by purchasing securities in the open market that the Federal Reserve is able to supply reserves to member banks. Conversely, open market sales reduce member bank reserve funds. Open market operations constitute another tool of monetary policy. If reserves are plentiful, the member banks are able to expand their loans and investments. This, in turn, increases their deposit liabilities and, therefore, their required reserves. If reserves are reduced below the required minimum, banks may borrow temporarily from the Reserve Banks. Changing the interest rate charged—called the discount rate—is another policy tool. As monetary policy becomes more restrictive, the ability of the banking system to buy securities and make loans is also restricted.

Availability of Data on Reserves and Related Items Figures on member bank reserves, Reserve Bank credit, and related items are published as of Wednesday dates and as weekly and monthly averages of daily figures, thus smoothing out the erratic day-to-day movements. Historical data are available from 1917 forward. In addition, reserves and borrowings of member banks are published by class of bank.

A monthly series on aggregate reserves, adjusted for changes in reserve requirements, and deposits subject to reserve requirements is available from 1947 to date. The complimentary weekly series on reserve aggregates is available back to 1959. Both series are seasonally adjusted and are averages of daily figures. Current and historical data on the discount rate, reserve requirements of member banks, and System open market transactions are also published.

Commercial Bank Credit The interrelation between changes in member bank reserves and changes in bank credit has been described above. The bank credit series, by major components—total loans, U. S. securities, and other securities—is currently published weekly; prior to February 1969 it was published semimonthly, monthly, or for call dates. The data are for Wednesday dates except for June 30 and December 31 call dates.

Also available is a seasonally adjusted monthly series, in which the figures are adjusted to exclude interbank loans, which have little direct effect on the volume of credit available to the public. The seasonally adjusted series is available from 1948.

In addition the System collects from a sample of large commercial banks a detailed weekly statement of condition which includes information on types of loans and types of securities. A subsample of the weekly reporting banks furnishes information on business loans by type of borrower. These weekly series are particularly sensitive to short-term developments in financial markets.

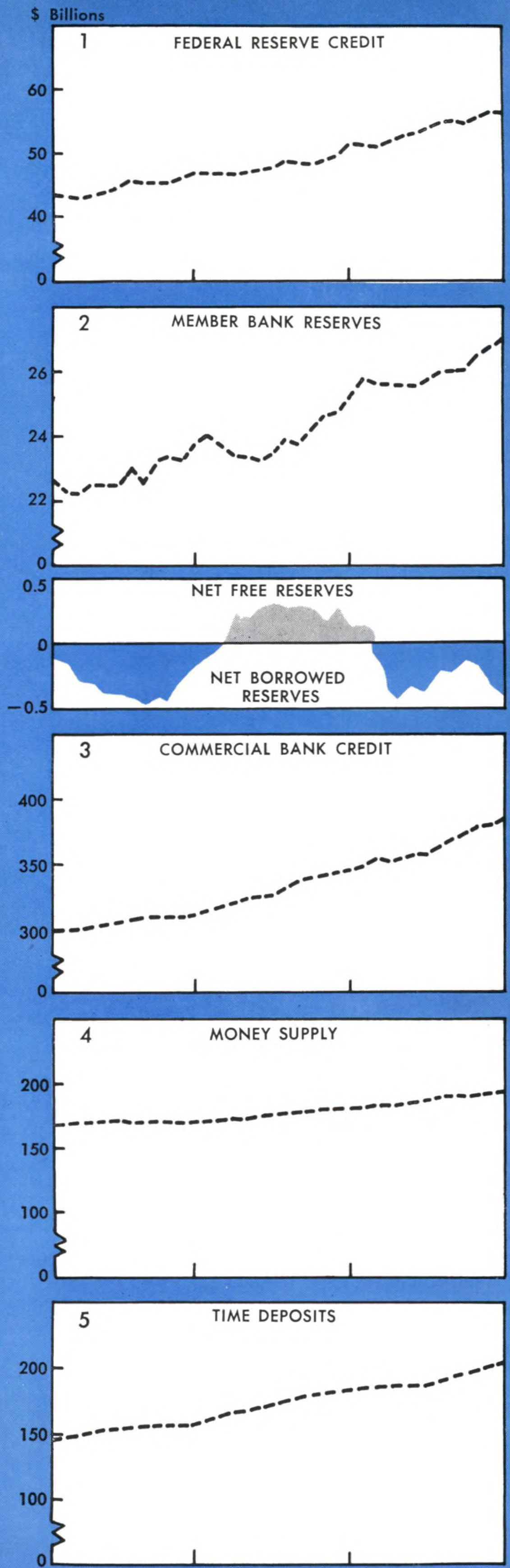
Money Supply Another variable closely linked with the fractional reserve mechanism is the stock of money held by the public. The money supply is defined as: (1) currency and coin outside the Treasury, Federal Reserve Banks, and commercial banks; and (2) demand deposits at commercial banks, other than those due to domestic commercial banks and the U. S. Government, less cash items in process of collection and Federal Reserve float, and foreign demand balances at Federal Reserve Banks. Because of the high liquidity of time deposits, some analysts include these deposits in the definition of money supply. The Federal Reserve publications on money supply include related deposits data.

The average daily series is seasonally adjusted and extends back to 1947 (monthly averages for the entire period, semimonthly averages from 1947-1960, and weekly averages beginning in 1959). Data on time deposits at commercial banks, other than those due to commercial banks and the U. S. Government, are published on the same basis as the two components of the money supply. A separate figure for U. S. Government demand deposits, not adjusted for seasonal variation, is also shown.

The average daily series is not strictly comparable with the single-date series on the money supply and related deposits, available for selected dates back to 1892. The single-date series, currently published as of the last Wednesday of the month, is useful in comparing the money supply with other bank and nonbank asset and liability items.

Elizabeth W. Angle

KEY MONETARY AND FINANCIAL VARIABLES



Note: Data in charts 1, 2, 4, and 5 are monthly averages of daily figures; in chart 3, as of last Wednesday of the month. Data for charts 3, 4, and 5 are seasonally adjusted.

Source: Board of Governors, Federal Reserve System.

THE EXPORT-IMPORT BANK

The governments of virtually all industrial nations extend some form of aid, or subsidy, to their nation's exporters. In many of these countries current production is heavily geared to export markets. In the Netherlands, for instance, exports total well over half of GNP, and in the United Kingdom the comparable fraction is about one quarter. In the United States, merchandise exports constitute only about 4% of GNP. This relatively small fraction is not a good indicator of the significance of foreign trade to the U. S. economy, however, since merchandise exports represent a $35 billion industry which has grown extremely rapidly in recent years.

The Export-Import Bank is the only U. S. Government agency engaged solely in the promotion of exports. The Bank was founded in 1934 and rechartered in 1945. Currently, the Eximbank participates in the financing of over 10% of U. S. exports through the granting of direct loans, insurance, guarantees, and the discounting of export paper.

Organization In accordance with the Export-Import Bank Act of 1945, as amended, the Bank is directed to supplement, and not compete with, private capital in export financing. Eximbank loans generally must be for specific purposes and offer reasonable assurance of repayment. Finally, the possibility of any adverse effects on the United States economy arising from Eximbank loans must be carefully considered.

The responsibility for carrying out these Congressional directives rests with a five-man, bipartisan Board of Directors appointed by the President, the Chairman and Vice Chairman of which serve also as the President and Vice President of the Bank. In addition, the Eximbank's policies are coordinated with overall Government objectives through the National Advisory Council on International Monetary and Financial Policies, composed of the Eximbank Chairman, the Secretaries of State, Commerce, and the Treasury, and the Chairman of the Board of Governors of the Federal Reserve System. The Bank also receives advice periodically from a committee of prominent citizens representing the major sectors of the U. S. economy.

Congress maintains broad control over the Bank's operations by placing ceilings both on the total of loans, guarantees, and insurance which the Bank may have outstanding at any one time, and the total authorizations permissible within each fiscal year. In addition, the Bank's authority to function is extended for relatively short periods of time. In legislation passed in March 1968, the Bank was authorized to function for five more years and its overall lending limit was increased from $9 billion to $13.5 billion. Insurance and guarantees may be charged to this limit at a rate of 25% of the Bank's contractual liability up to a total of $3.5 billion. The same Act prohibited Bank participation in the financing of exports to nations whose governments are engaged in or are assisting any armed conflict with U. S. forces. The Bank was also prohibited from aiding or financing exports of military hardware to any Communist or developing country unless directed otherwise by the President.

Financing As with most Government-sponsored lending agencies, the Eximbank was originally funded by the U. S. Treasury. Its capital stock of $1 billion is held entirely by the Secretary of the Treasury, and the Bank may borrow up to $6 billion directly from the Treasury. In recent years, however, the capital market has become the Bank's most important source of funds, to the extent that no Treasury borrowing was necessary from 1963 to 1967. The Eximbank pioneered the use of participation certificates (PC's) in 1962 when it offered for subscription to commercial banks $300 million of PC's collateralized by a pool of the Bank's export paper. These new debt instruments were initially guaranteed by the Eximbank, but in 1966 the Attorney General ruled that they were backed by the full faith and credit of the United States Government. Prior to 1966, PC's were offered exclusively to those commercial banks which had actively participated in the Eximbank's programs. In that year, however, the squeeze on commercial bank credit necessitated a change in policy and PC's were offered publicly through a syndicate of underwriters.

In April 1968 the Bank entered the money market for the first time with the sale of short-term promissory notes which closely resemble commercial paper. They are sold at a discount to institutional investors through several investment banking houses. Their maturities range between 30 and 360 days and are tailored to investors' wishes. During the last three months of 1968, $487 million of notes were sold.

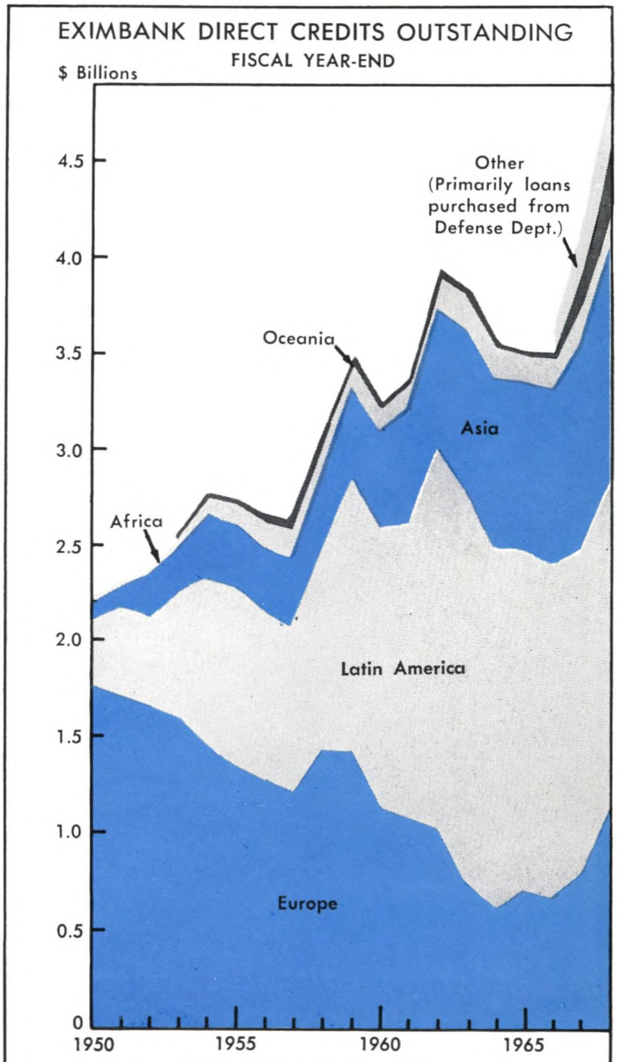
The Eximbank's net income is added to a reserve for contingencies and defaults following the payment of a 5% dividend to the Treasury on its capital stock. This reserve totaled $1.1 billion in June 1968, almost double the 1960 level.

Export Programs In most countries, insurance and guarantees form the major components of Government export programs. In the United States, however, these two types of export assistance rank below direct Government dollar credits (loans) to foreign importers of American goods and services. In fiscal 1968, over 70% of the Eximbank's total authorizations of $3.5 billion consisted of direct credits, about 20% was in the form of short-term and some medium-term insurance, and about 8% consisted of guarantees.

Export Insurance In the face of a worsening balance of payments situation, President Kennedy in 1961 moved to place American exporters on a par with their competition in regard to export insurance. Hitherto, such insurance was unavailable in this country. With the cooperation of about 70 private insurance companies, the Foreign Credit Insurance Association (FCIA) was established. The FCIA, an association of marine, casualty, and property insurance companies, sells short- and medium-term insurance covering political and commercial risks. The Eximbank insures the political risks directly and reinsures the commercial risk. Political coverage, which may be purchased either by itself or in conjunction with commercial risk coverage, protects against default caused by such occurrences as currency inconvertibility, expropriation, riot, or revolution. Comprehensive policies cover 90% to 95% of the political risks plus about 90% of the commercial risks of protracted default and insolvency. Insurance premiums reflect the credit terms plus the Eximbank's judgment concerning the soundness of the foreign buyer's market. Aside from counseling, neither the FCIA nor the Eximbank plays an active part in arranging the exporter's financing. Proceeds from the insurance policy, however, may be assigned directly to the financing source and this feature may expedite the exporter's search for credit or improve the terms.

Short-term insurance, which is the more common type, covers transactions up to 180 days and the exporter must insure enough eligible export credit transactions during this period so that a reasonable risk spread is obtained. Medium-term insurance covers credit risks ranging from 181 days to five years and is well suited for sales to foreign dealers and distributors on a revolving credit basis. The terms are somewhat stricter than those on short-term policies. The FCIA may issue short- and medium-term policies at its own discretion covering transactions up to $1 million in sound markets.

Export Guarantees and Discount Loans Whereas export insurance aids exporters directly by reducing their risks, the guarantee and discount loan programs boost exports more indirectly by increasing the attractiveness of export financing to commercial banks. Under the guarantee program, commercial banks for a fee may secure Eximbank guarantees on their medium-term loans to foreign importers of American products, provided the loans are without recourse upon the exporter. The nonrecourse stipulation is meant to encourage banks to make this type of loan. The Eximbank guarantee covers the commercial risk on the later maturities, and the political risks on all maturities. Commercial banks which are active in the guarantee program may exercise the same discretionary authority as the FCIA in guaranteeing export loans up to $1 million in sound markets. Guaranteed loans are exempt from the guidelines of the Voluntary Foreign Credit



Source: Export-Import Bank

Restraint program as it applies to commercial banks, as are loans which are not guaranteed but which involve some Eximbank participation.

The Eximbank's discount loan program encourages commercial banks to finance exports by increasing the liquidity of their export paper. Under this program, a bank (1) may borrow from the Eximbank against 50% of its portfolio of medium-term export obligations based on shipments after March 1, 1966, and (2) may borrow an amount equal to the annual net increase in its total holdings of export obligations. Recent interest rates on discount loans have ranged from 5⅜% to 6½%. The substantial increase in the volume of discount loans from $71.5 million in fiscal 1967 to $203.1 million in fiscal 1968 reflected to a large extent the Eximbank's liberalization of terms in April 1968.

Direct Credits In 1968 authorizations for long-term loans totaled $1,719 million of which about half were to importers in 37 countries for the purchase of American capital equipment and related services. Seventeen countries used Eximbank loans to buy commercial jet airplanes and ten bought electric generating equipment. Other U. S. exports frequently financed by the Bank include diesel locomotives and equipment for satellite communications ground stations. Exported services include construction supervision, economic and geologic surveys, and architectural and engineering design.

The other half of 1968 long-term loan authorizations were to friendly foreign governments for the purchase of defense-related items. A majority of these loans were to industrial countries, but about one quarter consisted of obligations purchased from and guaranteed by the Defense Department, representing loans to developing nations for the purchase of military equipment. Changes in the flow of Eximbank loans to major geographic areas since 1950 are illustrated in the chart.

The terms of direct credits are negotiated between the Eximbank and the foreign buyer, which may be a corporate or noncorporate business, a government or a governmental agency, a bank acting as intermediary, or the foreign branch of a U. S. enterprise. The maturity may range from 5 to 15 years. The interest rate is tied loosely to U. S. capital market conditions; in fiscal 1968 virtually all loans were at 6% except some loans for military hardware which carried lower rates. If the borrower's creditworthiness is at all suspect the Eximbank requires an unconditional endorsement by a financially responsible institution or individual in the foreign country. Because repayment must be in dollars, the Bank weighs the foreign exchange position of the buyer's country.

The Eximbank generally requires supplier participation in financing exports, but this requirement may be waived in the case of large project loans. The Bank may also invite or even require commercial bank participation in financing large transactions. Since 1968, this has been the pattern with regard to jet aircraft financing. The financing of a recent jet purchase by Royal Air Moroc typifies the new method. Of the total cost of $8.6 million, the airline paid $1.7 million in cash, Eximbank supplied $3.1 million, First National City Bank loaned $3.4 million, and Boeing extended $344,000 of credit. In fiscal 1968, over 20% of Eximbank's loan authorizations were for jet aircraft purchases.

The Eximbank's direct credit program has been criticized in some quarters of the commercial banking community. Bankers have charged that the Eximbank does, in fact, compete with private export financing contrary to the Bank's charter instructions. They note that Eximbank loans bear interest rates well below going market rates.

Export Expansion Facility In the summer of 1968 Congress acted on President Johnson's request to broaden the Eximbank's lending authority as a key part of his balance of payments program. The resulting law earmarked $500 million of the Bank's $13.5 billion lending authority for export transactions carrying a somewhat higher degree of risk than that associated with the "reasonable assurance of repayment" stipulated in the charter. The facility was designed to increase the market penetration of U. S. exports, primarily in developing countries, and to enable exporters to make sales which might have been lost without Eximbank assistance. The full value of direct credits is applied against the $500 million ceiling, but only 25% of the principal value of insurance and guarantees is counted. Separate applications are not needed to tap this fund. Rather, the Eximbank decides whether an application involves extra risk and allocates it to the new facility. Such loans offer no special concessions since the interest, maturity, and repayment terms are the same as those on the Bank's other loans.

So far the new facility has not been used extensively, due in part to the reluctance of commercial banks to finance higher risk transactions as long as the Eximbank will not guarantee the entire commercial risk. A similar problem has occurred with the FCIA which is reluctant to insure higher risk ventures lacking total Eximbank reinsurance.

Jane F. Nelson

The Fifth District

BUSINESS REVIEW

Although a few signs of economic slowdown were evident on the national scene, the District economy remained relatively buoyant through the first quarter of 1969, as was true in the latter part of 1968. Manufacturing activity, with the exception of the textile industry, improved, and retail sales increased steadily. Employment also increased with unemployment declining further.

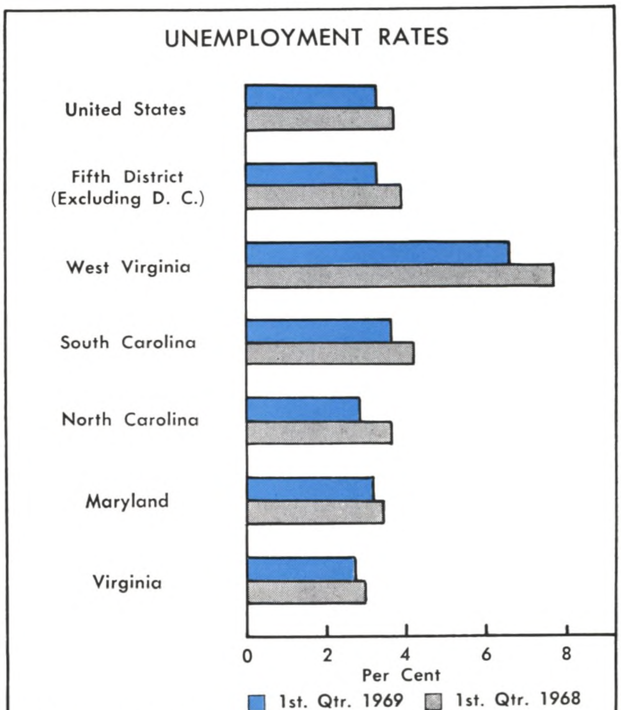
Personal Income Personal income for the first quarter of 1969 in the Fifth District states increased by an estimated 9.5% over the first quarter of 1968, while nationally it increased 8.9%. Estimates of March personal income, prepared by *Business Week*, indicate an 8.7% increase in Fifth District states over March of 1968, about the same percentage increase as for the nation (8.6%) for the same period.

Employment and Unemployment The unemployment rate for the nation has moved from the 15-year low of 3.3% of the labor force in both January and February of this year up to 3.4% in March and 3.5% in April and May. The quarterly unemployment rate for the nation was 3.3% of the labor force, a significant decline from 3.7% for the same period a year ago. As is evident from the chart, Fifth District states with quarterly rates below the national figure were Maryland with 3.1%, Virginia with 2.7%, and North Carolina with 2.8%. The weighted average for the District for the first quarter of 1969 was the same as the national rate. In all District states, the unemployment rate was lower than the rates reported for the same period a year earlier, with North Carolina showing the greatest decline, from 3.7% to 2.8%.

On a month-to-month basis, seasonally adjusted nonagricultural employment for the District and the nation has increased steadily since October 1968, with the March increase of 0.1% for the District being the smallest monthly gain. For the first quarter of 1969, District employment was 3.4% ahead of the same 1968 period while national employment increased 3.7% from the comparable period a year ago.

Construction Seasonally adjusted total construction contracts for the District fell 27.4% in March after a 4.3% increase in January and a 16.1% increase in February. Nationally, construction contracts in March increased 4.2%. The March decline for the District was the largest since September of last year; yet, the March index of total construction contracts in the District (183) continued to run ahead of that of the nation (177). The District figures for March showed declines in both residential and nonresidential construction contracts, with the latter suffering the greater month-to-month decline (35.5%). As compared to the same month a year ago, total construction contracts for the District fell 4.7% while in contrast nonresidential construction increased slightly. The unadjusted cumulative index of construction contracts for the first three months of the year was well above the same period last year for total, residential, and nonresidential construction.

Building permits issued, an indicator of future construction activity, showed substantial increases in the District for the first quarter over the last



Source: U. S. Department of Labor and various state departments of employment security and labor.

quarter of 1968 and over the same period a year earlier. As shown in the accompanying table, permits in all District states registered considerable increases in the first quarter of 1969 compared with the last quarter of 1968 with the exception of Maryland and Virginia, both of which showed very slight declines. However, in comparing the first quarter of 1969 to the similar period of 1968, all District states contributed to the quarterly increase. For April the seasonally adjusted District building permit index declined for the second consecutive month to its lowest point since last November and was 10.0% below the index for April of last year.

District construction employment in April declined for the second consecutive month to 374,900 but was 2.8% above that of April 1968. All states reported employment down except South Carolina and the District of Columbia, both of which registered slight increases.

Textiles For the most part, the textile industry has been somewhat sluggish during 1969, although brief flurries of activity have occurred. Buying for future delivery—an important indicator of conditions in the industry—has recently been confined to the short-term future and has been in small lots. Prices, nevertheless, have remained firm. The exception, according to trade sources, has been print cloths where mills had been sold well ahead, discouraging further buying for future delivery, and causing prices to ease. Reduced production has been typical of the gray goods area and other significant sectors of the industry in 1969, beginning with a decline in military procurement of textile goods in the fall of 1968.

According to trade sources, the wage increase that has recently been announced will affect most mills. This increase, which will average about one per cent higher than other preceding increases, will take effect in most cases in July, and for some mills an extra paid holiday as a fringe benefit will also occur. Therefore, industry sources do not anticipate any price cuts on textile goods. Secondary effects are expected on apparel prices in forthcoming seasons.

Recent surveys by this Bank also reveal the slump in activity that has been evident throughout most of the year. This is evidenced by continuing reports of low volumes of new orders, backlog of orders, and shipments. Employment has also reportedly declined slightly. Although recent activity in the textile industry has appeared on the bearish side and prospects for business in the second half of 1969 appear to be somewhat uncertain, trade sources, nevertheless, feel that the demand for cloth, and synthetic blends in particular, seems to be on the upswing.

Susan S. Jester

VALUATION OF BUILDING PERMITS ISSUED
Fifth District States
($ millions)

	1st Qtr. 1969	4th Qtr. 1968	1st Qtr. 1968	% Change from 4th Qtr. 1968	% Change from 1st Qtr. 1968
D. C.	61.1	48.4	30.4	+26.2	+100.8
Md.	44.1	46.7	26.5	− 5.5	+ 66.4
N. C.	140.4	94.7	94.8	+48.3	+ 48.1
S. C.	38.8	22.8	21.6	+69.9	+ 79.8
Va.	81.8	87.3	77.1	− 6.4	+ 6.1
W. Va.	10.7	6.9	4.4	+55.0	+143.1
5th Dist.	376.9	306.8	254.8	+22.8	+ 47.9