

# Treasury-Federal Reserve Study of the Government Securities Market

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## PART II

### Factual Review for 1958

**NOTE.**—The various tables in this study, since they combine data from different study surveys and other sources, do not always reconcile as to detailed figures.

*Published in February 1960*

## Foreword

Early last spring the United States Treasury Department and the Federal Reserve System initiated a joint inquiry into the functioning of the Government securities market. It was hoped that the study would point the way toward improvement in the market's mechanisms and to the prevention of speculative excesses in the market.

The objectives of the current inquiry differ from those of the 1952 examination of the market's functioning conducted by the Federal Open Market Committee. The 1952 study had focussed upon the role of the Federal Reserve Open Market Account in the Government securities market, with the effects of the Federal Reserve open market operations on the market's performance and also on money markets generally, and with procedures and practices in Federal Reserve open market operations that would help in carrying out appropriate monetary policies.

Part I of the study, issued in July 1959, summarizes the informal consultations conducted by the Treasury-Federal Reserve study group with individuals associated with or informed about the functioning of the market. These consultations were designed to obtain a broad cross section of opinion on underlying forces shaping activity and price changes in the Government securities market during the period of economic recession-revival 1957-58, as a basis for possible improvement of the mechanisms and functioning of the market. We wish to express our sincere thanks to all who cooperated either by personal discussion or by making contributions through written communication. A copy of the outline for study guidance, together with a list of participants in the consultation program, is included in Part I of the study beginning on page 54.

Also published in Part I of the study is a special technical report concerned with the question whether an organized exchange or a dealer market might better serve the public interest in effectuating the purchase and sale of Government securi-

ties. This question was raised in the hearings of the Joint Economic Committee earlier this year on the President's Economic Report. The objective of this special study is to illuminate the central issues in this important question with a view to facilitating further consideration of it.

The present volume, *Factual Review for 1958*, Part II of the study, is an analytical report on the performance of the Government securities market in 1958, with special reference to the build-up in market speculation prior to midyear and its liquidation during ensuing months of declining securities prices and rising interest rates. This report is based on a group of special statistical surveys covering major lenders to, or participants in, the Government securities market, including larger commercial banks, nonfinancial business corporations, savings banks and insurance companies, agencies of foreign banks, New York Stock Exchange members, and Government securities dealers. The almost universal cooperation received in response to the survey requests has been especially helpful.

Suggestions received through informal consultations with market participants and observers, together with the findings from the factual record of last year's market performance, indicated the need for certain supplementary studies of specialized and technical focus. Although these studies are primarily conceived of as working documents for the use of Treasury and Federal Reserve officials, they are released as Part III of the over-all study.

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WASHINGTON, D. C.,  
February 1, 1960.

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## 1. Scope of Study

During the period of recession and recovery in economic activity in 1957-58, market interest rates and prices on United States Government securities underwent marked cyclical variation. Although the general contour of the movement in yields and prices was similar to that in the previous recession and recovery of 1953-55, both the rapidity and the amplitude of the changes were greater in the recent cycle. Moreover, the sudden turnabout in interest rates in mid-June of 1958, following a Treasury financing operation, was accompanied by acute market pressures of near-crisis proportions. The downturn in bond prices—a normal aspect of the cyclical recovery that began in the late spring—was accentuated by liquidation of sizable speculative positions in Government securities, in many cases credit financed, which had been built up prior to the Treasury's June financing. As interest rates rose during the summer and fall of 1958, the Government securities market remained unsettled and unreceptive to new issues of securities, even those of short maturity.

These developments, affecting the market in which the obligations of the United States Government are issued and traded, aroused considerable concern among the general public and the financial community as well as among officials of the Government and members of Congress. In these circumstances, the Treasury and the Federal Reserve, both of which have a vital and continuing interest in the Government securities market, undertook exploratory investigations which led to the study of which this report is a part. The purpose of the study was two-fold: (1) to illuminate the basic causes of instability in the Government securities market, insofar as they grew out of market processes and mechanisms, with a view to ascertaining what might be done to mitigate such instability and prevent future speculative excesses, and (2) to re-examine in broad perspective the general organization and functioning of the market



with the object of finding out whether and how they might be improved in the public interest.

The present part of the study is a factual analysis of the performance of the Government securities market from late 1957 to late 1958, with particular emphasis on the period surrounding the Treasury's financing in June 1958. Although this emphasis invites the danger of exaggerating the lasting significance of the mid-1958 episode, a thorough analysis of that particular period of rapid change would, it was hoped by Treasury and Federal Reserve officials, also help to clarify the normal conduct of and relationships among the various participants in the market.

The present report first reviews economic and financial developments from the autumn of 1957 to June 1958, thus providing the background setting for the period of acute market pressures in June. It then undertakes a more detailed analysis of the factors in the build-up and culmination of speculative pressures in the June financings. There follows an examination of the period of decline and liquidation in the summer. The report concludes with a summary of findings.

Because many of the relevant facts on market developments in 1957-58 were not known on the basis of existing data, this part of the study has entailed the compilation, through special questionnaire surveys addressed to all major participants and lenders in the market, of information on ownership of Government securities and on the volume, sources, and terms of credit used to purchase or carry Government securities. The present report utilizes the data collected in these surveys. They are summarized at the end of the reports, in five appendices, covering commercial banks, nonfinancial corporations, Government securities dealers, member organizations of the New York Stock Exchange, and domestic agencies of foreign banks.

## **2. Background of Treasury's June 1958 Financing**

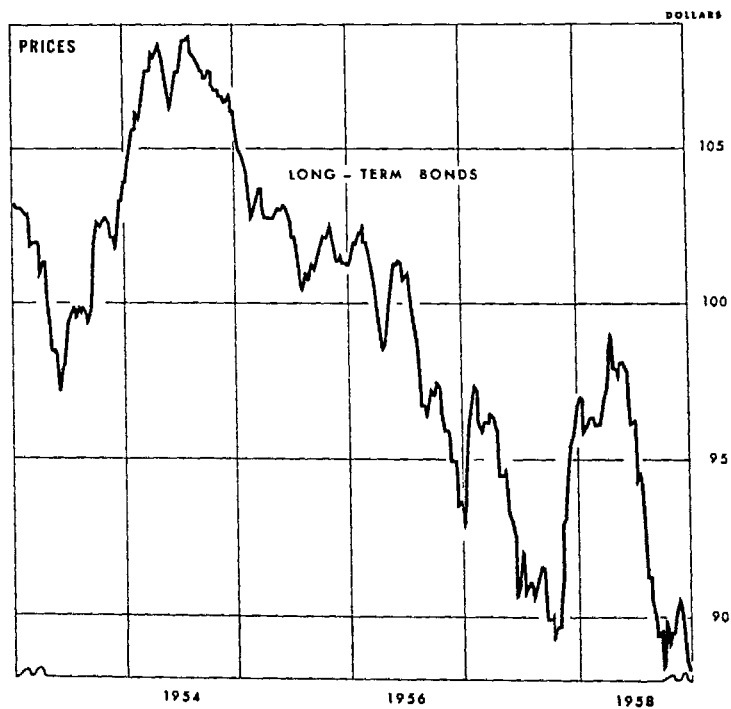
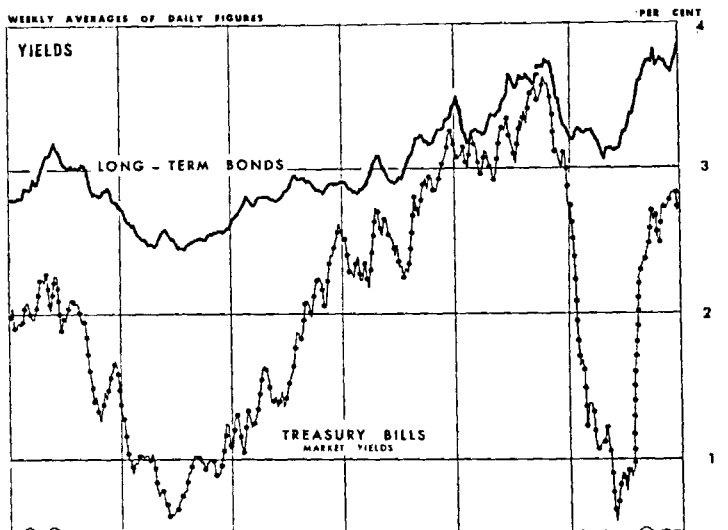
In an advanced economy such as that of the United States, broad swings in interest rates correspond closely with cyclical fluctuations in general economic activity. The reason for this close relationship lies mainly in the fact that the business cycle, which is generated largely by expenditures financed heavily with credit, gives rise to large fluctuations in demands for funds. At the same time, the supply of funds tends to be much more stable cyclically, reflecting in part actions of the monetary authorities to help counteract the economic cycle.

By far the most important single influence on interest rate expectations, therefore, is the outlook for general business conditions. Signs of changes in monetary policy are watched closely by participants in the Government securities market since such changes are often interpreted as confirmations of major turns in the business situation and suggest to observers possible shifts in the balance of pressures in the money and capital markets.

### **INTEREST RATES IN 1957-58**

As the United States economy approached the turning point in the cyclical upswing of 1954-57, investors and dealers in the Government securities market were alert to the possibility of reversal in the direction of economic activity. Events during the previous recession had provided ample evidence that market rates of interest could be expected to move downward with general economic conditions, as a result both of changes in private demands for funds and of shifts in monetary policy. Investor expectations were so sensitively attuned to these relationships that on earlier occasions during the cyclical advance of 1954-57—most notably in early 1957—interest rates had declined and bond prices had experienced a sharp temporary upward movement set off by transient indications

# YIELDS AND PRICES ON U.S. GOVERNMENT SECURITIES



NOTE.—For long-term bonds, yields are for issues due or callable in 10 years or more and prices are calculated from yields on basis of an assumed 3 per cent 20-year bond.

of a slowdown or possible reversal in the pace of business activity.

Doubts about the business outlook reappeared during the summer and autumn months of 1957, as activity in durable goods manufacturing lines reached peaks and began to turn down. General agreement that the economy had entered a recession crystallized in mid-November when Federal Reserve discount rates were reduced from 3½ to 3 per cent. This action was widely interpreted in market circles as the forerunner of a series of monetary and other anti-recession measures.

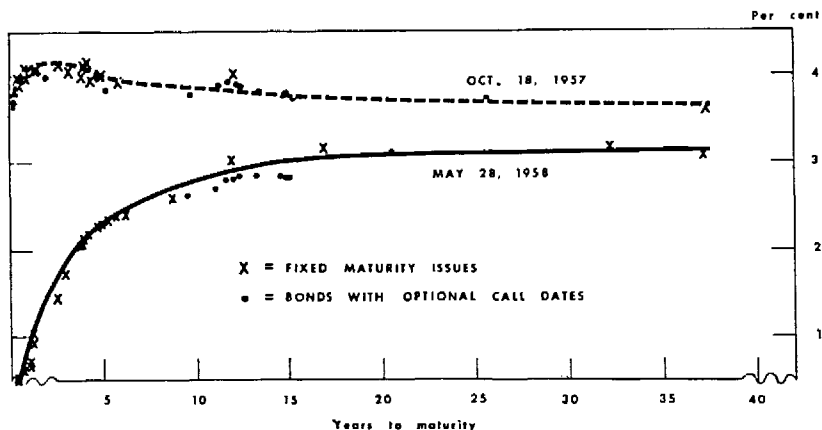
Market reaction to the discount rate reduction and the shift in expectations it created was immediate and strong. Yields on marketable securities in all maturity categories dropped sharply over the following weeks as the accompanying chart shows. Between mid-November and mid-December, prices of most longer term Government bonds rose 5 points or more. By mid-January they had advanced an additional 2 points. This represented an average increase in price of about 8 per cent in two months.

After mid-January the pattern of advance in Government securities prices changed. Prices of long-term bonds fell off from their temporary peaks in mid-January and fluctuated in a narrow range over the next six weeks or so. There followed another sharp rise in prices of approximately 3 points until the third week in April, at which time most longer term bonds touched their peaks for 1958. At such levels, prices of long-term bonds were generally about 10 per cent higher than in mid-November. After a moderate sell-off from these levels, longer term bond prices moved up once again in May and early June, but they did not reattain their April peaks. As a result of these price movements, longer term market yields followed a rather irregular downward path.

Shorter term market yields continued to decline sharply, however, and reached their low points at the end of May or early June. As a result, the spread between yields on long- and short-term securities widened substantially in April and May. This widening of the yield spread, illustrated in the accompanying chart, was one of several factors contributing to the expectation that long-term rates would decline further, following the June financing.

This expectation was not realized. In the second week of June

## YIELD CURVES - U. S. GOVERNMENT SECURITIES



market interest rates began to rise and the pace of advance quickened in late June and July, as will be discussed in detail in later sections of this report. By October, long-term yields had exceeded the peak levels of late 1957 and after a short-lived downturn moved onto new high ground by the end of the year. The advance in intermediate- and short-term yields lagged, however, in contrast to 1954-55 when short-term market rates surpassed their 1953 peaks earlier than did long-term rates, and even at the end of 1958 were still markedly below their 1957 peak levels.

### ECONOMIC BACKGROUND

Review of the economic and financial developments that influenced actual and expected interest rate movements will help to bring out factors that set the stage for the bond market crisis in June and July and its aftermath. The downswing in output and employment that began in the early autumn of 1957 followed a three-year period of generally increasing economic activity and expenditures at slowly rising prices. At various times during that three-year period, outlays by each of the major components of the total spending stream—households, businesses, governments, and foreign nationals—had risen to boom levels.

By autumn of 1957, none of the major economic sectors appeared to be poised for further significant increase. Some of them—notably, business investment spending, defense commitments, and consumer purchases of autos—had turned down. As new orders fell off, indications of reversal came to be felt by many businesses. Inventory accumulation policies were first moderated, then reversed. The result was that inventory liquidation began and became heavy in the fourth quarter of 1957.

Production declined rapidly beginning in October, especially in the durable goods sector. Industrial output fell 8 per cent from August through December, and a further 5 per cent in the first four months of 1958. Employment and hours of work declined accordingly, and by the spring of 1958 unemployment had increased to more than 5 million, or double the average number of unemployed in 1956.

The decline in production was sharper in the 1957-58 recession than in the two previous postwar recessions. Many economic observers held the view that this recession might involve much more basic adjustments than the earlier postwar contractions since industrial capacity had been built up at a considerably faster rate than production during the postwar period as a whole. The moderate character of the 1948-49 and 1953-54 recessions, moreover, increased the likelihood in the minds of some observers that the decline which began in late 1957 would be long and severe.

The fact that economic recession from the autumn of 1957 to midspring 1958 involved heavy reduction in plant and equipment outlays (as well as more rapid inventory liquidation than in the two previous recessions), together with the speed of the decline, seemed to support the view that the recession was likely to be deeper and more protracted than anything the United States had experienced since the 1930's. This in turn had much to do with the build-up of expectations that interest rates would remain on a declining trend for some period of time.

From the viewpoint of the Government securities market, another important feature of the recession was that it was the most publicized and widely analyzed recession in United States history. Technical statistics on production, unemployment, and business

plans to spend for plant and equipment were highlighted in newspaper headlines and discussed prominently by radio and television commentators. Beginning in early 1958 and continuing through the spring months, various proposals for tax reduction and other additional antirecession measures also received wide public discussion, as did each of the major actions of the Federal Reserve to promote monetary ease.

As it turned out, market expectations regarding a prolonged recession were not justified. To the surprise of most observers, April marked the low point of the recession, although this was not clear until later—at least six weeks to two months later. Production rose rapidly after April and by early 1959 surpassed earlier peak levels.

At the nadir of recession in the spring of 1958, and especially at the time of the Treasury financings in June, the view was widely held that recession would last months longer. Even among those who might have recognized that economic activity was no longer declining, there were few who did not expect that the achievement of full recovery was well into the future and, therefore, that the monetary authorities would continue for some time to pursue a policy of active credit ease.

## **FINANCIAL BACKGROUND**

Against the economic background briefly sketched in the previous section, it is possible to review the factors influencing interest rates. The factors include those affecting the underlying conditions of supply and demand in the money and capital markets as well as those acting on expectations of market participants.

Despite the apparent severity of recession, as indicated at the time by output and employment statistics and reported intentions by businesses and consumers to purchase durable goods, capital markets continued to experience surprisingly large demands for funds. This represented in part response by borrowers to the sharp declines in long-term interest rates that occurred in late 1957. In the language of economists, the demand for long-term funds proved

to be quite elastic, and this in turn served to limit the decline in long-term interest rates.

**Private demands for funds.** With the onset of recession and the shift to inventory liquidation, the business sector of the economy reduced its dependence on bank borrowing and, in the first half of 1958, repaid bank debt to the extent of \$1.5 billion. Borrowing of a longer term nature, however, fell off much less than was generally expected. Although reporting intentions to cut back plant and

TABLE I  
FUNDS RAISED IN CAPITAL MARKETS<sup>1</sup>

[In billions of dollars]

Type of borrowing	Quarterly totals					
	1957				1958	
	1	2	3	4	1	2
Corporate bonds and stock.....	3.4	3.1	2.9	3.0	3.1	2.6
State and local govts.....	1.8	1.7	1.5	2.0	2.3	2.2
Foreign and internl. inst.....	.2	.2	.1	.1	.3	.5
Mortgages.....	5.6	6.2	6.4	6.0	5.3	6.4
Subtotal.....	11.0	11.2	10.9	11.1	11.0	11.7
U. S. Treasury.....	.0	.3	21.9	2.2	6.8	11.9
Total.....	11.0	11.5	212.8	13.3	17.8	23.6

<sup>1</sup> Offerings of long-term securities for new capital and nonfarm mortgage recordings of \$20,000 or less; U. S. Treasury borrowings represent securities with maturities of 4¼ years or longer offered for cash or in exchange, excluding allotments to Treasury and Federal Reserve accounts.

<sup>2</sup> An additional \$2.3 billion in 4-year notes (not included in these totals) was issued by the Treasury in this quarter.

equipment spending, business corporations continued to offer in the market and to place privately a substantial volume of longer term securities. Such offerings rose slightly from the third quarter of 1957 through the first quarter of 1958 and in the latter quarter were less than 10 per cent below the record level of the first quarter of 1957.

State and local governments, responding in part to the downturn in market interest rates, which in this sector of the capital market began in September 1957, stepped up security offerings sharply in



the fourth quarter of 1957, and raised them even further in the first half of 1958. In the latter period, State and local government offerings of securities for new capital were almost 30 per cent larger than in the same period of 1957.

Offerings of securities by foreign governments and international institutions also rose, as interest rates declined, from \$65 million in each of the last two quarters of 1957 to \$250 million in the first quarter and \$460 in the second quarter of 1958. Mortgage borrowing, which on a seasonally adjusted basis had been declining from 1955, continued to fall into the first quarter of 1958 and then increased sharply. For the first six months of 1958, recordings were in about the same volume as in the first half of 1957.

The aggregate of these various forms of borrowing, not taking account of Federal Government debt operations, remained stable in the first two quarters of recession and then increased in the second quarter of 1958. Total borrowing for these purposes was slightly larger in the first half of 1958 than in the first half of 1957.

Thus the expectation that long-term interest rates would decline sharply further as the result of a recession-induced reduction in the private demand for longer term funds was not realized. Furthermore, when the weight of long-term financing by the Federal Government is added to the other demands already noted, a much larger increase in the demand for long-term funds is evident. Total long-term borrowing in the first half of 1958 was considerably larger than in the same period of 1957.

The demand for shorter term funds, in contrast, tended to fall off in the course of the recession, thereby contributing to the widening of the spread between longer and shorter term interest rates. Although the dollar volume of commercial and finance company paper outstanding increased between October 1957 and June 1958, as did the short-term debt of State and local governments, this was more than offset by the reduction in outstanding Treasury securities maturing within one year.

**Treasury financings.** Prior to the June financing, which is treated in detail in a subsequent section, the Treasury undertook cash offerings and refundings in November and February and a cash offer-

ing in April. The details of these and other financings through 1958 are shown in Table 2.

TABLE 2  
U. S. TREASURY FINANCING OPERATIONS  
NOVEMBER 1957-DECEMBER 1958<sup>1</sup>

[In billions of dollars]

Date books opened	Type of financing	Securities offered	Amount issued and maturity				
			Under 1 year <sup>2</sup>	1-5 years	5-10 years	10-20 years	20 yrs. & over
1957							
Nov. 20....	Cash	3¼% note 3½% bond		1.1		.7	
Nov. 21....	Exchange	3¼% cert.	9.8				
1958							
Feb. 3....	Exchange	2½% cert. 3% bond 3½% bond	9.8		3.9		1.7
Feb. 28....	Cash	3% bond			1.5		
Apr. 7....	Cash	2¾% note		4.0			
June 3....	Cash	3¼% bond (issued 100½)					1.1
June 4....	Exchange	1¼% cert. 2¾% bond	1.8		37.4		
July 21....	Exchange	1¾% cert.	13.5				
July 29....	Cash	1½% T.A. cert.	3.6				
Sept. 29....	Cash	3¼% note 3¼% bill	1.2 2.7				
Nov. 14....	Cash	2.999% T. A. bill	3.0				
Nov. 19....	Exchange	3¾% cert. (issued 99.95) 3¾% note (issued 99¾)	7.7	4.1			
Total for cash.....			10.5	5.1	1.5	.7	1.1
Total in exchange.....			42.6	4.1	11.2	—	1.7
Total.....			53.1	9.2	12.7	.7	2.9

<sup>1</sup> Does not include net increase in regular weekly bill issue, which totaled \$2.1 billion for the period.

<sup>2</sup> Includes \$1.2 billion issue of 13-month notes.

<sup>3</sup> During June and July 1958, \$491 million of 2¾% per cent bonds of 1965 were purchased by the Treasury for retirement.

It should also be pointed out that, although the deficit of the Federal Government was only \$2.8 billion in fiscal year 1958, the amount of marketable debt outstanding increased \$11 billion. The larger debt increase reflected a \$4.8 billion reduction in nonmar-

ketable debt during the year and a \$4.2 billion increase in the Treasury's cash balance in addition to the \$2.8 billion deficit.

In view of the rapid changes taking place in the market, the terms of the Treasury's November 1957 refunding and cash offering involved difficult market judgments, and the announcement was delayed for a few days. In the existing market atmosphere, subscriptions to the new cash issues were heavy and attrition on the certificate refunding was limited to 7 per cent of the \$1.9 billion of public holdings of the maturing issue; this was the lowest attrition rate in a refunding since March 1956.

Although priced close to the market at the time of the offering, the initial "when-issued" trading at the close of November subscription books showed the new  $3\frac{7}{8}$  per cent 17-year bond quoted at a premium of  $1\frac{3}{4}$  points and the new  $3\frac{3}{4}$  per cent 5-year note at a premium of nearly  $\frac{7}{8}$  of a point. By the end of December the new bond had increased in price by nearly 8 points. This was a greater price rise than had occurred in outstanding securities of comparable maturity, and provided a striking demonstration of the profit possibilities in newly issued securities in a bull market. Likewise, subsequent Treasury issues, although priced close to market yields on announcement dates, exhibited similar increases in price.

In February 1958 the Treasury refunded five issues (two certificates, a special bill, a note, and a bond) maturing between February 14 and April 15, amounting in total to \$16.8 billion, of which about \$10.9 billion were held by the public. In exchange, holders were offered a 1-year certificate at  $2\frac{1}{2}$  per cent, a 6-year bond at 3 per cent, and a 32-year bond at  $3\frac{1}{2}$  per cent. Investors, other than Treasury and Federal Reserve accounts, chose to take \$4 billion of the new certificate, \$3.8 billion of the six-year bond, and \$1.6 billion of the 32-year bond.

The  $3\frac{1}{2}$  per cent bond of 1990 traded initially at only a small premium on a "when-issued" basis, but by the date of issue was quoted at a premium of more than  $2\frac{3}{4}$  points. By the third week in April this issue was quoted at  $106\frac{3}{4}$ . The most comparable outstanding issue, the 3 per cent bond of 1995, gained 5 points over the same period.

The 6-year bond—again closely priced at announcement date—

was traded at a premium of just under a point on the date of issue. By the third week in April it had risen over 3½ points, whereas an outstanding bond maturing six months sooner gained about 2¾ points over the same period. Once again investors were shown the extra profit potential in new issues in a rising market.

At the end of February an 8½-year bond was offered for cash. This issue went to a premium of more than 3½ points over the next seven weeks. In early April a 4-year 10-month 2¾ per cent note was offered for cash. This issue went to a premium of almost 1½ points within two weeks, and then declined somewhat with the rest of the market.

In early June the Treasury offered for cash a 3¼ per cent, 27-year bond at 100½. Shortly after, in exchange for two bonds and a note maturing June 15 and amounting in total to \$9.6 billion, of which \$9.1 was held by the public, the Treasury offered a 6¾-year bond at 2¾ per cent and an 11-month certificate at 1¼ per cent. The market fate of these issues is made clear in subsequent pages.

Between October 1957 and June 1958 (Table 3), Treasury

TABLE 3  
PUBLICLY HELD U. S. GOVERNMENT MARKETABLE DEBT  
BY MATURITY<sup>1</sup>

[Par value, in billions of dollars]

Maturity <sup>2</sup>	Oct. 31, 1957	May 31, 1958	June 30, 1958
1 year and under.....	51.0	52.4	43.9
1-5 years.....	43.3	39.9	40.0
5-10 years.....	11.3	13.7	20.5
Over 10 years.....	27.1	29.2	30.2
Total.....	132.7	135.2	134.6

<sup>1</sup> Securities other than those held by Federal Reserve and U. S. Government agencies and trust funds.

<sup>2</sup> Partly tax-exempt bonds are classified to earliest call date.

financing operations had reduced the volume of Treasury securities in the hands of the public maturing within one year by \$7.1 billion; this reduction occurred entirely in June. Securities in the 1- to 5-year range declined \$3.3 billion, while those maturing in 5

to 10 years rose \$9.2 billion and those over 10 years increased \$3.1 billion. Over the same period, total Treasury marketable debt in the hands of the public increased \$1.9 billion. Hence, there was a substantial relative decline in the market supply of short-dated Treasury paper and a substantial rise in Treasury paper of intermediate and longer term. In view of developments in supplies of funds, this shift in relative supplies of investment instruments in the Government securities market was a matter of no little significance.

**Supplies of funds.** The major source of increase in the flow of loanable funds during the recession was the commercial banking system, whose reserves were being increased substantially by the actions that the Federal Reserve System was taking to combat the recession. The flow of funds to capital markets from the major savings institutions showed only small changes for the period, as shown in Table 4.

TABLE 4  
FUNDS SUPPLIED TO CAPITAL MARKETS BY SELECTED INSTITUTIONS<sup>1</sup>

[In billions of dollars]

Lender	Quarterly totals					
	1957				1958	
	1	2	3	4	1	2
Life insurance cos. ....	1.3	1.0	1.2	1.1	1.3	1.0
Mutual savings banks. ....	.6	.4	.5	.3	.8	.6
Savings and loan assns. ....	1.2	1.3	1.3	.9	.8	1.6
Subtotal. ....	3.1	2.7	3.0	2.2	2.8	3.2
Commercial banks. ....	-2.7	.2	1.0	3.3	2.5	6.6
Total. ....	.4	2.9	4.0	5.5	5.3	9.8

<sup>1</sup> Net increase in holdings of securities and mortgages.

Before the shift in monetary policy, a policy of restraint on credit expansion had been in force, with varying degrees of intensity, for more than two years. Borrowings by member banks from Reserve Banks had been substantial; net borrowed reserves

had been in the range of \$400-\$500 million from April 1957 through September and into the early weeks of October. Federal Reserve Bank discount rates had been raised in August to 3½ per cent.

In view of developing uncertainties in the economic outlook and indications of slackening credit demands, Federal Reserve open market operations permitted some easing in bank reserve positions in late October and early November; net borrowed reserves declined to about \$350 million in these weeks. From mid-November into the early summer, restraints on bank credit and monetary expansion were progressively relaxed and a condition of ease was cultivated by the active use of each of the three major instruments of Federal Reserve policy. As a result, net borrowed reserves gave way to free reserves over the year-end, and by March free reserves of member banks had risen to about \$500 million, at which level they remained through July. Reserves were supplied to the commercial banks in sufficient volume not only to offset the reserve effects of an outflow of gold amounting to \$1.5 billion in the first half of 1958, but also to permit a very rapid expansion in bank credit.

*Commercial bank participation in market.* Loans and investments of commercial banks increased over \$4 billion in the final quarter of 1957, declined seasonally by \$3 billion in January, and then rose nearly \$12 billion through June, with the largest increases occurring in April and June. Of the \$12 billion increase in bank loans and investments from October through June, about \$7 billion consisted of increases in bank holdings of United States Government securities, \$2.5 billion in holdings of other securities, and \$2 billion in loans. Most of the increase in loans was accounted for by loans on securities.

From the end of October to the end of December 1957, when prices of Government securities rose rapidly, bank holdings of marketable Government securities increased only \$1 billion, most of which was in issues in the 1- to 5-year maturity area. This reflected mainly acquisition by banks of the 3¾ per cent note issued in November, of which they were allotted \$663 million. Bank holdings of Government securities maturing in 10 years or

longer increased only \$300 million in the last two months of 1957, about half of which represented acquisition of the 17-year bond offered in November.

Over the next five months commercial bank holdings of Government securities increased \$4.5 billion, of which \$3.8 billion occurred in April. In the month of June, banks acquired \$1.3 billion of Governments and increased securities loans \$1 billion.

In January commercial bank holdings of Governments declined, though by considerably less than the usual seasonal amount, and there was little change in the maturity distribution of bank portfolios. In the February refunding, banks subscribed for \$2.8 billion of the 6-year bond and \$520 million of the 32-year bond. By the end of June commercial banks had acquired an additional \$250 million of the 6-year bond and disposed of an approximately equivalent amount of the 32-year bond. In addition to participating in the exchange, banks acquired \$800 million of other Governments in the market in February.

Banks were allotted \$676 million of the 3 per cent 8-year bond offered for cash at the end of February and issued in early March, and reduced bill holdings by about the same amount, with little change in total portfolios.

In the April cash offering, commercial banks were allotted \$2.5 billion of the new 4-year 10-month, 2½ per cent note. Their holdings in the 1- to 5-year maturity area rose \$3.4 billion, however, as they purchased an additional \$500 million of this note as well as other securities in the secondary market. In this month of sharply rising securities prices, bank portfolios increased \$3.8 billion.

In May bank portfolios of Governments increased by about \$300 million. Their holdings of "rights" in the June refunding, which had declined steadily from \$4.5 billion in October to \$3.7 billion in April, rose \$200 million in May. Banks also did some further purchasing in the 1- to 5-year area, while reducing bill holdings.

In June commercial banks were allotted \$213 million of the 3¼ per cent 27-year bond, and this was the extent of change in their holdings of bonds maturing in more than 10 years. In the

refunding banks were allotted \$4.6 billion of the two new issues, some of which were exchanges for customers; of this total, \$4 billion consisted of the 2½ per cent, 6-year 8-month bond. Banks also purchased the new bond in the market, as will be discussed below in detail.

Over the entire period from October through June, the Treasury issued about \$8.5 billion in securities to the public for cash, and commercial banks increased their holdings of Governments by \$6.8 billion. The latter increase, it may be noted, was concentrated almost entirely at city banks. Country bank portfolios of Government securities increased only \$200 million between October and June. About two-thirds of commercial bank acquisitions of Government securities from October through June were in the form of allotments at times of new Treasury issues, and one-third (\$2.5 billion) represented net purchases in the secondary market.

Both time deposits and demand deposits of banks grew at an unusually high rate from October through June. The rise in demand deposits, which was principally a growth in U. S. Government deposits, represented nearly three-fifths of the total deposit expansion. Banks were naturally interested in investing these new demand deposits in intermediate- and short-term securities, especially the latter.

For these reasons, banks were not active in lengthening the average maturity of their Government securities holdings by market purchases to alter the maturity structure of their portfolios appreciably. Banks subscribed for new issues and accepted exchange issues in the intermediate-term area but there is little evidence from ownership statistics of active net purchases in the secondary market in these maturity areas. This observation receives support from the fact that the average maturity of bank portfolios of Government securities was only slightly longer in May 1958 (48.2 months) than in October 1957 (47.6 months); heavy exchange into the 6¾-year bond in June, however, increased the average maturity sharply (to 53.0 months). Bank holdings of Government securities maturing in one year or less increased from 25 per cent of their portfolios in October to 30 per cent in May (partly as the



result of the movements of securities into the under-1-year category due to the passage of time) and then declined again to 23 per cent in June.

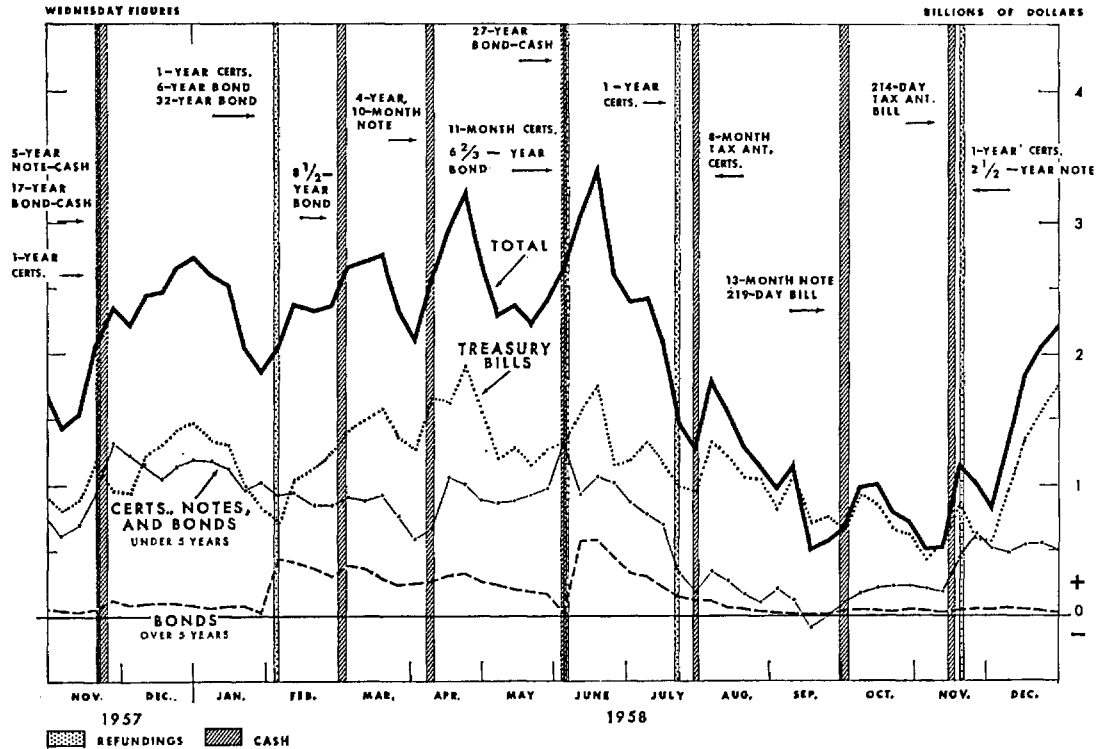
Between October and May, bank holdings of Government securities in the under-1-year category increased \$3.8 billion. The quest of banks for short-term instruments, against a reduced supply as mentioned earlier, in turn helped to depress short-term interest rates to low levels (the average market yield on 3-month Treasury bills fell to  $\frac{5}{8}$  of 1 per cent in May). This tended to give rise to expectations that long-term rates would fall further. At the same time it encouraged investors to seek higher yields, either through the medium of making loans on securities or through outright acquisitions of longer term issues in the market and in Treasury financings.

Bank loans to finance securities holdings of others rose in December 1957 and more sharply in March and April at the time of cash financings. They declined somewhat in May, before rising to a record postwar level in June. Among the banks surveyed for the purposes of this study, loans and repurchase agreements that originated in 1958 and were outstanding on May 21, 1958 against Government securities amounted to \$725 million. A total of 40 per cent of the loans and repurchase agreements were made with Government securities dealers. New York City banks accounted for the largest part of this lending.

*Participation of dealers.* Dealer net positions in Government securities—shown for the full 1957-58 period in the accompanying chart—increased sharply (over \$500 million) in the third week of November when Federal Reserve discount rates were reduced, but this was also the week in which dealers were acquiring “rights” to the November refunding.

Between November 13 (just before the discount rate reduction) and January 8 (just before the first reversal in the uptrend in prices of long-term securities), net positions of dealers increased by about \$1 billion, of which \$440 million was in bills and \$370 million in other securities maturing in one year; notes and bonds due in one to five years rose by about \$100 million and other holdings showed little net change. This build-up reflected in part

# DEALERS' POSITIONS IN U.S. GOVERNMENT SECURITIES



NOTE.—Shaded areas represent periods of Treasury financing operations. Refundings cover period subscription books were open; cash financings cover periods from opening of subscription books to announcement of allotments.

the usual year-end absorption of short-term securities by dealers to accommodate the liquidity needs of banks and others.

In the first five months of 1958, dealer positions fluctuated mainly in relation to the timing of Treasury financing operations. As is illustrated in the chart on page 19 dealers took new securities into their positions at the time of financings and subsequently distributed them to retail purchasers. Their net acquisitions of bonds with maturities over five years were particularly large at the time of the February refunding, amounting to \$400 million. Late in February holdings of such bonds were supplemented by acquisitions resulting from the Treasury cash financing. In mid-May, just before the build-up in connection with the June financings, net dealer positions at \$2.4 billion were less than in mid-January, though greater than at the end of October 1957. The \$600 million increase between October 30 and May 14 included \$400 million in Treasury bills and \$100 million in other securities maturing within one year. By mid-May holdings of bonds over five years had been substantially reduced and were up only \$100 million relative to October 30.

For the period prior to June 1958, dealer positions reached their maximum in the week of April 23, when the \$4 billion issue of 2½ per cent notes was being distributed. During that week their positions in bills and in securities in the 1- to 5-year maturity area (reflecting the new note) were at a maximum, but other holdings were not at peaks.

Dealer willingness to increase their positions in bills, both outright and on commitments to repurchase, undoubtedly assisted other investors in shifting to longer term securities. It also contributed to the lowering of short-term yields. The ready positioning of new notes and bonds at times of Treasury financings also contributed to the decline of longer term yields, although this was mainly an extension of a normal dealer function. In addition, the build-up of positions in longer term bonds represented the bullish outlook for bond prices which was held by dealers at that time and shared by other participants in the market. In April, however, dealers as a group began to cut back on their holdings

of longer term issues, while many other participants were still anticipating further speculative gains.

The volume of transactions handled by dealers showed little increase in the period of rapid price advance from mid-November to mid-January, and from early March to late April, except in weeks of Treasury financings.

#### **INTEREST RATE EXPECTATIONS ON EVE OF JUNE FINANCING**

This review of the recession period prior to the June financing suggests that sizable increases in securities prices occurred without large apparent shifts through market transactions in the ownership of securities among types of holders, at least insofar as such shifts are evident from available statistics. The ownership shifts that did occur were traceable primarily to Treasury financings. This suggests that price expectations of market participants were changing more or less correspondingly in the same direction, so that sizable price advances could occur without being accompanied by large shifts in ownership of securities. When similar expectations regarding the direction of market prices are shared by most market participants, as in late 1957, price increases tend to be large before they call forth responses by potential sellers to the demands of buyers.

On the eve of the June financing, many investors in and observers of the Government securities market believed that they had good reason to expect that long-term interest rates would continue to decline. It is now evident that these expectations were not justified, for economic activity had already turned up in May. On the eve of the June financing, however, few observers or investors foresaw that a period of rapid increase in output had begun which would bring with it a changed financial situation and, later, a shift in monetary policy. The opinion was widespread, given the economic outlook and the wide spread between short-term and long-term rates, that long-term interest rates had not yet reached their lows for the year.

To those who held these expectations, experience in earlier refundings in November 1957 and February 1958 had demon-

strated the profit possibilities available. In early June, however, the very low level of short-term rates added another inducement, for it meant that the cost of carrying credit-financed speculative positions was small and lenders were eager to make such credit available. Thus, the stage was set not only for profitable acquisition of the forthcoming securities on an outright basis but also for credit-financed speculation on what looked to many like “a sure thing.”

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### 3. Setting of Treasury's June Financing

The bull market in Government securities reached its climax in the Treasury's June financing. The special interest of this study has been in the shaping of this climax and in market developments that followed. Accordingly, the record hereafter becomes more detailed.

In April, following the Treasury's cash offering of 2½ per cent 4¾-year notes, attention of professionals in the Government securities market shifted ahead to the June refunding, terms of which were expected to be announced at the end of May. Three securities, two bonds and one note, aggregating \$9.6 billion and maturing on June 15, had to be refinanced.<sup>1</sup> Of this total, \$455 million were held at the end of May by Treasury investment accounts and the remainder by the general public. None was held by the Federal Reserve System.

#### MOUNTING INTEREST IN JUNE REFUNDING

In light of the widespread knowledge that subscribers in the Treasury February refunding had profited handsomely on exchanges into the new intermediate- and long-term bonds issued in that operation, advance rumors that similar securities might be offered in the June refunding stimulated active interest in the maturing June "rights." On the basis of these rumors, prices of the "rights" were bid to premiums of about ¾ of a point late in April and remained close to that level through all of May and the refunding exchange period which occurred from June 4-6. Occasionally in April and through virtually all of May and early June, yields on "rights" were at negative levels, reflecting speculative appraisal of

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<sup>1</sup> The three issues were a 2¾ per cent bond originally sold in mid-1952, a 2½ per cent note sold initially in late 1955 and reopened in early 1956, and the 2¾ per cent partly tax-exempt bond of 1958-63, called for redemption in June.

acquiring whatever longer term issues might be offered in the exchange.

As the refunding grew closer, market rumor indicated a steady build-up of speculative positions in "rights," particularly on the part of investors not normally active in the market who were allegedly financing the bulk of their acquisitions on credit. Although the price behavior of the "rights" appeared to confirm the existence of a large speculative interest in the June exchange, there was no accurate measure of its volume. Rumors were circulated that one Stock Exchange firm, primarily functioning as a money broker, had arranged the financing for purchases of many millions of "rights," and it was presumed that the total volume of credit financing in "rights" ran upwards of \$500 million.

By the end of May, when terms had to be set on new issues in the June refunding, these rumors of a speculative build-up in "rights" were disturbing enough to dissuade the Treasury from granting holders of issues maturing in June any exchange option into a long-term bond. Holders of "rights" were limited to a choice between an intermediate-term bond and a 1-year certificate, and long-term bonds were offered only for cash subscription.

## **BACKGROUND FACTORS**

The general build-up of interest in June "rights" stemmed from two principal factors, both of which, as brought out in Chapter 2, were products of recession. The first was the widely held expectation that the Government bond market following the exchange would be favorable to the disposition of new bonds, leading to opportunities for capital gains similar to those that had developed on newly issued Treasury securities earlier in the recession period. The second was the extreme liquidity of the economy in the spring of 1958. This ready availability of funds forced short-term interest rates to unusually low levels in May and encouraged lenders to search actively for investment and loan alternatives yielding better returns. This willingness to lend created attractive opportunities for borrowers to finance credit purchases of Government securities.

**Business outlook and interest rate expectations.** In retrospect it is clear that the build-up in June “rights” reached a maximum at a time when underlying factors making for capital gains in the Government securities market had already begun to change direction. Few market participants, however, were aware at the time of this underlying change. On the contrary, they apparently had reasons for expecting economic conditions to support continuing rise in bond prices and decline in bond yields. From this vantage point, therefore, it is useful to re-examine the logical grounds on which prevailing market expectations were based when decisions on the June exchange were being made, and to consider the state of knowledge on economic developments as it actually existed at that time.

In the early months of 1958, when many institutions and individuals first purchased June maturities in anticipation of a favorable exchange offering, economic recession was in full momentum. Holders of the “rights,” however, were not obliged to make a choice on whether to commit themselves to a new longer term bond until books closed on the refunding on June 6. Thus, it was the economic knowledge available in early June that was being relied upon to shape their exchange decisions.

The chart on page 26 summarizes the latest changes in and the current state of the economy as they appeared from the statistical evidence actually *available in early June*. It will be noted that the latest available monthly data related to April and that the latest available quarterly estimate of gross national product related to the first quarter. As later events unfolded and were reported, these periods coincided with the cyclical troughs of many of these measures.<sup>2</sup>

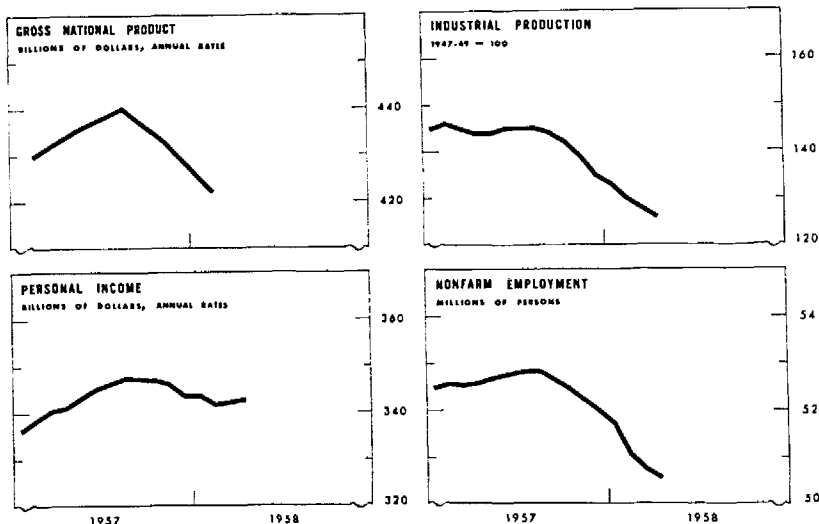
Thus the image presented by summary measures at the time of the June refunding showed the economy at new lows for the

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<sup>2</sup> The slight improvement in personal income from its mid-winter lows could be attributed either to factors independent of the general business cycle—rising farm prices, increased Social Security payments reflecting expanded coverage of the old-age and survivors program and a Government insurance dividend to veterans—or to built-in effects of the recession itself, such as increased unemployment compensation payments.



PRINCIPAL MEASURES OF ECONOMIC ACTIVITY  
 AVAILABLE IN EARLY JUNE 1958



1957-58 contraction. These measures, however, by no means exhausted the information available on economic developments. Since these data are measures of the over-all performance of the economy (available with a lag of several weeks), experienced observers look beyond the most recent data available in such series in forming their views on the business outlook.

During May some information was becoming available which suggested renewed strength in one or two major areas of demand. In early May, the Commerce Department reported that seasonally adjusted retail sales in April were nearly equal to the year-earlier volume and 2 per cent higher than the reduced February-March level, which was, however, a period of very adverse weather conditions. Most lines of trade were shown to have participated in the increase. In addition, the number of private nonfarm housing units started in April was reported by the Bureau of Labor Statistics to have risen to a seasonally adjusted annual rate of 950,000 units, compared with 900,000 in February and March.

Because of prompt reporting of weekly data relating to activity in May, a few other signs of possible recovery were visible to

observers in early June. Thus, sales at department stores in the first three weeks of May suggested more-than-seasonal advance. Steel mill operations were known to have risen significantly in May and an increase in production of automobiles had been scheduled and announced. A sharp upturn in Defense Department ordering was under way, implying increased business for producers of aircraft, engines and turbines, and electrical generating and transportation equipment.

How this emerging suggestion of business improvement should have been weighed against continued signs of recession was still a moot question in May and early June. A re-reading of analyses of the period published in the financial press or issued by advisory services shows a division of views, reflecting mainly differences of emphasis placed on recent developments. Some analysts stressed the improbability of an early turnaround in business fixed investment, which was viewed by them as a necessary precondition of a vigorous recovery. Other analysts stressed the sustained resistance of consumer demands to the recession, which promised that the recession might be short lived and pointed to the unsustainably high rate of business inventory liquidation then in process. Significantly, a growing number of observers—including officials of the Administration—were willing in May to identify April, tentatively, as the low month of the recession. Thus, while there was not yet in early June conclusive evidence that a cyclical recovery was under way, there was gathering evidence to question an assumption of prolonged recession.

Decisions of many prospective speculators, formed in the depths of the recession, were based on expectations held with a degree of confidence approaching near certainty. Events in the weeks preceding the refunding could well have induced a reconsideration of probable risks. Earlier decisions, however, were not generally reconsidered, reflecting the suddenness of developments and a lag in appreciating their significance.

Interest rate expectations held by some participants in the refunding, however, did not depend solely on a forecast of continuing economic recession. These participants, while often alert to the signs of leveling off in the business contraction, assumed

that any economic recovery would gain momentum only gradually in the second half of 1958. This assumption was also proved by later events to have been mistaken, but in early June it was still a tenable and widely held hypothesis. Given this view on the economic outlook, these participants were impressed by the fact that, after the initial sharp drop in late 1957, yields on medium- and long-term bonds had not declined as usual relative to short-term interest rates as in other periods of recession in the past. With yields on Treasury bills continuing to decline sharply in the spring and long-term yields comparatively stable, the yield spread between the two maturity sectors widened to more than 2½ percentage points at the end of May.

It seemed reasonable to assume that this unprecedented spread would be narrowed through a downward adjustment in long-term interest rates in general. It was reasoned that, sooner or later, demands by corporations in the capital market would recede to levels more in line with their reduced rates of spending for plant and equipment. It was also assumed that, as the recession lengthened, the Federal Government might seek to encourage further declines in long-term interest rates, especially since some high Administration officials had been reported as favoring such an objective. In mid-May, also, two optional Treasury bonds—the 2¼ per cent \$3.8 billion issue sold in 1944 and maturing in September 1959 and the 2¾ per cent \$0.9 billion issue sold in 1952 and maturing in March 1959—were called for redemption on September 15. This suggested to many observers that the Treasury did not expect interest rates to advance appreciably in the near term since it must have believed as late as mid-May that it would be able to borrow one-year money in September at less than 2¼ per cent or the call would not have been made.

As events developed, the mistaken assumptions underlying this view became clear. Market participants holding this view erred by underestimating the rapidity at which economic recovery was to occur and the promptness with which the Government securities market would react to the turnaround.

**Availability of funds.** Availability of funds on a large scale ranks with expectations of rising bond prices as a primary cause of heavy

participation in the longer option of the June refunding. The various factors responsible for the large accumulation of funds with banks, nonfinancial corporations, and others in the weeks preceding the June refunding, together with the resulting general depression of short-term interest rates, were reviewed earlier. It is relevant here merely to explain the particular interest rate relationships and other special market considerations present in May which provided special incentive to lenders and borrowers to participate in the June refunding.

Generally speaking when nonfinancial corporations, commercial banks, and others accumulate funds on a temporary basis, they seek to place them in short-term assets with a high degree of liquidity—principally Treasury bills and other short-term Government securities. For the particular purpose of accumulating funds for quarterly income tax payments, business corporations typically invest in tax anticipation securities; and to prepare for both tax and dividend payment dates, some companies arrange repurchase agreements with Government securities dealers to cover at least a part of their cash requirements. The latter agreements permit more precise timing of cash availability than direct investments in regular Treasury bills, and at the same time relieve the corporation of the risk of a depressed market arising from the liquidation of large blocks of short-term issues during the tax and dividend payment period.

Over the entire period of the recession up through May, there had been no sustained increase in the supply of liquid Treasury instruments—maturities under a year—in the market, so that as June 1958 approached, with a continuing large volume of liquid funds in the hands of business corporations and other nonbank lenders, and with rapid expansion of credit by the banking system, there was increasingly active competition for the available supply. Also, a specific deficiency in the supply of market liquidity instruments was the absence of a tax anticipation security maturing in June to facilitate payment of corporate income taxes. Corporations consequently competed aggressively for other short-term Treasury issues with appropriate maturities. Commercial banks and others with surplus short-term funds were likewise seeking in-

vestments in short-dated Treasury debt. At this same time, speculative interest in June "rights" was growing rapidly.

This very active general interest in short-term Treasury issues, combined with active speculative interest in the June "rights," added further to the market forces that were causing yields on short-dated Treasury debt to decline to very low levels in May. By May, as noted earlier, the June "rights" had declined to negative yields; that is investors were willing to pay, rather than earn, interest for the remaining time to maturity, to be able to acquire whatever security might be offered in the exchange. At the same time, yields on most other Treasury issues maturing within one year had dropped to 1 per cent or less. Early in May the 90-day Treasury bill yield was close to  $1\frac{1}{4}$  per cent, but by the end of the month it had moved down to less than  $\frac{5}{8}$  per cent.

As yields on short-dated Treasury debt declined to these very low levels, investors with surplus funds sought other short-term instruments, and holders of issues, like "rights" and June bills were encouraged to sell these issues in exchange for other assets. Business corporations sold "rights" in substantial volume to capture the market premium and then took the "rights" back from dealers under repurchase agreements also dated to mature on the tax date. In addition, some corporations sold other scarce June bill maturities to dealers in exchange for repurchase contracts at higher rates against longer term Government securities; and commercial banks, to improve their rate of return, actively solicited collateral loans, many of which were secured by "rights" held by Stock Exchange firms and other dealers and brokers. Finally, the very low market yields on short-term Government securities intensified incentives for commercial banks to offset reduced business loan demand through lengthening investment portfolios. Some corporations were also induced to lengthen the maturity of their holdings.

Interest rate data on loans and repurchase agreements obtained from the surveys of this study attest to the success of banks and corporations in improving their relative earnings. The financing of the Government securities purchases of borrowers in lieu of direct investment in Treasury issues for their own portfolios was considerably more profitable.

While those with funds to invest were attracted by these higher relative returns on loans and repurchase agreements against "rights," borrowers at the same time found the unusually low absolute level of interest rates on such loans to be highly advantageous. For buyers of "rights" in May who were willing to accept a negative yield to maturity,<sup>3</sup> the prevailing interest cost of financing their holdings for a few weeks evidently did not loom very large. Those participants who had forward delivery contracts had either no or only nominal interest rates to pay.

Perhaps even more important than the premium and interest costs to those buyers of "rights" who were anticipating a capital gain from the sale of new bonds was the proportion of the total cost of the "rights" they could finance on credit. For the buyer financed by collateral loans at commercial banks, this ratio was determined by the initial margin he was required to put up by the bank. Survey data for the study show that a large initial margin required of borrowers on collateral loans against June "rights" was 5 points, that is, \$50 for each \$1,000 of securities carried.

Most borrowers, however, were asked to put up 3 points or less of collateral, and many, including most of those with repurchase agreements, were not required to commit any of their own funds. Even under the maximum margin, which was most characteristic of loans to Stock Exchange firms because of the 5 per cent minimum margin required in the Exchange's rules, each change of 1 per cent in price of the securities results in a 20 per cent gain (or loss) in terms of the borrower's original equity. The extent to which this high leverage, combined with overly optimistic price expectations, attracted participants into the June refunding cannot be determined, but it is clear that relatively low initial margins increased the buying potential of those who did participate.

**Role of money brokers.** The pre-June interest of prospective buyers of "rights" in obtaining credit financing of their purchases, together with the search by lenders for effective uses of surplus funds, opened a new area of operation for money brokers. One

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<sup>3</sup> In May the excess of price of the 2¾ per cent note over a zero yield to maturity averaged over \$1 per \$1,000.

money broker, who had long experience in matching trades in Federal funds, and who was also a Stock Exchange member, became particularly important in this regard, for the yields which he was able to obtain for those with surplus funds were considerably higher than yields available on alternative short-term investments.

This major money broker's method of operation had two sides, one involving the placement of June "rights" on repurchase contract with business corporations or commercial banks, the other the making of offsetting contracts to deliver the securities at a later date to customers who wanted the long-term bonds expected in the June refunding. Under this arrangement banks and corporations were in actuality the lenders, and the customers of the broker the real borrowers. The money broker's commitment to repurchase the securities from the bank or corporation was not contingent on the ultimate customer's performance under the delayed delivery contract. Hence, the firm was in fact the principal and as such assumed a posture of risk to its own capital. The firm did not recognize that its delayed delivery contracts were in effect margin accounts for customers, however, and therefore did not obtain the 5 per cent margin required by the Stock Exchange. The bulk of both the repurchase contracts with banks and corporations and the delayed delivery contracts with customers was apparently made at the market value of the "rights."

Because the money broker's repurchase agreements in "rights" were for the most part valued at market prices, neither he nor his customers were required to put up any significant amount of new money until the customers actually made good on the final commitment to repurchase. Moreover, because many speculator-customers of the money broker were mainly interested in the anticipated new bonds for capital gains and other special tax reasons and not for current interest earnings,<sup>4</sup> the broker—after taking a

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<sup>4</sup> The tax advantage was based on the ability to deduct from current income, premiums paid for securities maturing within the tax year, such as the "rights" to the June refunding. Although the taxpayer also establishes a taxable short-term capital gain to the extent of any premium on the new issue on the exchange date, he is able to come out ahead insofar as he can offset it with capital losses from other transactions during the tax year.

small commission on the total transaction—was able to offer the lender a repurchase contract at a rate equal to most of the rest of the interest accrual on “rights.” Thus, on the 2¾ per cent June bond, the rate to the repurchase lender could be 2 per cent or better, clearly a highly attractive return relative to the yields then available on outright purchases of short-dated Treasury debt.

#### SIZE OF MAY BUILD-UP IN “RIGHTS”

The highly liquid state of the money market just prior to the June refunding thus created a situation, in some ways quite unique, in which lenders and borrowers found it mutually advantageous to seek less conservative credit arrangements involving “rights.” The mutual attractiveness of these arrangements to both lender and borrower undoubtedly augmented the size of the speculative interest in the refunding.

The market factors responsible for the build-up of speculative interest in “rights” prior to the June refunding were generally appreciated at the time. Guessing as to the quantitative results of these influences varied widely, however; hence the Treasury was confronted with considerable uncertainty as to the size of the speculative interest at the time it set refunding terms.

On the basis of the new data collected in the surveys for this study, it is now possible to document more precisely the extent to which the build-up in “rights” had actually proceeded at the time the Treasury announced its terms. The new data are of three types: (1) figures on investor positions in “rights” which supplement information on holdings already available from the Treasury’s regular survey of ownership, (2) data from Government securities dealers on daily purchases and sales of “rights” to different types of investors, and (3) data on credit extended against “rights” during the build-up period.

**Existing ownership data on “rights.”** It should be emphasized that March ownership data were the latest available to the Treasury at the time of the announcement of the financing terms. Table 5 shows changes in the holdings of June “rights” over the first five



TABLE 5  
OWNERSHIP OF MATURING ISSUES, OR "RIGHTS," IN THE JUNE 1958 REFUNDING<sup>1</sup>

[Par value, in millions of dollars]

End of month	Total outstanding	Commercial banks	Mut. sav. banks	Insur. cos.	Govt. invest. accounts	All others
Dec. 1957.....	9,556	3,974	116	350	410	4,706
March 1958.....	9,556	3,639	106	278	454	5,079
May 1958.....	9,556	3,960	112	240	455	4,789
Change Dec.-March....	—	— 335	— 10	— 72	+ 44	+ 373
Change March-May....	—	+ 321	+ 6	— 38	+ 1	— 290

<sup>1</sup> Issues maturing or called on June 15, 1958 were 2½ per cent notes amounting to \$4.4 billion, 2¾ per cent bonds amounting to \$0.9 billion, and 2¾ per cent bonds amounting to \$4.2 billion.

NOTE.—Based on Treasury Department survey of ownership. Total for commercial banks includes allowance for holdings of banks not included in the Treasury ownership survey.

months of 1958 for the investor groups included in the Treasury's ownership survey.

*Commercial bank holdings.* At the end of 1957 commercial banks—the most important group in the table for which reliable ownership estimates are available—held nearly \$4 billion of the issues which later became eligible for the June exchange offerings. In the first quarter these banks reduced their holdings of "rights" by \$335 million, a period in which they were at the same time adding \$425 million to their over-all holdings of Government securities. A substantial part of this net new acquisition of other Governments reflected purchases of the new longer maturity issues offered by the Treasury in the early months of 1958.

In April and May when commercial banks were also making further substantial additions to their portfolios of other Government securities, they reacquired \$321 million of June "rights," raising their holdings of June maturities back to about the \$4 billion level estimated for the beginning of the year.

As is shown in Table 6, this rebuilding of commercial bank holdings of "rights" was concentrated at banks in New York City and Chicago, which had also been adding steadily to their holdings of "rights" during the first quarter of 1958. From the end of 1957 to the end of May, these banks acquired more than \$400 million of "rights," of which \$286 million were obtained in April and May. Holdings of banks in reserve cities at the end of May, although

TABLE 6  
CHANGE IN HOLDINGS OF JUNE "RIGHTS", BY CLASS OF COMMERCIAL BANKS  
END OF MARCH TO END OF MAY 1958

[In millions of dollars]

Class of bank	Change in holdings
All commercial banks.....	+ 321
New York City central reserve city banks.....	+ 204
Chicago central reserve city banks.....	+ 82
Reserve city banks.....	+ 94
All other banks.....	- 59

\$94 million larger than at the end of March, were still slightly below their level at the beginning of the year. In contrast to the larger banks, member banks outside the major centers and non-member banks reduced their holdings of "rights" by nearly \$400 million in the first five months of the year and by \$59 million in April and May.

The chief difficulty with information derived from the regular Treasury survey of ownership is that it provides no breakdown of changes in holdings for the large residual category of "all other" investors. Since the "all other" group includes such important classes of investors as nonfinancial corporations, Government securities dealers, foreign accounts, other dealers and brokers, and individuals, it is extremely diverse in character; and changes in holdings for the group as a whole are likely to cover up quite disparate movements in ownership by individual classes of investors within the group. This deficiency is remedied in part for the pre-refunding period of build-up in June "rights" by the surveys of the present study.

*Corporate holdings of "rights."* Table 7 shows changes in holdings of "rights" from the end of April to the end of May at the 145 large business corporations included in the special Treasury-Federal Reserve survey of nonfinancial corporations. These corporations, which accounted for nearly three-fourths of all corporate subscriptions to the 2½ per cent bond in the June refunding, held outright nearly \$1.6 billion June "rights" at the end of April.

**TABLE 7**  
**HOLDINGS OF JUNE "RIGHTS" BY 145 LARGE BUSINESS CORPORATIONS**

[In millions of dollars]

Holdings	April 30	May 31	Change during May
Outright holdings.....	1,596	1,183	-413
Under repurchase agreements.....	88	283	+195
Total.....	1,684	1,466	-218

During May they liquidated more than \$400 million of these holdings in the market, presumably to obtain the attractive premiums to which the "rights" had been bid. Funds obtained from these sales were apparently reinvested largely in repurchase agreements; during May, repurchase agreements of the 145 corporations in June "rights" rose \$195 million, as the table shows; and repurchase agreements in other securities increased \$309 million.

*Holdings of New York Stock Exchange firms in "rights."* While nonfinancial corporations were heavy net sellers of June "rights" in May, some other investor classes included in the "all other" investors classification of the regular Treasury survey of ownership were adding to positions in "rights" during this period. Thus, member firms on the New York Stock Exchange reported that during April and May positions in June "rights" in their own and in customers' accounts increased from \$105 million to \$465 million. As may be seen from Table 8, about one-fifth of this increase rep-

**TABLE 8**  
**POSITION IN JUNE "RIGHTS" AT MEMBER FIRMS  
OF NEW YORK STOCK EXCHANGE**

[In millions of dollars]

Type of accounts	Apr. 2	May 28
Total.....	105	465
Customer accounts.....	14	92
Firm, partner, or stockholder accounts.....	91	373

resented a build-up in securities held in accounts of customers. The much larger increase in positions for the firms' own accounts was largely accounted for by one firm, the money broker and Stock Exchange firm whose own commitments, as has been noted, were offset by delayed delivery contracts with customers.

*Government securities dealers' transactions in "rights."* Data obtained in the Treasury-Federal Reserve survey throw some further light on the pattern of changes in investor holdings of June "rights" from May 21 to May 30. Rounded figures tabulating the "rights" transactions of Government securities dealers with other investor groups are given below, in millions of dollars. Plus signs indicate net purchases by dealers from others, and minus signs indicate net sales by dealers to others.

Other government securities dealers (several small dealers not included in survey).....	+ 5
Commercial banks.....	+ 9
New York Stock Exchange firms.....	-163
Other brokers and dealers.....	- 29
Nonfinan. bus. corps.....	+295
Savings type investors.....	+ 20
Individuals.....	- 1
Others.....	- 21
	<hr/>
Net increase in positions of Government securities dealers.....	+116

In particular, the data provide further confirmation of the importance of nonfinancial corporations as net sellers of "rights" prior to the refunding. They also show that market professionals were the principal acquirers of "rights" in the latter days of May, including both other dealers and brokers (mainly New York Stock Exchange firms) and regular Government securities dealers. The very small figure in the table for net purchases of "rights" by individuals probably reflects the fact that most individuals buy and sell Government securities either through commercial banks or through dealers and brokers other than Government securities dealers. The sizable net acquisitions of "rights" by commercial banks during all of April and May, shown in Table 5, had apparently already been accomplished prior to May 21.

*Credit extended against "rights."* The evidence on the build-up in "rights" prior to the June refunding summarized in the foregoing tables and paragraphs deals only with changes in the owner-

ship of "rights." As was indicated, an important element of the rumored activity in "rights" prior to the refunding was the extent to which the build-up of interest was financed on credit. Table 9

TABLE 9  
BUILD-UP IN LOANS AND REPURCHASE CONTRACTS FOR FINANCING JUNE "RIGHTS,"  
LATE MAY, 1958, BY TYPE OF LENDER

[In millions of dollars]

Date or period	All lenders <sup>1</sup>	Commercial banks	Nonfinan. bus. corps.	Agencies of foreign banks
Outstanding May 21....	384	162	214	8
Extended May 22-30....	+ 427	+ 275	+ 142	+ 10
Repaid May 22-30.....	- 248	- 165	- 79	- 4
Outstanding May 30....	562	272	276	14

<sup>1</sup> The other lending institutions surveyed, namely mutual savings banks and life insurance companies, extended only nominal amounts of credit against the June "rights."

shows the total volume of credit extended against "rights" by all major groups included in the Treasury-Federal Reserve surveys, including repurchases as well as collateral loans. On May 21, net credit extended against "rights" by these groups amounted to \$384 million; on May 30 the total had risen to \$562 million, reflecting a substantial volume of gross credit extensions in the intervening week. When the Treasury made and announced its decision on May 29 on the terms of the June refunding, credit financing of "rights" by the lending groups covered by the special surveys was thus approximately one-half billion dollars.<sup>5</sup>

Table 10 shows that the May 30 borrowing against "rights" was confined almost wholly to professionals, with the regular Government securities dealers accounting for nearly three-fifths of the total. Borrowings by individuals and others were very small, although, as was noted in the earlier discussion of money brokers, an appreciable part of the \$188 million of credit extended to New

<sup>5</sup> As will be developed in Ch. 5, which quantifies credit financing of the 2½ per cent bond, the bulk of the credit extended against issues involved in the June refunding appears to have been provided by the institutions included in this study's surveys.

**TABLE 10**  
**LOANS AND REPURCHASE CONTRACTS AGAINST JUNE "RIGHTS"**  
**OUTSTANDING MAY 30, 1958**  
**BY TYPE OF LENDER AND TYPE OF BORROWER**

[In millions of dollars]

Type of lender	Type of borrower					
	All borrowers	Govt. sec. dealers	N. Y. Stock Exchange firms	Other brokers and dealers	Individuals	Others
All lenders.....	562	311	188	31	28	4
Commercial banks.....	272	85	129	27	28	3
Nonfinan. bus. corps....	276	226	50	0	0	0
Agencies of foreign banks.....	14	0	9	4	0	1

York Stock Exchange firms in this period reflected loans and repurchase contracts backed by underlying customer commitments.

## 4. Refunding Build-up and its Results

The terms of the Treasury's June cash financing and refunding were announced after the Government securities market closed on May 29, 1958. The news that the cash financing would involve an issue of \$1 billion  $3\frac{1}{4}$  per cent bonds maturing in 1985 (offered at  $100\frac{1}{2}$  and carrying a 20 per cent downpayment requirement) and that the refunding would be limited to an option of 11-month certificates and  $6\frac{2}{3}$ -year bonds occasioned some surprise in the market, since many market participants had been expecting that a long bond, if issued at all, would be in the refunding.

On June 2, the first day of trading following the Treasury announcement, prices of June "rights" were temporarily depressed, reflecting some momentary uncertainty whether the restriction of the exchange option in bonds to the single medium-term issue might not create some liquidation by disappointed holders who had wanted a long-term issue. These doubts proved to be short lived, however, and quotations on "rights" continued to show premiums of about  $\frac{3}{8}$  of a point throughout the exchange period. "When-issued" quotations on the new  $2\frac{5}{8}$  per cent bonds likewise showed consistent premiums, and during the June 4-6 period, when books were open for the exchange, the market for outstanding intermediate- and long-term bonds was firm.

### INTENSIFICATION OF CREDIT EXPANSION

From new data provided by this study's surveys, it is now clear that interest in the June exchange did not subside following the announcement of terms by the Treasury, but rather intensified sharply. In fact, on June 6, as is shown in Table 11, credit outstanding against June "rights" supplied by all of the major lending groups surveyed was double what it had been on May 30. In the first

TABLE 11

LOANS AND REPURCHASE CONTRACTS OUTSTANDING AGAINST JUNE "RIGHTS"<sup>1</sup>

[In millions of dollars]

Date	All lenders <sup>2</sup>	Commercial banks	Nonfinan. bus. corps.	Agencies of foreign banks
May 21.....	384	162	214	8
May 30.....	562	272	276	14
June 6.....	1,199	759	390	50

<sup>1</sup> Outstandings are derived figures obtained by netting survey data on extensions against those on terminations.

<sup>2</sup> The other lending institutions surveyed, namely mutual savings banks and life insurance companies, extended only nominal amounts of credit against June "rights."

week of June, new credit extensions had accelerated sharply to an average daily rate of \$195 million.

The accelerated rise in lending against June "rights" after the announcement of terms was concentrated at commercial banks, and on June 6 banks accounted for over 60 per cent of total outstanding credit extended by all lenders included in the surveys. Moreover, most of the bank credit extended against "rights" was made by a relatively small number of large institutions, four-fifths of the total having been extended by 26 banks.

The pattern of the corporate credit build-up differed from that of commercial banks in that the greater part of the June "rights" held by corporations under repurchase agreements at the time of the exchange had been acquired in April and May. Nonetheless, the net flow of corporate funds into June "rights" was substantial in the first part of June, with gross extensions of repurchase agreements against "rights" averaging over \$22 million per business day, while terminations averaged less than \$10 million a day. As was true of the banks, financing of "rights" by business corporations was heavily concentrated, with eight companies accounting for more than half of the dollar volume of corporate repurchase agreements extended against "rights."

Of the \$600 million expansion in credit financing of "rights" between May 30 and June 6, more than half of the added borrowing came from Government securities dealers, who thus continued to account for more than half of the total borrowing on "rights"



TABLE 12

LOANS AND REPURCHASE CONTRACTS AGAINST JUNE "RIGHTS" OUTSTANDING JUNE 6  
BY TYPE OF LENDER AND TYPE OF BORROWER<sup>1</sup>

[In millions of dollars]

Type of lender	Type of borrower					
	All borrowers	Govt. sec. dealers	N. Y. Stock Exchange firms	Other brokers and dealers	Individuals	Others
All lenders.....	1,199	706	352	94	41	8
Commercial banks.....	759	436	237	39	41	7
Nonfinan. bus. corps....	390	270	76	45	0	0
Agencies of foreign banks.....	50	0	38	10	0	1

<sup>1</sup> Collateral changes to 2½ per cent bonds of 1965 and 1¼ per cent certificates of May 1959.  
NOTE.—Because of rounding, figures do not necessarily add to totals shown.

as may be seen in Table 12. New York Stock Exchange firms added \$160 million to their borrowing against "rights" raising the total to \$350 million, and other dealers and brokers added \$60 million. Direct borrowing by individuals and other miscellaneous borrowers, on the other hand, continued to account for only a very small part of the total credit financing of "rights."

#### MARKET TRADING DURING EXCHANGE

From June 2 to June 6 net transactions of Government securities dealers with other investor groups in June "rights" and "when-issued" 2½ per cent bonds followed a pattern similar to that of late May. Net purchases of dealers from others (plus) and net sales to others (minus), in millions of dollars, were:

Other Government securities dealers (several small dealers not included in survey).....	+ 26
Commercial banks.....	+ 114
N. Y. Stock Exchange firms.....	- 290
Other brokers and dealers.....	- 75
Nonfinan. bus. corps.....	+ 328
Savings type investors.....	+ 99
Individuals.....	- 8
Others.....	+ 53
Net increase in positions of Government securities dealers.....	+ 246

Government securities dealers, other dealers and brokers, and to a limited extent, individuals, were the principal net buyers, while nonfinancial corporations continued to be the dominant net sellers. In addition, commercial banks and savings type institutions were considerably larger net sellers than they had been in the late May period.

Aggregate net positions of Government securities dealers in "when-issued" securities (including holdings of both new securities) on June 6 totaled \$547 million. As was suggested by the chart on page 19, absorption of "rights" by Government securities dealers at times of Treasury refunding is a normal dealer function. Nevertheless, the aggregate size of dealer acquisitions in "rights" during late May and early June appears to have been as large as or somewhat larger than in most other similar Treasury refunding operations in recent years. This greater willingness of dealers to acquire "rights" during the June 1958 exchange period reflected in part the substantial interest in June exchange issues shown at the time by other investor groups.

Large additional buying by New York Stock Exchange firms in early June raised the total positions of such firms in June "rights" and ("when-issued") 2½ per cent bonds nearly 60 per cent, to \$741 million (Table 13). Of this total, only about one-fifth was

TABLE 13  
POSITIONS IN JUNE "RIGHTS" AND ("WHEN-ISSUED") 2½ PER CENT BONDS  
AT MEMBER FIRMS OF THE NEW YORK STOCK EXCHANGE

[In millions of dollars]

Date	Total	Customer accounts	Firm, partner, or stockholder accounts
May 28.....	465	92	373
June 11.....	741	153	588

directly held in accounts of customers. When, however, allowance is made for securities positioned indirectly for customers, total customer interest—direct and indirect—represented 75 per cent of the

\$741 million. The larger part of this 75 per cent represented holdings of a money broker. In effect, as was noted earlier, his holdings were for customer account, because the repurchase contracts in which he was principal were offset by delayed delivery contracts with customers.

In retrospect, it appears that about half of the credit build-up in the issues involved in the June refunding occurred after the Treasury had announced the terms of the exchange. At this point, there was no longer any doubt that capital appreciation to be gained from a secondary market rise in prices would have to be obtained from the intermediate-term issue rather than from the previously expected long-term bond.

#### RESULTS OF JUNE EXCHANGE

Between June 4 and June 6 while books were open on the refunding, holders of more than three-fourths of the \$9.1 billion of publicly held maturing "rights" exercised their exchange option to subscribe to the new 6-year 8-month, 2½ per cent bond. As Table 14 shows, exchanges into the alternative 11-month certificate

TABLE 14  
DISPOSITION OF PUBLICLY HELD ISSUES MATURING  
OR CALLED IN TREASURY REFUNDING OF JUNE 1958<sup>1</sup>

Disposition	Millions of dollars	Percentage of total
Publicly held June "rights" outstanding.....	9,100	100
Issues exchanged.....	8,757	96
2½% bond of Feb. 1965.....	7,033	77
1¼% cert. of May 1959.....	1,724	19
Issues turned in for cash.....	343	4

<sup>1</sup> In addition to holdings and exchanges by the public, U. S. Government investment accounts held \$455 million of maturing issues and exchanged \$355 million for the 2½ per cent bonds and \$92 million for the 1¼ per cent certificates, and turned \$8 million in for cash. Federal Reserve Banks held none of the maturing issues.

and cash redemptions were very small—\$1.7 billion for certificate exchanges and \$343 million for redemptions. The extraordinarily high conversion into the medium-term bond resulted in a total allot-

ment to the public of more than \$7 billion of the issue, approximately double the prerefunding estimates of official and other informed market observers.

The unexpectedly large size of the new 2½ per cent bond allotments led at once to the conclusion that the volume of credit-financed participation supporting the exchange was much larger than anyone had previously thought. It also suggested that an inordinately large proportion of the subscriptions had been tendered by institutional participants and individuals who had neither the intention nor the resources to hold the new bonds as permanent investments, and that a considerable period of time would be required before such bonds could be shifted from temporary holders to the portfolios of more permanent investors.<sup>1</sup>

#### INVESTOR ALLOTMENTS—MARKET INTERPRETATION

Subsequent release in late July of investor allotment figures on the June refunding (shown in Table 15) did not dispel the general presumption of market participants that the bulk of the \$3 billion or so of unanticipated excess in the size of the new 2½ per cent bond represented exchanges financed on credit.

At first glance these data did belie any extensive participation in the new bond by uninformed newcomers—individuals—who were

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<sup>1</sup> In moderate amounts, subscriptions on a temporary basis by commercial banks, Government securities dealers, and other professionals are customary and expected in Treasury refundings, as well as in cash financings. Indeed, such subscriptions on the part of informed market participants serve the useful function of facilitating distribution of new Treasury issues among ultimate investors who, for one reason or another, do not acquire the new securities in the initial offerings. Such redistributions, which ordinarily are accomplished in the course of a few weeks, are prompted by the prospect of a measure of profit over the offering price. This gain for performing the function of distribution may or may not materialize, depending on the course of the market in the post-financing period; hence the function is essentially "speculative" in the broad sense of the term.

Similarly, the day-to-day activities in outstanding Treasury issues on the part of professional traders—in amounts small relative to the total volume of transactions—tend to smooth out erratic fluctuations in price and help give the market a direction and a level consistent with underlying forces.

Temporary acquisitions of the 2½ per cent bond in the June financings, however, differed both in degree and in kind from the more usual speculative activity described above.

TABLE 15

## ALLOTMENTS OF NEW ISSUES IN JUNE TREASURY REFUNDING, BY TYPE OF HOLDER

[Par value, in millions of dollars]

Type of investor	2½% bond	1¼% certificate
Commercial banks .....	4,031	571
Nonfinan. bus. corps.....	1,045	570
Brokers and dealers.....	924	47
Individuals.....	209	98
Insurance cos. and mut. sav. banks.....	305	30
State and local govt. agencies.....	194	191
Govt. invest. accounts.....	355	92
Others <sup>1</sup> .....	325	218
Total.....	7,388	1,817

<sup>1</sup> Includes savings and loan associations, private pension and retirement funds, nonprofit institutions, and investments of foreign balances and international accounts.

alleged to have been of major importance in the late May and early June build-up of credit financed positions in June "rights." It was generally argued in the market, however, that the \$6 billion of 2½ per cent bonds allotted to banks, business corporations, and dealers and brokers actually included substantial credit-financed holdings of individuals.

The award of more than \$1 billion of medium-term bonds to business corporations was surprising, since such corporations usually concentrate their exchanges in short-term issues in optional refundings. This fact was cited to indicate that the corporate allotment figures really reflected an indeterminate but presumably large volume of exchanges into 2½ per cent bonds of "rights" held under resale agreement to others.

Similarly, although commercial banks were awarded a smaller share of the total issue of 2½ per cent bonds than had been true in some earlier optional refundings involving an intermediate-term bond, total bank awards of more than \$4 billion were, nevertheless, larger than informed observers had previously expected the whole issue to be. Hence, it was argued that a significant part of the bank awards could also really represent exchanges of "rights" held under resale agreement to others.

Finally, because it was common knowledge that brokers had entered into delayed delivery contracts in 2½ per cent bonds with customers, it was pointed out that their allotment in effect overstated their outright participation and understated awards to ultimate customers—presumably individuals. At the same time, however, it was recognized that on “rights” which brokers had placed under repurchase arrangements with other investors, allotments of the 2½ per cent bonds would appear as awards to those other investors. In short, it was generally presumed that the Treasury allotment figures on the 2½ per cent bond seriously obscured the real character of participation in the new issue.

#### **ROLE OF REPURCHASE AGREEMENTS**

The repurchase arrangement of financing holdings of Government securities involves in its most common form the sale of securities, usually by a dealer in Government securities, to a customer—non-bank or bank—combined with a simultaneous forward purchase of the same or equivalent securities by the sellers as of some specified future date and at an agreed upon price. Commercial banks and money brokers sometimes use this arrangement in their transactions with customers. Questions of the market as to the actual role of repurchase financing in the June refunding are directly answered by study surveys. The importance of repurchase contracts in the figures on total awards of 2½ per cent bonds to commercial banks and business corporations is indicated in Table 16.

Included in the survey of commercial banks were 268 banks which had deposit liabilities of \$100 million or more at the end of 1958.<sup>2</sup> These sample banks exchanged \$1.8 billion of “rights” into the 2½ per cent bond, or 45 per cent of the total exchanged by all banks. Only \$154 million, or 8 per cent, of the securities exchanged by survey banks were held under repurchase agreement, which left nearly \$1.7 billion or roughly 92 per cent of their hold-

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<sup>2</sup> This group of banks held 60 per cent of the deposits in all commercial banks in the country.

TABLE 16

PARTICIPATION IN EXCHANGES FOR 2½ PER CENT BONDS OF 1965  
BY BANKS AND BUSINESS CORPORATIONS

[In millions of dollars]

Type of subscriber	Initial allotments reported to Treasury	On securities held outright	Under repurchase agreements with:			
			Total	Govt. sec. dealers	Other brokers and dealers	All others
All commercial banks.....	4,031	n.a.	n.a.	n.a.	n.a.	n.a.
268 large banks in survey.....	1,844	1,688	154	36	113	5
Other banks.....	2,188	n.a.	n.a.	n.a.	n.a.	n.a.
Nonfinan. bus. corps.....	1,045	677	368	258	110	(1)
145 large corps. in survey.....	763	395	368	258	110	0
Other corps.....	282	282	(1)	(1)	(1)	(1)

n.a. Not available.

1 Assumed to be negligible.

ings of 2½ per cent bonds that were acquired on an outright basis for their own account.

Exchanges for the 2½ per cent bonds under repurchase agreements are, of course, not known for banks not included in the survey. Since, however, the practice of lending funds to dealers and brokers under repurchase agreements is generally confined to a small number of banks (a few dozen relatively large banks outside New York City), most of which were included in the survey, the comparative importance of such lending among nonsurvey banks was probably much smaller. On this assumption, exchanges by all commercial banks of "rights" held under repurchase agreements, reflecting commitments of other parties to buy the new bonds, probably amounted to no more than \$250 million, and outright participation of commercial banks in the 2½ per cent bond was at least \$3.75 billion.

The 145 large nonfinancial business corporations surveyed for this study accounted for \$760 million, or 73 per cent, of all corporate subscriptions to the 2½ per cent bonds. Since nearly half, or \$368 million, represented repurchase agreements with dealers and brokers, outright participation by survey corporations amounted to \$395 million. Use of corporate funds for acquiring

Government securities under repurchase agreements is, at any time, confined to a relatively few very large corporations.

For the weeks preceding the June refunding, only 24 of the 145 large corporations surveyed reported that they had made repurchase agreements against June "rights." It is very likely, therefore, that the companies included in the survey account for virtually all of the corporate exchanges to 2½ per cent bonds involving such agreements. On the assumption that all exchanges by nonsurvey corporations were on an outright basis, outright participation in the exchange to 2½ per cent bonds by all business corporations amounted to about \$675 million compared with total corporate allotments of \$1,045 million.

Study surveys of insurance companies and domestic agencies of foreign banks revealed no exchanges at these institutions into 2½ per cent bonds under commitments to resell, and the mutual savings banks surveyed had only \$3 million of such exchanges. Virtually all of the Treasury allotments of 2½ per cent bonds to these organizations, therefore, are presumed to represent outright investments.

Exchanges for 2½ per cent bonds tendered by dealers and brokers amounted to \$925 million. To obtain a more accurate estimate of actual dealer and broker interest in the new bond, it is probably appropriate to add to these direct allotments the \$522 million of commitments which dealers and brokers had made to repurchase 2½ per cent bonds from the commercial banks and business corporations included in the surveys, together with an estimate for whatever additional volume of repurchase agreements may have been outstanding with nonsurvey institutions. Addition of only the known repurchase agreements with survey institutions to the Treasury allotment figure gives total adjusted awards to dealers and brokers of just under \$1.5 billion.

Not all of this \$1.5 billion figure represents outright ownership by dealers and brokers, however, since a significant amount had already been offset by commitments to customers. Such offsets would include exchange of "rights" held by New York Stock Exchange firms for account of customers, forward delivery contracts with cus-



tomers, and "when-issued" sales of the 2½ per cent bonds already committed before the books closed.

## ROLE OF FORWARD DELIVERY CONTRACTS

Use of the forward delivery contract was regarded by market rumor as a major factor facilitating speculative positioning in the June "rights," especially through New York Stock Exchange firms. These firms held a total position in 2½ per cent bonds of \$741 million on June 11, which was midstream between offering and settlement dates of the refunding.

Of this amount, \$153 million was in customer accounts. Delayed delivery sales were a further offset, however, and it may be presumed that the sizable position of one money broker member of the exchange largely represented forward delivery sales to customers, either directly or through other Stock Exchange members and their correspondents. It may be estimated, accordingly, that the total forward delivery sales to customers by Stock Exchange members amounted to a figure approximating \$350-\$400 million.

For various purposes, Government securities dealers commonly resort to delayed delivery sales in their operations, particularly for a very few days. When customers, for example, have large sums of money becoming available for temporary investment, they may anticipate these investment needs by buying ahead through dealers in order to spread out the market impact of the total transaction. Also, in the distribution of new Treasury issues, forward delivery sales are sometimes made to institutional investors with delivery dates from a few weeks to several months ahead.

Over the entire period of the June refunding build-up from mid-April through June 4, the first day the books were open on the refunding, dealers made forward deliveries totaling \$205 million in June "rights," and they made \$23 million more of such sales in the 2½ per cent bonds over the ensuing weeks of June. It is interesting to note that these dealer forward delivery sales over this period approximated forward delivery purchases of New York Stock Exchange firms. Settlement dates of dealer forward delivery sales were not ascertained in the study survey, so that the total

of such commitments at the time of the refunding itself is not known.

#### **SUMMARY COMMENT ON ALLOTMENTS**

The additional data gained from the surveys covering bank and corporate repurchase arrangements and delayed delivery contracts thus suggest that the original Treasury allotment figures on awards of 2½ per cent bonds to investor classes give a generally correct impression of ownership participation in the issue. Even when an adjustment is made for repurchase contracts, commercial banks and business corporations were the primary holders of the bond, accounting for approximately 65 per cent of the \$7 billion issued to the public. Outright participation by business corporations, however, is shown to have been appreciably smaller than was indicated by the original allotment data. Although dealer and broker interest in the new bond, adjusted to account for repurchase agreements, amounted to about \$1.5 billion, offsets to this total representing commitments to customers probably lowered the outright interest of dealers and brokers to something less than the \$925 million of the issue they were allotted.

In other words, Treasury figures on awards of 2½ per cent bonds overstate outright participation of business corporations, and dealers and brokers, and understate participation of individuals.

## 5. Credit and Credit Standards in June Financing

Use of borrowed funds in the June financing was mainly by dealers and brokers and individuals. Other investor participation in the refunding involved little use of borrowed funds. That exchanges for the 2½ per cent bonds were arranged mostly by investors using their own resources does not mean, however, that speculative considerations played no part in their decisions to acquire the new bonds.

Subscriptions by participants using their own funds, such as commercial banks and business corporations, were largely responsible for the over-all size of the issue, and contributed to the vulnerability of the Government securities market when interest rate expectations were reversed later in the month. In this positioning, some banks and corporations were clearly motivated by the higher interest return obtainable from temporary holding of the bond relative to the certificate.

But the hope of capturing a higher market premium on the bond than on the certificate was also a powerful incentive to speculative positioning for many of these investors.

### CREDIT FINANCING OF 2½ PER CENT BONDS

While total speculative positioning in the 2½ per cent bond refunding contributed to the severity of the subsequent market decline, the share which was financed by credit was of critical importance because these positions were destined shortly to be liquidated. The volume of credit-financed exchanges amounted to at least one-sixth of total participation and, on a historical basis, was large in absolute amount. When added to the cash-financed subscriptions, moreover, it brought the aggregate size of the new bond issue to a level that proved unmanageable under the circumstances. The individuals and other participants who financed on credit had little equity in the securities they had purchased and a significant number of them, even though persons of substantial means, had little experience in

trading in Government securities. Accordingly, they were ill-prepared to cope with a sudden weakening in the market.

Credit financing of exchanges for the 2½ per cent bonds reported in study surveys and shown in Table 17 amounted to nearly \$1 billion or about three-quarters of the total volume of credit earlier supplied to finance the carrying of "rights." In view of undercoverage of study surveys, particularly in the commercial bank area, it is likely that the actual total was a few hundred million dollars larger than this amount.<sup>1</sup> Hence, the general order of magnitude of credit

TABLE 17  
CREDIT FINANCING OF EXCHANGES FOR 2½ PER CENT BONDS BY LENDERS  
INCLUDED IN TREASURY-FEDERAL RESERVE STUDY

[In millions of dollars]

Borrowers	All lenders	Commercial banks	Nonfinan. bus. corps.	Agencies of foreign banks	Others
All borrowers.....	970	552	368	47	3
Collateral loans.....	445	398	0	47	0
Repurchase agreements.....	525	154	368	0	3
Govt. sec. dealers.....	415	155	258	0	2
Collateral loans.....	128	128	0	0	0
Repurchase agreements.....	287	27	258	0	2
N. Y. Stock Exchange firms.....	417	268	110	38	1
Collateral loans.....	187	149	0	38	0
Repurchase agreements.....	230	119	110	0	1
Other brokers and dealers.....	47	40	0	7	0
Collateral loans.....	40	33	0	7	0
Repurchase agreements.....	7	7	0	0	0
Individuals.....	46	46	0	0	0
Collateral loans.....	45	45	0	0	0
Repurchase agreements.....	1	1	0	0	0
Others.....	45	44	0	1	0
Collateral loans.....	44	43	0	1	0
Repurchase agreements.....	1	1	0	0	0

NOTE.—Because of rounding, figures do not necessarily add to totals shown.

<sup>1</sup> If the share of nonsurvey banks in lending against "rights" exchanged in the June refunding was the same as their share of total deposits, namely, 40 per cent, credit extended by these banks would have accounted for an additional \$370 million. Since the nonsurvey banks, each of which held deposits of less than \$100 million, are known to be generally less active in Government securities lending than the larger banks included in the survey, it is likely that credit extended by nonsurvey banks was smaller than this, probably no more than \$200 million. Four-fifths of the credit against "rights" supplied by all banks included in the survey was extended by only 26 banks.

in financing holdings of "rights" which were exchanged for 2½ per cent bonds appears to have been around \$1.2 billion. This sum was approximately one-sixth of all subscriptions tendered for the new issue.

Even if no allowance is made for lending by banks not in the survey, the principal suppliers of funds were commercial banks—which were also the largest group of outright participants. About 70 per cent of commercial bank lending was in the form of collateral loans and 30 per cent in the form of repurchase agreements. The other major source of credit in the June refunding was non-financial business corporations, where all lending was in the form of repurchase agreements. Altogether, when account is taken of credit extended by nonsurvey banks, repurchase agreements probably represented about one-half of total lending in the June exchange.

At both commercial banks and business corporations, lending against "rights" was heavily concentrated at a relatively small number of organizations. Thus, of the 161 commercial banks reporting any lending at all against Government securities in the spring of 1958, 11 institutions in New York State accounted for more than one-half of total bank lending against "rights" involved in exchanges for 2½ per cent bonds, and another 30 per cent approximately was accounted for by 15 banks outside New York. Of the 145 business corporations surveyed, only 16 companies reported any holdings of June "rights" exchanged for 2½ per cent bonds under repurchase agreements and 4 of these companies accounted for three-fourths of the total.

The borrowing of funds in the June refunding was also heavily concentrated among a limited number of participants. Thus, brokers and dealers accounted for 85 per cent, or \$463 million, of the \$532 million of total lending extended by banks in the survey (Table 17). Only about one-third of this professional borrowing from banks was attributable to financing of the new 2½ per cent bond with Government securities dealers; more than half reflected activities of other dealers and brokers who solicited bank funds to finance exchanges for their customers. Reports submitted by New

York Stock Exchange firms indicate that one firm accounted for the bulk of these activities.

This broker also appears to have been the principal involved in a substantial part of the repurchase agreements with business corporations against June "rights." Business corporations reported exchanges of \$368 million of "rights" held under repurchase agreements, of which \$110 million were with member firms of the New York Stock Exchange; from reports submitted by member firms to the Treasury and the Federal Reserve, it appears that one firm accounted for this borrowing. The remaining portion of corporate repurchase agreements was with Government securities dealers.

The central role played by brokers in bringing individuals into the June refunding is suggested by the relatively small size of direct borrowing by individuals. At the time of exchange, commercial banks included in the survey exchanged only \$46 million of "rights" held as collateral against loans to individuals. These exchanges, moreover, represented only 68 separate loan transactions. It is possible, however, that lending to individuals by banks not in the survey was more important in both volume and number. Among the commercial banks included in the survey, the 32 banks which accounted for about 90 per cent of lending against Governments to Government securities dealers and to member firms of the New York Stock Exchange accounted for only one-half of such lending to individuals.

#### **CREDIT STANDARDS IN JUNE REFUNDING**

A rapid expansion in credit financing of a particular activity raises questions concerning the quality of the enlarged volume. Thus, it may well be asked whether the upsurge in lending to finance participation in the June refunding was largely a reflection of increased demand on the part of creditworthy borrowers, or whether in view of a plethora of funds, it reflected lenders endeavoring to increase credit demand by extending credit to borrowers whose qualifications to assume financial commitments they did not adequately ascertain. A specific question of interest relates to alleged lowering of margin standards in connection with credit used to finance exchange of "rights" for the 2½ per cent bonds.

**Borrower-lender relationships.** Statistical surveys are not ideally suited to providing answers to qualitative questions of this type. The study's survey of commercial banks, however, does provide evidence on two aspects of quality: (1) the relative importance in the June refunding of lending to parties who had not previously borrowed from the reporting banks for a similar purpose; and (2) the relative importance of collateral loans and repurchase agreements arranged through a third party. With regard to both these aspects of bank-customer relationship, there is a presumption—but only a presumption—that the qualifications of such borrowers were less well known to lenders than in the case of loans made directly to previous customers.

The bank survey (Table 18) shows that 15 per cent of the dollar amount of all loan extensions for purchasing or carrying June "rights" and 2½ per cent bonds were arranged through third parties and were made to first-time borrowers. Significantly, however, about three-fourths of loans to individuals were made on this basis. This tends to support the publicized impression that individuals not normally active in the Government securities market did participate in the June refunding on a credit basis. At the same time, survey results make clear that the volume of such direct borrowing by individuals was of small importance in the over-all credit build-up.

A comparison of arrangements associated with lending against "rights" and 2½ per cent bonds with those involved in lending

TABLE 18  
BORROWER-LENDER RELATIONSHIP IN COMMERCIAL BANK  
CREDIT AGAINST JUNE "RIGHTS" AND 2½ PER CENT BONDS OF 1965

[Percentage of total collateral loans and repurchase agreements]

Type of borrower	Total	Borrowed before <sup>1</sup>			Borrowed first time		
		Sub-total	Arranged directly	Arranged through 3d party	Sub-total	Arranged directly	Arranged through 3d party
Govt. sec. dealers.....	100	95	87	8	5	1	4
N. Y. Stock Exchange firms.....	100	75	72	3	25	20	5
Other brokers and dealers.....	100	85	49	36	15	8	7
Individuals.....	100	12	10	2	88	12	76
Others.....	100	27	19	8	73	26	47
All borrowers.....	100	76	68	8	24	9	15

<sup>1</sup> From the lending bank for a similar purpose.

against other United States Government securities (Table 19) shows that, for most classes of borrowers, a higher proportion of the "rights" and 2½ per cent bond lending was arranged by third parties for the new customers of the lending banks. It is likely, moreover, that the proportions shown for loans against "other Government securities" were also higher than usual, reflecting the general build-up of interest in the Government securities market in the spring of 1958 when most of these other loans originated.

It should also be noted that the figures covering New York Stock Exchange firms in Table 18 substantially understate the actual extent of indirectly financed new participation arising from this class of credit. As has been indicated, the largest part of borrowing against June "rights" by such firms acting as principals was, in effect,

TABLE 19  
RELATIVE IMPORTANCE OF CREDIT ARRANGED BY THIRD PARTIES  
FOR FIRST-TIME BORROWERS IN BANK LENDING

[As percentages of totals]

Type of borrower	Type of collateral	
	June "rights" or 2½% bonds	Other Govt. sec.
All borrowers .....	15	3
Govt. sec. dealers .....	4	1
N. Y. Stock Exchange firms .....	5	5
Other brokers and dealers .....	7	3
Individuals .....	76	56
Others .....	47	39

reloaned to individuals through the instrument of forward or delayed delivery contracts. It is likely that many extenders of credit were unacquainted with the identities of these ultimate borrowers.

Loans by banks reporting "first-time" lending to Government securities dealers to finance holdings of "rights" or 2½ per cent bonds amounted to 5 per cent of total bank loans to dealers. This indicates that dealers found it necessary to go outside their customary bank channels because of the unusually large positions and borrowing they were carrying in this period. Some of these outside



loans may have been necessary because, at a number of banks, dealers were probably near the limit on their lines of credit.

**Adequacy of margins.** Availability of large amounts of credit at low margins has been assigned responsibility by some observers for much of the speculative activity in "rights" and 2½ per cent bonds and, hence, for an important part of the excessive size of that issue. In addition, it has been reported that low margins—appropriate to the short maturities on June "rights"—were allowed by some lenders to carry over after the exchange to the new 7-year-bonds, the price of which would be subject to a much wider range of market fluctuation than in the case of the "rights." Reportedly, those lenders who did not later obtain either additional collateral or repayment of the loans soon found themselves in an exposed risk position when the market for the new bonds turned down.

Although it is evident that survey data alone cannot answer these questions, findings of study surveys covering major lenders provide some of the background data needed to place the role of margins in perspective. Thus, the aggregate size of credit-financed exchanges for 2½ per cent bonds, estimated from survey data at about one-sixth of total exchanges, suggests the possible maximum importance of low-margin credit as a determinant of the total size of the new bond issue. Other survey data on actual margin practices of lenders in the refunding further narrow the issues in this area. Because margin practices in regard to collateral loans and repurchases differ, these two types of credit instruments are considered separately.

**Margins on collateral loans.** As may be seen in Table 20, initial margin requirements on loans collateralized all or in part by June "rights" which were to be exchanged for 2½ per cent bonds were appreciably more restrictive than margins required on loans against other securities maturing in one year or less. Thus, Government securities dealers put up 2 points or more margin on 70 per cent of the loans against "rights" which were to be exchanged, and put up little or no margin on 60 per cent of the loans against other short-term securities.

For all loans against "rights" (including those which were *not* exchanged for 2½ per cent bonds, either because of prior termination or other dispositions of the securities), more than one-third

TABLE 20

## INITIAL MARGINS IN COLLATERAL LOANS AT COMMERCIAL BANKS AGAINST JUNE "RIGHTS" AND OTHER SHORT-TERM GOVERNMENT SECURITIES

Type of borrower	Amount (in millions of dollars)	Percentage distribution							
		Total	No initial margin	Initial margin (No. of points)					
				1	2	3	4	5	Over 5
June "rights" exchanged for 2½% bonds <sup>1</sup>									
All borrowers.....	398	100	7	26	22	17	4	21	2
Govt. sec. dealers.....	128	100	13	17	38	19	8	5	0
N. Y. Stock Exchange firms.....	149	100	6	14	14	22	1	42	1
Other brokers and dealers.....	33	100	0	23	20	11	2	40	4
Individuals.....	45	100	5	28	25	17	13	4	8
Others.....	43	100	1	95	3	1	0	0	0
Govt. sec. maturing in 1 year or less									
Govt. sec. dealers.....	1,947	100	36	24	10	1	1	3	1
All others.....	49	100	37	23	25	21	0	18	6

<sup>1</sup> Also includes loans against mixed collateral of which exchanged "rights" were a part.

<sup>2</sup> Consists of 47 per cent with no initial margin and 13 per cent with one-quarter point or less.

<sup>3</sup> Consists of 6 per cent with no initial margin and 1 per cent with one-quarter point or less.

were made without margin at the time the loan originated. In contrast, only 7 per cent of the loans which later financed exchanges for 2½ per cent bonds were made initially with no margin. This suggests that banks, to a considerable extent, anticipated the need for higher margins for loans against "rights" which were to be exchanged for the medium-term bond.

That banks generally recognized the prospective change in the character of the collateral upon exchange may be seen further by comparing initial margins on "rights" with those on loans against Government securities due in 5 to 10 years (other than the 2½ per cent bonds). For the latter loans, which were also made for the most part in the spring of 1958, about 12 per cent carried no initial margin (compared with 7 per cent for loans against "rights" scheduled for exchange) and 73 per cent had initial margins of 2 points or more (compared with 67 per cent for loans against exchanged "rights").

Notwithstanding the generally more restrictive margins required on "rights" involved in the exchange than on other short-term Gov-

ernment securities, the leverage afforded potential speculators by prevailing margin practices was considerable. An initial required margin of 5 points was typically found in collateral loans to New York Stock Exchange firms—which indirectly financed participation of individuals in the refunding. As pointed out earlier, even under this margin, each change of 1 per cent in price of the securities results in a 20 per cent gain (or loss) in terms of the borrowers' original equity.

The adequacy of initial margins in providing protection for lenders may be judged from subsequent price behavior of the 2½ per cent bonds (Table 21). On this basis an initial margin of

TABLE 21  
CUMULATIVE WEEKLY DECLINE IN BID PRICE OF 2½ PER CENT BONDS<sup>1</sup>

Week ended	Decline (in points and 1/32ds)	Week ended	Decline (in points and 1/32ds)
June 20 .....	.19	Aug. 1 .....	2.24
27 .....	.23	8 .....	4.25
July 3 .....	.26	15 .....	4.27
11 .....	1.02	22 .....	5.01
18 .....	2.09	29 .....	6.07
25 .....	1.31		

<sup>1</sup> Closing price on June 13 (for delivery on June 16) was 100.09; price on August 29 was 94.02.

1 point would have sufficed to keep the value of the collateral larger than the amount owed through early July. Sharp price declines in the following two weeks, however, wiped out initial margins of 1 and, then, 2 points. Similarly a 3-point margin was erased by early August and a 5-point margin by the third week of the month.

Commercial banks, however, did not rely solely on the size of initial margins to assure the soundness of their loans which financed exchanges for 2½ per cent bonds. On the whole, banks had reason for confidence in the financial capacity of borrowers. The privilege of financing the new bonds without margin was confined, for the most part, to established dealers in Government se-

curities. As noted in the preceding section, however, there were significant exceptions. Nearly 90 per cent of bank lending to individuals for purchasing June "rights" and 2½ per cent bonds was made to persons who had not borrowed at the bank before for a similar purpose.

Beyond the safeguard derived through knowledge of the borrower and the amount of his initial equity in the securities, most banks found protection in agreements that minimum margins be maintained at all times. The existence of such agreements meant that, when the market value of the securities declined below a certain level, borrowers would be called upon to provide additional collateral.

On only \$43 million, or 11 per cent of \$398 million loans, did commercial banks fail to obtain from customers agreements to maintain minimum margins (Table 22). Most borrowers were

TABLE 22

AGREEMENTS TO MAINTAIN MINIMUM MARGINS IN COMMERCIAL BANK LOANS AGAINST JUNE "RIGHTS" EXCHANGED FOR 2½ PER CENT BONDS<sup>1</sup>

Type of borrower	In millions of dollars			Percentage distribution	
	Total	Agreement made	No agreement	Agreement made	No agreement
Govt. sec. dealers.....	128	121	7	95	5
N. Y. Stock Exchange firms.....	149	118	31	79	21
Other brokers and dealers.....	33	32	1	97	3
Individuals.....	45	42	4	92	8
Others.....	43	42	1	98	2
All borrowers.....	398	355	43	89	11

<sup>1</sup> Also includes loans against mixed collateral of which "rights" were a part.

asked to maintain margins of 1 to 3 points. When New York Stock Exchange firms were parties to such agreements, the typical size of the minimum margin was 5 points—higher than for any other class of borrowers due to Stock Exchange rules. On the other hand, stock houses were also the type of borrower which most frequently showed no agreement with banks to maintain margins, and they accounted for \$31 million of the loans in this category.

**Margin arrangements in repurchase agreements.** Repurchase agreements in June "rights" were an important outlet for funds at two

major classes of institutions—commercial banks and business corporations. A number of observers have inferred that margin arrangements in repurchase agreements, in general, were considerably more lenient for borrowers at both banks and corporations than those which existed on collateral loans at commercial banks, even where the securities involved in both types of transactions were long-term and of the same maturity and where funds were provided to the same type of borrower. The explanation for the presumed differential treatment of collateral loans and repurchase agreements appears to lie in differences between the forms of the two types of transactions, but heretofore there has been but little factual evidence bearing on the matter.<sup>2</sup>

As may be seen in Table 23, commercial banks did, in fact,

TABLE 23  
INITIAL MARGINS IN COMMERCIAL BANK COLLATERAL LOANS AND REPURCHASE AGREEMENTS WITH GOVERNMENT SECURITIES DEALERS

Type of transaction	Amount (in millions of dollars)	Percentage distribution								
		Total	No initial margin	Initial margin (no. of points)						
				½ or less	1	2	3	4	5	Over 5
Treasury bonds due in 5-10 years										
Collateral loans . . . . .	91	100	12	0	17	48	13	1	8	1
Repurchase agreements	67	100	78	14	6	1	0	0	0	0
Treasury bonds due in over 10 years										
Collateral loans . . . . .	225	100	4	0	1	38	43	4	5	6
Repurchase agreements	115	100	62	5	24	9	0	0	0	0

grant more lenient margin terms under repurchase agreements than under collateral loans, even when funds were provided to the same class of borrowers involving the same type of collateral. It should be noted, however, that banks which participated in the

<sup>2</sup>For views of suppliers and users of funds on the nature of repurchase agreements, see *Treasury-Federal Reserve Study of the Government Securities Market, Part I, No. 1, Report on Consultations.*

two types of lending instruments were not equally active in both; indeed, certain banks tended to specialize heavily in only one form. The table, therefore, should not be interpreted as representative of the margin practices of a "typical" bank.

For business corporations, activity in repurchase agreements against Government securities is even more concentrated among a few large organizations than in the commercial banking area;<sup>3</sup> hence it is even more hazardous to generalize about the pattern of margin arrangements (and other characteristics) in corporate repurchase agreements. The pattern which prevails in any period reflects in large part practices of corporations which happened to have been most active at the time.

Most of the 32 companies reporting any repurchase agreements in the spring of 1958 required little or no initial margin, regardless of the maturity of security involved. Of the 32 companies, 20 made all their repurchase agreements with no initial margin. Even on Government securities maturing in more than two years, no initial margin was required in most cases. Of corporate repurchase agreements secured by collateral other than "rights" exchanged for 2½ per cent bonds, 81 per cent of a total exceeding \$4 billion had no margin, 11 per cent had a margin of only ¼ point, and 4 per cent had a margin of 2 points.

It is likely, therefore, that repurchase agreements against June "rights" at both commercial banks and at business corporations contained little, if any, margins at the time of the exchange offering in early June. At commercial banks, \$129 million of "rights" were exchanged for 2½ per cent bonds under repurchase agreements that were still outstanding on June 16; on \$93 million, or 72 per cent of these agreements, no arrangements were made at any time to obtain additional margin. At business corporations, \$84 million of "rights" were exchanged for 2½ per cent bonds under repurchase agreements that were still outstanding on June 16; on \$25 million, or 30 per cent of these agreements, no arrange-

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<sup>3</sup> Only 32 of 145 large corporations surveyed reported having any repurchase agreements of \$100,000 or more that were either outstanding on May 21, 1958 or made between May 22 and July 30.

ments were made at any time to obtain additional margin. Thus, at commercial banks and business corporations together, collateral securing a little more than half, or \$118 million, of repurchase agreements shifted from maturing issues to 7-year bonds without provision for adjustment of margin.

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## **6. Other Credit Financing of Government Securities in June**

Chapters 3 to 5 have provided a detailed picture of investor participation in and credit financing of the Treasury's June financing. The particular conditions surrounding the June financing, however, were a part of a significantly broader build-up in credit financing of all Government securities which occurred at the time. In part this over-all build-up was related to speculative commitments taken by some investors in other Government securities prior to the June financing. It was also related in part to a special technical situation which developed in mid-June because of the corporate income tax payment date which coincided closely with the refunding and cash settlement dates on the Treasury's June financing. On the tax date, there was no Treasury tax anticipation security maturing to help smooth needed adjustments.

These other credit developments added to the underlying technical weakness of the market associated with over-extended positions in the 2½ per cent bond of 1965. Accordingly, this broader setting of market development needs consideration before the summer decline of Government securities prices is reviewed.

### **SPECULATIVE COMMITMENTS IN OTHER BONDS**

Discussion of the build-up of speculative interest in Government securities during the spring of 1958 has generally focused on the situation relating to the 2½ per cent bond. Most observers of the market at the time, however, acknowledged that there was an indeterminate volume of speculatively motivated credit financing in other, mostly long-term, bonds, particularly the 3½ per cent bond of 1990 which had been offered as an exchange option in the February 15 refunding. Reportedly, there was a large credit-financed ownership interest in this issue at the time of the mid-June market reversal, on the part of investors who planned to hold the



bonds until August 15 when capital appreciation on the issue would become eligible for treatment as a long-term capital gain for tax purposes.

Some of the data obtained from study surveys provide a rough measure of the relative magnitude of credit-financed positions in other bonds. On June 21, for example, the sample banks in the survey showed \$351 million of loans and repurchase contracts outstanding secured by bonds maturing in more than 10 years. These loans and repurchase agreements amounted to over half of the credit then being extended at the same banks against the 2½ per cent bond. In contrast to borrowings in most other maturity categories, individuals were the largest borrowers represented in the \$351 million total of credit extended on long-term bonds, having loans and repurchase agreements of \$124 million. Government securities dealers were next largest, with total borrowings of \$101 million. New York Stock Exchange firms and other dealers and brokers ranked third in importance with borrowing of \$91 million against long-term bonds.

Position figures of New York Stock Exchange member firms, as distinct from credit figures, give a more complete picture of the interest of such firms in Government securities other than the 2½ per cent bond. Thus, on June 11, Stock Exchange firms held a total of \$1.2 billion Government securities, of which \$478 million were securities other than "rights" and the 2½ per cent bond. About \$200 million of this total was in firm accounts. Positions of Government securities dealers in bonds maturing over 10 years totaled \$188 million on this same date.

#### **TECHNICAL STRAIN IN MARKET**

The various techniques adopted by business corporations in preparing their cash positions to meet heavy June dividend and tax payment requirements were set forth in general terms at an earlier stage. It was also noted earlier that the lack of a maturing June tax anticipation security in 1958 intensified the efforts of corporations to arrange alternative temporary investments to meet June cash requirements—mainly through repurchase contracts with Gov-

ernment securities dealers and, to the extent possible, through the acquisition of outstanding Treasury issues possessing convenient June maturities.

During the first half of June, corporations needed to unwind these various stores of liquidity—first to meet an excise tax payment date early in the month, then to cover important dividend payments of a number of large firms around the tenth of the month, and finally to meet the June quarterly income tax instalment which fell on June 16 in 1958 because the fifteenth was a Sunday. Funds were obtained through heavy liquidation of outstanding short-dated securities and through run-off of repurchase agreements. As corporate repurchase agreements were terminated, the securities involved had to be refinanced or sold.

The unwinding of corporate repurchase agreement commitments in Government securities at this time fell mainly on dealers. They in turn had to refinance the securities acquired from maturing repurchase agreements and concurrent outright selling by corporations. Under the double impact of already heavy positions in “rights” to the June refunding, and the new supply of issues being liquidated by or repurchased from corporations, dealers’ positions in Government securities rose to record levels. With corporations no longer a source of funds, dealers had to turn to the banks to obtain the bulk of the financing required to carry their swollen positions. Bank loans on Government securities rose to record levels, while at the same time corporations were also seeking some additional bank credit on tax borrowing.

Market churning reached a maximum on June 16, since that was the date of both the corporate income tax payment and the refunding settlement. Maturities of corporate repurchase agreements in “rights” and other short-term Treasury issues were concentrated on that day. Two days later, on the eighteenth, the market was confronted with the added problem of making cash payments on the new  $3\frac{1}{4}$  per cent bond, and this need further augmented the supply of outstanding securities coming to market.

Because these mid-June developments occurred at a time when the Federal Reserve System was maintaining easy money conditions, the sudden build-up in credit demands at city banks did not

create any serious tightness in the money market. Nevertheless, a weak technical situation was created in the Government securities market. Market churning, increased selling of short-term issues, and a resulting sharp rise in dealer positions in short-term issues, together with the pressures of the over-extended position in the 2½ per cent bonds, created a technical condition vulnerable to the change in market expectations that began about this time.

A brief review of data bearing on this technical market weakness, obtained from special surveys of this study, helps to illuminate its several elements.

TABLE 24  
CORPORATE REPURCHASE AGREEMENTS ORIGINATED AND TERMINATED  
BY TYPE OF SECURITY AND TIME PERIOD

[Average volume per business day, in millions of dollars]

Type of security	Repurchase agreements originated			
	May 22-31	June 1-15	June 16-30	
Total.....	74.6	87.4	54.2	
June "rights".....	23.6	22.4	—	
Bills.....	19.4	27.9	20.6	
Certificates.....	4.7	7.1	7.1	
Notes and bonds maturing in:				
Less than 15 months.....	10.6	18.0	2.8	
15 months to 2 years.....	2.7	0.5	0.0	
More than 2 years.....	12.8	10.6	23.3	
Mixed collateral.....	0.8	1.0	0.3	
	Repurchase agreements terminated			
	May 22-31	June 1-15	June 16	June 17-30
Total.....	71.3	80.2	806.6	44.0
June "rights".....	13.2	10.1	314.6	2.4
Bills.....	33.0	33.6	210.0	23.7
Certificates.....	1.2	7.6	56.5	5.9
Notes and bonds maturing in:				
Less than 15 months.....	11.4	10.3	158.0	1.4
15 months to 2 years.....	1.7	1.0	0.0	0.2
More than 2 years.....	10.9	16.3	67.5	10.5
Mixed collateral.....	0.0	1.5	0.0	0.0

**Corporate liquidation of Government securities positions.** The concentration of corporate repurchase contract terminations on June 16 for the 145 firms included in the survey is brought out in Table 24. The table shows that the \$315 million of repurchase agreement terminations involving June "rights," although larger than for any other category of security, were only 39 per cent of all repurchase agreement terminations on June 16, which totaled \$807 million. The volume data in the table are presented on a daily average basis to facilitate comparisons between time periods of different length.

The magnitude of the June liquidation of Government securities by the 145 firms in the survey is further indicated in Table 25, which shows that total holdings of Government securities by these corporations (including repurchase agreements) declined \$1.5 billion from the end of May to the end of June.

TABLE 25  
END-OF-MONTH HOLDINGS OF GOVERNMENT SECURITIES  
AS REPORTED BY 145 LARGE CORPORATIONS

[In millions of dollars]

Holdings	May	June	Change
Total.....	8,653	7,127	-1,526
Under repurchase agreements.....	1,584	984	-600
Outright holdings.....	7,069	6,143	-926
<i>Maturing within 1 year.....</i>	<i>6,474</i>	<i>5,406</i>	<i>-1,068</i>
<i>Maturing in 1 year or more.....</i>	<i>576</i>	<i>718</i>	<i>+142</i>
<i>Nonmarketable.....</i>	<i>20</i>	<i>20</i>	<i>0</i>

At the end of May, the 145 survey corporations held approximately 60 per cent of the total holdings of Government securities estimated for that month for all corporations in the regular ownership statistics prepared by the Treasury. Since total holdings of Government securities by all corporations are estimated to have declined only \$1.4 billion from the end of May to the end of June, it seems clear that the survey corporations accounted for all of the June liquidation pressure from business corporations.

**Positions of Government securities dealers.** The influence on dealers' positions of the refunding and of the June reduction in holdings of Government securities by business corporations is reflected in the net position changes recorded in Table 26. Between May

TABLE 26  
REPORTED CHANGE IN NET POSITIONS OF GOVERNMENT  
SECURITIES DEALERS, MAY 21-JUNE 18

[In millions of dollars]

Type of security	May 21	June 18	Net change
Total <sup>1</sup> .....	2,262	3,411	+ 1,149
Bills.....	1,146	1,750	+ 604
Other issues maturing within one year..	538	715	+ 177
1-5 year issues.....	387	356	- 31
Bonds maturing in 5 years or more....	191	590	+ 399

<sup>1</sup> Not adjusted for securities committed to be sold under resale agreement.

21 and June 18 total net positions of dealers rose by \$1,150 million.<sup>1</sup> Nearly \$800 million of the increase occurred in issues maturing within one year—the maturity area in which corporate liquidation and repurchase agreement termination centered. Treasury bill positions alone rose more than \$600 million.

The remainder of the position increase was centered in bonds maturing in more than five years, the maturity category which included holdings of both the new 2½ and the new 3¼ per cent issues. Original dealer awards of the 3¼ per cent issues were less than \$100 million, however, and by June 18 dealer holdings of the 2½ per cent bond had been reduced to \$304 million. Thus, a significant part of the net holdings of bonds over five years on June 18 apparently represented other outstanding issues. Analysis

<sup>1</sup> With one exception, from Nov. 20, 1957 to May 21, 1958, net total positions of Government securities dealers had consistently aggregated more than \$2.0 billion, as is shown in the chart on p. 19. In evaluating the significance of the position-volume data for May 21 and June 18, it should be noted that a substantial amount of the totals listed represented dealer commitments to repurchase securities under long-term repurchase agreements. Although these longer term repurchase contracts are included here as part of total positions, some dealers do not consider them as part of their positions in practice because they are not part of inventory for sale.

of daily position data reported by dealers for this period shows that a part of these other bond holdings was acquired from June 16 to June 18, presumably reflecting investor liquidation to obtain cash for payment on the new 3¼ per cent issues and for taking up "when-issued" purchases of the 2½ per cent bonds.

**Build-up in bank lending on Government securities.** As mentioned earlier, with their total holdings of securities expanding sharply in June, in large part due to a withdrawal of business corporations as a source of funds, dealers were forced to seek alternative credit arrangements, mainly at banks. At the same time, others who had financed positions in Treasury securities on repurchase agreements with corporations also turned to the banks for substitute financing.

Table 27 reflects the impact of these increased demands for

TABLE 27  
CHANGE IN LOANS AND REPURCHASE AGREEMENTS OUTSTANDING  
FOR PURCHASING OR CARRYING GOVERNMENT SECURITIES  
AT SURVEY BANKS, MAY 21-JUNE 21<sup>1</sup>

[In millions of dollars]

Type of borrower	May 21	June 21	Net change
Total .....	727	2,012	+ 1,285
Govt. sec. dealers.....	298	1,158	+ 860
N. Y. Stock Exchange firms.....	190	392	+ 202
Other brokers and dealers.....	63	108	+ 45
Individuals.....	132	256	+ 124
Others.....	45	98	+ 52

<sup>1</sup> Figures are derived from survey data on loans originated and loans terminated.

bank financing of Government securities on outstanding loans and repurchase agreements at survey banks. Between May 21 and June 21 total loans and repurchase agreements on Governments rose nearly \$1.3 billion at these banks, with about two-thirds of the rise, or \$860 million, occurring in advances to Government securities dealers. Lending to New York Stock Exchange firms showed the next largest increase, \$202 million, as these firms transferred a sizable volume of their own and their customers' financing

to banks. The marked increase in lending to individuals, amounting to \$124 million, probably reflected a need for individuals to finance directly with banks, following the termination of repurchase contracts between Stock Exchange intermediaries and business corporations which had been financing individuals indirectly.

Table 28 provides additional insight on the character of the

TABLE 28  
LOANS AND REPURCHASE AGREEMENTS FOR PURCHASING OR CARRYING  
GOVERNMENT SECURITIES OUTSTANDING AT SURVEY BANKS  
OCTOBER 30, 1957 AND JUNE 18, 1958<sup>1</sup>

[In millions of dollars]

Class of bank	Oct. 30, 1957	June 18, 1958	Net change
Total.....	408	2,420	+ 2,012
Central reserve city.....	231	1,551	+ 1,320
Reserve city.....	151	709	+ 558
Country and nonmember.....	26	160	+ 134

<sup>1</sup> Banks reporting loans included 23 central reserve city banks, 110 reserve city banks, and 49 country and nonmember banks; 86 banks reported no loans.

build-up in bank credit at mid-June. It relates the June 18 peak level of loans and repurchase agreements on Government securities to the level of bank credit of this type outstanding on October 30, 1957, prior to the start of the recession bull market in Government bonds. It also shows the distribution of changes in lending by class of bank. Nearly 65 per cent of the loans and repurchase agreements outstanding at survey banks on June 18 were at central reserve city banks, and approximately the same proportion of the increase in such credit outstanding from October 30 to June 18 also developed at the same banks.

**Dealer borrowing.** The changes that occurred in the borrowing by Government securities dealers in the period of maximum build-up of their positions, from May 21 to June 18, are given in Table 29. Repurchase agreements with business corporations declined nearly \$500 million. This cut-back in the use of repurchase agreements with corporations as well as the over-all enlargement of

TABLE 29  
**LOANS AND REPURCHASE AGREEMENTS REPORTED BY  
 GOVERNMENT SECURITIES DEALERS  
 MAY 21-JUNE 18**

[In millions of dollars]

Type of lender	May 21	June 18	Net change
Total.....	2,261	3,314	+ 1,053
Commercial bank:			
New York City.....	438	1,321	+ 883
Elsewhere.....	303	868	+ 565
Nonfinan. bus. corps.....	1,400	925	-475
All other.....	120	200	+ 80

dealer positions was financed through an increase of approximately \$880 million in credit extended by New York City banks, an increase of \$565 million at banks outside New York, and some new borrowing from other nonbank sources.



## **7. Post Financing Liquidation and Finding A New Market Level**

Because of the weak technical situation described in Chapter 6, the Government securities market was vulnerable to a shift in expectations about the future of economic and credit developments. When expectations began to shift in mid-June, therefore, prices of Government securities declined abruptly.

### **START OF MARKET DECLINE**

Announcement on June 10 of the massive size of the conversion into 2½ per cent bonds had occasioned some temporary weakening of market prices, but in general the first reaction to the June financing was that the Treasury had been highly successful—first, in keeping speculation at a minimum in the cash offering, and second, in dramatically lengthening the debt through the refunding. It was also recognized that, with the volume of temporary holdings of 2½ per cent bonds very large, considerable time would be needed to redistribute these holdings to more permanent investors. The general market view seemed to be, however, that so long as easy money conditions and economic doldrums continued in the period ahead, there was no real cause for market concern. The relative stability of price quotations on the two new bonds—the 2½ per cent bond of 1965 and the 3¼ per cent bond of 1985—through June 13 attests to the prevailing belief that it would be some months before economic revival would set in (Table 30).

Toward the end of this brief period, liquidation of securities and termination of repurchase contracts led to some shading of prices in the market. Then in the first three days of the following week, June 16-18, when a major portion of the securities reacquired on expiring corporate repurchase contracts had to be refinanced by dealers and brokers, liquidation pressures were intensified.

In this period, a number of holders of the 2½ per cent bonds

**TABLE 30**  
**"WHEN-ISSUED" QUOTATIONS ON TREASURY BONDS OFFERED IN JUNE 1958**  
**JUNE 4-JUNE 19**

[Prices on bid quotations, in 32ds]

Date of quotation	2½% bond of 1965	3¼% bond of 1985
June 4.....	100.12	101.04
5.....	.13	.04
6.....	.12	.02
9.....	100.11	100.28
10.....	.10	.28
11.....	.12	101.04
12.....	.11	.02
13.....	.09	.00
16.....	100.06	100.18
17.....	.02	.19
18.....	.00	.18
19.....	99.21	100.02

who had been carrying "rights" on repurchase contracts with corporations began, as the repurchase agreements expired, to sell bonds in the market. To some extent such selling may have been planned in advance, particularly where the repurchase contract was made essentially for tax purposes. Selling was also stimulated, however, because some borrowers had not appreciated the fact that refinancing of their holdings at banks, if necessary, would require higher margins. Although many such holders had the financial resources to provide higher margins, they frequently were unwilling to do so.

Some corporations that had taken the 2½ per cent bonds in the exchange on a strictly temporary basis, in seeking funds for payment of taxes or other June needs, were also sellers in this period; and still other holders, who became concerned as price declines ate sharply into the premium on the issue, entered the market to sell before the new issue dropped below par.<sup>1</sup>

The softening of bond prices from June 13 to June 18 was thus partly a reflection of market offerings of 2½ per cent bonds as well

<sup>1</sup> Table 30 shows that the 2½ per cent bond reached par on June 18 and then fell to a discount in the break on June 19.

as other issues involved in corporate repurchase contract terminations, and partly a reflection of offerings of other outstanding issues from investors seeking funds for payment, June 18, on the new 3¼ per cent bond of 1985. In addition, market expectations were being influenced at this time by an accumulation of news releases pointing to a strengthening in the economic situation.

#### SHIFT IN MARKET EXPECTATIONS

A succession of news releases early in June clearly suggested more than a leveling out in economic recession. The following selected headlines are indicative of the flow of such bullish news: <sup>2</sup>

- June 7: Jobless Figures Take Sharp Drop.
- June 9: Expansion Plans of Business are Cut Sharply—but Decline in Expenditures for Plant and Equipment is Expected to Ease.
- June 13: Starts on Homes Up Again in May—Private Home Building Activity Rose above 1 Million a Year Rate Last Month for the First Time since January.
- June 14: Industrial Production Turned Up Slightly in May after Eight Months of Severe Decline.
- June 15: Personal Incomes Expected to Rise—Further Increase is Seen in Next Few Months.
- June 16: Durables Situation Looks Up.
- June 17: Rise in Savings Slows Sharply: Trend Held Sign of Confidence.

On June 18 and 19, three feature stories in the financial press highlighted the portent of most recent economic information, and these stories had a profound impact on market expectations. On June 19, a strong wave of speculative liquidation in the new 2½ per cent bond swept the market, marking the beginning of the rapid summer sell-off in the Government securities market.

The first of the stories centered market attention on the outlook

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<sup>2</sup>This list of headlines is limited to bullish news, because such news was increasingly capturing market attention. There were some headlines in the period, of course, which continued to carry a bearish economic tone.

for large Treasury deficits in the period ahead and on the implications of such deficits for resumption of inflationary pressures and for higher interest rates. The article also stressed the dangers inherent in excessive financing of the expected deficits in short maturities. Market observers had been aware of the likelihood of a large Treasury deficit in fiscal 1959 for some time—the projection of a \$12.5 billion deficit in fiscal 1959 by the Joint Committee on Internal Revenue Taxation had been announced earlier in the month—but so long as business forecasts were for continued recession this prospect was viewed with equanimity from the standpoint of expected market trends. The June 18 story, however, reopened the question whether a large prospective borrowing demand by the Treasury might not now be cause for alarm.

A second news story on June 19 headlined “Fed Sees Turning Point at Hand—Slows Pace of Drive for Easy Credit” served as a special catalyst in activating market liquidation. The sensitivity of the market to this article apparently reflected both its confirmation of a pattern of thinking about the business outlook which had already been taking form among market participants, and its implication that monetary policy had already changed. Memories of the sharp market reversal in November 1957, when a change in the outlook for economic trends coincided with a change in monetary policy, were too fresh for the market to ignore the message of the June 19 article. Moreover, some observers, who had been closely watching the slightly lower level of average free reserves of member banks reported for early June in the weekly statistics, had already been raising similar questions.

The third news story, also published on June 19, announced that the United States Steel Corporation would presently offer \$300 million of debentures. This news was a surprise to those who had been confidently anticipating that a slackening of corporate borrowing demands in late 1958 would help to insure further advances in bond prices. In addition, it led some to wonder whether the smart borrowers might not be starting to bid for funds in advance of expected interest rate rises.

Questions of the kind raised by these articles, together with the accumulating evidence of economic recovery that supported them,

had an important influence on the downturn in Government securities prices in the early summer of 1958. It is possible, of course, that these questions would have caused the market to move in the same direction, though not in the same degree, in the absence of the overextended market position in the 2½ per cent bond. On the other hand, had the recession continued through the summer, as some had expected, the earlier market expectation that the weak holdings of the new 2½ per cent bond could be re-distributed into stronger hands without significant market unsettlement might also have proved to be correct.

#### **FACTORS AFFECTING THE DECLINE**

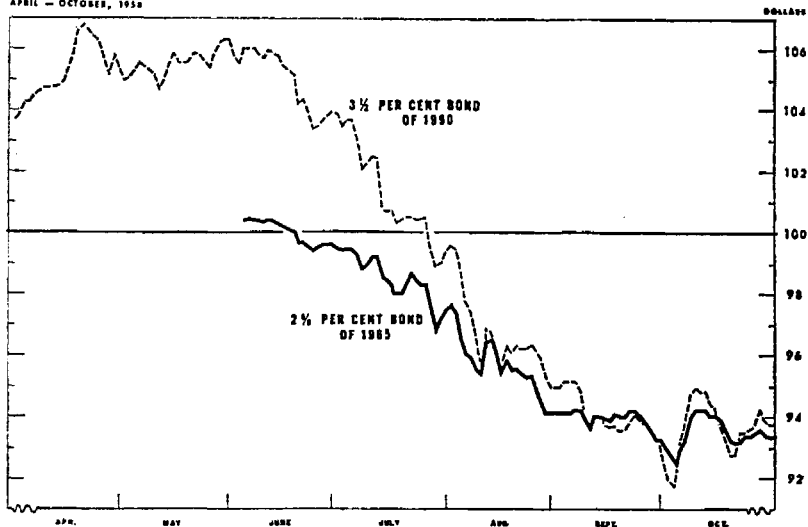
The sharpness of the initial decline of Government securities prices in the summer of 1958 was similar in nature, though not in direction, to the very rapid run-up in prices that had occurred following the preceding turn in the economic situation at the close of 1957. Basically both of these periods of accelerated price adjustment were reflections of the high sensitivity of the Government securities market in recent years to shifts in the direction of economic activity and of the strategic role played in this pivotal market by the expectations of participants. In the summer of 1958, the timing of the economic upturn as well as the speed with which recovery in activity took hold was a surprise to the market. As evidence continued to pile up that recovery was proceeding, the impact on expectations was pronounced and the adjustment of Government securities prices severe.

The speed of the summer decline in Government securities prices is illustrated in the accompanying chart, which shows the daily movement of closing bid prices for the two bonds—the 2½ per cent of 1965 and the 3½ per cent of 1990—which were subjected to the greatest liquidation pressure. Table 21 on page 60 provided a cumulative measure of the price decline in the 2½ per cent bond.

**Technical weakness of market.** Given the existence of rapid economic recovery as the basic cause of the Government securities market reversal, it is nevertheless clear that the speed of the decline, and possibly to some extent its timing, were sharply acceler-

PRICES OF 3½ PER CENT BOND OF 1990 AND 2½ PER CENT BOND OF 1965

APRIL - OCTOBER, 1952



NOTE.—Prices are closing bid quotations for each business day.

ated by the weak technical situation in the market when the the evidence of recovery became available.

The breaking of par by the 2½ per cent bond on June 19 was damaging to the confidence of holders who had positioned the issue in anticipation of future capital gains. Many who were carrying the issue on credit suddenly came to realize that the large leverage present in thinly margined purchases of Treasury issues could work both ways—that is, the same leverage ratio that could lead to such impressive returns on margin buying in a period of market advance could also lead to equally dramatic losses in a market decline.

Because the narrow margins on some credit financing of 2½ per cent bonds were, in fact, quickly wiped out, lenders were forced to make margin calls almost immediately to keep the value of collateral backing their financing from falling below loan value. In many instances, borrowers were unprepared for these calls. Although many had the financial resources to meet the calls—and many did so in the hope of recouping their potential losses in a subsequent market rally—others were unwilling to put up more

margin and moved quickly to sell out. Because of their lack of experience in Government securities trading, such sellers tended to adopt distress selling tactics in liquidating positions and in so doing exaggerated the pace of the decline. Each significant new drop in prices elicited new margin calls which, in turn, prompted further liquidation and led to further decline.

In its initial phase, this liquidation of positions in 2½ per cent bonds was dominated by the unwinding of financing arrangements made by the New York Stock Exchange firm specializing as a money broker. Pressure from this source developed when New York Stock Exchange officials ruled that the money broker in his role as principal between lenders and customers on transactions in June "rights" was in violation of Exchange rules relating to margin practices. The money broker was requested to terminate his position as principal in the financing of 2½ per cent bonds as rapidly as possible and was thus forced in a short period of time to try to help customers arrange new financing. A part of his arrangements had been made indirectly through other Stock Exchange firms, which, consequently, also became involved in the scramble for alternative sources of financing. In either case, compliance with the Stock Exchange decision required wholesale refinancing with banks of the broker's commitments, and usually at higher margins. Rather than meet these higher margins, many of the broker's customers, as has been indicated, sold out.

While liquidation of credit-financed position in 2½ per cent bonds dominated the market decline in its early stages, as the decline persisted and further evidences of economic recovery became available, selling by outright holders became more common, both in the 2½ per cent bonds and in other Treasury issues; and liquidation of other Treasury bonds being carried on credit also became more extensive.

**Treasury intervention.** The wave of speculative liquidation in the 2½ per cent bond which added fuel to the sharp break in Government securities prices on June 19 prompted the Treasury to remove some of the oversupply of the issue so as to cushion the decline. Over the subsequent three weeks, as Government securities prices continued under pressure, the Treasury purchased in the market a

total of \$590 million of the new 2½ per cent bonds for Government investment accounts or retirement. Because of the small volume of maturing "rights" redeemed for cash in the June refunding and the lack of a maturing June tax anticipation security, the Treasury held an unusually high cash balance at the end of fiscal year 1958 and therefore was in a comfortable position to finance these support purchases.

As the chart on page 79 shows, the price decline in the 2½ per cent bonds leveled off briefly at the end of June, but then turned sharply down again after the turn of the month. A brief rally in the second week of July reflected the Treasury announcement that it had retired \$456 million of the excess 2½ per cent bonds out of total purchases of \$590 million from the market. Although participants had been aware that Treasury buying was a market factor in late June and early July, few had realized the magnitude of the operation. When the rally associated with the Treasury announcement proved to be short lived and prices declined further, some small additional Treasury buying was done. But with seasonal net cash spending rapidly reducing the cash balance and with some attrition expected in the imminent August refunding, the Treasury was no longer in a favorable cash position to continue its investment account purchases.

**August refunding and Mid-East crisis.** Economic statistics released in the first half of July served as more conclusive confirmation to the market that the economy had truly entered a revival phase, and led to the sharp further mark-down of Government securities prices shown in the chart on page 79. With the market thus continuing its rapid adjustment, investors began to view the imminent August Treasury refunding with some apprehension. Previously, before the changed thinking on the business outlook had crystallized, it had been commonly presumed that the Treasury would combine the \$11.5 billion August 1 certificate, \$4.8 billion of which was held by the public, and the \$4.7 billion of called September bonds, almost all held by the public, into a single large refunding operation to be announced in late July. It was expected that the exchange offerings to holders of "rights" would include an intermediate-term issue. The prospect of a re-



funding of this size and type occurring in a period of rapid market transition was already raising questions, when, over the weekend just prior to the refunding announcement, news broke of the coup in Iraq.

The international crisis in the week that followed, with the threat of war in the Mid-East, tended to telescope investor expectations of economic recovery and interest rate advances, and added to the tension about the August refunding. On Thursday, July 17, this market tension was relieved briefly when the Treasury announced that it would confine its new issue in the refunding to a 1-year certificate and would also limit the cash offering expected to be required late in August to an issue of less-than-1-year maturity. It was also announced, however, that the refunding would include both the August and the September maturities, as expected.

On the following day, July 18, the brief steadying influence provided by the news that the Treasury would not finance beyond the 1-year area evaporated. For the first time in the market decline, commercial banks and other institutional investors began to offer securities for sale in accelerated volume; previously, the bulk of the liquidation had centered in credit-financed holdings of bonds. This acceleration of institutional offerings found no offsetting bids to take them up, and the market became disorderly, with downward price adjustments showing a tendency to become cumulative. In this situation, the Federal Open Market Committee of the Federal Reserve System announced that it had instructed the Account Manager to make purchases of Government bonds in addition to short-term issues. Bond prices immediately steadied, as the chart on page 79 shows, and after rising further the next trading day, held relatively stable for several days, in part as a result of Federal Reserve actions.

After the July 19-20 weekend, in view of market developments since the announcement of the August Treasury refunding, it became clear that the new issue was not being well received by investors. The generally demoralized state of the existing market, and the evident concern of some holders of "rights" that the interest rate structure might soon move rapidly higher, combined

to limit investor interest in the new issues. Holders of the called September bonds, in particular, showed limited interest, since to many it appeared to be advantageous to retain those issues for re-investment in the market in September.

In these circumstances, the Federal Reserve System purchased \$1,090 million of the new certificate on a "when-issued" basis and \$110 million of the "rights." Other Federal Reserve purchases of securities in the period, excluding Treasury bills, totaled \$65 million.

**Treasury cash borrowing requirements.** An increasingly significant influence on the movement of Government securities prices as recovery progressed was the prospective deficit position of the Treasury. During July, the large size of likely Treasury borrowing requirements in fiscal 1959 was highlighted when the Secretary of the Treasury requested from the Congress, for the second time in 1958, an increase in the public debt ceiling limitation. Following his testimony, which was the first official confirmation of the previously publicized Joint Committee on Internal Revenue projection of the fiscal year deficit, unofficial reports of higher spending for agriculture, highways, interest on the debt, housing, and possibly defense, resulted in the circulation of stories that the deficit would indeed be even higher than the Secretary's estimate. Moreover, those bearish observers with a penchant for longer term forecasts were predicting that, on the basis of current programs alone without making any allowance for possible new legislation, the budget could be expected to be out of balance for some years to come.

The first of the fiscal year 1959 cash financings was announced at the end of July when the Treasury sought to take advantage of the funds released by attrition and Federal Reserve support action in the August refunding to issue a 1½ per cent March tax anticipation security. Although many in the market were expecting further interest rate advances in the future and therefore viewed the new 1½ per cent issue unenthusiastically, few had any real doubts that money would remain easy for a while because of the large Federal Reserve support operation in "when-issued" August 1⅝ per cents. Some, in fact, were convinced that extended Federal Reserve support of the Government bond market would

follow the June 18 authorization to the Account Manager to operate in other than short-term securities.

It thus was a distinct surprise to the market when the August 6 weekly reserve statistics indicated that the potential release of bank reserves arising from Federal Reserve System support operations in July had not, in fact, materialized. Sales and redemptions of Treasury bills and changes in other reserve factors had wholly offset the reserve impact of the purchases of "when-issued" 1½ per cents. Other monetary actions in August and September—raising margin requirements on credit transactions in common stocks, increasing Federal Reserve discount rates, and further reducing member bank reserve availability—intensified investor expectations of accelerated interest rate advances.

In this atmosphere, the large seasonal Treasury cash financing scheduled for early October, together with the substantial volume of additional cash borrowing anticipated for later in 1958 and in early 1959, became objects of much market concern. All investor groups had extremely "standoffish" attitudes toward the market as the October financing was approached. This attitude contributed further to interest rate advances.

**Renewal of inflation psychology.** In combination, the complex of factors shaping investor sentiment in the summer of 1958 led to rebirth of the view that further creeping inflation would be inevitable—a belief that had also prevailed in the market in the latter months of the 1956-57 boom. The early upturn in economic activity in the spring of 1958, the subsequent rapid recovery, the publicized failure of price indices to decline during the recession, the continued granting of wage rate increases even when unemployment was still high, the prospect for a heavy Federal deficit at a time when other demands for funds would also be pressing on savings, and the questioning about the accelerated gold outflow all contributed to the renewal of inflation psychology in the summer market of 1958.

In this climate of market opinion, investors sought to place more of their funds in stocks, while fixed-income assets—particularly Treasury bonds providing the lowest return in the yield structure—suffered by comparison. With the demand for bonds thus diminish-

ing while the supply was expected to rise, further marked upward yield adjustments (price declines) seemed necessary. In July and August, this push toward higher levels of interest rates proceeded rapidly.

#### **EFFECTS OF LIQUIDATION ON INVESTOR POSITIONS, CREDIT USE, AND TRADING VOLUME**

Statistical data obtained in the study surveys constitute a new source for tracing the incidence of the market decline. The data reveal the relative importance of different investor groups in the initial liquidation of the 2½ per cent bond, show the cutback in total credit financing of Government securities over the period, and make clear the downswing in the volume of market trading.

**Liquidation of positions in 2½ per cent bonds.** Data on the June refunding, presented earlier, showed that credit-financed purchases of the 2½ per cent bond accounted for about one-sixth of the original holdings of the issue, and that outright ownership, largely by banks and business corporations, accounted for the balance. The very large subscriptions to the 2½ per cent bonds by both corporations and banks appeared to indicate that a substantial part of the interest from these institutions was also essentially short term. For this reason, some market observers had concluded that a number of business corporations, in particular, were weak holders. Table 31 shows that, in the early stages of the decline, business corporations were, in fact, important net sellers; it also shows, however, that the bulk of the initial liquidation of 2½ per cent bonds came principally from the investor groups who were financing the issue on credit.

Thus, over the full period of trading in 2½ per cent bonds for which daily transactions data are available—from the closing of books on the refunding to the end of July—primary Government securities dealers reduced their positions in 2½ per cent bonds by \$377 million, about one-third of total net sales of 2½ per cent bonds for the period, and other dealers and brokers by \$535 million, or about half of the total. Of this latter figure, about \$370 million represented liquidation by New York Stock Exchange firms.

TABLE 31

DEALERS' NET TRANSACTIONS WITH INVESTOR GROUPS IN 2½ PER CENT BONDS OF 1965  
INITIAL REDISTRIBUTION PERIOD<sup>1</sup>

[In millions of dollars]

Investor group	Total	June 9-13	June 16-18	June 19-30	July 1-9	July 10-30
Net change in positions of Govt. sec. dealers included in survey.....	-377	-131	-38	-126	-58	-24
Net purchases from dealers (+), or sales to dealers (-) by:						
Other Govt. sec. dealers.....	-61	-17	+6	-4	-40	-6
Commercial banks.....	+514	+155	+125	+164	+11	+59
N. Y. Stock Exchange firms.....	-371	+1	-60	-120	-139	-53
Other brokers and dealers.....	-164	+1	-7	-66	-73	-19
Nonfinan. bus. corps.....	-118	-16	-28	-63	-4	-7
Savings type investors.....	+26	+20	+2	-4	-1	+9
Individuals.....	-37	-4	-9	-8	-3	-13
Govt. invest. accounts.....	<sup>2</sup> +645	0	0	+266	+323	<sup>2</sup> +56
Others.....	-57	-9	+9	-39	-16	-2

<sup>1</sup> Taken from Government securities dealers' reports of their transactions.<sup>2</sup> Includes \$20 million 2½ per cent bonds purchased outright by the Federal Reserve System Open Market Account on July 18.

Of the total liquidation in the period, business corporations accounted for about 10 per cent, or \$118 million, nearly one-quarter of which occurred in the tax payment period. Individuals were also steady sellers but, as in the build-up phase, accounted for a minor share of total direct transactions with dealers; and the miscellaneous investor category showed a moderate volume of net liquidation after extracting Treasury investment account purchases.

Over half of investor liquidation during the full period was absorbed by the Treasury by its retirement and investment account buying. Most of the remaining 47 per cent was taken by various commercial banks that considered the 2½ per cent bonds to be cheap and likely to recover in price when the temporary liquidation period had run its course.

In the initial stage of "when-issued" trading from June 9-13, before prices had really started to slide, dealers performed their traditional role of secondary market redistribution and were the only investor group showing significant sales. Commercial banks, and to small extent, other financial institutions, took up these dealer offerings.

During the midmonth period of market churning from June 16 to 18, as the premium on the 2½ per cent bond was shaded, New

York Stock Exchange firms began to sell; also, business corporations were net suppliers at this time. Commercial banks continued to absorb virtually all of the supply.

From June 19 to July 9, the period of initial price decline and principal Treasury intervention, professionals continued to be major suppliers of 2½ per cent bonds. Primary Government securities dealers cut back their positions by \$184 million, and other dealers and brokers reduced their holdings about \$400 million. Of this latter total, New York Stock Exchange firms accounted for \$259 million. Corporations sold only \$67 million in this period and the miscellaneous investor group a somewhat smaller amount. In the late weeks of June, banks continued to be large net buyers of 2½ per cent bonds, but their net interest diminished appreciably in early July.

On the face of the evidence shown, it would appear that investors who bought the 2½ per cent bond outright were more stable holders, even though their initial decision to subscribe to the issue may have been motivated in part by essentially short-range speculative considerations.

**Nondealer trading activity.** Net changes of security holdings by broad investor groups do not necessarily give the full story of the pattern and impact of trading in a particular period of market activity, however. For example, in the period in question from June 9 to July 30, commercial banks, as a group, although steady buyers of 2½ per cent bonds, were also active sellers of the issue. Thus, their net demand position in the market reflected gross purchases of \$820 million and gross sales of \$306 million. Gross sales of New York Stock Exchange firms totaled \$442 million and those of dealers and brokers \$212 million, while those of business corporations were only \$130 million.

The gross demand for 2½ per cent bonds from commercial banks in this period apparently represented buying interest brought into the market only by reduced prices and higher yields. At the same time, commercial banks were reportedly selling other intermediate-term Treasury issues with maturities adjacent to the 2½ per cent bond—issues which, unlike this bond, had not yet lost all of their

recession-induced premiums and therefore could be liquidated without incurring a capital loss.

**Financing of 2½ per cent bond in market decline.** As has been shown, many of the arrangements for financing "rights" exchanged into the new 2½ per cent bond were terminated on the June 16 refunding settlement date. At business corporations, only \$85 million of the repurchase contracts against "rights" were carried beyond June 16 to finance the 2½ per cent bond, and at survey banks repurchase financing of the bond carried beyond the sixteenth amounted to \$129 million, \$25 million less than at the time of the exchange. About \$300 million of the new bonds being financed on repurchase agreements at the time of the exchange thus had to be refinanced or sold in the market on or shortly after June 16, and other rearrangements were required by loan terminations.

A part of the need for new financing was met by corporations on new repurchase contracts, but more of the need was covered by banks. End-of-June data on corporate holdings of securities show repurchase agreements outstanding on 2½ per cent bonds totaling \$185 million, a net extension of \$100 million new contracts during the immediate post-refunding period. Bank financing of 2½ per cent bonds in the five days from June 16 to June 21 showed a net increase in credit extensions of approximately \$180 million, not quite double the corporate repurchase extension.<sup>3</sup> Less than 10 per cent of the new bank financing was in the form of repurchase agreements. Although a large part of it undoubtedly represented refinancing of corporate repurchase agreements or of arrangements with other banks, some was probably merely a re-extension of old loans under new terms at the same bank.

After June 21, as is shown in Table 32, total bank credit outstanding on the 2½ per cent bonds declined. Loans and repurchase agreements outstanding with Government securities dealers were very quickly liquidated; and bank lending to New York Stock Ex-

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<sup>3</sup> This reflected terminations of about \$120 million of loans and repurchase agreements originated on "rights" prior to June 16 and net new loans and repurchases of \$301 million initiated after this date.

TABLE 32  
**LOANS AND REPURCHASE CONTRACTS OUTSTANDING AT SURVEY BANKS AGAINST  
 2½ PER CENT BONDS OF 1965, BY TYPE OF BORROWER**

[In millions of dollars]

Week ended	All borrowers	Govt. sec. dealers	N. Y. Stock Exchange firms	Other brokers and dealers	Individuals	All others
June 21.....	551	132	233	46	100	40
July 5.....	505	58	198	48	163	39
12.....	492	70	172	46	157	47
19.....	474	49	151	50	161	64
26.....	416	42	140	43	143	48

change firms and other dealers and brokers also declined, though less rapidly than in the case of Government securities dealers. Individuals, on the other hand, increased their borrowing against 2½ per cent bonds by \$60 million from June 21 to July 5, presumably reflecting the removal of the money broker Stock Exchange firm from its position as principal between lenders and ultimate borrowers. In the week ending July 19, bank credit extended to both individuals and miscellaneous investors also rose temporarily, apparently in response to expectations of a rise in bond prices occasioned by the Federal Reserve intervention.

**Financing of all Government securities.** The very large increase in bank financing of all Government securities in the first half of June was quickly reversed during the subsequent period of market decline. Thus, from June 18 to July 30, the terminal date in the survey, loans and repurchase contracts on Government securities at all banks covered in the survey declined more than \$1.25 billion. Nearly \$1 billion of this decline, as is shown in Table 33, occurred at central reserve city banks.

The chart on page 90 illustrates in somewhat longer range perspective the unprecedented size of the over-all build-up and decline of bank lending on Government securities during the summer of 1958. Although the data included in the chart are for weekly reporting central reserve city banks only, these banks, as is suggested by Table 33, accounted for the sharp rise in credit



**TABLE 33**  
**LOANS AND REPURCHASE AGREEMENTS FOR PURCHASING OR CARRYING**  
**GOVERNMENT SECURITIES OUTSTANDING AT SURVEY BANKS**

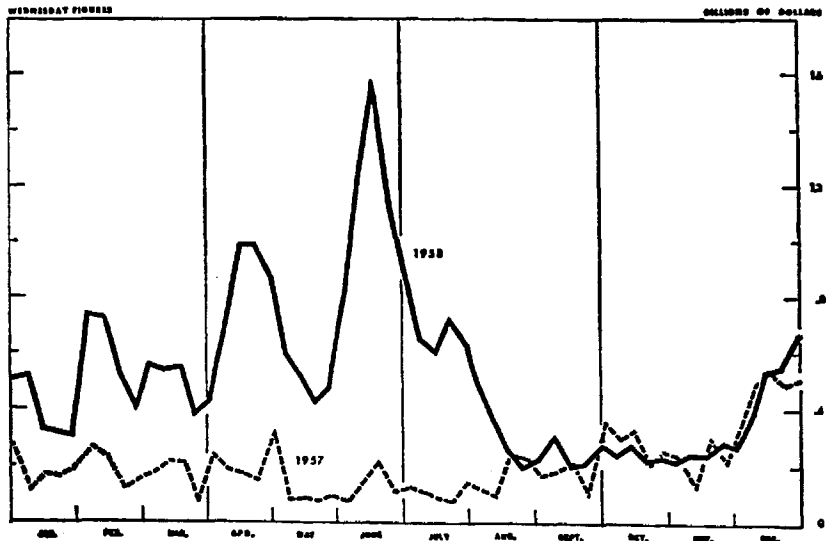
[In millions of dollars]

Class of bank	June 18	July 30	Net change
Total.....	2,420	1,138	-1,282
Central reserve city.....	1,551	590	-961
Reserve city.....	709	472	-237
Country.....	160	75	-85

extended at mid-June, and are regularly the major lenders on Government securities.

Table 34 provides a breakdown by type of borrower of the changes in bank lending which occurred during the early stages of the decline. Changes among types of borrowers on all Government securities are similar in pattern to those shown for the 2½ per cent bond. Government securities dealers very quickly cut back their borrowing, and other professionals also showed re-

**LENDING AGAINST U. S. GOVERNMENT SECURITIES**  
**CENTRAL RESERVE CITY BANKS**



**TABLE 34**  
**LOANS AND REPURCHASE AGREEMENTS OUTSTANDING AT SURVEY BANKS**  
**BY TYPE OF BORROWER**

[In millions of dollars]

Type of borrower	June 21	July 26	Net change
Total.....	2,012	1,155	-857
Govt. sec. dealers.....	1,158	438	-720
N. Y. Stock Exchange firms.....	392	249	-143
Other brokers and dealers.....	108	95	-13
Individuals.....	256	256	0
Others.....	98	117	+19

duced borrowing. Individuals and miscellaneous borrowers, on the other hand, showed renewed increases in their takings of credit, largely during the market rallies which accompanied the announcement of Treasury and Federal Reserve interventions.

Details of the cut-back in borrowing by Government securities dealers are shown in Table 35. Because the data collected from the dealers ran for a longer period than those collected in the bank survey, the documentation of the reduction in dealer borrowing is more complete. From the \$3.3 billion level of peak borrowing on June 18, dealers reduced their loans and repurchase agreements

**TABLE 35**  
**LOANS AND REPURCHASE AGREEMENTS REPORTED BY GOVERNMENT SECURITIES DEALERS**  
[In millions of dollars]

Date or period	Total	Commercial banks		Non-finan. bus. corps.	All others
		New York	Elsewhere		
June 18.....	3,314	1,321	868	925	200
July 30.....	1,949	350	447	1,062	90
Sept. 24.....	580	85	1-73	540	28
Change, June 18-July 30..	-1,365	-971	-421	+137	-110
Change, July 30-Sept. 24..	-1,369	-265	-520	-522	-62

<sup>1</sup> A negative figure indicates resale agreements are larger than loans and repurchase agreements combined.

by \$2.7 billion to \$580 million by the end of September, about the low point for the year.

Over the period from June 18 to July 30, total dealer borrowing declined about \$1.4 billion, with nearly \$1.0 billion of this decline occurring at New York City banks. Repurchase contracts with business corporations rose \$137 million in this period. The further reduction of \$1.4 billion in dealer borrowing from the end of July to late September, on the other hand, was centered in repurchase agreements from corporations and banks outside New York City.

**Positions of brokers and dealers.** During the early stages of the decline, liquidation of professional positions in Government securities—although centered in the 2½ per cent bond—were broadly characteristic of other maturities as well. Changes in holdings of Government securities dealers are shown in Table 36.

From the \$3.4 billion peak level of positions on June 18, dealers rapidly reduced their holdings in all Government securities to less than \$800 million by late September, a decline of more than \$2.6 billion. About \$1.7 billion of the decline occurred in secu-

TABLE 36  
NET POSITIONS OF GOVERNMENT SECURITIES DEALERS  
JUNE 18-SEPTEMBER 24

[In millions of dollars]

Date or period	Net positions				
	Total	Bills	Other issues maturing within 1 yr.	Issues maturing in 1-5 yrs.	Bonds maturing in 5 yrs. or more
June 18.....	3,411	1,750	715	356	590
July 30.....	1,270	952	103	87	128
Sept. 24.....	792	766	1-19	25	20
Change, June 18-July 30..	-2,141	-798	-612	-269	-462
Change, July 30-Sept. 24..	-478	-186	-122	-62	-108
Total change.....	-2,619	-984	-734	-331	-570

<sup>1</sup> Negative figure indicates that gross short positions exceeded gross long.

rities with maturities of less than 1 year—the maturity area in which dealers' commitments on longer term repurchase contracts centered; and over one-half billion dollars of the cut-back occurred in holdings of bonds maturing in more than five years.

The bulk of the over-all reduction in dealers' positions took place between mid-June and the end of July, with the very large summer reduction in short-term holdings occurring in this period. The further decline in positions of one-half billion dollars from July 30 to late September was more evenly distributed by maturity category.

Holdings of 2½ per cent bonds at New York Stock Exchange firms, as Table 37 shows, also declined steadily following the

TABLE 37  
 HOLDINGS OF U. S. GOVERNMENT SECURITIES  
 AT NEW YORK STOCK EXCHANGE FIRMS  
 JUNE 11—AUGUST 27<sup>1</sup>

[In millions of dollars]

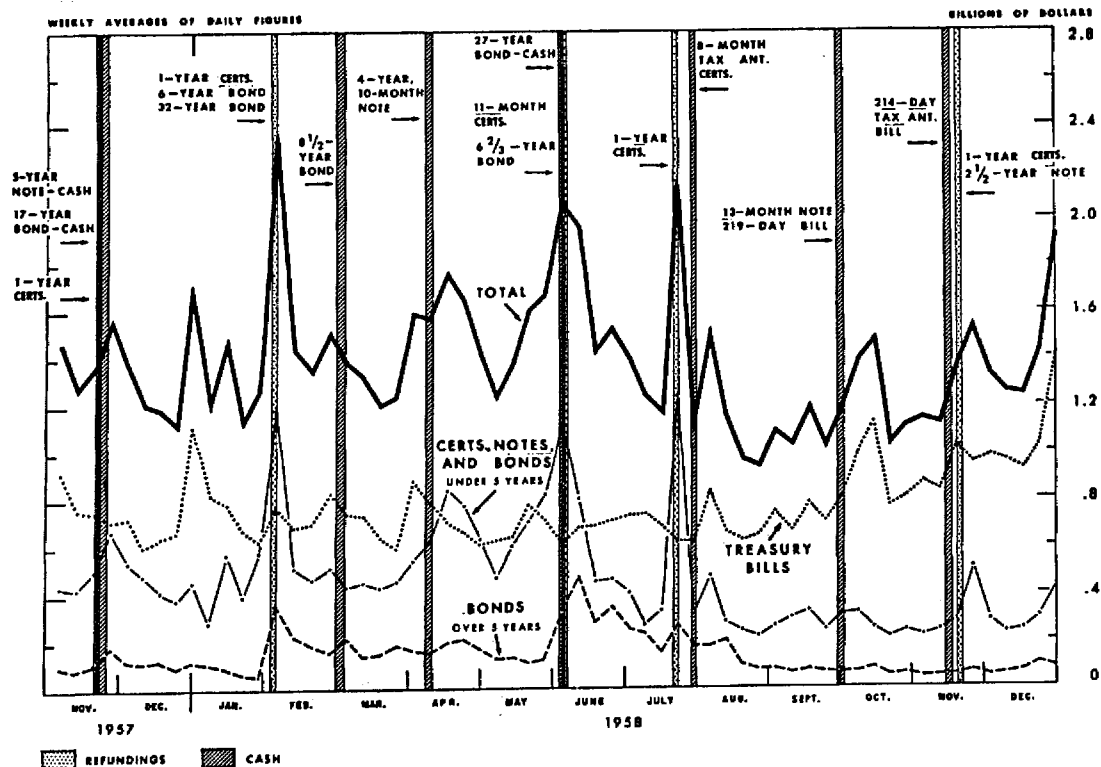
Date	Total	2½ per cent bond	Other securities
June 11.....	1,219	742	477
July 2.....	844	465	379
July 16.....	549	230	319
July 23.....	595	212	383
Aug. 27.....	511	179	332

<sup>1</sup> Includes holdings for firm and customer accounts.

mid-June reversal of prices. Their holdings of other Treasury securities rose, however, during the market rallies which accompanied the announcements of Treasury and Federal Reserve intervention in the market.

**Trading volume.** During the summer period of most rapid bond price decline, considerable concern was expressed by some investors about the thinness of the market and about their inability to trade bonds in adequate volume. Other investors in commenting on the same period, on the other hand, reported that the volume of activity was surprisingly large, and that thinness was a problem only for sellers unwilling to accept realistic prices.

## TRADING VOLUME IN U. S. GOVERNMENT SECURITIES



NOTE.—Shaded areas represent periods of Treasury financing operations. Refundings cover period subscription books were open; cash financings cover periods from opening of subscription books to announcement of allotments.

The accompanying chart provides a comparison between trading volume in the period of maximum summer unsettlement and other periods of late 1957 and 1958. It shows that during the summer of 1958 the weekly average of daily trading volume in all Government securities did not decline appreciably below earlier lows in activity until late August; during the unsettled period, from late June through the Treasury's August refunding and cash financing, average trading volume remained close to earlier levels. In this period, Treasury purchases of the 2½ per cent bond helped to maintain trading activity in bonds with maturities of more than five years, but the participation of investors seeking to buy-in at reduced prices apparently also added significantly to volume. The peaking of trading in certificates, notes, and bonds maturing in less than five years during the third week of July reflected Federal Reserve purchases of the new certificate offered in the August refunding, as well as purchases by other investors who were encouraged by the Federal Reserve action to add to their holdings.

When bank reserve availability decreased in early August, notwithstanding the Federal Reserve support action in the refunding, and when it became apparent that the Federal Reserve was making no further purchases of bonds, trading activity in bonds with maturities of more than five years declined to much lower levels. The reduced level of activity, however, was only moderately below the level of trading which had prevailed in the late months of 1957. Certificates, notes, and bonds with maturities of less than five years were also traded less actively after July, although, as the accompanying chart shows, much of the more active trading in these issues earlier in the year had reflected trading in "rights" prior to the February and June refundings and trading in the new note offered for cash in April.

After mid-September the volume of total trading in Government securities rose again, largely in response to Treasury offerings of new bills for cash together with other activity in the bill area stimulated by the brisk fourth quarter demand for such issues on the part of business corporations. Although trading in Treasury bills is normally the dominant part of over-all dealer market activity, the combination of enlarged trading volume in

Treasury bills and reduced activity in other types of securities greatly increased the relative importance of bill trading to dealers during the fall of 1958.

#### **END OF MARKET LIQUIDATION**

Data on market trading volume shown in the chart suggest that the period of active liquidation of longer term Treasury bonds following the mid-June market reversal was largely completed by late August and early September. By mid-September, net positions of Government securities dealers in bonds with maturities of more than five years had also reached a low point. Reflecting this moderation of selling pressures, yields on Treasury issues of intermediate and long maturity leveled off in early September and then, except for a temporary peak at the time of the October Treasury cash financing, remained relatively stable during most of the remainder of 1958.

Over the full period from mid-June to late September the average yield on long-term bonds had retraced all of the recession decline and was again at a level of  $3\frac{3}{4}$  per cent. In the same period the average yield on intermediate-term Treasury issues rose a little more than  $1\frac{1}{2}$  percentage points, equivalent to about 80 per cent of the recession decline.

## **8. Summary of Findings**

It remains for this chapter to bring together the highlight findings and interpretations of this factual review of the Government securities market in 1958 and also to point out its more general implications for investors, debt management, fiscal policy, and monetary policy. This task is not readily accomplished to the satisfaction of every reader. The most that can be done here is to enumerate those points that have particularly impressed the Treasury-Federal Reserve group which conducted the study. There is admittedly room for supplement or modification of the points listed and readers will naturally find in the rich body of factual data available from this study many other points of equal or even greater pertinence to them.

### **HIGHLIGHT FINDINGS AND INTERPRETATIONS**

(1) Investor and speculator judgments in the late spring period preceding the June refunding were made largely in the light of information pertaining to an economic situation of one to two months earlier. This lag in the flow of economic information was a factor of basic import in conditioning expectations in this critical period of market development. The role of changing market expectations as to the economic outlook in this period of 1958 clearly emphasizes the need for an adequate supply of current information about trends in the economy generally to facilitate the orderly functioning of financial markets.

(2) Underlying the late spring speculative positioning of Government securities was a very low absolute level of short-term market interest rates, as well as an unusually wide spread between short- and long-term market yields. This low short-term rate level, together with the prevailing yield structure, vitally influenced the shaping of market expectations of further increases in Govern-



ment bond prices. It further provided the incentives that led to unusual adaptations of customary credit instruments and terms, which facilitated a rapid swelling in the market's use of credit. This development made the market vulnerable to liquidation pressures.

(3) These conditions in the market, along with investor expectations of still higher prices of Government bonds, resulted in a situation whereby market participants in the June refunding were encouraged to convert an undue amount of short-term issues into longer term issues, thus oversupplying the longer term area of the market and at the same time sharply reducing the market supply of short-term instruments. Pressure on earnings created by the low level of short-term yields led many banks and some corporations to reach out for the higher yields available in the June financing in an effort to protect their earnings.

(4) Speculative positioning of "rights" to the June refunding on the part of outright owners, together with the conversion into 2½ per cent bonds of a disproportionate amount of their investment holdings of the maturing issues, was of greater volume than speculative positioning by investors who financed by credit. A large number of banks and business corporations participated in this outright speculative positioning.

(5) Although speculation on an outright basis in the June financing was larger than credit-financed speculation, the latter was excessive considering the size of the refunding operation. Moreover, liquidation of credit-financed positions appeared almost immediately upon the settlement date for the refunding for various reasons and both triggered and accentuated the declining phase of the market.

(6) The equity margins put up in this period by credit speculators were, in too many instances, either nonexistent or too thin. Despite the low margins, the losses suffered on credit-financed transactions were incurred chiefly by the borrowers rather than the lenders.

(7) In the speculative market build-up, the use of the repurchase form of credit financing as a vehicle to carry the speculative positions of nonprofessional and unsophisticated participants

proved to be unsound. Use of this particular type of financing instrument, in effect, resulted in lenders advancing credit to unknown borrowers of unknown credit standing or capacity.<sup>1</sup>

(8) Even among known borrowers of professional standing, the use of the repurchase agreement device was stretched in terms of the types of the security which it covered. In the past, this instrument was employed in the dealer market mainly to finance securities of the shortest term. In its 1958 market usage, the instrument was extended in numerous instances to longer term securities where the maturity bore little or no relationship to the date of termination of the agreement.

(9) Where used in the mid-1958 period to finance holdings of longer term securities, the repurchase agreement technique in some cases provided a convenient means to circumvent owners' equity requirements that would have been applicable on loans, through margins required by lenders.

(10) The use of forward delivery contracts in the pre-June market build-up involving "rights" to the June exchange offerings, though of lesser magnitude than repurchase financing, nevertheless facilitated an excessive amount of speculative positioning in this issue without any commitment of purchaser funds.

(11) In the pre-June market build-up, dealers and brokers were not always aware that their credit standing was in effect used by others to underwrite speculation with no equity. The preponderance of June "rights" among the forward delivery contracts would suggest a strong preference for "new" Treasury issues as the mechanism for this speculation.

(12) The total number of commercial banks outside New York City and also the total number of nonfinancial corporations drawn into the credit financing of the mid-1958 speculative build-up was relatively small, and the major portion of the credit extended was from only a few banks and business corporations.

(13) In the late spring market build-up, some lending by New

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<sup>1</sup> With regard to use of this financing form by New York Stock Exchange members, notably by one member firm specializing in money brokerage, corrective action has already been taken by the Exchange to prevent a recurrence of similar abuse of this instrument in the future.

York City banks, collateralized by Government securities, was at rates and margins that, under the prevailing market psychology and the then-existing conditions, were conducive to the financing of speculative positions.

(14) The sizable increase in dealer positions prior to the Treasury's June 1958 financing was partly associated with the heavy volume of market trading in that period. Although largely concentrated in short-term securities, the expanded dealer positions did provide a market for these issues which facilitated the lengthening of portfolios and speculative positioning by many investors during the period, particularly banks.

(15) Even though dealer positions at the time of the June refunding were heaviest in the short-term maturities in the market, liquidation of these positions in the following three months, though largely necessary to protect dealer capital positions, did add significantly to the supply pressures otherwise present in the market during this liquidation phase.

(16) The extensive use of the repurchase instrument for financing all types of Government securities in late spring of 1958 resulted in very large repurchase maturities in mid-June coincident with other churning in the money market in connection with settlement for the Treasury refunding. The necessity of refinancing the securities underlying these repurchase transactions put the Government securities market under heavy internal strain at that time.

(17) The absence of a Treasury tax anticipation security maturing at mid-June led to much corporate interest in the June maturities as corporations made use of these issues to invest accumulating funds to meet their June tax and dividend needs. This accounted for a considerable part of the market churning at the time of the refunding.

(18) The availability of regularly issued statistical information about the market itself might have succeeded to some extent in forewarning market participants and interested public agencies of potential speculative dangers around mid-1958. The fact of the matter, however, is that no such objective information was availa-

ble to either group to gauge the extent of the speculative forces that were present in the market.

(19) In the closing months of 1958, when many commercial banks were experiencing seasonal credit demands, study data show a movement of funds from the Government securities market to the banks effected through the vehicle of the repurchase agreement. In other words, some dealers were functioning as money brokers, acting as principals in obtaining funds from business corporations under repurchase arrangement and in turn supplying funds to banks under a reverse repurchase arrangement (resale agreement) with them. Question can be raised regarding the appropriateness of a money brokerage function as part of the dealer operation.

(20) Most of the decline in market interest rates on Government securities, following confirmation in the late fall of 1957 that economic recession had set in, was effected within a short time span—less than four months. The sharp rise in market rates on Treasury issues, following confirmation after mid-1958 that economic recovery had begun, was likewise effected in a short time span—about four months. Although liquidation of Government security positions, built up in hopes of speculative gains in the June refunding, played a central role in accentuating the rise in market interest rates after mid-1958, it does not necessarily follow that the upward interest rate movement of the entire recovery period would have been smaller if the earlier speculative distortions had been avoided. Upward pressures on interest rates from cyclical Federal deficit financing in combination with expanding private demands for financing, given the savings supply over these months, would still have resulted in a substantial, if not identical, rise in market interest rates.

#### **MORE GENERAL LESSONS AND PROBLEMS**

There are also four general observations that may be worth stating by way of conclusion:

(1) For purchasers of marketable Government securities and for lenders, the risks of speculation on anticipated cyclical price

movements of fixed-income Government securities, and particularly of speculation on slim margin, credit-financed holdings, have been widely learned.

(2) In the area of fiscal policy, there is the problem that recession deficits often run to very large size and are delayed beyond the turn in the economy; as a result they provide stiff financing competition when growing demands for the financing of recovery must be satisfied from a more slowly growing savings supply, and this competition for savings funds may have significant, but largely unavoidable, effects on securities prices and interest rates.

(3) In the area of debt management, there is the problem as to whether, in periods when easy credit conditions lend investor favor to longer term, higher yielding issues, a large and rapid shift in the maturity structure of the debt may result in supply and demand distortions, which may later have upsetting and disruptive effects on the market.

(4) In the area of monetary policy, there is the problem as to whether easy credit conditions and accelerating monetary expansion for counter-cyclical objectives may be carried to the point where banks and other lenders respond too actively to speculative demands for credit, so that lenders, in their zeal to keep their funds employed to fullest advantage, may too easily relax the credit standards which long experience has taught to be sound.

## Appendix A

### Summary of Replies by Commercial Banks

#### EXPLANATORY NOTES

Commercial banks included in the survey were those with deposits of \$100 million and over on December 31, 1958, a group which comprised 268 banks holding three-fifths of the deposits of all commercial banks in the country. These 268 banks accounted for \$1.8 billion, or 45 per cent, of all commercial bank exchanges of maturing securities into the 2½ per cent bond of 1965 offered in the June 1958 refunding. Of this \$1.8 billion, \$154 million represented subscriptions involving resale agreements, almost entirely with brokers and dealers.

Two questionnaires, copies of which are reproduced on pages 124-25, were addressed to each of the 268 banks. One (Form 55-5902) requested them to indicate the number and amount of loans and repurchase agreements, for purchasing or carrying United States Government securities, outstanding on three dates: October 30, 1957, June 18, 1958, and July 30, 1958.<sup>1</sup> The information provided is summarized in Table A-1. They were also asked to indicate on this form the amount of subscriptions to the 2½ per cent bond tendered for the account of the bank in the Treasury refunding of June 1958 that were subject to resale agreements.

The other questionnaire (Form 55-5901) requested banks to fill in a separate form on each loan or repurchase agreement of \$100,000 or more for purchasing or carrying United States Government securities made after December 31, 1957, and outstanding on May 21, 1958, and on each loan or repurchase agreement

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<sup>1</sup>The term "repurchase agreement" is used to cover both sides of this type of transaction. From the standpoint of the bank, the transactions included in the surveys are agreements to resell the securities to other parties, who on their part have contracted to repurchase them.

originated between May 21 and July 30, 1958. The following information was obtained for each loan or repurchase agreement: type of borrower, amount of credit extended, date made, whether the credit was arranged directly or through a third party, whether the borrower had obtained credit for similar purposes before, the maturity terms, interest rate charged, type of collateral, margin requirements, and date credit was terminated. The information is summarized in Tables A-2-A-14.

Of the 268 banks, 161 reported on Form 55-5901 a total of 4,934 loans and repurchase agreements. The remaining 107 banks reported that they made no loans or repurchase agreements against Government securities during the period covered by the survey. Commercial loans with United States Government securities as collateral are *excluded* from these figures, as is all interbank lending involving Government securities; a small amount of loans to purchase United States Government securities with collateral other than Government securities is *included*.

While not specifically covered by written instructions, respondents were told when questions arose that each time there was a change in the loan or its characteristics, such as the amount, collateral, interest, etc., they were to assume that the old loan was repaid and a new credit was extended. Renewals were treated as new loans. In cases where a series of credits was extended to a single borrower on the same day with identical terms, respondents were told to treat these as a single transaction. Where a number of single-day or other short-term loans or repurchase agreements was made to a single borrower over a period of time, each loan or repurchase agreement was considered a separate transaction.

TABLE A-1, COMMERCIAL BANKS

LOANS AND REPURCHASE AGREEMENTS, FOR PURCHASING OR CARRYING  
U. S. GOVERNMENT SECURITIES, OUTSTANDING ON SELECTED DATES

Class of bank	Number of banks	Oct. 30, 1957	June 18, 1958	July 30, 1958	Increase, or decrease (-), from:	
					10/30-6/18	6/18-7/30
Amount outstanding, in millions of dollars						
Total <sup>1</sup> .....	182	408	2,420	1,138	2,012	-1,282
Central reserve city.....	23	231	1,551	590	1,320	-961
Reserve city.....	110	151	709	472	558	-237
Country and nonmember.	49	26	160	75	134	-85
Number of loans						
Total <sup>1</sup> .....	182	1,339	2,520	2,191	1,181	-329
Central reserve city.....	23	258	731	542	473	-189
Reserve city.....	110	757	1,295	1,211	538	-84
Country and nonmember.	49	324	494	438	170	-56

<sup>1</sup> Of the 268 banks with deposits of \$100 million and over as of Dec. 31, 1958, 86 banks reported no loans for purchasing or carrying U. S. Government securities on Oct. 30, 1957, June 18, 1958, or July 30, 1958.



TABLE A-2, COMMERCIAL BANKS  
VOLUME OF LOANS AND REPURCHASE AGREEMENTS ORIGINATED, BY TYPE OF BORROWER

Date or period (1958)	All borrowers	Govt. sec. dealers	N. Y. Stock Exchange firms	Other brokers and dealers	Indi- viduals	Others	All bor- rowers	Govt. sec. dealers	N. Y. Stock Exchange firms	Other brokers and dealers	Indi- viduals	Others
	Loans and repurchase agreements (in millions of dollars)						Percentage distribution of amount					
Total.....	18,917	16,208	1,466	544	508	190	100	86	8	3	3	1
Outstanding May 21 <sup>1</sup> .....	727	298	189	63	132	45	100	41	26	9	18	6
Originated:												
May 22-31.....	1,508	1,255	152	69	26	6	100	83	10	5	2	(2)
June 1-15.....	4,548	4,179	262	56	39	12	100	92	6	1	1	(2)
June 16.....	1,110	894	129	27	42	17	100	81	12	2	4	2
June 17-30.....	5,682	5,124	264	150	103	40	100	90	5	3	2	1
July.....	5,342	4,458	469	179	165	70	100	83	9	3	3	1
	Loans (in millions of dollars)						Percentage distribution of amount					
Total.....	13,964	12,227	912	178	481	166	100	88	7	1	3	1
Outstanding May 21 <sup>1</sup> .....	504	215	76	38	131	44	100	43	15	8	26	9
Originated:												
May 22-31.....	937	840	62	10	21	4	100	90	7	1	2	(2)
June 1-15.....	3,805	3,482	246	32	37	9	100	91	6	1	1	(2)
June 16.....	992	798	116	24	40	14	100	80	12	2	4	1
June 17-30.....	4,269	3,925	172	38	98	36	100	92	4	1	2	1
July.....	3,457	2,967	240	36	155	60	100	86	7	1	4	2
	Repurchase agreements (in millions of dollars)						Percentage distribution of amount					
Total.....	4,952	3,981	554	366	26	24	100	80	11	7	1	(2)
Outstanding May 21 <sup>1</sup> .....	223	83	113	25	1	1	100	37	51	11	(2)	(2)
Originated:												
May 22-31.....	571	415	90	59	5	2	100	73	16	10	1	(2)
June 1-15.....	743	697	16	24	2	4	100	94	2	3	(2)	(2)
June 16.....	118	96	14	3	3	3	100	81	11	3	2	3
June 17-30.....	1,413	1,199	92	112	6	4	100	85	7	8	(2)	(2)
July.....	1,884	1,491	229	144	10	10	100	79	12	8	1	1

<sup>1</sup> Includes transactions of \$100,000 and over, for purchasing or carrying U. S. Government securities, made after Dec. 31, 1957.

<sup>2</sup> Less than 0.5 of 1 per cent.

**TABLE A-3, COMMERCIAL BANKS**  
**VOLUME OF LOANS AND REPURCHASE AGREEMENTS ORIGINATED**  
**BY TYPE OF U. S. GOVERNMENT SECURITY**

(In millions of dollars)

Date or period (1958)	All borrowers	Govt. sec. dealers	N. Y. Stock Exchange firms	Other brokers and dealers	Indi- viduals	Others
Against "rights" and 2½% bonds only						
Total .....	1,997	1,018	473	169	257	81
Outstanding May 21 <sup>1</sup> .....	162	30	86	26	19	1
Originated:						
May 22-31 .....	275	148	61	56	9	2
June 1-15 .....	762	582	136	18	20	5
June 16 .....	287	107	101	23	39	17
June 17-30 .....	238	82	45	37	56	19
July .....	272	68	45	9	114	36
Against mixed collateral including "rights" and 2½% bonds						
Total .....	6,319	5,901	367	28	18	5
Outstanding May 21 <sup>1</sup> .....	77	47	22	1	2	5
Originated:						
May 22-31 .....	596	532	63	2	0	0
June 1-15 .....	1,761	1,750	10	1	1	0
June 16 .....	346	328	16	0	1	0
June 17-30 .....	1,981	1,879	86	14	2	0
July .....	1,558	1,365	170	10	13	0
Against other U. S. Government securities maturing in over 5 years						
Total .....	1,014	499	206	53	180	77
Outstanding May 21 <sup>1</sup> .....	203	48	39	9	84	24
Originated:						
May 22-31 .....	52	30	4	1	15	2
June 1-15 .....	144	86	32	7	15	5
June 16 .....	25	20	0	4	2	0
June 17-30 .....	279	165	40	15	39	20
July .....	310	150	92	18	24	27
Against all other U. S. Government securities <sup>2</sup>						
Total .....	9,587	8,791	420	295	53	27
Outstanding May 21 <sup>1</sup> .....	285	173	43	27	28	14
Originated:						
May 22-31 .....	585	545	25	11	2	2
June 1-15 .....	1,880	1,761	85	29	3	2
June 16 .....	452	439	12	1	0	0
June 17-30 .....	3,184	2,998	94	85	7	1
July .....	3,201	2,875	162	142	14	8

<sup>1</sup> Includes loans and repurchase agreements of \$100,000 and over made after Dec. 31, 1957.

<sup>2</sup> Figures include a small amount of collateral other than U. S. Government securities.

**TABLE A-4, COMMERCIAL BANKS**  
**VOLUME OF LOANS AND REPURCHASE AGREEMENTS TERMINATED<sup>1</sup>**

[In millions of dollars]

Date or period (1958)	All borrowers	Govt. sec. dealers	N. Y. Stock Exchange firms	Other brokers and dealers	Indi- viduals	Others
<b>Loans and repurchase agreements</b>						
<b>Total</b> .....	18,917	16,208	1,466	544	508	190
May 21-31.....	1,267	1,075	104	76	9	2
June 1-15.....	3,614	3,455	110	31	16	3
June 16.....	794	721	85	7	8	4
June 17-30.....	6,084	5,538	349	120	51	26
July.....	6,221	5,098	651	219	196	57
After July <sup>2</sup> .....	837	308	158	80	200	91
<b>Outstanding, Mar. 15, 1959<sup>2</sup></b> ....	100	13	40	10	29	8
<b>Loans</b>						
<b>Total</b> .....	13,964	12,227	912	178	481	166
May 21-31.....	827	782	23	12	9	1
June 1-15.....	2,862	2,736	101	8	16	2
June 16.....	691	654	27	2	8	(3)
June 17-30.....	4,660	4,347	214	30	47	22
July.....	4,118	3,476	365	56	175	46
After July <sup>2</sup> .....	709	219	142	62	200	86
<b>Outstanding, Mar. 15, 1959<sup>2</sup></b> ....	97	13	40	9	28	8
<b>Repurchase agreements</b>						
<b>Total</b> .....	4,952	3,981	554	366	26	24
May 21-31.....	440	293	81	65	0	1
June 1-15.....	752	718	9	24	0	1
June 16.....	104	68	28	5	0	4
June 17-30.....	1,424	1,190	135	90	4	4
July.....	2,102	1,623	285	163	21	10
After July <sup>2</sup> .....	128	89	16	19	0	4
<b>Outstanding, Mar. 15, 1959<sup>2</sup></b> ....	2	0	0	1	2	0

<sup>1</sup> Includes terminations of loans and repurchase agreements of \$100,000 and over made after Dec. 31, 1957 and outstanding May 21, 1958, or made between May 21 and July 30, 1958.

<sup>2</sup> Includes no loans or repurchase agreements made after July 30, 1958.

<sup>3</sup> Less than \$500,000.

**TABLE A-5, COMMERCIAL BANKS**  
**NEW 2½ PER CENT BOND COLLATERAL FOR LOANS AND REPURCHASE AGREEMENTS**  
**ORIGINALLY MADE AGAINST "RIGHTS", JUNE 16, 1958**

[Par value, in millions of dollars]

Period of origination (1958)	All borrowers	Govt. sec. dealers	N. Y. Stock Exchange firms	Other brokers and dealers	Indi- viduals	Others
	<b>Loans and repurchase agreements</b>					
Total .....	527	152	246	40	46	44
Before Apr. 28.....	106	3	58	5	5	35
Apr. 28-May 24.....	56	11	14	13	12	7
May 26-May 31.....	70	5	53	5	8	(1)
June 2-June 7.....	263	112	116	17	16	2
June 9-June 14.....	32	22	5	0	6	0
	<b>Loans</b>					
Total .....	398	128	149	33	45	43
Before Apr. 28.....	40	0	(1)	(1)	5	35
Apr. 28-May 24.....	37	3	6	12	12	6
May 26-May 31.....	47	3	32	5	8	(1)
June 2-June 7.....	241	101	106	17	16	2
June 9-June 14.....	32	22	5	0	6	0
	<b>Repurchase agreements</b>					
Total .....	129	24	97	7	1	1
Before Apr. 28.....	66	3	58	5	(1)	0
Apr. 28-May 24.....	18	8	8	1	(1)	1
May 26-May 31.....	23	2	21	0	0	0
June 2-June 7.....	22	11	10	1	0	0
June 9-June 14.....	0	0	0	0	0	0

<sup>1</sup> Less than \$500,000.

TABLE A-6, COMMERCIAL BANKS  
CONCENTRATION OF BANK CREDIT EXTENDED ON LOANS AND REPURCHASE AGREEMENTS BY TYPE OF BORROWER<sup>1</sup>

Number or location of banks	All loans and repurchase agreements	Loans	Repurchase agreements	Type of borrower				
				Govt. sec. dealers	N. Y. Stock Exchange firms	Other brokers and dealers	Individuals	Others
Number of banks								
All loans and repurchase agreements—Cumulative totals (in millions of dollars)								
Total.....	18,917	13,964	4,952	16,208	1,466	544	508	190
4 banks.....	10,083	10,083	0	9,523	476	19	43	22
8 banks.....	12,087	10,538	1,549	11,173	781	19	91	22
16 banks.....	14,363	12,366	1,996	13,113	909	203	111	28
20 banks.....	15,148	12,639	2,509	13,688	988	264	167	41
39 banks.....	17,019	13,397	3,622	14,966	1,315	391	272	75
Cumulative percentage distribution of amount								
Total.....	100	100	100	100	100	100	100	100
4 banks.....	53	72	0	59	33	4	9	12
8 banks.....	64	76	31	69	53	4	18	12
16 banks.....	76	89	40	81	62	37	22	15
20 banks.....	80	91	51	84	67	49	33	21
39 banks.....	90	96	73	92	90	72	54	40
Location of banks								
All loans and repurchase agreements (in millions of dollars)								
Total.....	18,917	13,964	4,952	16,208	1,466	544	508	190
New York (14 banks).....	11,894	11,723	171	10,773	815	149	107	50
California (4 banks).....	814	360	454	813	0	1	(2)	(2)
Illinois (5 banks).....	768	521	248	662	4	61	34	8
Missouri and Oklahoma (5 banks).....	658	132	526	284	148	152	57	18
Pennsylvania (3 banks).....	1,107	32	1,074	761	332	0	14	0
39 banks.....	17,019	13,397	3,622	14,966	1,315	391	272	75
Loans and repurchase agreements against the 2½% bond (in millions of dollars) <sup>2</sup>								
Total.....	1,324	1,081	244	409	436	109	255	116
New York (13 banks).....	742	737	5	249	297	57	71	68
Calif., Ill., Mo., Okla. and Pa. (13 banks).....	256	145	111	106	71	6	63	10
35 banks.....	1,127	984	143	356	375	84	215	99

<sup>1</sup> Includes loans and repurchase agreements of \$100,000 and over made after Dec. 31, 1957, and outstanding May 21, 1958, or made between May 21 and July 30, 1958.

<sup>2</sup> Less than \$500,000. <sup>3</sup> Includes (1) the par value of the new collateral consisting of 2½ per cent bonds for loans and repurchase agreements made originally against "rights" and (2) the original amount of credit extended, for loans and repurchase agreements made on or after June 16, 1958, against 2½ per cent bonds only.

TABLE A-7, COMMERCIAL BANKS  
 REPURCHASE AGREEMENTS AGAINST "RIGHTS" EXCHANGED INTO 2½ PER CENT BONDS  
 BY OCCURRENCE OF ADDITIONAL MARGIN REQUESTS<sup>1</sup>

[In millions of dollars]

Type of borrower	All repurchase agreements	No additional margin requested	Additional margin requested								
			Total	When requested			Points requested				
				At time of agreement	After agreement, but before 6/16/58	After 6/16/58	¼	½- ¾	1½- 2¼	2½- 3¼	3½ and over
All borrowers.....	129	93	36	0	5	31	6	0	24	6	0
Govt. sec. dealers.....	24	19	5	0	0	5	0	0	5	0	0
N. Y. Stock Exchange firms.....	97	67	30	0	5	25	6	0	19	5	0
Other brokers and dealers.....	7	7	(2)	0	0	(2)	0	0	0	(2)	0
Individuals.....	1	0	1	0	0	1	0	0	0	1	0
Others.....	1	1	0	0	0	0	0	0	0	0	0

<sup>1</sup> Includes repurchase agreements of \$100,000 and over made after Dec. 31, 1957 and outstanding May 21, 1958, or made between May 21 and July 30, 1958.

<sup>2</sup> Less than \$500,000.

TABLE A-8, COMMERCIAL BANKS  
INITIAL MARGIN REQUIREMENTS ON LOANS<sup>1</sup>

(In millions of dollars)

Initial margin (in points) <sup>2</sup>	All borrowers	Govt. sec. dealers	N. Y. Stock Exchange firms	Other brokers and dealers	Indi- viduals	Others
All loans <sup>3</sup>						
Total.....	13,881	12,197	874	162	481	166
Less than 1½.....	4,131	3,919	60	28	86	38
1½-3¼.....	7,802	7,221	282	91	165	44
3½-5¼.....	1,407	789	360	33	175	49
5½ or more.....	540	268	172	10	56	34
Against "rights" only						
Total.....	723	528	129	15	47	3
Less than 1½.....	515	442	43	11	18	2
1½-3¼.....	146	85	39	2	19	1
3½-5¼.....	57	1	46	1	8	(*)
5½ or more.....	5	0	1	1	2	0
Originally against "rights" only; later against 2½% bonds <sup>5</sup>						
Total.....	208	42	108	11	44	3
Less than 1½.....	71	17	30	8	15	2
1½-3¼.....	74	24	29	1	19	1
3½-5¼.....	57	1	47	2	8	(*)
5½ or more.....	6	0	2	1	3	0
Against 2½% bonds only						
Total.....	682	189	179	42	203	69
Less than 1½.....	105	12	5	5	58	25
1½-3¼.....	449	162	140	26	99	22
3½-5¼.....	121	15	32	10	42	22
5½ or more.....	8	0	2	1	4	1
Against other U. S. Govt. securities maturing in 1 year or less						
Total.....	1,995	1,947	22	13	11	3
Less than 1½.....	1,655	1,640	1	11	2	1
1½-3¼.....	241	218	16	1	4	2
3½-5¼.....	88	79	3	0	5	(*)
5½ or more.....	13	10	1	1	(*)	0

For footnotes see following page.

TABLE A-8, COMMERCIAL BANKS—Continued  
INITIAL MARGIN REQUIREMENTS ON LOANS<sup>1</sup>

[In millions of dollars]

Initial margin (in points) <sup>2</sup>	All borrowers	Govt. sec. dealers	N. Y. Stock Exchange firms	Other brokers and dealers	Indi- viduals	Others
Against other U. S. Govt. securities maturing in 1-5 years						
Total.....	426	387	13	6	14	7
Less than 1½.....	93	93	0	0	0	(4)
1½-3¼.....	285	270	1	2	9	4
3½-5¼.....	40	23	8	4	3	3
5½ or more.....	7	1	4	(4)	2	(4)
Against other U. S. Govt. securities maturing in over 5 years						
Total.....	701	317	112	36	170	67
Less than 1½.....	49	37	(4)	1	6	5
1½-3¼.....	315	236	21	21	23	14
3½-5¼.....	229	29	73	9	100	19
5½ or more.....	108	14	19	5	42	29
Against U. S. Govt. securities with mixed maturity <sup>4</sup>						
Total.....	9,340	8,825	415	50	36	15
Less than 1½.....	1,710	1,691	10	0	3	5
1½-3¼.....	6,367	6,250	67	39	11	0
3½-5¼.....	873	642	198	10	17	6
5½ or more.....	391	242	140	1	4	3

<sup>1</sup> Includes loans of \$100,000 and over made after Dec. 31, 1957 and outstanding May 21, 1958 or made between May 21, 1958 and July 30, 1958.

<sup>2</sup> Many banks reported margin requirements as percentage figures (which were treated as points) or in 32ds or dollar amounts (which were converted to points).

<sup>3</sup> Total excludes \$83 million of loans on which information on initial margin requirements was not reported.

<sup>4</sup> Less than \$500,000.

<sup>5</sup> Par value of new collateral consisting of 2¾% bonds.

<sup>6</sup> Excludes a small amount of loans against U. S. Government securities and other collateral not shown separately.



TABLE A-9, COMMERCIAL BANKS

INITIAL MARGIN REQUIREMENTS ON REPURCHASE AGREEMENTS AGAINST COLLATERAL OTHER THAN "RIGHTS" EXCHANGED INTO 2½ PER CENT BONDS¹

[In millions of dollars]

Initial margin (in points)²	All borrowers	Govt. sec. dealers	N. Y. Stock Exchange firms	Other brokers and dealers	Indi- viduals	Others
All repurchase agreements						
Total.....	4,818	3,957	452	359	26	23
No margin.....	4,611	3,767	440	358	25	20
½ or less.....	117	108	8	0	0	0
¾-1.....	48	48	0	0	0	0
1¼-2¼.....	35	32	1	0	0	2
Over 2¼.....	6	1	3	1	1	(?)
Against "rights" only						
Total.....	283	182	34	63	0	5
No margin.....	266	165	34	63	0	5
½ or less.....	5	5	0	0	0	0
¾-1.....	9	9	0	0	0	0
1¼-2¼.....	3	3	0	0	0	0
Over 2¼.....	0	0	0	0	0	0
Against 2½% bonds only						
Total.....	115	68	12	26	6	3
No margin.....	102	68	0	26	5	3
½ or less.....	8	0	8	0	0	0
¾-1.....	0	0	0	0	0	0
1¼-2¼.....	0	0	0	0	0	0
Over 2¼.....	4	0	3	1	1	0
Against other U. S. Govt. securities maturing in 1 year or less						
Total.....	3,152	2,887	10	240	10	4
No margin.....	3,091	2,827	10	240	10	4
½ or less.....	52	52	0	0	0	0
¾-1.....	9	9	0	0	0	0
1¼-2¼.....	0	0	0	0	0	0
Over 2¼.....	0	0	0	0	0	0
Against other U. S. Govt. securities maturing in 1-5 years						
Total.....	546	363	175	6	0	2
No margin.....	521	340	175	6	0	0
½ or less.....	15	15	0	0	0	0
¾-1.....	7	7	0	0	0	0
1¼-2¼.....	3	1	0	0	0	2
Over 2¼.....	0	0	0	0	0	0

For footnotes see following page.

TABLE A-9, COMMERCIAL BANKS—Continued

INITIAL MARGIN REQUIREMENTS ON REPURCHASE AGREEMENTS AGAINST COLLATERAL OTHER THAN "RIGHTS" EXCHANGED INTO 2½ PER CENT BONDS<sup>1</sup>

[In millions of dollars]

Initial margin (in points) <sup>2</sup>	All borrowers	Govt. sec. dealers	N. Y. Stock Exchange firms	Other brokers and dealers	Indi- viduals	Others
Against other U. S. Govt. securities maturing in over 5 years						
Total.....	312	183	93	17	10	9
No margin.....	252	124	93	16	10	9
½ or less.....	15	15	0	0	0	0
¾-1.....	13	13	0	0	0	0
1¼-2¼.....	29	29	1	0	0	0
Over 2¼.....	2	1	0	( <sup>3</sup> )	0	( <sup>3</sup> )
Against U. S. Govt. securities with mixed maturity						
Total.....	403	268	128	7	0	0
No margin.....	375	240	128	7	0	0
½ or less.....	18	18	0	0	0	0
¾-1.....	10	10	0	0	0	0
1¼-2¼.....	0	0	0	0	0	0
Over 2¼.....	0	0	0	0	0	0

<sup>1</sup> Includes repurchase agreements of \$100,000 and over made after Dec. 31, 1957 and outstanding May 21, 1958, or made between May 21, 1958 and July 30, 1958.

<sup>2</sup> See footnote 2 to Table A-8.

<sup>3</sup> Less than \$500,000.

TABLE A-10, COMMERCIAL BANKS  
MINIMUM MARGIN TO BE MAINTAINED ON LOANS<sup>1</sup>

[In millions of dollars]

Minimum margin (in points) <sup>2</sup>	All borrowers	Govt. sec. dealers	N. Y. Stock Exchange firms	Other brokers and dealers	Indi- viduals	Others
	All loans <sup>3</sup>					
Total.....	313,881	12,197	874	162	481	166
Less than 1½.....	4,893	4,632	73	36	99	53
1½-3¼.....	7,933	7,271	338	86	191	48
3½-5¼.....	979	284	452	33	165	45
5½ or more.....	75	10	11	7	27	20
	Against "rights" only					
Total.....	723	528	129	15	47	3
Less than 1½.....	546	463	51	11	20	2
1½-3¼.....	122	64	32	3	22	1
3½-5¼.....	51	1	45	1	4	(4)
5½ or more.....	4	0	1	1	1	0
	Originally against "rights"; later against 2¾% bonds <sup>5</sup>					
Total.....	208	42	108	11	44	3
Less than 1½.....	75	17	31	8	17	2
1½-3¼.....	77	24	29	2	22	1
3½-5¼.....	52	1	46	1	4	(4)
5½ or more.....	5	0	2	1	2	0
	Against 2¾% bonds only					
Total.....	682	189	179	42	203	69
Less than 1½.....	127	12	7	10	60	37
1½-3¼.....	475	177	149	23	107	19
3½-5¼.....	79	0	23	8	35	13
5½ or more.....	2	0	0	1	1	0
	Against other U. S. Govt. securities maturing in 1 year or less					
Total.....	1,995	1,947	22	13	11	3
Less than 1½.....	1,861	1,847	1	11	2	1
1½-3¼.....	114	92	16	1	4	2
3½-5¼.....	10	0	4	0	6	(4)
5½ or more.....	11	9	1	1	0	0
	Against other U. S. Govt. securities maturing in 1-5 years					
Total.....	426	387	13	6	14	7
Less than 1½.....	193	187	1	1	4	1
1½-3¼.....	220	200	7	1	8	4
3½-5¼.....	13	0	5	4	2	2
5½ or more.....	(4)	0	0	(4)	(4)	0

For footnotes see following page.

TABLE A-10, COMMERCIAL BANKS—Continued  
 MINIMUM MARGIN TO BE MAINTAINED ON LOANS<sup>1</sup>

[In millions of dollars]

Minimum margin (in points) <sup>2</sup>	All borrowers	Govt. sec. dealers	N. Y. Stock Exchange firms	Other brokers and dealers	Indi- viduals	Others
Against other U. S. Govt. securities maturing in over 5 years						
Total.....	701	316	112	36	170	67
Less than 1½.....	59	37	2	4	10	6
1½-3¼.....	373	275	31	19	33	16
3½-5¼.....	223	3	76	10	107	27
5½ or more.....	47	1	4	3	21	18
Against U. S. Govt. securities with mixed maturity <sup>6</sup>						
Total.....	9,340	8,825	415	50	36	15
Less than 1½.....	2,104	2,083	11	0	3	7
1½-3¼.....	6,631	6,462	104	40	19	5
3½-5¼.....	602	280	299	10	12	1
5½ or more.....	4	0	1	0	2	1

<sup>1</sup> Includes loans of \$100,000 and over made after Dec. 31, 1957 and outstanding May 21, 1958, or made between May 21, 1958 and July 30, 1958.

<sup>2</sup> See footnote 2 to Table A-8.

<sup>3</sup> Total excludes \$83 million of loans for which information on minimum margin requirements was not reported.

<sup>4</sup> Less than \$500,000.

<sup>5</sup> Par value of new collateral consisting of 2¾ per cent bonds.

<sup>6</sup> Excludes a small amount of loans against U. S. Government securities and other securities not shown separately.

TABLE A-11, COMMERCIAL BANKS  
 LOANS AND REPURCHASE AGREEMENTS, BY TYPE OF BORROWER AND MANNER IN WHICH CREDIT WAS ARRANGED<sup>1</sup>

Type of borrower	Credit extended against June "rights" and 2½% bond of 1965						Credit extended against all other Government securities <sup>2</sup>					
	Amount (in millions of dollars)	Percentage distribution of amount					Amount (in millions of dollars)	Percentage distribution of amount				
		Total	Arranged directly		Arranged through 3rd party			Total	Arranged directly		Arranged through 3rd party	
			Previous borrower	New borrower	Previous borrower	New borrower			Previous borrower	New borrower	Previous borrower	New borrower
	Loans and repurchase agreements						Loans and repurchase agreements					
All borrowers.....	1,997	100	68	9	8	15	10,593	100	79	1	17	3
Govt. sec. dealers.....	1,018	100	87	1	8	4	9,282	100	84	(3)	16	1
N. Y. Stock Exchange firms....	473	100	72	20	3	5	626	100	46	4	45	5
Other brokers and dealers.....	169	100	49	8	36	7	347	100	73	3	21	3
Individuals.....	257	100	10	12	2	76	233	100	21	15	8	56
Others.....	81	100	19	26	8	47	104	100	30	14	17	40
	Loans						Loans					
All borrowers.....	1,485	100	76	4	3	17	6,399	100	88	1	7	3
Govt. sec. dealers.....	744	100	95	1	4	0	5,727	100	92	(3)	7	1
N. Y. Stock Exchange firms....	346	100	94	1	0	5	287	100	90	3	(3)	7
Other brokers and dealers.....	73	100	87	9	2	2	84	100	76	3	16	5
Individuals.....	250	100	10	13	2	76	213	100	19	17	8	57
Others.....	72	100	15	22	9	53	88	100	23	13	20	44

	Repurchase agreements						Repurchase agreements						
	\$12	100	44	21	24	12	4,193	100	65	1	33	1	
All borrowers.....													
Govt. sec. dealers.....	274	100	66	1	18	14	3,555	100	70	(3)	29	1	
N. Y. Stock Exchange firms.....	127	100	13	71	12	4	339	100	9	5	83	3	
Other brokers and dealers.....	96	100	21	7	61	11	263	100	72	3	22	3	
Individuals.....	7	100	23	0	0	77	20	100	36	0	13	51	
Others.....	9	100	47	53	0	0	16	100	65	19	0	16	

<sup>1</sup> Includes loans and repurchase agreements of \$100,000 and over made after Dec. 31, 1957 and outstanding May 21, 1958 or made between May 21 and July 30, 1958, except as indicated in footnote 2.

<sup>2</sup> Excludes credit against mixed collateral including "rights" and 2½ per cent bonds, and also a small amount of loans against U. S. Government and other securities.

<sup>3</sup> Less than 0.5 of 1 per cent.

TABLE A-12, COMMERCIAL BANKS  
ORIGINAL EFFECTIVE INTEREST RATES ON LOANS<sup>1</sup>

Period (1958)	Amount (in millions of dollars)	Interest rate (per cent per annum)						
		All loans	Under 1½	1½-2	2-3	3-4	4-5	5 and over
		Percentage distribution of amount						
Government securities dealers								
Total .....	12,227	100	32	65	2	1	(2)	0
Jan.-Apr. ....	91	100	6	37	57	1	0	0
May .....	964	100	66	28	4	2	0	0
June .....	8,205	100	34	64	1	1	0	0
July .....	2,967	100	17	81	1	1	1	0
N. Y. Stock Exchange firms								
Total .....	912	100	3	3	82	11	1	0
Jan.-Apr. ....	44	100	0	1	44	30	26	0
May .....	94	100	23	6	64	7	0	0
June .....	534	100	1	3	85	11	0	0
July .....	240	100	0	3	86	11	(2)	0
Other brokers and dealers								
Total .....	178	100	14	25	36	23	2	0
Jan.-Apr. ....	17	100	3	0	70	9	18	0
May .....	31	100	15	21	27	37	0	0
June .....	94	100	8	25	42	25	(2)	0
July .....	36	100	32	42	14	12	0	0
Individuals								
Total .....	481	100	0	1	52	38	8	1
Jan.-Apr. ....	99	100	0	0	7	65	27	(2)
May .....	53	100	0	0	34	53	10	4
June .....	174	100	0	3	68	24	3	2
July .....	155	100	0	0	68	31	1	0
Others								
Total .....	166	100	0	2	42	53	3	0
Jan.-Apr. ....	25	100	0	1	3	84	11	0
May .....	22	100	0	0	56	44	0	0
June .....	58	100	0	3	32	61	4	0
July .....	60	100	0	1	63	36	1	0

<sup>1</sup> Includes loans of \$100,000 and over made after Dec. 31, 1957 and outstanding May 21, 1958, or made between May 21 and July 30, 1958.

<sup>2</sup> Less than 0.5 of 1 per cent.

**TABLE A-13, COMMERCIAL BANKS**  
**ORIGINAL EFFECTIVE INTEREST RATES ON REPURCHASE AGREEMENTS<sup>1</sup>**

Period (1958)	Amount (in millions of dollars)	Interest rates (per cent per annum)						
		All agree- ments	Under ½	½-1	1-1½	1½-2	2-2½	2½ and over
<b>Government securities dealers</b>								
Total.....	3,981	100	3	51	35	10	1	(2)
Jan.-Apr.....	25	100	0	0	20	4	69	7
May.....	474	100	15	76	5	(2)	4	0
June.....	1,992	100	1	40	42	17	(2)	(2)
July.....	1,491	100	2	59	34	5	0	0
<b>N. Y. Stock Exchange firms</b>								
Total.....	554	100	0	47	12	1	36	4
Jan.-Apr.....	80	100	0	0	0	0	89	11
May.....	123	100	0	12	0	0	82	6
June.....	122	100	0	57	12	5	22	4
July.....	229	100	0	75	23	1	1	0
<b>Other brokers and dealers</b>								
Total.....	366	100	1	51	37	5	3	3
Jan.-Apr.....	9	100	0	0	0	0	89	11
May.....	75	100	5	92	0	1	1	0
June.....	139	100	0	20	70	4	1	4
July.....	144	100	0	62	27	8	0	3
<b>Individuals</b>								
Total.....	26	100	0	0	9	0	19	72
Jan.-Apr.....	(3)	100	0	0	0	0	0	100
May.....	6	100	0	0	0	0	0	100
June.....	10	100	0	0	24	0	48	28
July.....	10	100	0	0	0	0	0	100
<b>Others</b>								
Total.....	24	100	0	0	4	12	31	53
Jan.-Apr.....	0	—	—	—	—	—	—	—
May.....	3	100	0	0	33	0	33	33
June.....	11	100	0	0	0	0	60	40
July.....	10	100	0	0	0	29	0	71

<sup>1</sup> Includes repurchase agreements of \$100,000 and over made after Dec. 31, 1957 and outstanding May 21, 1958, or made between May 21 and July 30, 1958.

<sup>2</sup> Less than 0.5 of 1 per cent.

<sup>3</sup> Less than \$500,000.



**TABLE A-14, COMMERCIAL BANKS**  
**ORIGINAL EFFECTIVE INTEREST RATES ON LOANS AND REPURCHASE AGREEMENTS AGAINST JUNE "RIGHTS" ONLY<sup>1</sup>**

Period (1958)	Loans								Repurchase agreements							
	Amount (in millions of dollars)	All loans	Interest rate (per cent per annum)						Amount (in millions of dollars)	All loans	Interest rate (per cent per annum)					
			Under 1	1-1½	1½-2	2-3	3-4	4 and over			Under ½	½-1	1-1½	1½-2	2-2½	2½ and over
			Percentage distribution of amount								Percentage distribution of amount					
	Government securities dealers								Government securities dealers							
Total.....	555	100	8	78	12	2	0	0	206	100	15	58	12	2	13	(2)
Mar.-Apr.....	0	—	—	—	—	—	—	—	8	100	0	0	0	0	100	0
May.....	45	100	79	18	(2)	2	0	0	125	100	21	60	4	0	14	0
June.....	510	100	2	83	13	2	0	0	72	100	5	61	27	7	0	(2)
	N. Y. Stock Exchange firms								N. Y. Stock Exchange firms							
Total.....	167	100	0	13	5	80	2	0	116	100	0	17	0	0	81	1
Mar.-Apr.....	6	100	0	0	0	95	5	0	68	100	0	0	0	0	100	0
May.....	40	100	0	52	10	34	4	0	33	100	0	46	0	0	49	5
June.....	121	100	0	(2)	4	94	1	0	15	100	0	33	0	0	67	0
	Other brokers and dealers								Other brokers and dealers							
Total.....	31	100	0	16	2	46	36	0	69	100	0	86	0	0	13	1
April.....	(2)	100	0	0	0	0	100	0	8	100	0	0	0	0	100	0
May.....	13	100	0	0	0	40	60	0	61	100	0	98	0	0	2	0
June.....	18	100	0	28	3	51	18	0	1	100	0	0	0	0	0	100

	Individuals and others								Individuals and others							
	50	100	0	0	0	57	34	8	6	100	0	0	0	0	71	29
Total.....	5	100	0	0	0	4	77	19	( <sup>3</sup> )	100	0	0	0	0	0	100
April.....	23	100	0	0	0	59	38	3	2	100	0	0	0	0	42	58
May.....	22	100	0	0	0	67	21	12	4	100	0	0	0	0	100	0
June.....																

<sup>1</sup> Includes loans and repurchase agreements against June "rights" amounting to \$100,000 and over made after Dec. 31, 1957 and outstanding May 21, 1958, or made after May 21.

<sup>2</sup> Less than 0.5 of 1 per cent.

<sup>3</sup> Less than \$500,000.

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Budget Bureau No. 55-5902

TREASURY-FEDERAL RESERVE QUESTIONNAIRE  
TO COMMERCIAL BANKS  
STUDY OF GOVERNMENT SECURITIES MARKET

(Bank identification code) \_\_\_\_\_

	(Dollar amounts in thousands)
1. Total loans for purchasing or carrying U. S. Government securities (including repurchase agreements) outstanding at close of business:	
(a) October 30, 1957.....(number of loans _____)	\$ _____
(b) June 18, 1958.....(number of loans _____)	\$ _____
(c) July 30, 1958.....(number of loans _____)	\$ _____
2. Amount of exchange subscriptions to the 2½% bond tendered for your account in the Treasury refunding of June 1958 but subject to agreement (i.e., repurchase agreement) to resell such securities to:	
(a) Government security dealers.....	\$ _____
(b) Other dealers and brokers.....	\$ _____
(c) Nonfinancial business corporations.....	\$ _____
(d) Individuals.....	\$ _____
(e) Other (specify _____)	\$ _____
Total.....	\$ _____

March 1959.

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Budget Bureau No. 55-5901

TREASURY-FEDERAL RESERVE QUESTIONNAIRE  
TO COMMERCIAL BANKS  
STUDY OF GOVERNMENT SECURITIES MARKET

PLEASE COMPLETE THIS FORM FOR EACH LOAN (AND REPURCHASE AGREEMENT\*) OF \$100,000 OR MORE FOR PURCHASING OR CARRYING U. S. GOVERNMENT SECURITIES (A) MADE AFTER DECEMBER 31, 1957 AND OUTSTANDING AT CLOSE OF BUSINESS ON MAY 21, 1958 OR (B) ORIGINATING BETWEEN MAY 21 AND JULY 30, 1958, INCLUSIVE.

(Bank identification Code) \_\_\_\_\_

	(Dollar amounts in thousands)
1. Original amount of loan (if repurchase agreement, enter amount originally paid for securities).....	\$ _____
2. (a) Collateral loan.....	<input type="checkbox"/> (1) (check one)
(b) Repurchase agreement.....	<input type="checkbox"/> (2)
3. Date made.....	
(a) Was loan or repurchase agreement arranged directly with borrower.....	<input type="checkbox"/> (1) (check one)
(b) Was loan or repurchase agreement arranged through a third party.....	<input type="checkbox"/> (2)
4. Date loan or repurchase agreement actually terminated, unless still outstanding. If still outstanding, so state.....	
5. Original effective interest rate on loan or repurchase agreement (to nearest ¼ per cent).....	_____ per cent

6. Contract maturity of loan (or repurchase agreement):	
(a) Demand (or call).....	<input type="checkbox"/> (1) (check one)
(b) Fixed maturity.....	<input type="checkbox"/> (2)
(c) Other maturity terms not covered above (specify _____)	<input type="checkbox"/> (3)
(d) If 6(b) checked, give date.....	
7. Type of borrower (seller in case of repurchase agreement):	
(a) Government security dealer.....	<input type="checkbox"/> (1) (check one)
(b) Member of New York Stock Exchange <sup>1</sup> .....	<input type="checkbox"/> (2)
(c) Other dealer or broker.....	<input type="checkbox"/> (3)
(d) Individual.....	<input type="checkbox"/> (4)
(e) Other (specify _____)	<input type="checkbox"/> (5)
8. Had credit been previously extended to this borrower for similar purposes?..	<input type="checkbox"/> (1) yes; <input type="checkbox"/> (2) no
9. Original collateral consisted of:	
(a) "Rights" to June Treasury refunding (2¾% bond, 2¾% note, and 2¾% bond, all due June 15, 1958).....	<input type="checkbox"/> (1)
(1) If loan or repurchase agreement against rights not paid off by June 16, 1958, the settlement date for the refunding, indicate amount of new collateral which consisted of 2¾% bond.....	\$ _____ par
(b) 2¾% bond of 1965 (where loan or repurchase agreement originated on or after June 16, 1958).....	<input type="checkbox"/> (1)
(c) Other U. S. Government securities having a maturity at the time of the loan or repurchase agreement of:	
(1) 1 year or under.....	<input type="checkbox"/> (1) (check one or more)
(2) Over 1 year to 3 years.....	<input type="checkbox"/> (1)
(3) Over 3 years to 5 years.....	<input type="checkbox"/> (1)
(4) Over 5 years to 10 years.....	<input type="checkbox"/> (1)
(5) Over 10 years.....	<input type="checkbox"/> (1)
10. Margin obtained (on loans only):	
(a) What was the original margin in the loan to the nearest point? If none report zero.....	_____ points
(b) Was there an agreement at the time loan originated to maintain a minimum margin?.....	<input type="checkbox"/> (1) yes; <input type="checkbox"/> (2) no
(c) If "yes" checked against 10(b), indicate amount to the nearest point.....	_____ points
(d) If "no" checked against 10(b), were there calls for cash or additional collateral?.....	<input type="checkbox"/> (1) yes; <input type="checkbox"/> (2) no
(e) If "yes" checked against 10(d), give date of first call.....	
11. In case of repurchase agreement made initially against "rights", subsequently exchanged into 2¾% bonds, was any additional margin requested?.....	<input type="checkbox"/> (1) yes; <input type="checkbox"/> (2) no
(a) If "yes", how much? (Indicate to nearest ¼ of a point).....	_____ points
(b) If "yes", were arrangements for additional margin made:	
(1) At time of original agreement.....	<input type="checkbox"/> (1) (check one)
(2) Between origin of agreement and June 16, 1958.....	<input type="checkbox"/> (2)
(3) After June 16, 1958.....	<input type="checkbox"/> (3)
12. In case of repurchase agreement other than specified in Item 11 was any initial margin (i.e., excess of market value over price actually paid for security) required?.....	<input type="checkbox"/> (1) yes; <input type="checkbox"/> (2) no
(a) If "yes", how much? (Indicate amount to nearest quarter of a point).....	_____ points

March 1959

\* Include as repurchase agreements any buybacks, turnabouts, overnights, and similar transactions by whatever name.

<sup>1</sup> Check only item 7(a) if borrower is a Government security dealer and also a member of New York Stock Exchange.

## **Appendix B**

### **Nonfinancial Business Corporations**

#### **EXPLANATORY NOTES**

The 145 nonfinancial business corporations included in the survey were in general large companies known to have substantial holdings of United States Government securities. As a group, they accounted for about one-half of all corporate holdings of such securities at the end of June 1958 and for nearly three-fourths of all corporate subscriptions to the 2½ per cent bonds offered in June 1958. The definition of nonfinancial business corporations used here encompasses all types of incorporated businesses except banks and insurance companies. In accordance with this definition, the group of 145 corporations includes two sales finance companies and one large investment company.

These 145 corporations were asked for two types of information:

First, they were asked to provide detailed figures on their holdings of United States Government securities as of the end of April, May, June, and July 1958, broken down as between holdings under repurchase agreements and outright holdings, with each of these broad classifications further subdivided according to type of security (see Form 55-5909, pages 132-33). They were also asked to indicate on this form the volume of their exchanges of June "rights" into the 2½ per cent bond offered in June 1958. The information provided is summarized in Tables B-1 and B-2.

Second, they were asked to complete a separate report (see Form 55-5908, page 134) for each repurchase agreement of \$100,000 or more on United States Government securities that either was outstanding on May 21, 1958, or was made between May 21 and July 30, 1958. For each such repurchase agreement, information was requested on par value, date when the agreement was made, date when it was terminated, type of United States Gov-

ernment security held under the agreement, type of borrower with whom the agreement was made, and other characteristics such as interest rate, contract maturity, and margin. Information available from these reports is summarized in Tables B-3-B-6.

As an examination of Tables B-3-B-6 and Form 55-5908 will indicate, the summary data presented for repurchase agreements do not cover all the detailed information that was requested and provided. The survey revealed that, among nonfinancial corporations, the volume of participation in repurchase agreements during the survey period, as well as the characteristics of those agreements, depended primarily upon individual company practice. In view of the importance of individual company practice, its variation from company to company, and the relatively small number of companies reporting any repurchase agreements during the survey period, tabulations of the survey results are meaningful only for fairly broad groupings of the data. More detailed tabulations, though they might appear statistically significant in terms of the dollar volume of repurchase agreements involved, would tend to reflect the activities of some single company operating in a way largely peculiar to itself.

TABLE B-1, NONFINANCIAL BUSINESS CORPORATIONS  
EXCHANGES OF JUNE "RIGHTS" INTO 2½ PER CENT BONDS

[In millions of dollars]

Type of corporation	Total	Under repurchase agreements	From outright holdings
Total (145 corporations).....	763	368	395
Manufacturing corporations.....	481	160	321
Nonmanufacturing corporations.....	283	208	75

TABLE B-2, NONFINANCIAL BUSINESS CORPORATIONS  
 HOLDINGS OF U. S. GOVERNMENT SECURITIES AS REPORTED BY 145 BUSINESS CORPORATIONS

[In millions of dollars]

Date (1958)	Total	Held under repurchase agreement				Held outright										
		Total	June "rights"	2½% bonds	Other	Total	Marketable securities maturing within 1 year					Marketable sec. maturing 1 yr. and over			Nonmar- ketable secu- rities	
							Total	June "rights"	Bills	Certs.	Other	Total	2½% bonds	Other		
Total																
Apr. 30.....	8,073	1,081	88	—	993	6,993	6,443	1,596	1,871	1,599	1,378	529	—	529	20	
May 31.....	8,653	1,584	283	—	1,301	7,069	6,474	1,183	2,202	1,620	1,468	576	—	576	20	
June 30.....	7,127	984	—	—	185	799	6,143	5,406	—	1,835	2,035	1,536	718	131	587	20
July 31.....	7,634	911	—	—	21	890	6,724	5,955	—	2,349	1,954	1,652	749	131	618	20
Manufacturing corporations																
Apr. 30.....	6,351	1,004	58	—	946	5,346	4,946	1,217	1,552	1,169	1,009	381	—	381	19	
May 31.....	6,843	1,218	111	—	1,107	5,626	5,199	978	1,944	1,189	1,088	408	—	408	19	
June 30.....	5,580	856	—	—	103	753	4,724	4,211	—	1,535	1,324	1,152	495	79	416	19
July 31.....	6,210	865	—	—	19	846	5,345	4,796	—	2,043	1,483	1,270	530	80	450	19
Nonmanufacturing corporations																
Apr. 30.....	1,722	76	30	—	46	1,646	1,497	378	319	430	370	148	—	148	1	
May 31.....	1,810	366	172	—	194	1,444	1,275	205	259	430	381	168	—	168	1	
June 30.....	1,547	128	—	—	82	46	1,419	1,195	—	300	511	383	223	52	172	1
July 31.....	1,424	46	—	—	2	44	1,379	1,159	—	306	471	382	219	51	168	1

**TABLE B-3, NONFINANCIAL BUSINESS CORPORATIONS**  
**VOLUME OF REPURCHASE AGREEMENTS ORIGINATED BY TYPE OF U. S. GOVERNMENT SECURITY<sup>1</sup>**

[In millions of dollars]

Type of U. S. Govt. security	Number of companies reporting	Amount of repurchase agreements					
		Total	Outstanding May 21, 1958	Originated (1958)			
				May 22- May 31	June 1- June 15	June 16- June 30	July 1- July 30
<b>All borrowers</b>							
Total.....	32	4,394	1,548	448	874	596	928
June "rights".....	24	579	214	142	224	—	—
Bills.....	14	2,126	1,053	117	279	227	451
Certificates.....	20	545	66	28	71	78	302
Notes and bonds with maturities of:							
Less than 15 months.....	15	405	87	64	180	31	43
15 months to 2 years.....	6	21	0	16	5	0	0
More than 2 years.....	19	695	129	77	106	257	127
Mixed types.....	3	23	0	5	10	3	5
<b>Government securities dealers</b>							
Total.....	24	4,068	1,498	431	775	491	873
June "rights".....	15	440	173	129	138	—	—
Bills.....	12	2,111	1,053	117	278	227	437
Certificates.....	18	511	66	28	68	74	275
Notes and bonds with maturities of:							
Less than 15 months.....	12	384	87	60	173	27	38
15 months to 2 years.....	6	21	0	16	5	0	0
More than 2 years.....	14	582	120	77	104	164	118
Mixed types.....	2	20	0	5	10	0	5

<sup>1</sup> Includes repurchase agreements of \$100,000 and over outstanding May 21, 1953, or made between May 21 and July 30, 1958.

NOTE.—Data on repurchase agreements with borrowers other than Government securities dealers, that is, with N. Y. Stock Exchange members or with other brokers and dealers, are not shown separately because of small volume of agreements made in each period.



TABLE B-4, NONFINANCIAL BUSINESS CORPORATIONS  
 VOLUME OF REPURCHASE AGREEMENTS TERMINATED, BY TYPE OF U. S. GOVERNMENT SECURITY  
 [In millions of dollars]

Type of U. S. Govt. security <sup>1</sup>	Total	May 22- May 31	June 1- June 15	June 16	June 17- June 30	July	After July <sup>2</sup>
All borrowers							
Total.....	4,394	428	802	807	440	1,022	897
June "rights".....	579	79	101	315	324	361	0
Bills.....	2,126	198	335	210	237	334	812
Certificates.....	545	7	76	57	59	296	52
Notes and bonds with maturities of:							
Less than 15 months.....	405	69	103	158	14	57	5
15 months to 2 years.....	21	10	10	0	2	0	0
More than 2 years.....	695	65	163	68	105	266	28
Mixed types.....	23	0	15	0	0	8	0
Government securities dealers							
Total.....	4,068	415	775	699	425	883	872
June "rights".....	440	75	86	208	310	361	0
Bills.....	2,111	198	335	209	237	325	807
Certificates.....	511	7	74	57	59	268	47
Notes and bonds with maturities of:							
Less than 15 months.....	384	69	93	158	13	52	0
15 months to 2 years.....	21	10	10	0	2	0	0
More than 2 years.....	582	56	163	68	105	172	18
Mixed types.....	20	0	15	0	0	5	0

<sup>1</sup> Classification by type of security is according to collateral at time repurchase agreement was made.

<sup>2</sup> Includes no repurchase agreements made after July 30.

<sup>3</sup> Collateral consisted of 2½ per cent bonds after June 16.

NOTE.—See notes to Table B-3. All dates are 1958.

**TABLE B-5, NONFINANCIAL BUSINESS CORPORATIONS**  
**CONTRACT MATURITY TERMS OF REPURCHASE AGREEMENTS**  
**BY TYPE OF U. S. GOVERNMENT SECURITY**

[In millions of dollars]

Type of U. S. Govt. security	Total amount outstanding, May 21, 1958, or made between May 21 and July 30, 1958	Contract maturity terms		
		Fixed	Demand	Other <sup>1</sup>
Total.....	4,394	3,689	584	121
June "rights".....	579	465	77	38
Notes and bonds with maturities of more than 2 years.....	695	319	293	83
Other types.....	3,120	2,905	215	0

<sup>1</sup> Includes primarily agreements payable on demand after a stated date.

**TABLE B-6, NONFINANCIAL BUSINESS CORPORATIONS**  
**INITIAL MARGIN REQUIRED ON REPURCHASE AGREEMENTS**  
**BY TYPE OF U. S. GOVERNMENT SECURITY<sup>1</sup>**

Type of U. S. Govt. security	Total	No initial margin required	Initial margin required	
			1 point or less	More than 1 point
Amount of repurchase agreements (In millions of dollars)				
Total.....	4,310	3,480	605	225
June "rights".....	495	426	66	3
Securities with maturities of less than 15 months <sup>2</sup> .....	3,099	2,668	297	135
Securities with maturities of 15 months or more.....	716	387	242	87
Number of companies <sup>3</sup>				
Total.....	31	27	11	3
June "rights".....	21	18	4	1
Securities with maturities of less than 15 months <sup>2</sup> .....	24	21	7	3
Securities with maturities of 15 months or more.....	20	16	8	2

<sup>1</sup> Excludes repurchase agreements under June "rights," held by six companies in the amount of \$85 million, that were not terminated until after June 16, 1958. Such agreements represented all repurchase agreements held by one company and all agreements under "rights" held by two additional companies.

<sup>2</sup> Includes repurchase agreements collateralized by bills, certificates, bonds, and notes with maturities of less than 15 months, or by some combination of these maturities.

<sup>3</sup> Figures on number of companies do not add to totals because of multiple counting.

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Budget Bureau No. 55-5909

TREASURY-FEDERAL RESERVE QUESTIONNAIRE  
TO BUSINESS CORPORATIONS  
STUDY OF GOVERNMENT SECURITIES MARKET

PLEASE REPORT AGAINST ITEMS 1 AND 2, AS CLASSIFIED BELOW, THE PAR VALUE OF U. S. GOVERNMENT SECURITIES HELD UNDER REPURCHASE AGREEMENT\* AND/OR OWNED OUTRIGHT AS OF THE CLOSE OF BUSINESS ON THE DATES INDICATED.

(Corporation identification code) \_\_\_\_\_

	Par value (in thousands of dollars)			
	1958			
	April 30	May 31	June 30	July 31
<b>1. Held under repurchase agreements*</b>	XXX	XXX	XXX XXX	XXX XXX
(a) 2 3/4 % Note of June 1958.....			XXX	XXX
(b) 2 3/4 % Bond of June 1958.....			XXX	XXX
(c) 2 3/4 % Bond of June 1958-63.....			XXX	XXX
(d) 2 3/4 % Bond of February 1965.....	XXX	XXX		
(e) Other.....				
(f) Total.....				
<b>2. Owned outright</b>	XXX	XXX	XXX	XXX
(a) Treasury bills.....				
(b) Treasury certificates.....				
(c) Treasury notes.....	XXX	XXX	XXX XXX	XXX XXX
(1) 2 3/4 % Note of June 1958.....				
(2) 1 3/4 % Note of February 1959.....				
(3) All other notes.....				
(d) Treasury Bonds	XXX	XXX	XXX XXX	XXX XXX
(1) 2 3/4 % Bond of June 1958.....			XXX	XXX
(2) 2 3/4 % Bond of June 1958-63.....				
(3) 2 1/4 % Bond of Sept. 1956-59.....				
(4) 2 3/4 % Bond of March 1957-59.....				
(5) 2 1/2 % Bond of Dec. 1958.....				
(6) 2 3/4 % Bond of Feb. 1965.....				
(7) All other marketable bonds.....				
(8) Investment Series Bonds (A&B) (Nonmarketable).....				
(9) U. S. Savings Bonds (Maturity value) (Nonmarketable).....				
(10) Total U. S. Government Securities owned outright (Marketable and Nonmarketable).....				

\* Include as repurchase agreements any buy-backs, turnabouts, overnights, and similar transactions by whatever name.

NOTE:—PLEASE REPORT AGAINST ITEMS 3, 4, AND 5 THE APPROPRIATE INFORMATION CONCERNING YOUR EXCHANGE SUBSCRIPTIONS (TENDERED DIRECTLY OR THROUGH AN AGENT) TO THE 2½% BOND OF 1965 IN THE TREASURY REFUNDING OF JUNE 1958.

	Par value (in thousands of dollars)
3. Amount of exchange subscriptions to the 2½% bond representing securities owned outright.....	_____
4. Amount of exchange subscriptions subject to agreement (i.e., repurchase agreement*) to resell such securities to:	
(a) Government security dealers <sup>1</sup> .....	_____
(b) Member of New York Stock Exchange <sup>1</sup> .....	_____
(c) Other dealers or brokers.....	_____
(d) Individuals.....	_____
(e) Others (Specify _____)	_____
(f) Total.....	_____
5. Total amount of exchange subscriptions to the 2½% bond (sum of items 3 and 4(f)).....	_____

\* Include as repurchase agreements any buy-backs, turnabouts, overnights, and similar transaction by whatever name.

<sup>1</sup> Classify as a Government security dealer if also a member of the New York Stock Exchange.

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CORPORATION.

Budget Bureau No. 55-5908

TREASURY-FEDERAL RESERVE QUESTIONNAIRE  
TO BUSINESS CORPORATIONS  
STUDY OF GOVERNMENT SECURITIES MARKET

PLEASE COMPLETE THIS FORM FOR EACH REPURCHASE AGREEMENT\* OF  
\$100,000 OR MORE ON U. S. GOVERNMENT SECURITIES EITHER OUTSTAND-  
ING ON MAY 21, 1958 OR MADE BETWEEN MAY 21 AND JULY 30, 1958.

(Corporation identification Code) \_\_\_\_\_

	(Dollar amounts in thousands)
1. Amount of repurchase agreement (Par value).....	\$ _____
2. Date made.....	_____
3. Date agreement actually terminated.....	_____
4. Contract maturity:	
(a) Demand.....	<input type="checkbox"/> (1) (check one)
(b) Fixed maturity.....	<input type="checkbox"/> (2)
(c) Other maturity terms not covered above (specify _____).....	<input type="checkbox"/> (3)
(d) If 4(b) checked, give date.....	
5. Interest rate at time repurchase agreement was made (to nearest 1/8 per cent).....	_____ per cent
6. Securities held under the agreement:	
(a) "Rights" to the June Treasury refunding (2 3/4% bond, 2 3/4% note and 2 3/4% bond, all due June 15, 1958).....	<input type="checkbox"/> (1)
(1) If repurchase agreement against "rights" not paid off by June 16, 1958, the settlement date for the refunding, indicate amount of new collateral which consisted of 2 3/4% bonds.....	\$ _____
(b) Other U. S. Government Securities:	
(1) Bills.....	<input type="checkbox"/> (1)
(2) Certificates.....	<input type="checkbox"/> (1) (check one or more)
Notes and bonds with maturities of:	
(3) Less than 15 months.....	<input type="checkbox"/> (1)
(4) 15 months to 2 years.....	<input type="checkbox"/> (1)
(5) More than 2 years.....	<input type="checkbox"/> (1)
7. Type of borrower	(check one)
(a) Government security dealer <sup>1</sup> .....	<input type="checkbox"/> (1)
(b) Member of the New York Stock Exchange <sup>1</sup> .....	<input type="checkbox"/> (2)
(c) Other dealer or broker.....	<input type="checkbox"/> (3)
(d) Other (specify _____).....	<input type="checkbox"/> (4)
8. In case of repurchase agreement made initially against "rights", subsequently exchanged into 2 3/4% bonds, was any additional margin requested?.....	<input type="checkbox"/> (1) yes; <input type="checkbox"/> (2) no points
(a) If yes, how many points.....	
(b) If yes, were arrangements for additional margin made:	
(1) At time of original agreement.....	<input type="checkbox"/> (1)
(2) Between origin of agreement and June 16, 1958.....	<input type="checkbox"/> (2)
(3) After June 16, 1958.....	<input type="checkbox"/> (3)
9. In case of repurchase agreement other than specified in Item 8 was any initial margin (i.e., excess of market value over price actually paid for security) required?.....	<input type="checkbox"/> (1) yes; <input type="checkbox"/> (2) no points
(a) If "yes", how many points. (Indicate amount to nearest quarter of a point).....	

\* Include as repurchase agreements any buybacks, turnabouts, overnights, and similar transactions by whatever name.

<sup>1</sup> Check only item 7(a) if borrower is a Government security dealer and also a member of the New York Stock Exchange.

March 1959.

## Appendix C

### United States Government Securities Dealers

#### EXPLANATORY NOTES

The survey of primary Government securities dealers covered 17 firms. These include 12 nonbank dealers and 5 dealer banks.<sup>1</sup> All of the nonbank dealers have their central trading office in New York City. Three of the dealer banks are located in New York City and two in Chicago.

Information requested from dealers (see Form 55-5903 on pages 148-49) is summarized in the tables that follow. Table C-1 shows dealers' positions in United States Government securities as of each Wednesday from October 30, 1957 through December 31, 1958, while Table C-2 shows their weekly volume of transactions (purchases plus sales, excluding transactions under repurchase agreements but including allotments of new Treasury issues) for the same period. Outstanding loans and repurchase agreements against United States Government securities, as of the same dates as in Table C-1, are shown in Table C-3. A summary by weeks of forward delivery sales of United States Government securities made over the period April 1-July 30, 1958, is presented in Table C-4. Finally, Tables C-5 and C-6 show, for each business day from May 21, 1958 through July 30, 1958, the dealers' long and short positions in the issues involved in the Treasury's June 1958 exchanges, and their transactions in those issues with different types of customers.

The processing and analysis of data received from dealers participating in this study presented technical problems in classifying certain information in this highly specialized field, particularly

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<sup>1</sup> A dealer bank is a separate department within a commercial bank which performs the role of a primary dealer in United States Government securities.

with respect to dealers' repurchase agreements. There are varied definitions of that term and also varied interpretations of the use of the instrument. The principal questions were (1) whether to include all forms of dealer repurchase agreements as dealer borrowings and (2) whether to include the securities underlying those agreements in total position figures. The inclusions have been made for the purpose of this study.

However, dealer responses contained reservations concerning the classification of all repurchase agreements as a form of borrowing. It was claimed that repurchase agreements that run for a period greater than 15 days should be excluded from borrowings and from dealer positions because (1) the underlying transaction took the form of an investment transaction from the standpoint of the dealer's customer and (2) the securities involved were not for sale by dealers during the term of the agreement. Since data were not requested from dealers in a form that would provide the term of the agreement or the securities involved, no attempt is made in the summary data to classify such agreements. Therefore, the tables covering dealers' positions reflect more than just current inventory for sale because they include the commitments to repurchase securities at a future date under so-called long-term repurchase agreements. Such agreements account for a substantial portion of dealers' total repurchase agreements, and also a large part of dealers' commitments in short-term securities, particularly Treasury bills.

Data on dealer positions (Table C-1) include, in addition to repurchase agreements, other commitments to purchase on future dates, and therefore do not correspond with the data on loans and repurchase agreements (Table C-3). That disparity is further increased by other technical considerations: (1) positions for a given date include new commitments originating under ordinary trading arrangements (next day delivery) and consequently there would be a 1-day lag in the reflection of these contracts in dealers' financing; (2) delivery of securities and related financing might be delayed by special arrangements or by a delivery failure but dealer commitments in such securities would be re-

flected in positions; and (3) activity in securities on a when-issued basis (prior to date of issuance) would be reflected in dealers' positions but no financing is required until payment date.

As indicated in the foregoing paragraphs, data on dealer long positions as shown in the tables include not only physical ownership of United States Government securities but also commitments to purchase at a future date. The data on dealer short positions represent sales of securities not yet purchased. The fulfillment of delivery commitments on short positions ordinarily would be completed by borrowing securities from others until such time as the specific securities are purchased. Frequently, these short positions would be hedged by a long position in a comparable maturity.

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TABLE C-1, U. S. GOVERNMENT SECURITIES DEALERS  
POSITIONS IN U. S. GOVERNMENT SECURITIES, BY TYPE OF SECURITY

[In millions of dollars]

Date	Total				Bills			Certs., notes & bonds due within 1 year			Notes & bonds due in 1 to 5 years			Bonds due in 5 to 10 years			Bonds due over 10 years			
	Long	Short	Net	Net <sup>1</sup>	Long	Short	Net	Long	Short	Net	Long	Short	Net	Long	Short	Net	Long	Short	Net	
1957																				
Oct. 30....	1,861	109	1,752	1,694	939	20	919	401	8	393	406	36	370	21	35	-14	94	10	84	
Nov. 6....	1,703	208	1,495	1,437	901	91	810	331	28	303	366	43	323	17	28	-11	88	18	70	
13....	1,862	231	1,631	1,539	980	90	890	428	31	397	359	56	303	17	39	-22	78	15	63	
20....	2,343	147	2,196	2,074	1,222	34	1,188	667	8	659	343	58	285	35	30	5	76	17	59	
27....	2,554	132	2,422	2,350	1,010	44	966	850	11	839	534	49	485	27	16	11	133	12	121	
Dec. 4....	2,423	150	2,273	2,219	1,010	64	946	798	3	795	486	44	442	22	23	-1	107	16	91	
11....	2,630	136	2,494	2,448	1,278	48	1,230	804	7	797	425	58	367	23	10	13	100	13	87	
18....	2,693	214	2,479	2,478	1,430	121	1,309	737	9	728	388	55	333	39	5	34	99	24	75	
24....	2,799	129	2,670	2,669	1,457	43	1,414	790	2	788	420	58	362	40	2	38	92	24	68	
31....	2,874	123	2,751	2,747	1,510	49	1,461	795	4	791	451	43	408	22	3	19	96	24	72	
1958																				
Jan. 8....	2,724	121	2,603	2,603	1,385	53	1,332	776	8	768	462	32	430	19	7	12	82	21	61	
15....	2,662	149	2,513	2,513	1,331	25	1,306	852	23	829	376	78	298	28	9	19	75	14	61	
22....	2,192	138	2,054	2,049	1,038	28	1,010	733	16	717	311	66	245	32	5	27	78	23	55	
29....	2,077	185	1,892	1,867	889	50	839	746	54	692	359	29	330	14	29	-15	69	23	46	
Feb. 5....	2,302	218	2,084	2,059	813	92	721	625	30	595	393	54	339	181	18	163	290	24	266	
11....	2,592	190	2,402	2,374	1,151	101	1,050	563	26	537	442	35	407	220	15	205	216	13	203	
19....	2,558	201	2,357	2,328	1,225	93	1,132	557	39	518	383	44	339	180	12	168	213	13	200	
26....	2,617	208	2,409	2,370	1,346	92	1,254	596	56	540	348	34	314	107	9	98	220	17	203	
Mar. 5....	2,932	214	2,718	2,679	1,531	114	1,417	633	14	619	350	54	296	201	14	187	217	18	199	
12....	2,863	114	2,749	2,719	1,531	34	1,497	614	4	610	330	49	281	193	10	183	195	17	178	
19....	2,912	119	2,793	2,763	1,606	31	1,575	709	21	688	282	38	244	136	12	124	179	17	162	
26....	2,470	105	2,365	2,332	1,379	20	1,359	526	5	521	282	34	248	98	24	74	185	22	163	
Apr. 2....	2,255	134	2,121	2,101	1,310	43	1,267	416	26	390	240	33	207	109	6	103	180	26	154	
9....	2,840	220	2,620	2,597	1,713	49	1,664	513	16	497	302	116	186	94	15	79	218	24	194	
16....	3,118	126	2,992	2,966	1,687	62	1,625	615	9	606	496	41	455	105	1	104	215	13	202	
23....	3,417	162	3,255	3,229	1,979	70	1,909	536	25	511	545	37	508	135	16	119	222	14	208	
30....	2,935	218	2,717	2,691	1,641	82	1,559	483	26	457	496	56	440	108	44	64	207	10	197	

May 7	2,556	242	2,314	2,293	1,307	107	1,200	494	31	463	464	59	405	99	27	72	192	18	174
14	2,650	264	2,386	2,365	1,376	91	1,285	563	44	519	451	83	368	88	25	63	172	21	151
21	2,478	216	2,262	2,239	1,226	80	1,146	584	46	538	433	46	387	74	23	51	161	21	140
28	2,685	251	2,434	2,410	1,357	81	1,276	715	59	656	379	56	323	75	23	52	159	32	127
June 4	3,111	446	2,665	2,650	1,458	137	1,321	1,069	32	1,037	334	48	286	85	187	-102	165	42	123
11	3,258	181	3,077	3,063	1,626	56	1,570	583	14	569	426	65	361	411	22	389	212	24	188
18	3,538	127	3,411	3,400	1,774	24	1,750	724	9	715	413	57	356	400	10	390	227	27	200
25	2,798	175	2,623	2,617	1,214	62	1,152	671	8	663	423	61	362	281	16	265	209	28	181
July 2	2,658	263	2,395	2,394	1,330	133	1,197	579	18	561	364	53	311	216	36	180	169	23	146
9	2,739	317	2,422	2,421	1,484	163	1,321	555	20	535	334	76	258	207	43	164	159	15	144
16	2,403	312	2,091	2,090	1,267	105	1,162	530	32	498	294	85	209	180	48	132	132	42	90
23	2,006	542	1,464	1,463	1,227	240	987	315	71	244	218	132	86	142	46	96	104	53	51
30	1,851	581	1,270	1,269	1,142	190	952	287	184	103	197	110	87	135	42	93	90	55	35
Aug. 6	2,192	397	1,795	1,795	1,446	122	1,324	317	71	246	212	113	99	137	22	115	80	69	11
13	1,984	422	1,562	1,562	1,332	113	1,219	303	79	224	170	114	56	107	44	63	72	72	—
20	1,786	492	1,294	1,286	1,275	218	1,057	217	67	150	141	112	29	98	28	70	55	67	-12
27	1,718	522	1,196	1,146	1,274	233	1,041	173	90	83	128	99	29	93	38	55	50	62	-12
Sept. 3	1,603	528	1,075	983	1,068	239	829	260	82	178	133	98	35	89	44	45	53	65	-12
10	1,726	482	1,244	1,148	1,192	112	1,080	259	146	113	133	110	23	88	45	43	54	69	-15
17	1,268	632	636	515	911	202	709	89	173	-84	119	124	-5	82	57	25	67	76	-9
24	1,341	549	792	573	914	148	766	141	160	-19	140	115	25	81	58	23	65	68	-3
Oct. 1	1,284	457	827	677	850	180	670	154	56	98	128	110	18	81	53	28	71	58	13
8	1,480	320	1,160	995	1,036	108	928	159	24	135	126	74	52	82	53	29	77	61	16
15	1,409	279	1,130	1,007	925	65	860	210	39	171	126	72	54	85	56	29	63	47	16
22	1,220	281	939	800	746	77	669	229	47	182	107	54	53	82	54	28	56	49	7
29	1,165	242	923	729	695	61	634	253	47	206	84	54	30	76	37	39	57	43	14
Nov. 5	1,049	360	689	517	589	160	429	281	54	227	59	68	-9	72	36	36	48	42	6
12	1,131	333	798	533	682	113	569	265	68	197	65	69	-4	70	36	34	49	47	2
19	1,717	343	1,374	1,157	965	96	869	500	95	405	125	74	51	70	34	36	57	44	13
26	1,675	383	1,292	1,015	790	196	594	452	51	401	294	45	239	84	35	49	55	46	9
Dec. 3	1,642	476	1,166	838	856	268	588	386	57	329	261	65	196	80	35	45	59	51	8
10	1,927	405	1,522	1,332	1,156	186	970	369	57	312	252	75	177	89	35	54	61	52	9
17	2,290	315	1,975	1,846	1,482	111	1,371	379	24	355	265	73	192	91	46	45	73	61	12
24	2,494	316	2,178	2,061	1,685	108	1,577	400	24	376	250	66	184	86	50	36	73	68	5
31	2,697	400	2,297	2,213	1,878	111	1,767	388	17	371	271	141	130	88	56	32	72	75	-3

<sup>1</sup> This column excludes securities committed to be sold under resale agreements. Data on this basis are not available by maturity class.

NOTE.—Data include commitments to repurchase.

TABLE C-2, U. S. GOVERNMENT SECURITIES DEALERS  
 VOLUME OF TRADING IN U. S. GOVERNMENT SECURITIES, BY TYPE OF SECURITY

[In millions of dollars]

Week ended	Total		Bills		Certs., notes & bonds due within one year		Notes & bonds due in one to five years		Bonds due over five years	
	Total	Daily average	Total	Daily average	Total	Daily average	Total	Daily average	Total	Daily average
1957										
Nov. 6.....	5,871	1,468	3,704	926	1,096	274	676	169	395	99
13.....	5,102	1,275	3,043	761	949	237	780	195	330	82
20.....	6,833	1,367	3,771	754	1,428	286	1,108	222	526	105
27.....	7,821	1,564	3,588	717	1,883	377	1,481	296	869	174
Dec. 4.....	5,543	1,386	2,886	721	1,130	283	1,037	259	490	123
11.....	6,040	1,208	3,033	606	1,175	235	1,279	256	553	111
18.....	5,950	1,190	3,226	645	953	191	1,140	228	631	126
24.....	4,527	1,132	2,645	661	620	155	911	228	351	88
31.....	6,740	1,685	4,455	1,114	828	207	1,005	251	452	113
1958										
Jan. 8.....	6,093	1,219	4,124	825	803	161	616	123	550	110
15.....	7,313	1,462	3,941	788	1,491	298	1,401	280	480	96
22.....	5,669	1,134	3,386	677	1,335	267	641	128	307	62
29.....	6,346	1,269	3,129	626	1,997	399	944	189	276	55
Feb. 5.....	11,696	2,339	3,891	778	4,552	910	1,431	286	1,822	364
11.....	5,736	1,434	2,756	689	1,137	284	938	235	905	226
19.....	6,750	1,350	3,497	699	1,185	237	1,146	229	922	184
26.....	7,511	1,502	4,149	830	1,291	258	1,297	259	774	155
Mar. 5.....	6,939	1,388	3,713	742	1,133	227	1,030	206	1,063	213
12.....	6,619	1,324	3,695	739	1,330	266	902	180	692	138
19.....	6,031	1,206	3,224	645	1,209	242	872	174	726	145
26.....	6,186	1,237	2,996	599	1,139	228	1,133	227	918	184
Apr. 2.....	7,952	1,590	4,414	883	1,612	322	1,094	219	832	165
9.....	6,279	1,570	3,171	793	1,044	261	1,444	361	620	155
16.....	8,748	1,750	3,548	710	1,238	248	2,974	595	988	198
23.....	8,247	1,649	3,316	663	1,518	303	2,369	474	1,044	209
30.....	7,045	1,409	3,056	611	1,000	200	2,136	427	853	171

May 7	6,173	1,235	3,161	632	1,095	219	1,264	253	653	131
14	6,918	1,384	3,236	647	1,560	312	1,451	290	671	134
21	8,030	1,606	3,916	783	1,805	361	1,743	349	566	113
28	8,313	1,663	3,551	711	2,198	440	1,929	386	635	127
June 4	8,317	2,079	2,444	611	2,858	715	1,650	413	1,365	341
11	9,825	1,965	3,436	687	2,413	483	1,602	320	2,374	475
18	7,143	1,429	3,453	691	1,184	237	1,108	222	1,398	280
25	7,619	1,524	3,553	711	1,143	229	1,190	238	1,733	347
July 2	6,990	1,398	3,680	736	970	194	1,059	212	1,281	256
9	4,987	1,247	2,960	740	526	132	562	141	939	235
16	5,866	1,173	3,443	689	948	190	693	139	782	156
23	10,674	2,135	3,129	626	4,796	959	1,417	283	1,332	266
30	5,603	1,121	3,113	623	843	169	724	145	923	185
Aug. 6	7,459	1,492	4,153	831	1,663	333	715	143	928	186
13	5,737	1,147	3,302	660	813	163	596	119	1,024	205
20	4,852	970	3,128	626	848	170	380	76	496	99
27	4,692	938	3,234	647	729	146	368	74	361	72
Sept. 3	4,348	1,087	2,974	744	611	153	459	115	304	76
10	5,181	1,036	3,325	665	960	192	552	110	344	69
17	5,940	1,188	3,910	782	986	197	654	131	390	78
24	5,106	1,021	3,523	705	726	145	524	105	333	67
Oct. 1	5,946	1,189	4,074	815	962	192	595	119	315	63
8	6,915	1,383	4,983	997	834	167	740	148	358	72
15	5,874	1,469	4,508	1,127	604	151	412	103	350	88
22	5,175	1,035	3,845	769	651	130	420	84	259	52
29	5,553	1,111	4,041	808	848	170	380	76	284	57
Nov. 5	4,581	1,145	3,488	872	596	149	295	74	202	51
12	4,516	1,129	3,348	837	753	188	225	56	190	48
19	6,849	1,370	5,124	1,025	970	194	477	95	278	56
26	7,671	1,534	4,757	951	1,865	373	695	139	354	71
Dec. 3	5,313	1,328	3,946	987	759	190	393	98	215	54
10	6,272	1,254	4,819	964	702	140	461	92	290	58
17	6,218	1,244	4,644	929	652	130	596	119	326	65
24	7,141	1,428	5,125	1,025	864	173	637	127	515	103
31	7,706	1,927	5,664	1,416	1,039	260	672	168	331	83

NOTE.—Data include combined gross purchases and sales by dealers. Allotments and awards of new Treasury issues to dealers are included as dealer purchases. Transactions under repurchase agreements are excluded.

TABLE C-3, U. S. GOVERNMENT SECURITIES DEALERS  
 LOANS AND REPURCHASE AGREEMENTS OUTSTANDING, BY TYPE OF LENDER

(In millions of dollars)

Date	Loans and repurchase agreements					Loans				Repurchase agreements				
	Total	Commercial banks		Non-finan. bus. corps.	All others	Total	Commercial banks		All others	Total	Commercial banks		Non-finan. bus. corps.	All others
		New York City	Elsewhere				New York City	Elsewhere			New York City	Elsewhere		
1957														
Oct. 30.....	1,518	313	313	680	212	528	315	104	109	990	-2	209	680	103
Nov. 6.....	1,574	247	298	714	315	465	233	112	120	1,109	14	186	714	195
13.....	1,474	117	356	813	188	365	141	129	95	1,109	-24	227	813	93
20.....	1,874	370	418	929	157	651	410	135	106	1,223	-40	283	929	51
27.....	1,945	338	292	944	371	664	307	164	193	1,281	31	128	944	178
Dec. 4.....	2,205	416	465	1,013	311	748	341	244	163	1,457	75	221	1,013	148
11.....	2,313	594	492	863	364	991	537	244	210	1,322	57	248	863	154
18.....	2,549	734	647	819	349	1,114	654	254	206	1,435	70	403	819	143
24.....	2,499	666	627	776	430	1,116	613	272	231	1,383	53	355	776	199
31.....	2,707	801	680	654	572	1,243	670	337	236	1,464	131	343	654	336
1958														
Jan. 8.....	2,609	627	713	965	304	952	567	235	150	1,657	61	477	965	154
15.....	2,336	418	729	891	298	685	328	237	120	1,651	90	492	891	178
22.....	2,170	369	608	991	202	622	322	203	97	1,548	47	405	991	105
29.....	1,828	255	492	938	143	555	239	257	59	1,273	16	235	938	84
Feb. 5.....	2,349	716	464	951	218	1,137	688	336	113	1,212	28	128	951	105
11.....	2,520	667	562	993	298	1,140	635	354	151	1,380	32	208	993	147
19.....	2,133	421	444	1,128	140	808	384	330	94	1,325	37	114	1,128	46
26.....	2,078	345	571	1,042	120	719	311	317	91	1,359	34	254	1,042	29
Mar. 5.....	2,552	610	655	1,108	179	1,121	589	393	139	1,431	21	262	1,108	40
12.....	2,569	678	621	1,033	237	1,096	629	306	161	1,473	49	315	1,033	76
19.....	2,770	619	991	1,015	145	1,093	544	439	110	1,677	75	552	1,015	35
26.....	2,297	439	763	940	155	836	389	338	109	1,461	50	425	940	46

Apr. 2	1,864	398	420	941	105	585	358	170	57	1,279	40	250	941	48
9	2,399	634	610	1,045	110	885	611	210	64	1,514	23	400	1,045	46
16	3,137	1,056	845	1,026	210	1,447	1,049	278	120	1,690	7	567	1,026	90
23	3,067	1,016	677	1,209	165	1,372	1,003	290	79	1,695	13	387	1,209	86
30	2,763	912	751	990	110	1,250	889	328	33	1,513	23	423	990	77
May 7	2,403	539	632	1,128	104	775	518	218	39	1,628	21	414	1,128	65
14	2,447	532	535	1,246	134	777	525	178	74	1,670	7	357	1,246	60
21	2,261	438	303	1,400	120	641	425	165	51	1,620	13	138	1,400	69
28	2,326	529	394	1,262	141	805	514	225	66	1,522	15	169	1,262	75
June 4	2,841	816	446	1,426	153	1,127	810	238	79	1,714	6	208	1,426	74
11	3,201	1,071	526	1,385	219	1,472	1,056	309	107	1,729	15	217	1,385	112
18	3,314	1,321	868	925	200	1,820	1,263	471	86	1,494	58	397	925	114
25	2,759	871	799	939	150	1,270	846	376	48	1,489	25	423	939	102
July 2	2,260	635	670	887	68	925	602	287	36	1,335	33	383	887	32
9	2,270	410	671	1,071	118	745	395	294	56	1,525	16	376	1,071	62
16	2,209	424	592	1,089	104	716	406	250	60	1,493	18	342	1,089	44
23	2,218	423	473	1,219	103	671	409	225	37	1,547	14	248	1,219	66
30	1,939	350	447	1,062	90	549	327	199	23	1,400	23	248	1,062	67
Aug. 6	1,762	361	325	1,010	66	531	346	142	43	1,231	16	182	1,010	23
13	1,681	257	316	1,040	68	454	248	162	44	1,227	9	154	1,040	24
20	1,487	150	250	1,033	54	316	142	148	26	1,171	8	102	1,033	28
27	1,223	59	151	982	31	201	49	129	23	1,022	10	22	982	8
Sept. 3	1,154	68	128	928	30	241	68	147	26	913	0	-19	928	4
10	1,167	256	159	716	36	421	254	138	29	746	2	21	716	7
17	730	56	44	608	22	217	56	142	19	513	0	-98	608	3
24	580	85	-73	540	28	228	85	124	19	352	0	-197	540	9
Oct. 1	644	99	36	479	30	248	97	133	18	396	2	-97	479	12
8	870	29	120	657	64	240	76	138	26	630	-47	-18	657	38
15	1,004	124	181	607	92	320	147	154	19	684	-23	27	607	73
22	838	50	109	646	33	231	92	124	15	607	-42	-15	646	18
29	659	38	25	555	41	246	86	137	23	413	-48	-112	555	18
Nov. 5	753	101	75	479	98	270	108	129	33	483	-7	-54	479	65
12	526	58	-49	479	38	248	108	119	21	278	-50	-168	479	17
19	737	35	9	612	81	236	89	123	24	501	-54	-114	612	57
26	1,188	275	57	711	145	535	310	181	44	653	-35	-124	711	101
Dec. 3	961	106	29	802	24	339	159	164	16	622	-53	-135	802	8
10	1,127	212	98	786	31	418	223	171	24	709	-11	-73	786	7
17	1,463	339	277	769	78	630	334	246	50	833	5	31	769	28
24	1,814	403	286	993	132	708	380	267	61	1,106	23	19	993	71
31	1,788	451	360	912	65	689	392	274	23	1,099	59	86	912	42

NOTE.—Loans include dealer banks' use of bank funds—New York City and elsewhere. Repurchase agreements are adjusted to allow for offsetting resale agreements.

**TABLE C-4, U. S. GOVERNMENT SECURITIES DEALERS**  
**FORWARD DELIVERY SALES OF U. S. GOVERNMENT SECURITIES, BY TYPE OF SECURITY**  
(In millions of dollars)

Week ended (1958)	Total	June "rights"	2½% bonds of 1965	3½% bonds of 1990	All other
Total.....	609	205	23	22	359
April 21.....	5	0	—	1	4
9.....	3	0	—	3	(2)
16.....	30	18	—	(2)	12
23.....	68	36	—	1	31
30.....	31	4	—	1	26
May 7.....	46	33	—	0	13
14.....	19	13	—	(2)	6
21.....	30	26	—	0	4
28.....	61	60	—	(2)	1
June 4.....	31	15	11	(2)	5
11.....	4	—	1	1	2
18.....	13	—	8	2	3
25.....	13	—	3	4	6
July 2.....	7	—	(2)	1	6
9.....	44	—	(2)	1	43
16.....	8	—	0	0	8
23.....	54	—	(2)	7	47
30.....	142	—	(2)	0	142

<sup>1</sup> Not a full week.

<sup>2</sup> Less than \$500,000.

NOTE.—Includes transactions for delivery one week or more subsequent to commitment date. Excludes transactions under repurchase agreements.

TABLE C-5, U. S. GOVERNMENT SECURITIES DEALERS  
 POSITIONS IN JUNE "RIGHTS" AND 2½ PER CENT BONDS  
 [In millions of dollars]

Date (1958)	June "rights"		2½% bonds		Date (1958)	June "rights"		2½% bonds	
	Long	Short	Long	Short		Long	Short	Long	Short
May 21.....	300	16	—	—	July 1.....	—	—	204	1
22.....	336	21	—	—	2.....	—	—	149	3
23.....	371	26	—	—	3.....	—	—	150	2
26.....	370	33	—	—	7.....	—	—	153	1
27.....	353	33	—	—	8.....	—	—	141	4
28.....	420	22	—	—	9.....	—	—	132	11
29.....	426	24	—	—	10.....	—	—	126	11
June 2.....	495	11	0	17	11.....	—	—	171	9
3.....	546	(1)	12	49	14.....	—	—	123	6
4.....	671	4	47	156	15.....	—	—	121	4
5.....	771	0	96	231	16.....	—	—	118	0
6.....	—	—	479	0	17.....	—	—	113	4
9.....	—	—	432	0	18.....	—	—	112	11
10.....	—	—	396	0	21.....	—	—	110	7
11.....	—	—	355	0	22.....	—	—	105	12
12.....	—	—	340	0	23.....	—	—	96	7
13.....	—	—	315	0	24.....	—	—	90	5
16.....	—	—	342	0	25.....	—	—	90	3
17.....	—	—	339	0	28.....	—	—	90	1
18.....	—	—	304	0	29.....	—	—	90	3
19.....	—	—	253	0	30.....	—	—	87	4
20.....	—	—	236	0					
23.....	—	—	241	0					
24.....	—	—	199	2					
25.....	—	—	189	5					
26.....	—	—	208	2					
27.....	—	—	207	3					
30.....	—	—	194	3					

1 Less than \$500,000.



TABLE C-6, U. S. GOVERNMENT SECURITIES DEALERS  
TRANSACTIONS IN JUNE "RIGHTS" AND 2½ PER CENT BONDS, BY TYPE OF CUSTOMER

[In millions of dollars]

Date (1958)	Dealers' purchases (P) from or sales (S) to:																											
	All customers			Commercial banks			Govt. sec. dealers			N. Y. Stock Exchange firms			Other dealers and brokers			Non-fin. bus. corps.			Savings type investors			Individuals			Others			
	P	S	Net	P	S	Net	P	S	Net	P	S	Net	P	S	Net	P	S	Net	P	S	Net	P	S	Net	P	S	Net	
May 21.....	70	96	-26	18	37	-19	10	10	(1)	(1)	19	-19	0	2	-2	41	14	+27	(1)	5	-5	0	0	0	1	9	-8	
22.....	123	85	+38	32	22	+10	13	12	+1	1	27	-26	0	4	-4	47	7	+40	29	(1)	+29	(1)	(1)	0	13	-12		
23.....	117	93	+24	34	15	+19	22	31	-9	(1)	29	-29	2	6	-4	55	11	+44	3	(1)	+2	(1)	0	0	0	+1		
26.....	122	97	+25	26	26	(1)	47	30	+17	5	30	-25	(1)	8	-8	39	0	+39	4	2	+2	(1)	0	1	1	(1)		
27.....	85	115	-30	19	34	-15	30	40	-10	(1)	15	-15	0	3	-3	30	11	+19	1	6	-5	(1)	1	1	5	(1)		
28.....	156	85	+71	40	25	+15	33	25	+8	(1)	21	-21	2	10	-8	79	0	+79	2	3	-1	0	0	0	1	-1		
29.....	73	58	+15	10	11	-1	9	10	-1	1	29	-28	5	4	+1	48	(1)	+48	(1)	2	-2	0	1	(1)	1	-1		
June 2.....	252	202	+50	109	58	+51	35	25	+10	4	75	-71	20	19	+1	18	1	+17	63	3	+60	1	3	-2	2	18	-16	
3.....	311	287	+24	134	80	+54	62	68	-6	4	56	-52	4	12	-8	39	6	+33	51	41	+10	9	3	+6	8	21	-13	
4.....	450	409	+41	127	151	-24	61	52	+9	20	127	-107	24	38	-14	167	2	+165	26	20	+6	3	13	-10	22	6	+16	
5.....	472	307	+165	159	150	+9	82	51	+31	42	48	-6	4	17	-13	117	19	+98	32	11	+21	3	10	+7	33	1	+32	
6.....	231	266	-35	99	74	+25	34	52	-18	18	73	-55	7	49	-42	24	9	+15	3	1	+2	8	4	+4	38	4	+34	
9.....	23	44	-21	12	31	-19	4	4	(1)	(1)	5	-5	0	2	-2	2	0	+2	1	1	(1)	2	0	-2	2	1	+1	
10.....	61	103	-42	19	64	-45	29	24	+5	4	9	-5	2	1	+1	5	1	+4	0	2	-2	1	2	-2	1	1	(1)	
11.....	44	79	-35	7	48	-41	22	10	+12	3	1	+2	(1)	(1)	(1)	1	0	+1	0	16	-16	6	4	-2	5	5	+5	
12.....	28	41	-13	8	23	-15	11	16	-5	8	(1)	+8	1	1	(1)	(1)	(1)	(1)	0	1	-1	(1)	0	0	(1)	(1)	(1)	+2
13.....	49	69	-20	12	47	-35	13	8	+5	6	7	-1	3	2	+1	9	(1)	+9	3	4	-1	(1)	0	0	3	3	(1)	
16.....	75	89	-14	15	55	-40	9	12	-3	9	4	+5	5	1	+4	28	2	+26	3	4	-1	5	(1)	+5	1	11	-10	
17.....	89	88	+1	15	57	-42	22	27	-5	39	2	+37	2	(1)	+2	1	0	+1	1	1	-1	(1)	0	+1	6	3	+2	
18.....	58	83	-25	16	59	-43	15	13	+2	21	3	+18	2	1	+1	2	1	+1	0	1	-1	(1)	0	-2	3	3	-1	
19.....	143	198	-55	11	77	-66	8	12	-4	60	7	+53	48	2	+46	10	1	+9	(1)	4	-4	3	0	+3	3	95	-92	
20.....	42	66	-24	2	33	-31	15	16	-1	10	3	+7	11	4	+7	1	0	+1	1	0	(1)	(1)	0	+1	2	4	-2	
23.....	32	25	+7	6	17	-11	5	4	+1	18	(1)	+18	1	(1)	+1	(1)	0	+1	0	1	(1)	(1)	0	(1)	(1)	2	4	-28
24.....	57	89	-32	3	38	-35	16	13	+3	14	3	+11	7	4	+3	14	1	+13	5	1	-1	(1)	2	(1)	(1)	29	-2	
25.....	88	109	-21	3	23	-20	18	23	-5	17	3	+14	5	2	+3	36	1	+35	5	1	+4	3	2	+1	1	54	-53	
26.....	30	19	+11	6	7	-1	11	5	+6	4	1	+3	2	(1)	+2	1	1	+1	1	(1)	(1)	(1)	0	(1)	0	1	6	-6
27.....	38	40	-2	9	15	-6	9	5	+4	6	1	+5	3	(1)	+3	4	0	+4	5	2	+3	1	0	+1	1	17	-16	
28.....	30	34	-4	12	6	+6	(1)	(1)	(1)	9	(1)	+9	2	1	+1	0	(1)	(1)	0	0	(1)	(1)	0	0	1	1	27	-26

TABLE C-6—Continued

Date (1958)	Dealers' purchases (P) from or sales (S) to:																											
	All customers			Commercial banks			Govt. sec. dealers			N. Y. Stock Exchange firms			Other dealers and brokers			Non-finan. bus. corps.			Savings type investors			Individuals			Others			
	P	S	Net	P	S	Net	P	S	Net	P	S	Net	P	S	Net	P	S	Net	P	S	Net	P	S	Net	P	S	Net	
July 1.....	20	7	+13	6	2	+4	3	1	+2	6	1	+5	5	0	+5	0	(1)	(1)	(1)	(1)	(1)	0	0	(1)	3	-3		
2.....	104	163	-59	17	3	+14	23	2	+21	37	0	+37	18	(1)	+18	2	0	+2	0	(1)	(1)	3	1	+3	4	158	-154	
3.....	37	35	+2	11	17	-6	7	4	+3	9	(1)	+9	5	(1)	+5	2	1	+1	2	1	+1	(1)	0	0	-1	1	11	-10
7.....	80	66	+14	7	6	+1	12	0	+12	59	1	+58	2	(1)	+2	0	0	0	0	0	0	0	0	0	0	0	59	-59
8.....	27	39	-12	4	10	-6	3	11	-8	14	1	+13	3	1	+2	2	1	1	1	1	+1	0	1	-1	1	0	14	-14
9.....	88	104	-16	2	20	-18	17	7	+10	19	2	+17	46	5	+41	0	0	0	0	0	0	0	0	0	0	0	68	-67
10.....	12	16	-4	2	10	-8	5	6	-1	3	(1)	+3	2	(1)	+2	(1)	0	(1)	0	(1)	0	0	0	0	0	0	7	(1)
11.....	23	17	+6	8	1	+7	5	6	-1	3	(1)	+3	1	2	-1	1	0	+1	0	1	(1)	(1)	0	0	0	0	0	0
14.....	14	18	-4	3	14	-11	8	2	+6	2	1	+1	1	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0	0	0	0	0	0
15.....	32	27	+5	6	10	-4	7	8	-1	12	2	+10	5	4	+1	2	0	+2	(1)	(1)	(1)	(1)	0	0	(1)	(1)	3	-3
16.....	18	22	-4	3	6	-3	9	3	+6	4	1	+3	1	(1)	+1	(1)	(1)	(1)	0	1	-1	1	1	1	0	10	-10	
17.....	30	33	-3	5	14	-9	9	11	-2	5	1	+4	3	1	+2	(1)	0	(1)	0	(1)	0	1	0	+7	1	6	-5	
18.....	50	54	-4	8	24	-16	12	12	0	14	2	+12	12	1	+11	2	1	+1	(1)	1	-1	2	1	+1	0	12	-12	
21.....	41	40	+1	26	18	+8	8	12	-4	3	2	+1	1	3	-2	(1)	(1)	(1)	(1)	4	-4	3	0	+3	0	1	1	-1
22.....	19	29	-10	6	18	+12	6	7	-1	2	1	+1	3	1	+2	2	0	+2	0	1	-1	(1)	0	0	(1)	1	1	-1
23.....	25	29	-4	4	11	-7	11	7	+4	1	1	(1)	4	1	+3	3	0	+3	(1)	1	-1	2	0	+2	0	8	-8	
24.....	15	17	-2	8	6	+2	5	4	+1	1	0	+1	1	0	-1	0	0	0	0	(1)	(1)	1	0	+1	0	6	-6	
25.....	11	12	-1	2	3	-1	6	5	+1	2	(1)	+2	(1)	0	(1)	0	0	0	1	0	+1	0	3	-3	0	1	-1	0
28.....	6	2	+4	(1)	(1)	(1)	3	1	+2	2	(1)	+2	1	1	(1)	0	0	0	0	0	0	(1)	0	0	0	0	0	0
29.....	30	30	0	(1)	11	14	-3	6	7	-1	8	3	+5	3	2	+1	0	2	-2	0	2	-2	0	(1)	+1	1	1	+1
30.....	28	32	-4	11	13	-2	6	9	-3	8	3	+5	2	3	-1	0	0	0	(1)	3	-3	1	0	+1	0	1	1	-1

<sup>1</sup> Less than \$500,000.

NOTE.—“Net” columns show effect on dealers' position: (+) net increase or (-) net decrease. This is the reverse of the ownership changes for the various customer groupings. Effect on dealers' position of transactions with all customers combined does not correspond with day-to-day position changes shown in Table C-5 largely because data shown above exclude transactions under repurchase agreements. Figures on inter-dealer transactions are not offsetting because of transactions with dealers not included in survey.

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ORGANIZATION.**

Budget Bureau No. 55-5903

**Treasury-Federal Reserve Questionnaire  
to Government Security Dealers**

**Study of Government Securities Market**

**I. U. S. Government securities holdings.**

1. Gross long and short position at the close of business each day from May 21 to July 30, 1958, inclusive (include investment accounts and commitments to repurchase):
  - a. Treasury bills.
  - b. Certificates of indebtedness.
  - c. Notes and bonds maturing within one year.
  - d. Notes and bonds maturing within one-five years.
  - e. Bonds maturing within five-ten years.
  - f. Bonds maturing within ten-twenty years.
  - g. Bonds maturing over twenty years.
  - h. "Rights" to the Treasury June 1958 refunding and 2½ per cent bonds of 1965 (included above).
  - i. Securities (included above) which represent commitments to purchase at a future date.

Note: If you have already supplied to the Federal Reserve Bank of New York the data asked for in a through g above you need not submit figures but we ask your permission to use the data covering a through g above in aggregative form for the purposes of this study.

2. Gross long and short position at the close of business each Wednesday from October 30, 1957 to December 31, 1958, inclusive (include investment accounts and commitments to repurchase):
  - a. Treasury bills.
  - b. Certificates of indebtedness.
  - c. Notes and bonds maturing within one year.
  - d. Notes and bonds maturing within one-five years.
  - e. Bonds maturing within five-ten years.
  - f. Bonds maturing within ten-twenty years.
  - g. Bonds maturing over twenty years.

Note: If you have already supplied to the Federal Reserve Bank of New York the data asked for above you need not submit figures but we ask your permission to use the data in aggregative form for the purposes of this study.

**II. Borrowings (including repurchase agreements) against U. S. Government securities at the close of business each Wednesday from October 30, 1957 to December 31, 1958.**

1. Collateral loans.
  - a. With domestic commercial banks in New York City.
  - b. With domestic commercial banks elsewhere.
  - c. All other.

**2. Repurchase agreements.**

- a. With domestic commercial banks in New York City.
- b. With domestic commercial banks elsewhere.
- c. With nonfinancial corporations.
- d. With others.

**III. Borrowings at the close of business each day from June 9 to June 23, 1958, inclusive, against "rights" to June 1958 Treasury exchange and 2½ per cent bonds through:**

- a. Collateral loans with commercial banks.
- b. Repurchase agreements with commercial banks.
- c. Repurchase agreements with nonfinancial corporations.
- d. Repurchase agreements with others.

IV. Transactions.

1. Show gross purchases from and sales to (exclude transactions on repurchase agreements) the following types of customers each day for the dates May 21 to July 30, 1958, inclusive, in the "rights" to the Treasury's June 1958 exchange and in the 2½ per cent bonds of 1965.
  - a. Commercial banks (exclude dealer banks).
  - b. Government security dealers and brokers (include dealer banks).
  - c. New York Stock Exchange firms (exclude Government security dealers).
  - d. Other dealers and brokers.
  - e. Nonfinancial business corporations.
  - f. Savings type investors (as defined in Treasury Circular No. 1020 covering cash offering in January 1959 on 4 per cent bonds of 1980).
  - g. Individuals.
  - h. Others.

V. Forward delivery contracts made on each day from April 1 to July 30, 1958, inclusive.

1. Show total sales of U. S. Government securities for delivery and settlement one week or more subsequent to the contract date (exclude transactions in Treasury bills, repurchase agreements and normal "when-issued" trading, i.e., for specified delivery and settlement on issue date) classified by:
  - a. "Rights" to the Treasury's June 1958 exchange.
  - b. 2½ per cent bonds of 1965.
  - c. 3½ per cent bonds of 1990.
  - d. Other U. S. Government securities.

Note: Dealer banks answer questions related to borrowings in terms of bank funds used in the dealer function.

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## Appendix D

### New York Stock Exchange Member Firms

#### EXPLANATORY NOTES

The survey included all 390 New York Stock Exchange member firms and requested information as of each Wednesday for the period April 2 through August 27, 1958. Somewhat more than 20 per cent of all the reporting firms participated in the market to some extent. Details on number of firms reporting are as follows:

	<u>Number of firms reporting</u>
Gross long positions in U. S. Government securities for firm, partnership, or stockholder account .....	84
Gross long positions in U. S. Government securities for cus- tomer accounts .....	62
Borrowing against U.S. Government securities	
Collateral loans .....	81
Repurchase agreements	
As principal .....	5
As agent .....	2
Arranged forward delivery contracts in U. S. Government securities .....	20
Total number of firms reporting one or more of the above items	89

The information requested from New York Stock Exchange member firms is indicated in Form 55-5911 (Parts I and II), which is reproduced on pages 154-55. Data provided on gross long positions in United States Government securities, outstanding loans and repurchase agreements against such securities, and forward delivery purchase and sale contracts are shown in the tables that follow. Each of the tables excludes two member firms that are included among Government securities dealers.

**TABLE D-1, N. Y. STOCK EXCHANGE FIRMS**  
**GROSS LONG POSITIONS IN U. S. GOVERNMENT SECURITIES FOR FIRM AND CUSTOMER ACCOUNT**  
 [In millions of dollars]

Date (1958)	All marketable securities					June "rights"					2½% Bonds				
	Total	Firm account	Customer accounts			Total	Firm account	Customer accounts			Total	Firm account	Customer accounts		
			Indi- viduals	Non- finan. corps.	All other			Indi- viduals	Non- finan. corps.	All other			Indi- viduals	Non- finan. corps.	All other
Apr. 2.....	487	281	142	27	37	105	91	3	9	2	—	—	—	—	—
9.....	559	271	195	37	56	124	101	6	14	3	—	—	—	—	—
16.....	541	280	160	64	37	151	128	7	15	1	—	—	—	—	—
23.....	695	373	206	72	44	211	181	11	16	3	—	—	—	—	—
30.....	601	353	136	77	35	224	198	8	15	2	—	—	—	—	—
May 7.....	620	383	131	70	36	252	228	7	15	2	—	—	—	—	—
14.....	752	438	184	79	51	275	243	12	16	4	—	—	—	—	—
21.....	760	477	177	71	35	376	312	45	17	2	—	—	—	—	—
28.....	956	573	249	84	50	465	373	68	18	6	—	—	—	—	—
June 4.....	1,021	705	212	63	41	584	498	69	11	7	32	16	10	(1)	6
11.....	1,219	795	263	102	59	695	560	85	42	8	46	28	12	(1)	6
18.....	1,156	739	274	106	36	5	3	1	0	1	742	556	128	53	6
25.....	1,126	680	284	115	48	—	—	—	—	—	608	477	91	37	2
July 2.....	844	519	204	86	34	—	—	—	—	—	465	345	79	36	5
9.....	789	416	242	83	48	—	—	—	—	—	356	248	75	28	5
16.....	549	246	201	69	33	—	—	—	—	—	230	140	67	21	1
23.....	595	256	225	69	45	—	—	—	—	—	212	138	63	8	3
30.....	493	220	179	54	40	—	—	—	—	—	198	130	57	8	3
Aug. 6.....	448	208	156	50	34	—	—	—	—	—	181	120	53	6	2
13.....	532	228	201	53	50	—	—	—	—	—	195	130	55	7	3
20.....	413	184	146	47	36	—	—	—	—	—	158	98	49	6	5
27.....	511	195	195	68	53	—	—	—	—	—	179	110	49	15	4

<sup>1</sup> Less than \$500,000.

NOTE.—Not all firms reported weekly. Four reported semi-monthly and two reported monthly data. One firm could not report ownership breakdown of long positions, so holdings of that firm and its customers are aggregated and included under firm account. The holdings for firm account include one firm's commitments to purchase which were offset for the most part by forward delivery sales contracts (not shown above).

TABLE D-2, N. Y. STOCK EXCHANGE FIRMS  
 LOANS AND REPURCHASE AGREEMENTS OUTSTANDING, BY TYPE OF LENDER  
 [In millions of dollars]

Date (1958)	Loans and repurchase agreements <sup>1</sup>					Loans					Repurchase agreements <sup>1</sup>				
	Total	Commercial banks		Non-fin. bus. corps.	All others	Total	Commercial banks		Non-fin. bus. corps.	All others	Total	Commercial banks		Non-fin. bus. corps.	All others
		New York City	Else- where				New York City	Else- where				New York City	Else- where		
Apr. 2	294	104	99	15	76	184	102	18	64	109	2	81	15	11	
9	307	112	103	15	77	188	105	18	65	119	7	85	15	12	
16	379	164	115	21	79	240	150	23	67	140	14	93	21	12	
23	426	161	139	33	93	245	145	23	77	181	16	116	33	16	
30	414	139	153	36	86	216	117	29	70	199	23	124	36	16	
May 7	420	142	165	41	72	210	119	29	62	210	23	136	41	10	
14	454	135	185	59	75	215	112	37	66	240	23	149	59	9	
21	515	133	216	96	70	211	110	35	66	304	23	182	96	3	
28	591	155	250	107	79	235	131	36	68	355	23	214	107	11	
June 4	744	200	247	116	181	306	188	44	74	438	13	203	116	106	
11	875	320	250	117	188	424	307	35	82	451	13	215	117	106	
18	930	389	203	134	204	525	388	46	91	404	0	157	134	113	
25	786	311	152	110	213	466	311	47	108	321	0	105	110	106	
July 2	634	268	106	94	166	406	268	40	98	228	0	66	94	68	
9	467	251	55	66	95	368	251	36	81	99	0	19	66	14	
16	359	232	28	8	91	348	232	27	89	12	0	1	8	3	
23	296	196	27	3	70	289	196	27	66	7	0	(2)	3	4	
30	292	196	33	3	60	288	196	33	59	5	0	0	3	2	
Aug. 6	270	170	32	3	65	267	170	32	65	3	0	0	3	(2)	
13	239	149	30	3	57	236	149	30	57	3	0	0	3	0	
20	228	131	34	3	60	225	131	34	60	3	0	0	3	0	
27	230	135	34	3	58	226	135	33	58	3	0	(2)	3	0	

<sup>1</sup> Includes agreements in which the firm acted as principal.

<sup>2</sup> Less than \$500,000.

**TABLE D-3, N. Y. STOCK EXCHANGE FIRMS**  
**FORWARD DELIVERY PURCHASES AND SALES OF U. S. GOVERNMENT SECURITIES**  
**BY TYPE OF SECURITY**

[In millions of dollars]

Week ended (1958)	Total		June "rights"		2½% bonds of 1965		3½% bonds of 1990		All other	
	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold
Total.....	195	440	178	349	3	6	( <sup>2</sup> )	23	14	62
April 21.....	18	19	18	16	—	—	0	2	0	1
9.....	1	25	1	23	—	—	0	1	( <sup>2</sup> )	1
16.....	5	23	5	16	—	—	0	( <sup>2</sup> )	0	7
23.....	28	66	28	49	—	—	0	1	0	16
30.....	5	23	2	12	—	—	0	1	3	10
May 7.....	17	14	17	11	—	—	0	1	0	2
14.....	3	37	3	21	—	—	( <sup>2</sup> )	2	0	14
21.....	29	47	29	47	—	—	0	( <sup>2</sup> )	0	0
28.....	71	60	68	57	—	—	0	3	3	0
June 4.....	9	93	6	76	3	—	0	12	0	5
11.....	1	29	1	21	0	2	0	0	0	6
18.....	8	0	—	—	0	0	0	0	8	0
25.....	0	0	—	—	0	0	0	0	0	0
July 2.....	0	0	—	—	0	0	0	0	0	0
9.....	0	2	—	—	0	2	0	0	0	0
16.....	0	1	—	—	0	1	0	0	0	0
23.....	( <sup>2</sup> )	0	—	—	0	0	( <sup>2</sup> )	0	0	0
30.....	0	1	—	—	0	1	0	0	0	0

<sup>1</sup> Not a full week; one firm began its report on March 31, the others on April 1.

<sup>2</sup> Less than \$500,000.

NOTE.—Includes transactions of \$100,000 or more for delivery one week or more subsequent to commitment date. Excludes transactions under repurchase and resale agreements.



INFORMATION SUPPLIED BY  
YOU WILL NOT BE PUBLISHED  
IN A MANNER THAT WILL  
REVEAL THE INDIVIDUAL  
OPERATIONS OF YOUR  
FIRM.

Budget Bureau No. 55-5911

Treasury-Federal Reserve Questionnaire  
to Member Organizations of the  
New York Stock Exchange  
Study of Government Securities Market

PART I

TO BE ANSWERED BY ALL FIRMS

ALL QUESTIONS PERTAIN TO U. S. GOVERNMENT SECURITIES TRANSACTIONS  
ONLY  
EXCLUDE OBLIGATIONS OF U. S. AGENCIES AND INSTRUMENTALITIES

- |  |   |
|--|---|
| <p>1. At the close of business on ANY day between April 2-August 27, 1958.</p> <p>(a) Did your firm have outstanding borrowings, including repurchase agreement, against U. S. Government securities in an amount totaling \$1 million or more (including amounts collateralized by partners', stockholders' and customers' securities).....</p> <p>(b) Did your firm have outstanding resale agreements, (reverse repurchase agreements) against U. S. Government securities totaling \$1 million or more.....</p> <p>(c) Did your firm (for itself, its partners, stockholders and customers) carry long positions in U. S. Government securities the sum of which totaled \$5 million or more.....</p> <p>2. During the period from April 1 through July 30, 1958, was there any purchase or sale transaction in an amount totaling \$100,000 or more processed through your firm (for firm account, its partners, stockholders or customers) in U. S. Government securities that involved forward or delayed delivery contracts (excluding commitments arising from repurchase or resale agreements, and bona fide "when-issued" transactions, i.e., for specified delivery and settlement on issue date).....</p> | <p><input type="checkbox"/> (1) yes; <input type="checkbox"/> (2) no</p> <p><input type="checkbox"/> (1) yes; <input type="checkbox"/> (2) no</p> <p><input type="checkbox"/> (1) yes; <input type="checkbox"/> (2) no</p> <p><input type="checkbox"/> (1) yes; <input type="checkbox"/> (2) no</p> |
|--|---|

Firm Name

Authorized Signature

All firms please check, sign, and return the duplicate copy of Part I of this questionnaire promptly to the Department of Research and Statistics, New York Stock Exchange, 11 Wall Street, New York 5, N. Y.

Firms answering "yes" to any question in Part I are requested to supply data as indicated in Part II. To facilitate reporting on Part II, worksheet schedules will be furnished to member firms by the New York Stock Exchange on the basis of their replies to Part I.

Part II

EVERY FIRM WHICH ANSWERED "YES" TO ANY QUESTION  
IN PART I IS REQUESTED TO SUPPLY ANSWERS TO THE  
FOLLOWING ON SCHEDULES PROVIDED. ALL QUESTIONS  
PERTAIN TO U. S. GOVERNMENT SECURITIES TRANSACTIONS  
ONLY. EXCLUDE OBLIGATIONS OF U. S. AGENCIES AND  
INSTRUMENTALITIES.

- A. Borrowings (including repurchase agreements—buy-backs, turnabouts, overnights and similar transactions by whatever name—) against U. S. Government securities at the close of business each Wednesday from April 2 through August 27, 1958, inclusive, classified as to:
1. Collateral loans:
    - a. With domestic commercial banks in New York City.
    - b. With domestic commercial banks elsewhere.
    - c. With other member firms.
    - d. All other (including agencies of foreign banks).

2. *Gross repurchase agreements* (including buy-backs, turnabouts, overnights and similar transactions by whatever name), reporting transactions when you acted as *agent separately* from those in which you acted as *principal*:
  - a. With domestic commercial banks in New York City.
  - b. With domestic commercial banks elsewhere.
  - c. With other member firms.
  - d. With nonfinancial business corporations.
  - e. With others (including agencies of foreign banks).
  
- B. *Gross resale agreements* (reverse repurchase agreements, sellbacks and similar transactions by whatever name) against U. S. Government securities at the close of business *each Wednesday* from April 2 through August 27, 1958, inclusive, reporting your transaction where you acted as *agent separately* from those in which you acted as *principal*:
  - a. With domestic commercial banks in New York City.
  - b. With domestic commercial banks elsewhere.
  - c. With nonfinancial business corporations.
  - d. With others (including agencies of foreign banks).
  
- C. *Gross long positions* (including commitments to repurchase under repurchase agreements) at the close of business *each Wednesday* from April 2 through August 27, 1958, inclusive, classified *separately* by holdings for (1) firm account, and (2) account of partners or voting stockholders in the following:
  - a. 2 $\frac{3}{4}$ % bond, 2 $\frac{1}{2}$ % note, and 2 $\frac{3}{4}$ % bond, all due June 15, 1958 (known as "rights").
  - b. 2 $\frac{3}{4}$ % bond due 1965.
  - c. 3 $\frac{1}{2}$ % bond due 1990.
  - d. Other U. S. Government securities (including Treasury bills).
  
- D. *Gross long positions* (including commitments to repurchase under repurchase agreements) in customers' accounts at the close of business *each Wednesday* from April 2 through August 27, 1958, inclusive, classified *separately* by accounts of (1) individuals, (2) nonfinancial corporations, and (3) all others, in the following:
  - a. 2 $\frac{3}{4}$ % bond, 2 $\frac{1}{2}$ % note, and 2 $\frac{3}{4}$ % bond, all due June 15, 1958 (known as "rights").
  - b. 2 $\frac{3}{4}$ % bond due 1965.
  - c. 3 $\frac{1}{2}$ % bond due 1990.
  - d. Other U. S. Government securities (including Treasury bills).
  
- E. On *each day* from April 1 through July 30, 1958, inclusive, total purchases and sales *separately* (for transactions of \$100,000 or more) of U. S. Government securities *for delivery and settlement one week or more subsequent to the commitment date* (exclude repurchase and resale agreements, and bona fide "when-issued" trading, i.e., for specified delivery and settlement on issue date), classified by:
  - a. 2 $\frac{3}{4}$ % bond, 2 $\frac{1}{2}$ % note, and 2 $\frac{3}{4}$ % bond, all due June 15, 1958 (known as "rights").
  - b. 2 $\frac{3}{4}$ % bond due 1965.
  - c. 3 $\frac{1}{2}$ % bond due 1990.
  - d. Other U. S. Government securities (including Treasury bills).

## **Appendix E**

### **Domestic Agencies of Foreign Banking Corporations**

#### **EXPLANATORY NOTES**

The survey of domestic agencies of foreign banking corporations included all such agencies which in the spring of 1958 were registered with the New York State Banking Department. Since all agents of foreign banks with offices located in the State are required by law to be registered with the Banking Department, and since nearly all foreign banks represented by agencies in this country maintain offices in New York City, it is believed that the coverage of the survey is almost complete. Of a total of 28 agencies registered, replies were received from 27.

Of these 27 reporting agents, 16 indicated that they had no loans or repurchase agreements outstanding on May 21, 1958, and extended none during the period May 22 to July 30. During the period covered by the survey, 340 separate collateral loans, totaling over \$500 million, and 15 separate repurchase agreements, totaling \$16 million, were made by the 11 agencies reporting loans or repurchase agreements.

The questionnaires sent to domestic agencies of foreign banking corporations (Forms 55-5906 and 55-5907) were identical to those sent to commercial banks, shown on pages 124-25, and instructions for completing them were also the same. Information reported on loans and repurchase agreements is summarized in the tables that follow.

**TABLE E-1, AGENCIES OF FOREIGN BANKS**  
**VOLUME OF LOANS AND REPURCHASE AGREEMENTS ORIGINATED**  
**BY TYPE OF BORROWER <sup>1</sup>**

[In millions of dollars]

Period (1958)	All borrowers	Govt. sec. dealers	N. Y. Stock Exchange firms	Other brokers and dealers	Indi- viduals	Other
<b>Loans and repurchase agreements</b>						
<b>Total</b> .....	528	153	227	99	16	33
Before Apr. 28. ....	24	(2)	12	3	7	1
Apr. 29-May 31. ....	112	25	44	33	3	7
June 1-June 28. ....	241	55	124	48	1	14
June 29-July 26. ....	140	67	43	14	5	11
After July 26. ....	11	6	4	1	0	0
<b>Loans</b>						
<b>Total</b> .....	511	152	218	93	15	33
Before Apr. 28. ....	21	(2)	11	3	6	1
Apr. 29-May 31. ....	112	25	44	33	3	7
June 1-June 28. ....	228	55	116	42	1	14
June 29-July 26. ....	139	67	43	13	5	11
After July 26. ....	11	6	4	1	0	0
<b>Repurchase agreements</b>						
<b>Total</b> .....	16	(2)	9	6	1	0
Before Apr. 28. ....	2	(2)	1	0	1	0
Apr. 29-May 31. ....	0	0	0	0	0	0
June 1-June 28. ....	13	0	8	5	0	0
June 29-July 26. ....	1	0	0	1	0	0
After July 26. ....	0	0	0	0	0	0

<sup>1</sup> Includes loans and repurchase agreements of \$100,000 or more, against U. S. Government securities, made after Dec. 31, 1957 and outstanding May 21, 1958, or made between May 21 and July 30, 1958.

<sup>2</sup> Less than \$500,000.

**TABLE E-2, AGENCIES OF FOREIGN BANKS**  
**VOLUME OF LOANS AND REPURCHASE AGREEMENTS TERMINATED**  
**BY TYPE OF BORROWER<sup>1</sup>**

[In millions of dollars]

Period. (1958)	All borrowers	Govt. sec. dealers	N. Y. Stock Exchange firms	Other brokers and dealers	Indi- viduals	Other
<b>Loans and repurchase agreements</b>						
Total.....	528	153	227	99	16	33
May 22-May 31.....	44	22	8	13	(2)	1
June 1-June 15.....	64	18	34	8	0	4
June 16-June 28.....	102	16	62	23	(2)	(2)
June 30-July 26.....	182	76	61	33	2	10
July 26-Aug. 30 <sup>3</sup> .....	69	19	30	11	7	2
After Sept. 1 <sup>3</sup> .....	67	3	31	11	6	16
<b>Loans</b>						
Total.....	511	152	218	93	15	33
May 22-May 31.....	44	22	7	14	(2)	1
June 1-June 15.....	64	18	34	8	0	4
June 16-June 28.....	90	15	56	18	(2)	(2)
June 30-July 26.....	180	76	60	32	2	10
July 26-Aug. 30 <sup>3</sup> .....	67	19	29	11	6	2
After Sept. 1 <sup>3</sup> .....	66	3	31	10	6	16
<b>Repurchase agreements</b>						
Total.....	16	(2)	9	6	1	0
May 22-May 31.....	1	0	1	0	0	0
June 1-June 15.....	0	0	0	0	0	0
June 16-June 28.....	12	(2)	6	5	0	0
June 30-July 26.....	2	0	2	(2)	0	0
July 26-Aug. 30 <sup>3</sup> .....	1	0	(2)	0	1	0
After Sept. 1 <sup>3</sup> .....	1	0	0	1	0	0

<sup>1</sup> See footnote 1 to Table E-1.

<sup>2</sup> Less than \$500,000.

<sup>3</sup> Includes no loans or repurchase agreements originated after July 30.

**TABLE E-3, AGENCIES OF FOREIGN BANKS**  
**NEW 2½ PER CENT BOND COLLATERAL FOR LOANS ORIGINALLY**  
**MADE AGAINST "RIGHTS," JUNE 16, 1958<sup>1</sup>**

[Par value, in millions of dollars]

Period of origination (1958)	All borrowers	Govt. sec. dealers	N. Y. Stock Exchange firms	Other brokers and dealers	Indi- viduals	Other
Total.....	47	0	38	7	0	1
Before Apr. 30.....	2	0	0	1	0	(2)
May 1-May 31.....	13	0	10	2	0	1
June 1-June 14.....	32	0	28	4	0	0

<sup>1</sup> No repurchase agreements were exchanged.

<sup>2</sup> Less than \$500,000.

**TABLE E-4, AGENCIES OF FOREIGN BANKS**  
**INITIAL MARGIN REQUIRED ON LOANS, BY TYPE OF BORROWER<sup>1</sup>**

[In millions of dollars]

Initial margin (points)	All borrowers	Govt. sec. dealers	N. Y. Stock Exchange firms	Other brokers and dealers	Indi- viduals	Other
Total.....	503	153	210	93	15	33
Less than 1½.....	38	21	12	4	0	0
1½-3¼.....	266	125	58	68	2	14
3½-5¼.....	174	6	123	19	10	17
5½ or more.....	25	1	17	2	3	2

<sup>1</sup> Includes loans of \$100,000 and over made after Dec. 31, 1957 and outstanding May 21, 1958, or between May 21 and July 30, 1958.