

# JOURNAL



## Linking the Mortgage and Bond Markets

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The FEDERAL HOME LOAN BANK BOARD JOURNAL is published monthly by the Federal Home Loan Bank Board in the interests of the Federal Home Loan Bank System, the Federal Savings and Loan System, the Federal Savings and Loan Insurance Corporation, and the Federal Home Loan Mortgage Corporation. A copy is sent to member institutions without charge.

The JOURNAL is for sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

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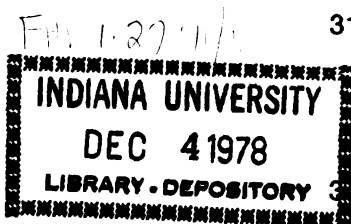
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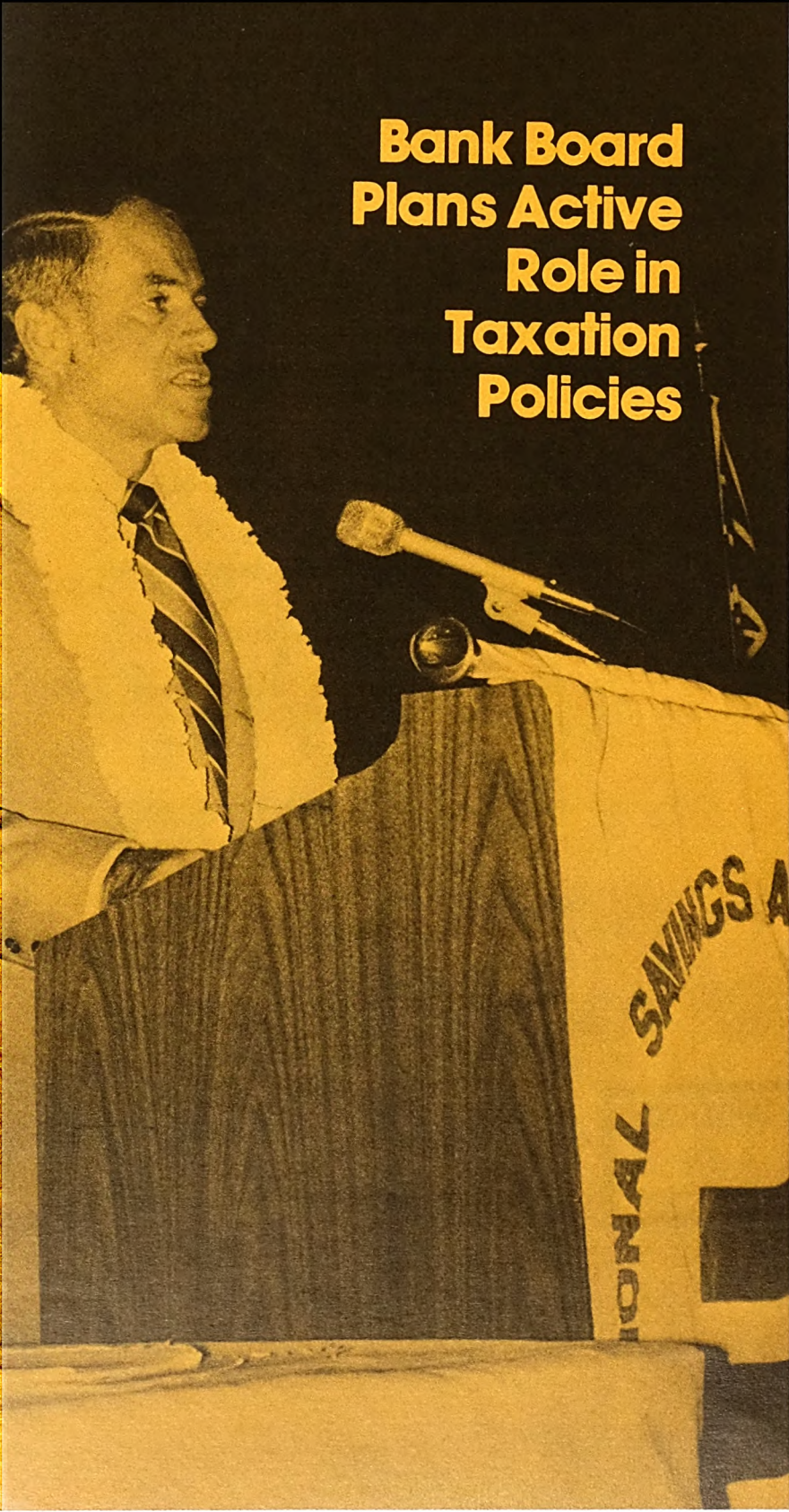
# JOURNAL

November 1978 • Volume 11, No. 11

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## Bank Board Plans Active Role in Taxation Policies

**T**he Federal Home Loan Bank Board intends to develop a comprehensive tax policy and take an active part in the formulation of tax policies that affect the savings and loan, housing, and housing finance industries, FHLBB Chairman Robert H. McKinney told the 35th annual meeting of the National Savings and Loan League last month.

Such action is necessary, Mr. McKinney said, because of the serious effect of taxes on the reserves of financial institutions.

“Present tax policy,” he said, “has had a significant impact on key S&L net worth ratios. These ratios have tended downward over the last decade. These declines are related to tax policy.

“When Federal taxation cuts into the bone marrow of industry reserves, it slows industry growth, produces higher mortgage interest

## Comprehensive Tax Program Is a Major Goal, McKinney Tells National League

rates, reduces interest paid to savers, and lessens the supply of mortgage credit—singly or in combination. I doubt that the general public is aware that its savings and mortgage rates are impacted by a Federal tax policy presumably designed to produce tax equity.”

Mr. McKinney’s speech was delivered before a general session of the National League’s annual meeting in Honolulu October 18. The text of his address follows:

I have been looking forward to this address before the National League because it gives me an opportunity to begin the public discussion of what I see as the tax agenda of the Bank Board. You are a particularly appropriate forum, because you have been a leader in the development of taxation issues.

In the past, the Bank Board has not developed a comprehensive tax position. Perhaps the reason for this silence was the view that taxation was not within the jurisdiction and responsibility of the Bank Board. If so, I disagree. The tax laws of this country profoundly affect housing and housing credit. As the regulator of the Nation’s number one housing lender, the savings and loan industry, the Bank Board should talk taxes. As Chairman, I intend to do so.

For this reason, our agency has set the development of a comprehensive tax policy as a major goal. Ideally, this should be a tax policy that addresses not only the taxation of the savings and loan business. It should also be a tax policy which looks at tax impacts on housing and housing finance generally.

I believe it is important that the Bank Board develop the issues first, before proposing the solutions. Today, I will address what is probably the primary issue as far as the savings and loan industry is concerned. It is an issue that needs no introduction in this setting. But it will require your commitment to bring this issue to an appropriate level of national recognition. It is only

through such recognition that we can hope to have a solution.

The primary issue that I am concerned with today is how we tax additions to reserves of financial institutions. This issue, important as it is, has never received sufficient public attention.

The taxation-of-reserves issue gets at the root of much of the recent tax legislation which concerns financial institutions. The burden of taxation falls on net income. Net income is the basis for additions to reserves, mandated or not.

Federal policy should, but does not, recognize that the taxation of financial institutions directly affects their ability to make additions to reserves.

We all know that financial institutions are a highly regulated industry. The Bank Board, pursuant to congressional mandate, requires that reserves be established and that a certain percentage of assets be held in liquid investments. Not only is the level of reserves and liquidity specified, but the value and type of your investment alternatives are limited.

Those who have argued for financial tax reform have repeatedly stressed that such reforms must place all types of financial institutions on an equal tax footing. This brings us to the issue of tax equality or equity. Equity has been the underlying motive behind all major legislation affecting the financial industry over the past 15 to 20 years.

### **Tax Equity Problem**

The Department of the Treasury has generally pursued the singular goal of tax equity for financial institutions. The problem is not that it favors tax equity—which all of us do. Rather, the difficulty is that Treasury, in the past, has often appeared oblivious to the essential regulatory differences between thrifts and commercial banks.

By most measures, tax equity among financial institutions has no

more been achieved today than it was 10 or 20 years ago. Rather, roles have been reversed. Fifteen years ago, commercial banks paid Federal taxes at twice the rate of savings and loans. Today, the opposite is true. The fact is that tax equity remains an elusive goal.

I do not wish to debate the merits of the method of tax calculation or the question of who bears the greater tax burden. That is not my point today. The issue of equity in taxation must be refocused. It must also recognize that Federal policy imposes limits on these functions through such things as required reserves.

Taxation and its impacts do not occur in a financial vacuum. To impose tax policy as if all financial institutions are the same is a serious shortcoming.

If we look back over the major pieces of tax legislation affecting S&L’s, we find that the intent of the the legislation was to raise the tax on all financial institutions and to equalize taxes for all classes of financial institutions. Efforts to achieve these goals have fallen short of their mark. In light of my previous comments, it should be clear why this is the case. There has been a failure to recognize the differing ground rules under which thrifts and commercial banks operate.

The Tax Reform Act of 1969 did result in substantial increases in the Federal tax burdens of savings and loans. S&L tax burdens have, since that time, increased fairly much as expected. Tax burdens of commercial banks have not. The effective tax burden of commercial banks, rather than increasing by 15 percent, as anticipated by Congress in 1969, has actually decreased by about one-third.

Correspondingly, dollar revenues have fallen short of the goals set in 1969. Federal tax revenues raised from commercial banks are currently running about 55 percent of what the Treasury expected back in 1969. By contrast, tax levels of

S&L's have, until 1976, been running at or over 90 percent of 1969 expectations. In 1977, tax revenues were at about 85 percent of 1969 expectations.

This cannot be attributed to different industry growth patterns. Since 1969, the tax burden of thrifts has grown proportionately faster than their assets, whereas the reverse is true in the case of banks. Tax payments by banks have actually decreased 15 percent over the 6-year period through 1976, while their assets have increased over 75 percent.

But look at this comparison. The assets of S&L's have increased 124 percent from 1970 to 1976. Their Federal tax burden has, over the same time period, grown by nearly 260 percent. This is more than twice the growth rate of their assets.

I am not citing these figures to show that Congress has difficulty in predicting the future. The point is that in 1969 Congress took steps in the direction of tax equity and wound up with a lopsided reversal of revenues and rates. The Treasury and Congress failed to recognize that tax policy can be a double-edged sword. Tightening tax loopholes to increase revenues can, at the same time, cause financial institutions to change their investment behavior so as to minimize their taxes.

Commercial banks have low tax burdens, not because of any chicanery on their part, but because of investment patterns which take tax consequences into account. We can presume that, when commercial banks make their investments, they are acting along lines spelled out by Congress through the tax laws.

To amplify this point again, the goal should not be to tax all types of financial institutions at the same rate. Rather, the goal should be to tax similar types of activity the same, consistent with overall social and economic goals. This may produce the same, or different, tax burdens on various kinds of finan-

cial institutions.

We should not treat all classes of financial institutions as equals because Congress—and the State legislatures—have intentionally made them not equals. Tax policy should be neutral as to type of institution and equal as to type of function.

In sum, we are concerned that current tax policies may be running at cross purposes to our mandate to encourage thrift and homeownership.

### Effect on Net Worth

These considerations are more than theoretical in nature. Present tax policy has had a significant impact on key S&L industry net worth ratios. These ratios have trended downward over the last decade. These declines are related to tax policy.

When Federal taxation cuts into the bone marrow of industry reserves, it slows industry growth, produces higher mortgage interest rates, reduces interest paid to savers, and lessens the supply of mortgage credit—singly or in combination. I doubt that the general public is aware that its savings and mortgage rates are impacted by a Federal tax policy presumably designed to produce tax equity.

In the early part of this year, the Administration proposed a major tax bill with a number of provisions which would have specifically affected the tax on banks, thrifts, and credit unions. Among key provisions, the proposed legislation called for a further phased reduction in the bad debt provisions for banks and thrifts; a continuation of the minimum tax on the loss reserve deduction; a liberalization in the restrictions on the investment tax credit currently imposed on the S&L's; and provisions for phasing in, over 5 years, tax parity for credit unions with S&L's and mutual savings banks.

I can tell you now that the Bank Board had a significant impact in the Administration's final proposals

to Congress, and we were pleased that it accepted a number of our ideas, although not all of them.

For the first time in my knowledge, the Bank Board had its say in a tax package and, even though our concerns were not fully addressed in that final Administration draft, it was clear then, and it is even clearer today, that the occupants at 1600 Pennsylvania Avenue are willing to listen and respond.

We believe we will have their ear on future tax proposals and we intend to pursue the very ideas that I have referred to here today.

### Bank Board Objectives

The Bank Board should play an important role in assisting in the formulation of housing and housing credit tax policies. In addition to the issues that I have already mentioned, the Bank Board will be looking at:

1. Various mortgage-related tax incentives, such as the mortgage interest and mortgage investment tax credit concepts;

2. The changing role and nature of the current minimum tax as it impacts the savings and loan industry; and

3. The impact of various capital-based tax incentives on savings and mortgage flows.

In closing, let me state that I do not believe that taxation policies are the independent domain of any one agency, just as I do not believe that monetary or fiscal policies should operate independently of the concerns of other affected agencies or groups. Interagency coordination and cooperation on tax legislation are just as important from the standpoint of developing consistent and meaningful legislation and social programs as they are in the area of monetary policy.

That is why I have taken this interest in the area of taxation. That is why the Bank Board intends to pursue an active program in formulating policies in the taxation area. ■

# Mortgage-Backed Securities

## Financial Alternatives for Savings & Loan Associations

**M**uch progress has been made in recent years toward integrating the bond and mortgage markets. This trend has been welcomed and promoted by mortgage market participants who have anxiously coveted some of the large flows of pension funds and insurance money for mortgages. In the past, those active in the mortgage and bond markets have not readily understood or easily communicated with one another. Consequently, there have not been strong ties between these two financial communities.

Recently, however, the mortgage and bond markets have become more closely linked through the

development and growth of mortgage-backed securities. The Government National Mortgage Association (GNMA) passthrough mortgage-backed security program first introduced nonmortgage oriented investors to mortgage-related securities.

By avoiding the loan origination and servicing problems that are involved in handling individual mortgages, the GNMA passthrough securities program has been successful in attracting investors who traditionally had not been interested in residential mortgages—especially pension and trust funds. Drawing such investors into the mortgage market should make it less vulnerable to periodic disruptions in the availability of mortgage investment funds.

In this respect, the program has been a resounding success and the

volume of these instruments has grown sharply since the issuance of the first GNMA passthrough security in February 1970.<sup>1</sup> At midyear 1978, there was approximately \$50 billion in GNMA's outstanding, with over two-thirds of this total being held outside thrift institutions.

The integration of the mortgage and bond markets also has been facilitated by the Federal Home Loan Mortgage Corporation through its issuance of mortgage-backed securities collateralized by pools of conventional residential mortgages. These securities include both participation certificates (PC's), which are passthrough mortgage-backed securities, and guaranteed mortgage certificates (GMC's), which are bond-type instruments. Both have been well received in the marketplace. Additionally, The Mortgage Corporation and the Federal National Mortgage Association have both issued bonds backed by FHA-insured or VA-guaranteed mortgages.

An equally significant development helping to integrate the mortgage and bond markets has been the issuance of mortgage-backed securities by private mortgage lenders. These securities have, with increasing frequency, used conventional, as opposed to FHA-VA, mortgages.

While the first private mortgage-backed securities came to market in 1975, it was not until 1977 that they came into their own when approximately \$1.2 billion of these instruments were offered in the public market by private financial institutions, primarily S&L's.

The objective of this article is to examine the forms mortgage-backed securities may take, emphasizing those using conventional mortgages. The article will also examine the relative merits and bene-

<sup>1</sup> For more on the GNMA mortgage-backed securities programs, see "Mortgage-Backed Securities: Their Use and Potential for Broadening the Sources of Mortgage Credit," Richard G. Marcis, *Journal of Economics and Business*, Winter 1975.

by *Richard G. Marcis*  
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fits of mortgage-backed bonds for S&L's compared with passthrough securities and will examine the outlook for these securities in the housing and mortgage markets.

The emphasis will be on mortgage-backed securities issued by private lenders and not on those issued by Government-related or -assisted institutions.

### Mortgage-Backed Bonds

Mortgage-backed securities can be divided into two basic groups: mortgage-backed bonds (MBB's) and passthrough securities (PTS's).

An MBB may be defined as a financial instrument that: (1) is a general obligation of the issuing institution; (2) is collateralized by a pool of mortgages—this can be viewed as a mortgage on a pool of mortgages; and (3) has a stated maturity. While MBB's differ from "regular" corporate bonds in that they are secured by the pledge of mortgage assets, they have terms and characteristics similar to those of traditional corporate bonds. For example, MBB's typically will carry a fixed note rate which will be payable semiannually; amortization of bond principal may be implemented by means of periodic sinking fund payments; and call provisions may be built into the instrument. Thus, MBB's have the fixed and certain cash flow characteristics of corporate bonds and should compete with them in the long-term capital markets.<sup>2</sup>

Associations desiring to issue mortgage-backed bonds must comply with Bank Board criteria. These impose a number of eligibility requirements, establish certain collateral restrictions, and list certain conditions which must be met with respect to the maintenance of net

worth and additional borrowings by the S&L. The objective is to protect the interests of depositors, investors, and the Federal Savings and Loan Insurance Corporation without making the basic business decisions involved in such a financing by the issuing S&L.<sup>3</sup>

MBB's may be rated by investment rating agencies. Bond ratings are important determinants of the interest cost of an MBB issue. The ratings, in turn, are dependent upon a number of considerations, including the quality and type of collateral and the value of the collateral relative to the amount of borrowing in the MBB issue. All MBB issues to date have been AAA rated.

An S&L issuer that wants to obtain one of the higher investment ratings, and thereby reduce its borrowing costs, will have to structure the MBB so that the market value of the collateralized mortgages will always be maintained well in excess of the outstanding principal value of the mortgage-backed securities. This overcollateralization insures that, at the time the bond is issued and throughout its life, sufficient collateral resides in the pool so that the aggregate market value of the underlying mortgages will always exceed the book value of the bonds outstanding against these mortgages. (This is necessary because mortgage collateral is, in effect, a depleting asset, since it is reduced continuously as the association receives scheduled payments of principal and unscheduled repayments and as defaults by mortgagors occur. Hence, investors will insist that, in the event an association defaults, for whatever reason, on an MBB issue, the outstanding mortgage collateral will be adequate to extinguish the entire bond obliga-

tion outstanding i.e. the outstanding bond principal balance, plus all accrued interest.

This type of overcollateralization reduces the risk exposure of bond holders during the entire life of the bond and is a method for assisting MBB's to become a top quality, low-risk instrument from the investor's perspective. In effect, overcollateralization shifts some emphasis from the credit worthiness of the association issuing the bond to an analysis of the structure of the bond instrument itself and the underlying collateral for it.

The type of mortgages used as collateral for the MBB issue also will influence bond ratings and investor acceptance. GNMA securities and FHA-VA mortgages are most preferred as collateral from the bond rating agencies' perspective. Consequently, the early S&L public MBB issues were collateralized by these mortgages.

Recent association MBB issues, however, have, with increasing frequency, used conventional mortgages as underlying collateral, as mentioned previously. This is a significant development for the MBB market, since conventional mortgages comprise a much larger share of the mortgage market than do FHA-VA mortgages and are more important in terms of the composition of S&L mortgage portfolios. For example, at the end of 1977, 92.5 percent of S&L mortgage portfolios consisted of conventional mortgages.

While the type of mortgage collateral is a factor influencing investor acceptance of MBB's, the interest rate on the mortgages is not. Older, lower rate mortgages may be pledged as collateral and, in fact, it might be expected that an association considering issuing MBB's would find it desirable to pledge some of its lowest rate mortgages for this purpose. While low-rate mortgages have a lower value when discounted at prevailing market rates, and an S&L would have to pledge a

<sup>2</sup> For an indepth discussion of mortgage-backed bonds and their implications for S&L's, see Donald M. Kaplan's, "Mortgage-Backed Bonds: A Source of Funds for the Savings and Loan Industry," Federal Home Loan Bank Board Journal, March 1975.

<sup>3</sup> Detail on the regulations governing the issuance of mortgage-backed bonds is provided by Charles E. Allen in his article, "The Mortgage-Backed Bond Regulations: How They Work," in the Federal Home Loan Bank Board Journal, June 1975.

larger dollar amount of them than high-rate mortgages, this does provide a convenient alternative to carrying low-yielding mortgages in the portfolio or to selling the loans in the secondary market, where such sales would involve a substantial loss.

Nonetheless, ratings will also depend, to some extent, on the size and financial condition of the issuing S&L. Despite the quality and quantity of the underlying collateral, the issuing S&L cannot be ignored in the rating process because it has the responsibility of servicing the loans and seeing to the timely payment of interest and principal.

Thus, a large and sound financial institution may achieve a higher rating with a smaller collateralization and relatively lower quality mortgages than a less favored association.

### Mortgage Passthrough Securities

Mortgage-backed passthrough securities consist of mortgages grouped into pools, fractional participations in which are sold to investors. As mortgage payments from the pool are received by the issuer, the payments are "passed through" to the certificate holders. All collections of interest and principal for the pool are passed on to the investors, whether or not these amounts are collected from the mortgages, up to the extent of the insurance policy on the pool or the servicer's guarantee. Thus, the investor is assured a minimum yield in monthly payments of principal and interest. Any prepayments also are passed on to the investor. Each certificate holder in the pool shares in the interest income and principal prepayments and repayments generated by the underlying mortgages.

Because of prepayments, possible foreclosures, and delinquent payments, the cash flow from the pool may vary from payment to payment. This differentiates pas-

sthrough securities from the fixed and certain cash flow characteristic of MBB's.

Passthrough certificates are not obligations of the issuer but, rather, constitute a sale of assets. Thus, the pool of mortgages behind the security represents the source of repayment to the investor, not the originator. While the MBB is an over-collateralized debt obligation which appears on the S&L's balance sheet, the PTS constitutes an asset sale. The S&L's balance sheet would show a reduction in mortgages and an increase in cash. This, however, does carry certain obligations for the issuer. These relate to his obligation to service—for a fee—the mortgages in the pool and to maintain any pool insurance policies, if they exist.

While there are many ways of structuring a PTS, all share certain basic features. With a PTS, selected mortgages are assigned without recourse to a trustee, and certificates of interest are sold in the pool. The issuer may be obligated to advance its own funds in payment of the mortgage loans in the event of delinquencies.

Whereas MBB's pay only interest semiannually, PTS payments are made monthly. The monthly distribution will consist of the following: (1) the normal monthly principal and interest payments due and received each month; (2) all prepayments received in the prior month; and (3) any advances made by the issuer to cover delinquencies (limited to the specified amount of the guaranty or insurance policy).

Because the PTS is not a general obligation of the issuer, the investor relies on the quality of the loan collateral itself, plus the private mortgage insurance and all-risk hazard insurance for protection against loss of principal or interest. Although the first two conventional PTS issues offered by private financial institutions were unrated, all major subsequent issues have been rated

**Table 1.—Volume of Mortgage-Backed Securities Issued by Private Financial Institutions, January 1975–July 1978**

(In millions of dollars)

Item	1975	1976	1977	1978	Total
<b>Public Market</b>					
Type of Collateral					
GNMA securities			40	40	80
FHA-VA mortgages	50	75	450		575
Conventional mortgages			625	375	1,000
Subtotal	50	75	1,115	415	1,655
<b>Private market</b>					
Type of collateral					
FHA-VA mortgages	15		6		21
Conventional mortgages			73	43	116
Subtotal	15		79	43	137
Total	65	75	1,194	458	1,792
<b>Mortgage-backed passthrough securities, total issues</b>					
			225	450	675

Source: Paine, Webber, Jackson and Curtis, Inc.

by Standard and Poor's corporation.

In rating conventional PTS's, Standard and Poor's has enumerated certain criteria that it would use. They are:

(1) The capabilities of the servicer and trustee. This includes the experience of the issuer in performing its duties. Size of the organizations involved is considered an indication of staying power and ability to devote resources to carrying out these duties.

(2) Capabilities of the private mortgage insurer, which must demonstrate its ability to pay claims on a timely basis and enable the trustee to meet the debts on its obligations.

(3) The level and nature of any equity reserve. If the PTS contains an equity feature, the sufficiency of the equity reserve in terms of its ability to cover possible losses will be examined.

(4) The nature of the mortgage pool. Both minimum fixed criteria and variable criteria for mortgages to be used in the pool are established. These criteria emphasize characteristics of the mortgage instrument that enhance the marketability of the underlying property in the event foreclosure proceedings are necessary.

In summary, the development of both the conventional MBB and the conventional PTS has enhanced the financing flexibility of S&L's and other mortgage lenders. S&L's have recently been prominent issuers of both types of securities.

### Mortgage-Backed Security Market Activity

Table 1 gives some historical perspective to the volume of activity in mortgage-backed securities. As we have noted, the first MBB's came to market in 1975, but it was not until 1977 that approximately \$1.2 billion of them were offered in the public market by private financial institutions, primarily S&L's. The first MBB collateralized by conventional mortgages came to market in 1977.

That year, an additional \$79 million in MBB's were issued in private placements. Through mid-1978, MBB activity was running below that of 1977, primarily because of the higher interest rates prevailing this year. Approximately \$415 million in MBB's were issued in the public market and \$43 million in private placements in the first 6 months of 1978. (See table 3.)

On the other hand, activity in PTS's accelerated in 1978 relative to the previous year, when the first conventional PTS by a private financial institution was offered. By the end of August 1978, \$450 million in PTS's had been issued compared with \$225 million for all of 1977.

Table 2 presents the total activity for publicly offered MBB's to date. Reflecting the growth and development of the MBB market, it can be noted that the earliest MBB issues were typically collateralized by FHA-VA mortgages, whereas recent issues have been backed by conventional mortgages.

The size of the individual MBB's offered in the public market has varied from \$35 million to \$200 million. Most of the MBB's issued by S&L's have been by California

**Table 2.—Public Offerings of Mortgage-Backed Bonds Listed by Type of Collateral**

Ratings Fitch and Poor's	Standard	Issuer	Amount of offering (In millions)	Date of offering	Date of maturity	Coupon rate	Initial offerings	
							Price	Yield
<i>Collateral consists of GNMA securities</i>								
NR	AAA	Talman Federal S&LA of Chicago	\$40	4/13/78	4/15/83	8.375%	100.00%	8.38%
NR	AAA	The Broadview S&L Company	40	11/ 3/77	11/ 1/84	8.000	99.84	8.03
<i>Collateral consists of FHA-insured, VA-guaranteed mortgage loans</i>								
AAA	AAA	American S&LA (Calif.)	200	5/26/77	6/ 1/82	7.250	100.00	7.25
AAA	AAA	Coast Federal S&LA (Calif.)	50	10/ 5/77	10/ 1/82	7.500	99.88	7.53
AAA	AAA	Home S&LA (Calif.)	100	11/22/77	11/15/83	7.750	99.70	7.81
NR	AAA	California Federal S&LA	75	10/15/76	6/15/84	7.625	99.45	7.72
NR	AAA	California Federal S&LA	50	9/25/75	7/15/85	9.125	100.00	9.13
AAA	AAA	Home S&LA (Calif.)	100	11/22/77	11/15/85	7.875	99.63	7.94
<i>Collateral consists of conventional mortgage loans</i>								
AAA	AAA	Home S&LA (Calif.)	200	6/23/77	6/15/82	7.250	99.90	7.27
NR	AAA	California Federal S&LA	100	9/21/77	10/ 1/82	7.375	99.50	7.50
NR	AAA	San Diego Federal S&LA	35	10/26/77	10/15/82	8.000	99.60	8.10
NR	AAA	World S&LA (Calif.)	50	12/13/77	12/15/82	7.950	100.00	7.95
NR	AAA	First Federal S&LA of Wisconsin	35	5/23/78	8/15/83	8.750	100.00	8.75
AAA	AAA	Valley Federal S&LA	40	10/27/77	11/ 1/83	8.125	99.74	8.18
AAA	AAA	Guarantee S&LA (Calif.)	50	3/ 7/78	3/ 1/84	8.450	100.00	8.45
AAA	AAA	American S&LA (Calif.)	200	4/13/78	4/15/84	8.500	99.77	8.55
AAA	AAA	American S&LA (Utah)	50	4/27/78	4/15/85	8.625	99.60	8.70
NR	AAA	First Federal S&LA of Chicago	40	5/11/78	5/ 1/86	8.700	100.00	8.70
AAA	AAA	Imperial S&LA (Calif.)	100	6/16/77	6/15/87	7.700	100.00	7.70
AAA	AAA	Great Western S&LA (Calif.)	100	10/18/78	10/ 1/89 <sup>1</sup>	7.800	100.00	7.80

<sup>1</sup> Each holder may put all or part of its holdings to Great Western at par on 10/1/84 or any October 1 thereafter through 10/1/88.

Source: Paine, Webber, Jackson & Curtis, Inc.

**Table 3.—Mortgage-Backed Passthrough Certificates Issued by Private Financial Institutions**

Standard and Poor's rating	Originator and servicer	Initial offering amount (in millions)	Date of offering	Pass-through rate	Initial offering		
					Price	Mortgage yield <sup>1</sup>	Bond yield equivalent
—	Bank of America NT&SA (Series A)	\$150.5	9/21/77	8.375%	100.00%	8.30%	8.44%
—	First Federal S&L Assoc. of Chicago (Series A)	75.1	10/20/77	8.75	100.00	8.67	8.83
AA	Home S&L Assoc. (First Series)	100.0	3/29/78	9.00	99.25	9.02	9.19
AA	Bank of America NT&SA (Series B)	201.2	4/19/78	9.00	99.25	9.02	9.19
AA	Glendale Federal S&L Assoc. (Series A)	100.0	5/ 3/78	9.125	98.19	9.30	9.48
AA	Washington Mutual Savings	\$50.4	6/23/78	9.00	95.50	9.57	9.76

<sup>1</sup> For purposes of trading this yield is calculated as if the pool of underlying mortgages were a single 30-year mortgage prepaying in full after 12 years with an adjustment in yield for the lag in the first payment of interest. This yield does not include an add-on to convert it to a semi-annual bond yield equivalent.

<sup>2</sup> The mortgage pool consists of variable rate mortgages. Any change in the nominal interest rate on these mortgages will be passed through to certificate holders.

Source: Paine, Webber, Jackson and Curtis, Inc.

associations—14 out of 21 public issues. The strong demand for funds by S&L's in the capital-deficient California market is one reason. Since size influences market presence and both rating agency and investor perception of the credit-worthiness of the issuers, the larger size of the California institutions is another reason. S&L's in other States such as Ohio, Texas, Illinois, and Wisconsin have also issued MBB's, however.

Private placements, on the other hand, have generally been for smaller amounts and by smaller associations. The average size of private placement issues was \$17.1 million as opposed to \$81.2 million for public offerings.

Looking at rate and yield comparisons between MBB's and other capital market instruments, it should be noted that, at any given time, the yields on MBB's will vary markedly, reflecting a variety of considerations including the type of mortgage-backed security (PTS or MBB), the type of collateral used (FHA-VA or conventional mortgages), and other considerations such as the market's assessment of the quality and sufficiency of the underlying collateral and the general credit-worthiness of the issuer.

As indicated previously, the fixed and certain cash flow characteristics of MBB's would make them similar to and, hence, competitive with corporate bonds in the long-term capital markets. MBB's, however, have yielded slightly more than comparable corporates.

For example, at the end of August, Imperial S&L's (California) 7.70 percent coupon MBB's of June 1987 were yielding 9.05 percent, while First Federal S&L of Chicago's 8.70 percent coupon MBB's of May 1986, were yielding 8.95 percent. By way of comparison, yields at that time on new issue AAA utility bonds were from 8.80 to 8.85 percent, a differential between MBB's and equivalent maturity and quality corporate bonds of

15 to 25 basis points, or .15 to .25 percent. Also, at that time, the yield on 7-10 year U.S. Treasury bonds was 8.35 to 8.40 percent, a differential between MBB's and equivalent maturity U.S. Treasury's of approximately 50 basis points or .50 percent.

In this respect, it should be noted that rate differences will exist between individual MBB issues for a variety of reasons, including the type of mortgage collateralizing the bond. Because of the government guarantee on insurance for FHA-VA mortgages, MBB's collateralized by these mortgages have, in general, received a 5 to 10 basis-point-lower rates than otherwise equivalent conventional MBB's. This yield differential may be expected to diminish in time as conventional MBB's become more common and their track record becomes accepted in the marketplace.

Yields on PTS's generally exceed those of MBB's because of the monthly passthrough of principal and interest, the broader market for bond-type instruments as opposed to passthrough type instruments, and the uncertainties of the average life and, hence, repayment of principal and interest on the underlying collateral associated with a passthrough instrument.

For example, at the end of August 1978, conventional PTS's were yielding an average of 9.48 percent on a bond equivalent basis, whereas MBB's collateralized by conventional mortgages were, on the average, yielding 8.96 percent, on a yield to maturity basis.

The conventional PTS's issued by private financial institutions generally yield 20-25 basis points, or .20 to .25 percent, above the yield on otherwise equivalent GNMA passthrough certificates and Mortgages Corporation participation certificates. The differential essentially reflects the value of the Government guarantee or insurance of the underlying mortgage collateral or The Mortgage Corporation's

guarantee of timely payment of interest and ultimate collection of principal. At the end of August, the following yield relationships were observed:

GNMA (9.00 percent passthrough rate) . . . . .	9.30
FHLMC (9.00 percent passthrough rate) . . . . .	9.43
Private conventional passthrough yield. . . . .	9.48%

### Mortgage Backed Bonds vs. Passthrough Securities

In general there are several significant considerations that influence a lender's decision to issue a mortgage-backed security in the form of a MBB or a PTS.

The need for funds is, of course, of central importance. In periods of high and/or rising rates of interest, deposit inflows into S&L's and other deposits institutions will frequently decline—sometimes dramatically, as in 1966-67 and 1973-74—causing associations to restrict their mortgage commitment and lending activity. The increase in market rates may be sufficiently above Regulation Q ceilings to render S&L's unable to raise additional savings capital. In such an environment, mortgage-backed securities could provide S&L's with funds to continue originating and purchasing mortgages.

An S&L may also want to consider a mortgage-backed security when interest rates are low and deposit funds flows adequate, but when there is an expectation that funds flows will be substantially reduced in the future. In fact, in terms of the interest rate spreads necessary to make a mortgage-backed security offering profitable, low interest-rate periods may better favor a mortgage-backed security than higher interest rate periods.

Once the need for capital in both a current and prospective context has been examined, the use of mortgage-backed securities as a means of raising money must be evaluated in comparison with the

use of alternative sources of funds such as:

(1) Federal Home Loan Bank advances, especially intermediate and long-term advances;

(2) Subordinated debentures; or

(3) Sales of mortgage loans to alternative secondary market sources such as FNMA or The Mortgage Corporation or sales of mortgages on a participation basis to private investors.

Once it has been determined that issuing a mortgage-backed security is an attractive source of funds, the issue of profitability arises. Profitability is determined by the spread between the yields required by the investor and the mortgage rates.

The major elements in assessing the profitability of a mortgage-backed security include: (1) the yield on the mortgage pool; (2) the interest rate required by investors; and (3) the cost of bringing the issue to market.

An S&L also should assess the profitability of a mortgage-backed security offering in terms of yield spreads between investment pools and security issues after appropriate deductions for issuing and operating expenses of the security offering.

### Issuing MBB's

The decision whether to issue an MBB as opposed to a PTS is basically a balance sheet decision as to whether to *borrow* via an MBB or to *sell assets* via a PTS. An MBB is a useful tool for associations that want to do some low-cost, short- to intermediate-term financing.

Since an MBB is collateralized by mortgages, it presents an S&L, as we have already noted, with an opportunity to put low yielding assets acquired in previous low interest-rate periods to work as collateral. In this respect, an MBB is particularly well suited to S&L's with large mortgage portfolios as opposed to mortgage lenders who either do not do a large volume of mortgage

lending or routinely sell a large portion of their originations in the secondary mortgage market.

Another consideration in assessing whether to issue an MBB or a passthrough security is the capital position of the association. The S&L should be in a financial position to issue debt with adequate equity and interest coverage. The MBB regulations of the FSLIC, in fact, restrict outside borrowings (excluding advances) to 10 percent of the total savings accounts and capital stock, if any, of the S&L, with an additional 5 percent of outside borrowings authorized for conforming MBB's.

Bank Board regulations also specify that average income in each of the three previous fiscal years must be at least twice the projected interest expenses and amortization of the related expenses of the proposed MBB's. Over and above the regulatory requirements, investors look to the MBB issuer for eventual payment. The capital position of the issuer is important in this respect and security ratings reflect these assessments.

Thus, an institution's ability to issue MBB's is limited by its capitalization. S&L's that are highly leveraged will find their ability to issue MBB's impeded by regulatory requirements as well as by a lack of market acceptance and may have to resort to alternative means of raising funds.

The feasibility of issuing MBB's is, of course, dependent upon yield spreads. The spread between the yield on the mortgage pool and the interest cost of the MBB has to be wide enough not only to meet all fixed operating costs associated with the bond issue, but also to cover the issuer for the risk exposure undertaken. The risk to the issuer is the possibility that he will encounter cash management problems if the cash flows from the mortgage pools are in excess of the cash flow needed to service the bond issue.

As a general rule, lower interest-rate periods will generally favor issuance of MBB's rather than higher interest-rate periods, when yields on the mortgage pool are eclipsed by rising bond market yield requirements. However, this does not preclude the issuance of MBB's in periods of high and/or rising market rates, since a more precise rule would emphasize comparison of interest rate spreads at all points in the interest rate cycle, as well as a relationship of current versus anticipated future interest rate spreads.

There are a number of considerations influencing the rate of an MBB issue in addition to the conditions in the money and capital markets. The investment rating is, of course, critical and is a function of the investment rating agency's assessment of the quality and the credit risk protection built into the mortgage collateral pool, the interest rate protection, the liquidity of the mortgages, and the general credit worthiness of the borrower.

Other relevant market considerations include the size of the bond issue, its nominal maturity, the specific terms of the issue (repayment provisions, early-call provisions, etc.), the general reputation of the S&L, and whether the issue is being sold publicly or privately.

### Issuing Passthrough Securities

Passthrough securities, unlike MBB's, are not debt obligations of the issuer but, rather, constitute sales of assets, as has been mentioned. The off-the-balance-sheet financing permitted by a PTS adds a significant new dimension to the financial alternatives available to an S&L. The flexibility of a PTS enables an association to structure a mortgage package that meets its own financial requirements and capabilities while providing investors with a yield package.

The loan origination capacity of the lender and his desire for servicing income and fees will be factors influencing the decision to issue a

PTS. More importantly, PTS's can open up many new avenues for profitable loan origination and selling activities for portfolio lenders who have not thought in terms of originating and selling mortgages and living off yield spreads.

Finally, since passthrough securities constitute off-the-balance-sheet financing, this financing mechanism will be especially attractive to S&L's that are highly leveraged or that may have bumped up against their debt limitation authority and are precluded from issuing debt obligations.

These securities become financially feasible when the yield spread between the rates on mortgages available and the rate investors will pay on passthrough securities is sufficient to cover the full cost related to issuing them.

For example, if loan servicing fees amount to 3/8 of 1 percent, or .375 percent, and other fees total, say, .275 percent (for 5-percent pool insurance, 1-percent hazard insurance, and issue-underwriting expenses), then the total cost related to the passthrough issue will be .65 percent. If the current PTS rate is, for example, 8.50 percent, mortgage rates of at least 9.15 percent would be required to make the PTS financially feasible.

Periods of relative credit ease, when current mortgage loan rates exceed intermediate and long-term rates, provide an attractive environment for issuance of PTS's. However, periods when capital market rates are high and/or rising sharply, so that yield requirements of investors exceed rates on current mortgage loans, are difficult ones in which to issue PTS's. Obviously, some flexibility is permitted the association in terms of its assessments of its cost of issuing PTS's as well as the assessment of future interest rate spreads and uses of funds.

Finally, the feasibility of issuing passthrough securities must also be measured against rates available from alternative secondary market

sources such as the Federal National Mortgage Association or The Mortgage Corporation, as well as sales of loans on a participation basis to private portfolio investors. While both alternatives involve sales of assets, the yield requirements of these various investors may differ sufficiently to influence the decision to issue a PTS as opposed to selling whole mortgage loans or mortgage participations.

### Overview and Future Outlook

Recent activity in both conventional MBB's and PTS's has accelerated the integration of the mortgage markets and the bond markets. By attracting nonmortgage oriented investors, the residential mortgage credit market will be less vulnerable to periodic disruptions in the availability of mortgage credit. Thus far, mortgage-backed securities have been partially successful in achieving this objective, since a large volume of both MBB's and PTS's have been purchased by nondepository institutions, such as life insurance companies and pension funds.

However, before insurance companies and pension funds become significant investors in privately issued mortgage-backed securities, the securities will have to become more liquid and marketable. The private mortgage-backed securities market needs to develop greater depth and breadth, with more securities being issued, more trading, and more experience. The market appears to be moving in this direction as volume and activity accelerate for both PTS's and MBB's and as nonmortgage investors become more familiar with these instruments.

There are several potential developments that may further stimulate the development of the mortgage-backed securities market. Finding a means that will permit small and intermediate-size S&L's to issue MBB's would improve both the flexibility and functioning of

this market, while providing greater financing opportunities for the associations themselves.

Toward this end, several efforts are underway to develop a mechanism by which a public or private financial intermediary could facilitate the issuance of PTS's on a joint or multiple basis by small and intermediate institutions.

One approach would have the central institution buy residential mortgages from lenders, pool the mortgages, and sell interests in the pools to institutional investors through mortgage-backed securities. Another approach might involve bringing S&L's together in issuing PTS's.

Another development that holds great promise relates to the potential for structuring MBB's and PTS's with alternative mortgage instruments, such as graduated payment and variable rate mortgages.

Finally, another development that will broaden the market for mortgage-backed securities is an expansion in types and terms of mortgage loans that may be used in pools for mortgage-backed securities. As additional experience is gained, it may be anticipated that the criteria for eligible mortgage loans may become more flexible. For example, the definition of eligible loans may be expanded to include condominium loans, mortgages with loan-to-value ratios in excess of 80 percent, and increases in the maximum dollar size of individual loans.

Thus far, conventional mortgage-backed securities appear to be making good progress in tapping institutional portfolio investors which, heretofore, were insignificant mortgage buyers.

Moreover, S&L's have benefited from the alternative financing opportunities provided by mortgage backed securities. Other developments and innovations hold the potential for further benefiting both lending institutions and housing and mortgage markets. ■

# Financial Institutions Regulatory Act

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**I**n the early morning hours of Sunday, October 15, 1978, Congress passed H.R. 14279, one of the most significant pieces of legislation affecting financial institutions in many years. Entitled the Financial Institutions Regulatory and Interest Rate Control Act of 1978, the 21-title omnibus bill had its origin in S. 71, a 6-title measure introduced by Senator William Proxmire (D.-Wis.), chairman of the Senate Banking Committee, and passed by the Senate in August of 1977. S. 71 contained, among other things, provisions expanding agency enforcement powers, restricting interlocking directorates, and regulating employment opportunities of former Bank regulators. Passage of the Act in its final form, however, was very largely due to efforts in the House of Representatives.

Congressman Fernand St Germain (D.-R.I.), Chairman of the House Banking Committee's Subcommittee on Financial Institutions Supervision, constructed a companion to S. 71 that was a much tougher bill than the latter, adding to it extensive restrictions on the ability of bank insiders to obtain loans (whether by overdrafts, correspondent relationships, or other-

# How It Affects S&L's and the Bank Board

wise) from their institutions and requiring disclosure of such extensions of credit.

Under St Germain's stewardship, the bill, originally named the Safe Banking Act, also grew to include measures to strengthen the authority of regulators over changes in control of financial institutions and their holding companies, as well as other provisions—not all of which he endorsed—dealing with topics ranging from creation of a Financial Institutions Examination Council to authorization of Federal savings and loan associations to issue alternative mortgage instruments.

Although the bill was approved by the House Banking Committee, as H.R. 13471, and reached the floor of the House, consideration of the 20-title measure stalled on title XIII in the waning days of the 95th Congress, and it appeared very likely that, in the rush to adjourn, the House would let the legislation die.

In a series of literally last-minute maneuvers, however, Congressman St Germain and Senator Proxmire saved the bill, albeit in a somewhat altered form that included new provisions on such things as electronic funds transfers, altered investment authority for Federal associations and a two-year extension of rate

control, and omitted such original provisions as those dealing with AMI's and regulation simplification.

The parts of the measure affecting the Bank Board or the institutions under its jurisdiction are as follows:

## **Title I. Increased Supervisory Authority**

The bill provides the Bank Board with improved enforcement powers which should enable the agency to perform its supervisory duties in a more precise fashion and to remedy certain problems formerly beyond its reach.

**Cease and Desist Orders:** The Bank Board can now obtain cease and desist orders against individual directors, officers, employees, agents and other persons participating in the affairs of an insured institution. Such orders may also be issued against service corporations and savings and loan holding companies and their uninsured affiliates. Previously, cease and desist action was possible only against insured institutions.

**Temporary Cease and Desist Orders:** These orders can be issued against the same persons and orga-

nizations as ordinary cease and desist orders. Temporary relief may now require affirmative action, and may be obtained against conduct likely to seriously weaken the condition of an insured institution, which is an addition to prior authority that allowed such orders to be issued only to halt conduct likely to cause insolvency or substantial dissipation of assets or earnings, or likely otherwise to seriously prejudice the interests of insured members.

**Divestiture:** The Bank Board may now require a savings and loan holding company to terminate activities, or ownership or control of any noninsured subsidiary, if such activities or ownership or control constitute a serious risk to the financial safety, soundness or stability of an insured subsidiary, and is inconsistent either with the sound operation of an insured institution or with the purposes of section 408 of the National Housing Act (governing savings and loan holding companies) or the Financial Institutions Supervisory Act.

**Penalties:** Civil fines of up to \$1,000 a day may be levied against persons or entities violating a final cease and desist order. Likewise, a

penalty of up to \$1,000 a day may be imposed against a person or company for violation of any holding company law or regulation, or an order issued thereunder.

**Suspension and Removal:** Existing authority to suspend and to remove individual officers and directors is expanded to enable the Bank Board to proceed against persons who have received financial gain by reason of a violation of law, rule or regulation, or of a cease and desist order which has become final, or by reason of an unsafe or unsound practice in connection with the insured institution, or by reason of any act, omission or practice constituting a breach of the individual's fiduciary duty *and* whose violation, practice, or breach of fiduciary duty is one demonstrating a willful or continuing disregard for the safety or soundness of the institution.

The bill also deals with the ability of the Bank Board to suspend indicted persons, or remove them upon conviction, restricting such actions to occasions when continued service may pose a threat to the interests of the institution's depositors or threaten to impair public confidence in the institution. To ensure due process, the bill requires that decisions in such cases be made pursuant to a hearing procedure.

**Federal Savings and Loan Insurance Corporation Contributions:** The bill greatly improves the ability of the FSLIC to deal with institutions in financial difficulty by permitting it, in order to facilitate the merger of an insured institution in danger of default or sale of its assets (with assumption of liabilities), to purchase assets, assume liabilities and make loans or guarantees. In addition, the prior requirement that contributions or guarantees must not be in excess of

the amount reasonably necessary to save the expense of liquidating the institution, is modified to provide for an exception in cases where the corporation determines that the continued operation of the institution is essential to provide adequate savings or home financing services in its community.

## **Title II.—Interlocking Directorates**

Under this title, extensive restrictions are placed on management of official interlocks between depository institutions or depository holding companies and other depository institutions or depository holding companies not affiliated therewith.

**Geographic Restriction:** A management official of a depository institution or a depository holding company may not serve as a management official of any other depository institution or depository holding company not affiliated therewith if an office of one of the institutions or any depository institution that is an affiliate of such institutions is located within the same SMSA (except for depository institutions having assets less than \$20 million) as that in which an office of the other institution or any depository institution that is an affiliate of such other institution is located, or within the same city, town or village as that in which an office of the other institution or any depository institution that is an affiliate of such other institution is located, or in any city, town or village contiguous or adjacent thereto.

**Size Restriction:** Management officials of depository institutions or depository holding companies (or affiliates) having assets greater than \$1 billion are prohibited from serving as management officials of any other nonaffiliated depository institution or depository holding company (or affiliate) having total assets greater than \$500 million.

**Exceptions to Interlock Prohibitions:** The geographic and size

prohibitions do not apply to (1) institutions in liquidation or in the hands of the receiver or conservator; (2) and Edge Act corporation; a credit union being served by a management official of another credit union; a depository institution or depository holding company which does not do any business in the U.S. except as an incident to activities outside the U.S.; (3) a State-chartered savings and loan guaranty corporation; or (4) a Federal Home Loan Bank or any other organization specifically organized to serve depository institutions. Furthermore, the Bank Board may prescribe regulations to permit otherwise prohibited service.

**Grandfathering:** Individuals in interlock situations (existing as of the date of enactment) made illegal by the title may continue the otherwise prohibited service for 10 years unless such service is also violative of the Clayton Act. In addition, if some change in circumstances, such as an increase in assets or a geographic change, brings a previously legitimate interlock within the prohibitions of the title, the Bank Board may give the affected individual up to 15 months to comply.

**Definitions:** A management official is an employee or officer with management functions, a director (including an advisory or honorary director), a trustee of a business organization under the control of trustees, or any person who has a representative or nominee serving in any such capacity. Specifically excluded from the definition, however, are incorporators, trustees, and directors or other officers of State-chartered savings or co-op banks or of State chartered trust companies which neither make real estate loans nor accept savings deposits from natural persons, to the extent they are involved in interlocking service between such banks and trust companies that is specifically permitted by State law.

Affiliation between two corpora-

tions is deemed to occur when: (1) one of the corporations is a depository holding company and the other is a subsidiary thereof, or both corporations are subsidiaries of the same depository holding company; (2) more than 50 percent of the voting stock of one corporation is beneficially owned in the aggregate by one or more persons who also beneficially own, in the aggregate, more than 50 percent of the voting stock of the other corporation; (3) one of the corporations is a trust company all of the stock of which (except directors' qualifying shares) was owned by one or more mutual savings banks on the date of enactment of this act, and the other corporation is a mutual savings bank; or (4) one of the corporations is a State-chartered, FDIC-insured bank which is engaged primarily in providing services to other banks and not the public, and the voting securities of which are held by other banks (but not more than 5 percent by any one bank) or only by officers of other banks (but not more than 6 percent by any one person).

### **Title III.—Employee Protection**

This title is primarily concerned with foreign branching, but does contain a proviso making it a felony under 18 U.S.C. 1114 to assault, intimidate or kill any attorney, liquidator, examiner, claim agent, or other employee of the Bank Board or FSLIC engaged in or on account of the performance of his official duties.

### **Title VII.—Change in Savings and Loan Control**

Title VII provides the Bank Board with greatly enhanced regulatory jurisdiction over acquisitions of control of stock savings and loan associations.

**Notice:** The FSLIC must be given 60 days prior notice of transfer of control to a person who is defined to include corporations, partnerships,

trusts, and other entities as well as individuals. Since nothing in the title affects acquisitions subject to the Savings and Loan Holding Company Act, its major impact will be with regard to acquisitions of control by individuals. The bill requires that, with the notice, very detailed information be submitted pertaining to, among other things, the identity, personal history, business background, and experience of acquiring parties, as well as their assets and liabilities, source of funds, and plans for the institution. In addition, the FSLIC may require such additional information as it deems relevant.

**Disapproval:** The FSLIC may disapprove proposed acquisitions if they would result in a monopoly or would be in furtherance of any combination or conspiracy to monopolize the savings and loan business in any part of the U.S.; the effect of the acquisition may be substantially to lessen competition or tend to create a monopoly or in any other manner be in restraint of trade, and the anticompetitive effects of the acquisition are not clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served; the financial condition of any acquiring party might jeopardize the financial stability of the institution or prejudice the interests of its depositors; the competence, experience or integrity of any acquiring person or proposed management personnel indicate that it would not be in the interests of the depositors or the public to permit a change in control; or any acquiring person neglects, fails or refuses to furnish the FSLIC all the information requested.

Disapprovals must be made within 90 days of receipt by the FSLIC of a notice of proposed acquisition, unless the agency determines that any material information submitted is substantially inaccurate. Disap-

provals may be contested in an APA hearing, with appeal to the U.S. Court of Appeals.

**Reports:** Whenever an insured institution or insured bank makes a loan secured by 25 percent or more of the voting stock of an insured institution, the president or chief executive officer of the lender, upon receiving knowledge thereof, must promptly report it to the FSLIC unless the borrower has been the owner of record of the stock for a year or more, or unless the stock is of a newly organized institution prior to its opening. Reports must also promptly be made to the FSLIC whenever any director or CEO of an insured institution is replaced within 12 months of a change in control. Finally, the FSLIC may require insured institutions or persons connected therewith to supply such periodic or other reports or disclosures as it deems necessary for the protection of investors or the FSLIC.

**Definitions:** Control is defined to mean the power, directly or indirectly, to direct the management or policies of an insured institution or to vote 25 percent or more of any class of voting securities of an insured institution. Insured institution is defined to include a savings and loan holding company.

**Penalty:** Willful violations of the title or regulations or orders issued thereunder may be punished by fines of up to \$10,000 a day. In addition to being able to contest their fines administratively, persons assessed may receive a *de novo* trial in U.S. District Court.

### **Title X.—Federal Financial Institutions Examination Council**

This title creates a Council charged with prescribing uniform principles and standards for the examination, and making recommendations to promote uniform supervision, of financial institutions by the Comptroller of the Currency, the Federal Deposit Insurance Cor-

poration, the Federal Reserve Board, the Bank Board, and the National Credit Union Administration. As part of its duties, the Council is also directed to develop uniform reporting systems for institutions and their holding companies and uninsured subsidiaries, and to conduct schools for examiners which may be attended by State examiners. Also, the Council must meet at least semiannually with a 5-member liaison committee consisting of State supervisory officials.

The Council will consist of the heads of the participating agencies, and may employ a staff.

### **Title XI.—Right to Financial Privacy**

This very complicated title puts extensive restrictions on the ability of Federal government agencies to have access to the financial records of customers of financial institutions and on the use the agencies may make of such records, once obtained.

As a general matter, access will be permitted only pursuant to search warrants, administrative or judicial subpoenas, or customer authorization. To protect consumers, the title specifies quite precisely the degree and nature of notice they shall be afforded, and their ability to object to access by the Government. Exemptions to the general rule are fairly extensive, however. For instance, the title specifically does not prohibit examination by, or disclosure to, any supervisory agency (defined to include the Bank Board and State banking departments), of financial records or information in the exercise of its supervisory, regulatory or monetary function with respect to a financial institution.

Normally, transfer of records to other agencies is to occur only when the agency certifies in writing that there is reason to believe the records are relevant to a legitimate law enforcement inquiry within the jurisdiction of the receiving agency.

Provision is made for customer notification of such transfers.

The title specifically states that it does not prohibit exchanges of examination reports between supervisory agencies, and allows transfers of data obtained under the exception for examination or investigation of financial institutions if the transfer is to facilitate a lawful proceeding, investigation examination or inspection directed at the financial institution in possession of the records.

If such records indicate wrongdoing by a customer, the appropriate agency may be notified of the potential violation and may then seek access under the general provisions of the title. Similarly, an official of an institution having information that may be relevant to a possible customer violation of a statute or regulation is not prevented by the title from notifying a Government authority of the fact.

Two additional requirements are of particular interest to financial institutions. First, they will have to notify promptly all their customers of the latter's rights under the title. The Federal Reserve Board is charged with developing an appropriate statement which institutions may use. Second, in most cases under the title, Federal agencies shall be required to reimburse financial institutions for the cost of assembly and providing customer records to the government. Rates and conditions for such reimbursement shall be established by the Federal Reserve Board.

In the case of violations of the title, offenders' employers may be fined up to \$100, and be required to pay actual and (where willful and intentional conduct exists) punitive damages. A willful and intentional violation by a Government employee may result in disciplinary action against him or her.

### **Title XII.—Charters for Thrift Institutions**

This title authorizes State-

chartered mutual savings banks to convert, where State-law permits, to Federal mutual charters under the regulatory authority of the Bank Board. A Federal mutual savings bank may, to the extent allowed by the Bank Board, continue to conduct activities it was engaged in on December 31, 1977, except that equity, corporate bond, and consumer loan investments may not exceed the average ratio of such investments to total assets for the 5-year period immediately preceding the filing of the conversion application.

Although regulated by the Bank Board, Federal mutual savings banks will still be required to observe State law as it pertains to branching, except that numerical limitations shall not apply, and, in any case, institutions may branch (subject to Bank Board approval) within their own SMSA, or county, or within a 35-mile radius of their home offices (but not across State lines).

Also, if the Bank Board determines that, at the time of conversion State law provisions relating to home mortgage discrimination or requirements under the Consumer Credit Protection Act are stricter than Federal requirements, the State requirements shall govern, as enforced by the Bank Board.

### **Title XIII. NOW Accounts**

Now accounts are no longer prohibited for depository institutions in New York. The title is effective upon enactment.

### **Title XIV. Insurance of IRA and KEOGH Accounts**

IRA and KEOGH accounts are now insured by the FSLIC up to \$100,000. This title is effective on enactment.

### **Title XV. Miscellaneous Provisions**

This title contains three provisions of interest. The first extends

until February 27, 1981, the prohibition against imposing a surcharge on a credit card transaction.

The second section permits financial institutions, the business of which consists predominantly of serving the needs of military personnel who are not located within a defined geographic area, to define, for Community Reinvestment Act purposes, their entire community to include their entire depository base regardless of geographic proximity.

Finally, the bill allows the Comptroller of the Currency to charter national banks for the limited purpose of acting as trust companies. This provision is relevant to the case of *National State Bank of Elizabeth, New Jersey v. Heimann*, in which the Comptroller's authority to charter a limited-service national bank is at issue, as well as the Bank Board's authority to permit a Federal savings and loan, through its service corporation, to invest in such a limited entity.

#### **Title XVI. Interest Rate Control**

This title, effective upon enactment, extends rate control until December 15, 1980, but eliminates the differential with regard to savings deposits and accounts from which automatic transfers can be made to demand accounts of the same depositor at the institution.

#### **Title XVII.—Federal Savings and Loan Investment Authority**

Title XVII, in addition to effecting a nonsubstantive, clarifying reorganization of section 5 (c) of the Home Owners' Loan Act, provides Federal savings and loans with expanded investment authority proposed by the Bank Board. These proposals are found in four provisions. First, dormant authority to invest in urban renewal areas is transformed into the ability to invest up to 5 percent of their assets in areas receiving concentrated development assistance under the Housing and Community Development Act of 1974, as amended.

Second, Federals are permitted investments in prudent obligations of their States or political subdivisions thereof, if such obligations are used for rehabilitation, financing, or construction of residential real estate. Investments under this provision may not exceed the amount of the association's net worth.

Third, such associations will have unlimited authority, as to dollar amount, location or percent of assets, to invest in rehabilitation loans.

Fourth, Federals will be allowed to invest in individual co-op loans.

In addition, the bill allows unlimited investment in State Housing Corporation obligations provided by loans insured under provisions of the National Housing Act.

#### **Title XX.—Electronic Funds Transfers**

The Electronic Funds Transfer Act adds a new title (Title IX) to the Consumer Credit Protection Act. The basic purpose of the act is to provide a framework establishing the rights, liabilities, and responsibilities of participants in EFT systems with the emphasis on providing consumer rights.

The act applies to any transfer not originated by check, draft, or similar paper instrument related to an account established primarily for personal, family, or household purposes which is originated through:

- (1) an electronic terminal,
- (2) telephone,
- (3) computer or magnetic tape.

Point-of-sale transfers, automated teller transactions, direct deposits and withdrawals, and telephone transfers are covered. Also covered are check guarantee and authorization services; security and commodity sales; transfers by a financial institution for a consumer through a service that transfers funds held at a Federal Reserve Bank or other depository institution and which is not designed primarily to transfer consumer funds; auto-

matic transfers from savings to checking accounts to cover overdrafts or maintain an agreed upon minimum balance; and telephone transfers not made pursuant to a prearranged plan are not covered.

Financial institutions covered by the act include: State or national banks, State or Federal savings and loans, mutual savings banks, State or Federal credit unions, and any person who directly or indirectly holds an account belonging to a consumer.

As in earlier versions of this act, the Fed, in consultation with the agencies charged with enforcing the Act, is authorized to prescribe implementing regulations. The Fed is also required to prepare an economic impact analysis of the costs and effects (including additional paperwork) of EFT on the participants and the effects on competition of the provision of these services and their availability to consumers.

**Disclosure:** The act requires a financial institution to disclose the terms and conditions of the EFT at the time the consumer contracts for it—in a manner to be regulated by the Fed. Among the terms which must be disclosed are:

- (1) the consumer's liability for unauthorized EFT's and, at the institution's option, notice of the advisability of promptly reporting any loss, theft, or unauthorized use of the means of access;
- (2) the telephone number and address of the person to notify about unauthorized use;
- (3) the type and nature of EFT's which the consumer may initiate (including any limitations on these);
- (4) any charges for EFT services;
- (5) the right and procedure for stopping payment on preauthorized EFT's;
- (6) the consumer's right to documentation of EFT's;
- (7) summary of the error resolution procedures (which must be

sent at least once each year) ;

(8) the institution's liability to the consumer;

(9) a description of the circumstances in which the institution will, in the ordinary course of business, disclose the consumer's account information to third persons.

**Error Correction:** Within 60 days of receiving the documentation of the transfer, the consumer must notify the institution of any error made. The notification may be oral or in writing, identifying the accountholder and account number, stating the consumer's belief that an error has occurred and the reasons for that belief.

The institution has 10 days to investigate and determine whether an error was made. It may require the consumer to give it written confirmation of the allegation of error, if it so advises the consumer when first notified. The financial institution has one business day to correct the error after it is discovered.

Alternatively, within 10 days of receiving notification of the alleged error, the financial institution may provisionally recredit the consumer's account and take up to 45 days to investigate the alleged error. If the financial institution determines that an error did not occur, it must report its findings to the consumer within 3 business days of the completion of the investigation. A financial institution is liable for treble damages if it:

(1) failed to provisionally recredit the account (provided it did not require written confirmation of the alleged error which was not received within the applicable time limits) ;

(2) did not make a good faith investigation; or

(3) knowingly and willfully concluded that no error had been made when such a conclusion could not have reasonably been drawn.

An error includes:

(1) any unauthorized EFT;

(2) an incorrect EFT;

(3) the omission of an EFT from

a periodic statement;

(4) a computational error;

(5) the receipt of an incorrect amount of money from a terminal;

(6) a consumer's request for additional information or clarification or documentation concerning his account; or

(7) any other error described in the Fed's regulations.

**Documentation:** For each EFT made at an electronic terminal (i.e., a point-of-sale terminal, ATM, or cash dispensing machine), the financial institution must directly or indirectly provide the consumer with written documentation of the transfer which identifies the amount, date, and type of transfer; the account affected by it; the third party to whom funds are transferred; and the location of the terminal at which the EFT is made. Where a preauthorized EFT from the same payor is made at least once in each successive 60-day period, the financial institution must elect to give the consumer either positive notice when the credit is made or negative notice when it is not made as scheduled.

Except for passbook accounts, where an entry in the passbook is sufficient or accounts whose only EFT activity is direct deposits for which quarterly statements are sufficient, the financial institution must give the consumer at least a monthly periodic statement of his account's activity. These statements and documentation constitute prima facie proof that such transfers took place.

**Stop Order:** Preauthorized EFT's may be authorized only in writing. A consumer may stop payment on a preauthorized EFT either orally or in writing at any time up to 3 business days before the scheduled transfer. The financial institution may require that the oral notification be confirmed in writing within 14 days. Where variable amount transfers are made to the same payee, the institution must

notify the consumer in advance of the amount and date of transfer.

**Consumer Liability:** The consumer's liability for unauthorized transfers is basically limited to \$50 unless the loss would not have occurred but for the consumer's failure to report within 60 days of transmittal of the statement any unauthorized EFT which appeared on the statement. If a card is lost or stolen and the consumer does not notify the institution within 2 business days after learning of the loss or theft, the consumer may be liable for up to \$500.

**Institution Liability:** Financial institutions will be liable for all damages proximately caused by their failure to properly execute an EFT transaction, except where the customer's account has insufficient funds, the funds are subject to legal process, such transfer would exceed an established credit limit, an electronic terminal has insufficient cash to complete the transaction, or as otherwise prescribed by the Fed. In addition, a financial institution would not be liable where it proved by a preponderance of the evidence that the action resulted from an action of God or other circumstances beyond its control, or a technical malfunction known to the consumer at the time he or she initiated an EFT.

**Unsolicited Cards:** The Act prohibits the distribution of unsolicited EFT cards. A financial institution may, however, distribute unsolicited debit cards, codes or other means of access, if such items are not validated.

The provisions concerning consumer liability and unsolicited cards take effect 90 days after the date of enactment. The remainder of the title takes effect 18 months after the date of enactment.

#### Title XXI.—Effective Date

Except where otherwise stipulated, the bill will become effective 120 days after the President signs it. ■

# Housing & Economic Developments

**P**riate housing starts averaged a seasonally adjusted annual rate of 2.08 million units during the third quarter of this year. Thus, despite much sharper increases in short-term interest rates than were projected in my last quarterly review, there was no moderation in the housing boom during the third quarter. As of September, single-family starts had been at or above a rate of 1.45 million units for 6 consecutive months.

The ability to finance such a continued high rate of housing activity is attributable, in large part, to the continued large inflow of savings into savings and loan associations because of the 6-month money market certificate, first introduced at the beginning of June. At the time of this writing, sales of money market certificates remained strong despite the rising interest rates that S&L's have had to pay in order to bid for these funds. Associations have continued to funnel a high percentage of this money into the mortgage market. In addition, the ability and willingness of the Federal Home Loan Bank System to

provide advances on a liberal scale to member institutions has continued to provide additional funds for mortgage lending.

Meanwhile, the underlying demand for housing has continued to be vigorous. As emphasized in earlier reviews, housing demand has benefited from the rapid rate of household formation, the greater investment mentality on the part of home purchasers that has made them more willing to accept high mortgage interest rates, and the lack of any significant overbuilding nationally in either single-family or multifamily housing markets such as developed in the early 1970's.

However, as of this writing, there has been some fall-off in new home sales, although existing home sales have remained sturdy. It is becoming increasingly likely that housing starts will start declining soon. The Federal Reserve is continuing to exert further upward pressure on short-term interest rates, which is inevitably going to have an adverse impact on housing credit, despite the money market certificate. There are also some nonfinancial factors, discussed below, that should cause a decline in housing starts.

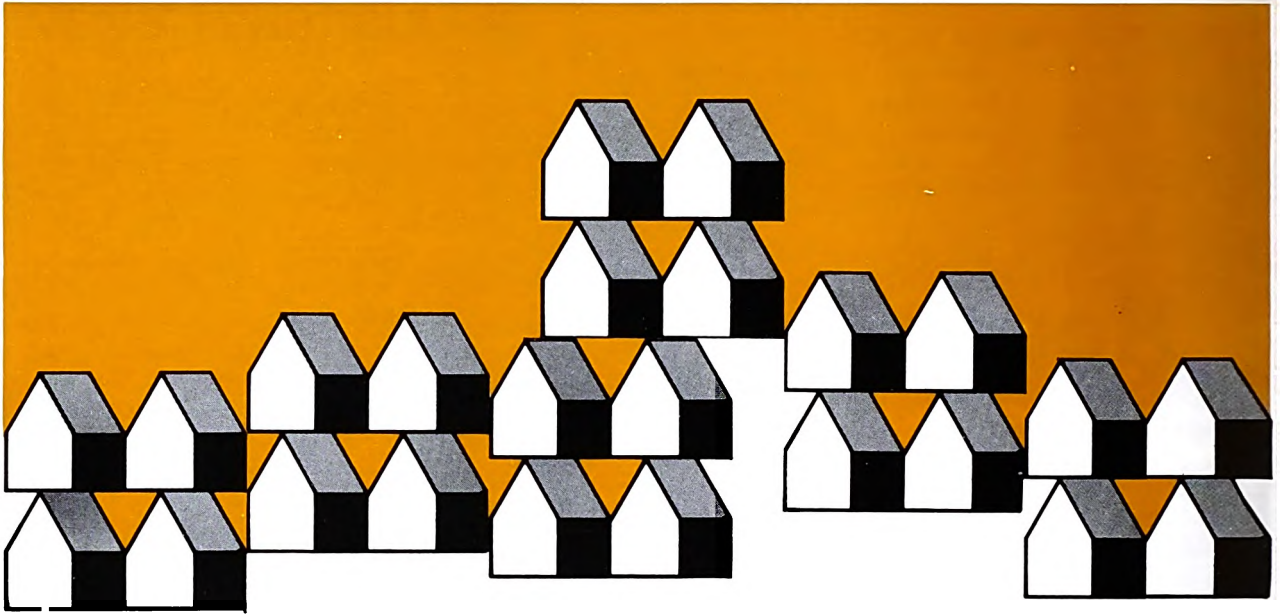
Nonetheless, housing activity has

been amazingly good and is not likely to weaken to the same degree as in past tight credit periods unless interest rates escalate well above the peaks of 1974. While housing will inevitably begin to show the impact of rising interest rates, we can probably look forward to total housing starts of about 1.8 million units next year after two years of close to 2 million housing starts. If interest rates peak by the end of this year or by early next year, starts could be recovering fairly sharply toward the end of next year.

### Single-Family Housing Demand

*New home sales* are still high, but may now be showing a downward trend. Thus, the seasonally adjusted annual rate of new home sales in August, the latest month for which we have data now, was 757,000 units. There have been moderate decreases each month since the rate of 846,000 units in May. In contrast to new home sales, however, existing home sales, as reported by the National Association of Realtors, does not yet show a downward trend. Despite high mortgage interest rates, the resale market continues an impressive performance, with resale activity in August at a seasonally adjusted an-

by *Marshall A. Kaplan, Director  
Special Studies Division  
Office of Economic Research*



nual rate of 4.1 million units. This is the highest rate this year.

The *inventory of unsold homes* was 425,000 units in August compared with 392,000 units in August 1977. Total unsold homes represented 6.8 months of new home sales nationally at the current sales rate in August 1978 compared with 5.8 months in August 1977. This is by no means a sharp advance in the overhang of unsold homes. Yet, with single-family starts remaining strong in September, we could be approaching a point where the overhang of unsold homes becomes a matter of increasing concern if the recent downward trend in new home sales persists.

Regardless of these recent developments, however, builders have been cautious in not starting too many unsold homes in an environment of escalating costs in which it is difficult to predict what a proper selling price should be.

This is brought out by the fact that the 268,000 unsold homes *under construction* in August represented only 34 percent of the total 791,000 homes under construction. In this respect, builders have been behaving more rationally

than in 1973-74. Thus, even if new home sales continue to drop, the overhang of unsold homes is unlikely to reach the serious proportions that it did in the early 1970's. This should prevent single-family starts from falling as sharply as in 1974 unless the financial environment becomes significantly more adverse than seems likely now.

The strength in existing home sales is especially impressive since mortgage interest rates on financing for existing home sales represent current loan commitment rates, unlike the new home market, where a fairly significant number of homes carry financing terms that are below the current market rate. It is difficult to see a really sharp decline in new home sales as long as the resale market remains strong since most purchasers of new homes are sellers of existing homes.

As noted in previous reviews, there is still a stout underlying demand for single-family housing, reflecting the high rate of household formation, the bulge in age groups that normally purchase homes, and the investment mentality that has stimulated home sales.

### **Multifamily Housing Market**

The rental market continues tight nationally, with the vacancy rate at 5 percent in the third quarter of this year. Also, the sales rate of newly completed multifamily condo and coop apartments has improved dramatically and the market absorption rate of new multifamily rental units has stabilized at a high level through at least the second quarter of this year. Unlike the early 1970's, we do not have an overhang of apartment projects with an unforeseeable market demand.

The tightness in rental markets continues to have only a modestly favorable impact on unsubsidized rental construction because the acceleration in rent increases is still lagging behind construction and maintenance costs. Higher interest

rates on apartment mortgages—in excess of 10 percent—are now compounding the problem. Thus, the economics of the unsubsidized rental market is still basically unfavorable.

The spread of rent control in California and other areas, and the mere fear that this may spread further, is an additional inhibiting factor on rental construction. There is, in fact, considerable question about the future of private rental construction in this country now. There does, however, appear to be much more strength in the unsubsidized condo market, since the same investment mentality that is at work in the single-family housing market is at work here, making potential purchasers less sensitive to price and interest rates. In addition, Federally assisted Section 8 rental construction has picked up recently, according to HUD data.

### **Economic and Financial Framework**

Housing has been much more insulated from the impact of rising interest rates over the past year than was the case in previous periods of tight credit. A major reason has been the 6-month money market certificate, which has permitted depository institutions to compete on a market basis for short-term funds. However, the strong underlying housing demand and the investment mentality that have existed have blunted the impact of higher mortgage interest rates on the demand for housing. This does not mean that rising interest rates have not had some adverse effect upon housing. It is likely that housing starts might have reached 2.1 million units this year rather than a currently projected 1.97 million units if it were not for rising interest rates, since savings flows, housing credit availability, and mortgage interest rates would have been more favorable for housing.

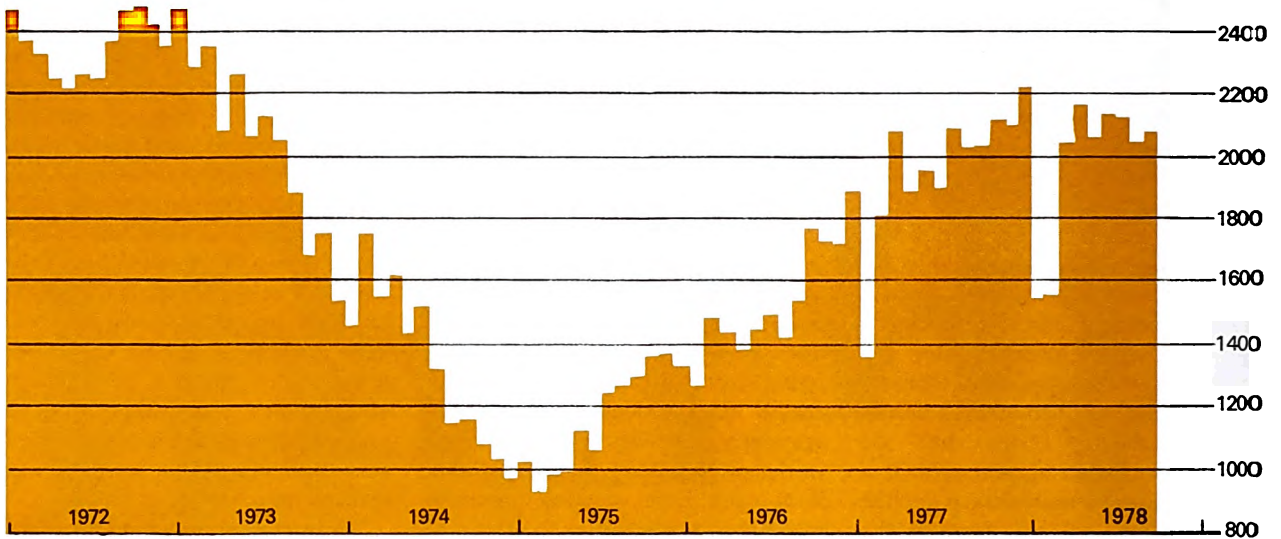
As noted in the last review, there is a large divergence of opinion with

respect to future economic developments. In particular, there are strongly divergent opinions with respect to the outlook for inflationary pressures and interest rates. On the one hand, many economists still insist that a projected fall-off in economic activity will bring with it a decline in interest rates, perhaps in the near future. On the other hand, there are those that believe that the recent growth in the economy has brought us at or close to capacity limits in many key markets. This latter school of thought foresees the potential for considerable further escalation of interest rates, or at least the maintenance of very high short-term interest rates, through much or all of next year.

To repeat again what was said in the last quarterly review, an important area of divergent opinion is the role of Federal Reserve monetary policy. Those who put major emphasis on interest rates as an indicator of monetary policy argue that such policy has tightened considerably over the past year. However, those who put their emphasis upon the growth in monetary aggregates conclude that monetary policy has been easy because of the substantial growth in monetary aggregates and the fact that the growth in M1, demand deposits and currency, has been well above the Federal Reserve's target range. Even M2, which includes M1 as well as consumer savings and time accounts at commercial banks, has recently been above the top of the Federal Reserve's growth range. This latter school of thought argues that the continued rapid growth in monetary aggregates represents an easy money policy and, far from pushing up market interest rates, has held interest rates, at least those in the short-term maturity range, below what they otherwise would have been. This school maintains that, over the longer run, the failure of the Federal Reserve to slow down the growth in monetary aggregates through permitting short-term in-

## Private Housing Starts 1972-1978

In thousands of units; monthly at seasonally adjusted rates



terest rates to rise more sharply in the near term merely aggravates inflation and inflationary psychology and, ultimately, leads to higher interest rates.

For purposes of assessing the housing outlook, I assume that short-term interest rates should peak either late this year or early next year. While the rate of real economic growth did not fall off as sharply in the third quarter as some expected, the preliminary real GNP growth estimate of 3.4 percent per annum still does not represent a boom type of economy. There are still good prospects that the economy will begin to weaken significantly sometime during 1979.

Thus, it is difficult to foresee a continuation very long in the currently very low ratio of personal savings to disposable personal income. This low ratio has partly reflected inflationary psychology, but the continued maintenance of a high rate of inflation is bringing with it a leveling off in the growth of real personal and household income. It could even lead to a cessation of growth in real income.

We could then expect to see a much higher savings rate such as

was prevalent during the highly inflationary period of 1974. This would bring with it a sharp slowdown in the growth in consumer spending and an involuntary rise in inventories that would reduce output designed to add to inventories.

However, given the low overall inventory-sales ratio and the lack of the type of speculative inventory buildup that we had in 1973-74, we are unlikely to get the type of recession that developed then.

Nonetheless, it is highly probable that we can expect at least a growth recession; i.e. a period of only nominal real GNP growth sometime next year, perhaps after mid-year.

In the near-term, we can expect the Federal Reserve to permit short-term interest rates to rise more although remaining reluctant to permit a rise that would bring the growth in M1 (and possibly M2) within its announced target range. If and as the economy slows down next year, short-term interest rates will likely decline.

If a growth recession becomes evident at some point, the decline in short-term interest rates and Federal Reserve actions designed to validate this will produce a much sharper drop in these rates. So far, however, there is little to be optimistic about with respect to the future prospects for bringing down the rate of inflation.

### Housing Outlook

The above financial scenario implies declining housing sales and starts through perhaps mid-1979, although not as sharply as during previous tight credit periods. After that, there could be a fairly sharp rebound in housing sales and starts. An imponderable in assessing the influence of interest rates on housing activity is the degree to which a further rise in short-term interest rates may induce depository institutions to stop marketing 6-month money market certificates aggressively and perhaps even to begin

offering them at a rate well below the maximum allowable.

We do not have past historical experience with the money market certificate that would permit us to evaluate this possibility. Hence, we do not know the degree to which further rises in short-term interest rates will affect the volume of savings flows through depository institutions and the resulting impact on housing activity and mortgage interest rates.

I am, nonetheless, assuming some impact on the willingness of depository institutions to continue offering money market certificates as aggressively and at the maximum rate. This is because of the uncertainty about how much longer high interest rates will persist and the resulting uncertainty about how long high rate money market certificates will remain on the books. This is despite the fact that continued aggressive marketing of money market certificates still makes sense to the typical S&L in terms of longrun profitability. Competition could, of course, still put pressure on depository institutions to continue offering money market certificates on a large scale.

Regardless of future savings flows, continued increases in the bank prime lending rate are pushing up construction loan interest rates, which are typically pegged above the prime rate. This will add further to construction costs, especially with the lengthened period of time that it now takes builders to complete new homes.

Mortgage interest rates well above 10 percent are also now becoming a distinct possibility. Not only would usury laws have a significantly adverse effect on mortgage lending, once mortgage rates escalated generally above 10 percent, but the willingness of first-time home purchasers to tolerate an increasing proportion of income going into housing is not unlimited, despite the investment merits of homeownership. Further, increases

in mortgage interest rates would then most certainly turn off home purchasers in increasing numbers.

If the inflation rate continues to exceed the rate of increase in personal income, as it has for the last 2 months, the resulting decline in the real income of individuals and households would have a negative impact on the demand for housing.

In addition, the very strong investment mentality that made home purchasers relatively insensitive to high mortgage interest rates has undoubtedly led to some borrowing of housing sales from the future. We are beginning to get to the point where it is reasonable to expect that home sales should taper off—and the data indicate that new home sales may possibly be doing so—because this borrowing from the future cannot last indefinitely.

There are certainly conflicting considerations, some positive and some negative, with respect to the future outlook for housing. On balance, however, the mere creation of a new type of money instrument—the money market certificate—cannot by itself prevent tighter credit from having an adverse effect on housing. It has undoubtedly delayed and muted this adverse impact and will deflect more of the adverse impact of tight credit to other sectors of the economy. However, as a long-lived capital good, housing is a highly postponable item and, if and as interest rates continue to rise further, housing is bound to be adversely affected.

Given the outlook sketched above, it is likely that housing starts will average about 1.8 million units next year, with the low point reached perhaps in the second quarter. But with the still strong underlying demand for housing, housing starts could recover possibly to the 1.9- to 2-million unit range in the final quarter of 1979, although a continuing high rate of inflation and a more pessimistic financial scenario would reduce the probability of this occurring. ■

# The New England Experience With AMI's

## They Tend to Thrive in a Competitive Environment

**M**ortgage loans in New England are originated primarily by thrifts, predominantly mutual savings banks. For example, at yearend 1975, of some \$28 billion of residential 1- to 4-family mortgages outstanding, roughly 88 percent was held by thrifts and over \$17 billion, or 62 percent of the total, was held by mutual savings banks.

New mortgage instruments are still quite recent in New England, however. The first modern variable rate mortgage there was offered in 1974. A second lender began to offer a VRM in late 1975. In the short period that has elapsed since, a number of New England lenders have begun to offer nonstandard mortgages, but this type of lending is still in an early stage.

There seem to be two generations of alternative mortgage experience in the area. The first has been documented by the Federal Reserve Bank of Boston.<sup>1</sup> In response to a

<sup>1</sup> "Variable Rates on Mortgages: Their Impact and Use," *New England Economic Review*, March/April 1970, pp. 3-20.

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survey undertaken in 1969, a substantial number of financial institutions in the New England States reported that they had some kind of variable rate provision included in some or all of the mortgages they were originating. Of 532 respondents from 573 institutions, about 25 percent were actively using variable interest rate provisions. As a consequence of the rise in mortgage rates in the late 1960's and early 1970's, however, some State laws were changed, and individual lenders changed the character of their mortgages, mostly away from variable rate provisions.

The second generation of AMI experience has been the subject of a survey of New England thrifts conducted for the Federal Home Loan Bank Board by the staff of the Federal Home Loan Bank of Boston in 1977 as part of the Bank Board's Alternative Mortgage Instrument Research Study.<sup>2</sup> This survey has been supplemented by a series of follow-up interviews conducted by the author in person and by telephone.

At present, all AMI activity in New England is in the form of variable mortgages—either rollovers with three- or five-year terms or variable rate mortgages.

At the time of the FHLBB survey, four thrifts were found to be the principal writers of VRM's—three savings banks and one cooperative bank. As of yearend 1976, these 4 institutions had made a total of \$84 million in VRM loans, a very small portion of the total residential mortgages held by thrifts in the 6 Northeastern States. The sum of VRM's held by all other thrifts reporting in the survey was approximately \$12 million.

Rollover mortgages were offered

<sup>2</sup> For a full description of the FHLBB survey, see D. P. Rochester and R. G. Marcis, "National Survey of Current AMI Activity," in Volume 1, *Alternative Mortgage Instrument Research Study*, edited by Donald M. Kaplan, FHLBB, 1977.

before VRM's and their amount outstanding, although small, was almost 3 times that of VRM's—\$275 million compared with \$95 million. Again, most of the ROM activity was reported by only 4 lenders—all mutual savings banks, holding 84 percent of the ROM's on institution books.

An item of considerable interest is the index rate used with variable mortgages. In California, the index is set by regulation.<sup>3</sup> In those New England States in which VRM's are allowed, there is no established index. The most frequently used index for the VRM's covered in the FHLB survey was the U.S. effective rate on combined construction/purchase new home contracts, a nationwide index published monthly by the Federal Home Loan Bank Board. This was employed by 7 of 13 institutions studied. The second most popular index was the FHLB District I cost-of-funds for three institutions.<sup>4</sup> Another institution used its own cost of funds and the last two used the FHA ceiling rate.

A matter of which much has been made is that of choice—the availability to the borrower of a choice between any AMI (especially a variable interest rate mortgage) and a standard, fixed-rate, level-payment mortgage. The FHLB survey clearly indicated that only 2 lenders of the 13 thrifts writing VRM's did not originate standard mortgages. A third institution initially offered VRM's exclusively, but subsequently switched its policy and began allowing a choice between standard mortgages and VRM's.

An initial interest rate differen-

<sup>3</sup> The California index is the California savings and loan weighted average cost-of-funds index, a series computed by the Federal Home Loan Bank of San Francisco and published semiannually.

<sup>4</sup> All three institutions are in Maine. There is no legal restriction to use this index in the State, so it seems more a case of follow-the-leader. Indeed, the widespread use of the somewhat unusual combined construction/purchase new home contracts also seems to be a matter of follow-the-leader.

tial between standard mortgages and both ROM's and VRM's is the rule in New England. For VRM's, the initial interest rate is almost always one-half a percentage point below standard mortgage rates. On ROM's, it is typically either a quarter or a half percentage point lower. There are also some typical nonprice features that go with both, such as a reduced prepayment penalty, assumability, and a longer term to maturity than for a standard mortgage.

There has been very little activity in New England in graduated payment mortgages to date. A few institutions have tried a step form of the mortgage, but activity seems to have been very slow and it is no longer being actively promoted. Recently, however, new interest in the GPM has developed and 1978 should see more action in this type of instrument than earlier years.

### VRM's vs. ROM's

As regards VRM's and ROM's, there has been no tendency among a group of lenders to offer one but not the other. This seems to be because borrowers treat the two AMI's as much the same type of instrument, while lenders are sufficiently competitive to want to try variations of a single basic idea. For analytical purposes, we will treat ROM's and VRM's as much the same and refer to them as variable mortgages—VM's.

It is a familiar argument that lenders benefit from VM's because the instrument serves to shift risk from lender to borrower. But there are two curious aspects of lender behavior that deserve explanation. First, it seems to be the case that, when one lender in an area begins offering VM's, some, but not all others in the same area, tend to follow. Second, there is a tendency for lenders who begin a variable mortgage program with the expectation that VM's will be their dominant mortgage form subsequently to reduce the intensity of that ef-

fort. These two facts seem slightly inconsistent and deserve scrutiny. They at least seem to conflict with the idea that VM's are simply lender oriented. If so, why don't all lenders offer them and why don't they stay with them exclusively?

The fact that a VM has special characteristics that make it desirable to lenders also means that these characteristics will be obvious to consumers. The characteristic that appeals to lenders is that the VM will behave a bit more like a short-term instrument, periodically rolled over, than like a long-term security.

In a world characterized by risk aversion, the lender must compensate borrowers in some way to attract them to the VM. But as soon as the compensation is offered, the nature of the instrument is changed. Now it is not only subject to greater debit rate variation (i.e., borrower risk), it also exhibits either a lower initial rate of interest and/or a reduced prepayment penalty. It is perfectly natural that the new characteristics will appeal to some consumers more than to others.

In the case of variable mortgages in New England, two or three characteristics are quite important. First, recall that initial rates on VRM's and ROM's have been one-half and one-quarter percentage points lower than on similar term standard mortgages. Second, for VRM's, there has typically been a one-year grace period during which rates may not be changed. Third, in most cases, the VM's have eliminated prepayment penalties, although this has typically not been important in New England.

These three characteristics should, in combination, be very appealing to some borrowers. Simply put, if an individual is offered an interest-rate differential between a VM and a standard mortgage, that differential represents a bonus of a sort which will grow as long as it is maintained. Additionally, once the

difference is allowed to accumulate, as in a savings account, it will earn interest. The differential offers a kind of insurance policy, the benefits of which are closely related to how long homeowners plan to remain in their houses or, perhaps, to continue their present mortgages. One can hypothesize that individuals with short-term outlooks would be attracted to VM's. Whether they would prefer a VRM or ROM is considerably less important than that they would prefer the VM to the standard mortgage.

Suppose one is offered a VM with a one-half percentage point differential, a one-year delay before rates can be increased, and an allowable increase of one-quarter point per six months after the first year. Even if the index rate rose so quickly as to make for a "worst case" situation, the differential would allow a VRM borrower to stay ahead of a standard mortgage borrower for roughly three and one half years. Another way to put it is this: The present value of the initial and subsequent mortgage payments for a VRM and a standard mortgage would be equal for the first three and a half years in this worst case situation.

### Borrower Characteristics

In lending institutions offering a free and full choice between some kind of VM and a standard mortgage, the experience universally has been that borrowers selecting the VM are families or individuals with a shorter home tenure expectancy than those selecting a standard mortgage. Our original presumption was that the typical VM borrower would be young and upwardly mobile. Although this may be true to some degree, it is not the telling characteristic—area residence expectancy is.

A number of lenders reported that their typical VM borrower is an employee of a large corporation, often middle-aged and in middle management. Such individuals typically would be shifted by their

employers to an area where they reasonably could expect to remain for a period of three to five years. Thus, for them, the period of tenure is within the ordinary protection umbrella of the safeguards on a VM. Young families might well fall into this classification, but not universally or even necessarily frequently.

As one moves from lenders offering a full choice of mortgage instruments to those who push or even require a certain instrument, the waters tend to become a little cloudier, but not always. One lender allowed something of a choice between a fixed and variable rate instrument on regular single-family properties, encouraging the VM but not requiring it. On vacation homes, however, borrowers were limited to a VM. The geographic markets in which the vacation and residential properties were located were different, but both were characterized by a competitive environment. The consequences of the restriction were quite interesting. With regard to the residential market, borrowers made their own choices between VM's and standard mortgages.

But in the vacation market, the lender was surprised at the response—virtually its entire market share vanished. Our own analysis of this would be that purchasers of vacation homes do so with long-term ownership in mind. They may well consider vacation spots not only as a place to visit annually, but as possible retirement homes as well. Predictably, such individuals strongly prefer a fixed-rate mortgage.

We conclude that the borrower's expected length of tenancy is the first important factor in the VM vs. fixed-rate mortgage decision, and borrowers have acted in a manner consistent with our analysis.

A question that follows immediately is whether lenders have erred by offering VM's at the currently popular terms. Lenders themselves

disagree. Some would argue that the quarter-point ROM and half-percentage point VRM differentials, combined with certain non-price features, are too generous. Others argue that the differentials are appropriate, but that the indexes used are faulty. Still others argue that there is nothing wrong with either differential or index.

It would seem clear that, as a consequence of risk shifting, some kind of differential or nonprice inducement is ordinarily necessary to encourage borrowers to choose a VM. As prepayment penalties are unimportant in New England, a rate differential is natural. Its size should be established by market forces and, in theory, should change from time to time in accordance with interest rate expectations. Similarly, whether the indexes currently in use are optimal is debatable, but in time one can expect improvements in choice of index as well as in the type of contract and the general design of the mortgage.

We have seen that VM's appeal to a specific class of borrowers. When given a choice between VM's and fixed-rate, level-payment mortgages at currently prevailing terms, this class will freely choose a VM. One can also presume that there exists a group of lenders who are interested in writing a large volume of mortgages. Such lenders will naturally find it appealing to court various segments of the market. They can encourage business by doing something other than lowering rates to any and all comers. There is some evidence that lenders have sought to compete for the class of borrowers we have been focusing on.

Further, the type of borrower we are talking about is a low-risk borrower. For that reason alone, it would be in the lender's interest to offer a differential to the class. Using variable mortgages is a convenient way to implement the differential.

## The New England Lesson

In essence, the lessons of the New England experience are as follows:

In a competitive environment, new and different mortgage types will tend to thrive. Because New England is a capital surplus mortgage market, competition in attracting borrowers tends to be particularly aggressive. This has led to an attempt on the part of lenders to offer types of mortgages that have an appeal to specific groups of consumers. While lenders may not have known from the start that their attempts to change the nature of the mortgages they offered was an attempt to appeal to specific borrower types, they were quickly led, via the market place, to tailor the features of their instruments in such a way as to attract identifiable types of customers.

The introduction of AMI's in New England appears to have been beneficial to the borrowing public. As long as competition is fostered in local mortgage markets and as long as mortgage lending in the region is aggressive, AMI's should result in individual and social benefits.

For now, we can say that the experience with variable rate and rollover mortgages also has been educational for both lenders and borrowers. It seems unlikely at this time either that AMI's will take over the mortgage market and eliminate standard mortgages or that they will disappear as they did in the early 1970's. Rather, we can expect gradual changes in the features of the AMI's and somewhat less future controversy over the entire subject.

The most interesting feature of the New England experience and one that merits attention is that, when given a choice between the variable interest rate mortgages and standard mortgages, a segment of the population systematically selects the new instruments. Further, this is a rational decision which seems to satisfy the desires of both lenders and borrowers. ■

# ASSOCIATION EARNINGS

## First Half 1978

**N**et earnings of savings and loan associations rose for the sixth consecutive semiannual period during the first half of 1978. Earnings growth both absolutely and relatively in the most recent 6 months, however, was the smallest in this 3-year period. Net income of FSLIC-insured savings and loan associations between January and June totaled \$1,87 million, only \$145 million, or 8 percent, more than in the second half of 1977, whereas net income had risen by \$252 million, or 17 percent, in the preceding period.

Nevertheless, net income of insured associations both before and after taxes was a record in absolute terms. Moreover, the annualized ratio of net income after taxes to average assets increased by 0.01 percentage points to 0.81 percent. This was the highest for this measure of profitability since the 0.82-percent ratio for the first half of 1973 and otherwise the highest since the 0.98-percent ratio for 1962, just prior to the imposition of significant Federal income taxes upon associations. The annualized ratio of association net income before income taxes to average assets rose by 0.02 percentage points to 1.17 percent, the highest



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since 1950. (See chart 1.)

Even this near-record rate of profitability and a substantial slowdown in the rate of deposit growth caused by rising market interest rates, however, resulted in only a modest improvement in the ratio of net worth to savings balances at insured associations during the first half of 1978. This ratio rose only slightly to 6.57 percent, from 6.47 percent at yearend 1977 and the historic low of 6.41 percent at midyear 1977.

The further slowdown in the rate of earnings growth at associations in the first half of 1978 reflected primarily slower growth in operating income caused by a reduced growth in mortgage portfolios which, in turn, had stemmed from the dropoff in funds available from savings inflow for lending. The cost of funds rose, but relatively modestly, since the higher cost of the new 6-month money market certificate and 8-percent, 8-year accounts had little impact. They were not authorized until June 1. Details regarding association income and expenses are shown in table 1 and described more fully below.

### Gross Operating Income

Gross operating income of FSLIC-insured associations totaled \$19,296 million during the first half of 1978. This was \$1,457 million, or 8 percent, more than in the preceding 6 months, significantly less than the \$1,787-million rise during the second half of last year; it was larger in absolute terms and only slightly smaller in relative terms than the \$1,254-million, or 9-percent, rise in gross operating income during the January-June period of 1977, however.

Growth in income from nearly all major sources was smaller between the second half of 1977 and the first half of this year than between the first and second halves of 1977. The largest period-to-period change, however, resulted from a slight decline in income from fees and discounts on loans in the most recent 6 months—a decline associated with reduced mortgage lending—in contrast to the growth in such income earlier.

Interest on mortgage loans and contracts rose by \$1,268 million, or 9 percent, between the last half of 1977 and the January-June period of this year to total \$15,652 million in the more recent period. This increase was smaller than the 11-percent rise in the preceding 6 months and slightly less than the increase in the first half of 1977.

Much of the reduced growth in mortgage interest reflected slower mortgage portfolio expansion, as average mortgage portfolios of insured associations climbed only about 7½ percent in the first half of this year, compared with a nearly 9-percent rise 6 months earlier. The 11 basis-point increase—to 8.39 percent—in average portfolio yield in January-June this year, however, was also less than the 14 basis-point rise

during the second half of last year, although the same as the 11 basis-point increase in the first half of 1977.

The smaller growth in average portfolio yield in the most recent period than in the preceding 6 months reflected entirely the reduced volume of new loans put on association books noted below. Average rates on new home loans closed by associations increased by 23 basis points, more than twice the rise 6 months earlier. Moreover, the spread between average rates on new loans closed and portfolio yield during the preceding period widened slightly, although it remained considerably narrower than from late 1973 through 1976, as shown in table 2.

Interest from fees and discounts on mortgage loans totaled \$870 million during the first 6 months of 1978—\$32 million less than in the preceding 6 months. This was the first period-to-period decline in fee income since July-December 1974. It reflected a drop in mortgage loan closings, which fell from \$57 billion in the last half of 1977 to \$53 billion during the most recent 6 months, as also had been the case in 1974.

Interest from investment securities and deposits totaled \$1,359 million during the first half of 1978. This was up 12 percent from the preceding period, about the same as the increase from the first to the second half of 1977. The rise in average security holdings between the last half of 1977 and the first half of 1978 was quite small, much less than during the preceding 6 months. But the average yield on such investments rose much more in the most recent period than between the first and the second halves of last year, reflecting the sharp jump in interest rates obtainable on the short-term obligations which make up the bulk of association holdings of investment securities.

Interest income from nonmortgage loans totaled \$419 million during January-June. This was \$36 million more than in the preceding 6 months, largely because of an increase in the outstanding balances of such loans. Other operating income—at \$996 million in the first 6 months of the year—was also larger than in July-December 1977, but by less than one-half the increase from the first to the second half of 1977.

### Operating Expense

Operating expense of savings and loan associations totaled \$2,974 million during the January-June period, for \$189 million, or 7 percent, more than in the preceding 6 months. This was a smaller rise than the 10-percent increase during the last half of 1977, but slightly more than that in the first half of last year.

The slower growth in operating expense in the most recent period primarily reflected the slower growth of compensation and other employee expenses. All major components of operating costs except advertising in-

**Table 1.—Income and Expense of FSLIC-Insured Associations**

(Dollar figures in millions)

Item	1976				1977				1978	
	1st Half		2nd Half		1st Half		2nd Half		1st Half	
	Amount	Change from preceding period	Amount	Change from preceding period	Amount	Change from preceding period	Amount	Change from preceding period	Amount	Change from preceding period
<b>Gross operating income</b>										
Interest on:										
Mortgage loans and contracts	\$10,799	\$803	\$11,924	\$1,125	\$12,996	\$1,072	14,384	\$1,388	\$15,652	\$1,268
Investment securities and deposits	1,078	-8	1,078	0	1,092	14	1,218	126	1,359	141
Other loans	260	20	296	36	325	29	383	58	419	36
Fees and discounts on loans	620	64	720	100	792	72	902	110	870	-32
Other	679	139	780	101	847	67	952	105	996	44
<b>Total</b>	<b>13,436</b>	<b>1,018</b>	<b>14,798</b>	<b>1,362</b>	<b>16,052</b>	<b>1,254</b>	<b>17,839</b>	<b>1,787</b>	<b>19,296</b>	<b>1,457</b>
<b>Operating expense</b>										
Compensation and other benefits	1,016	68	1,122	106	1,195	73	1,317	122	1,403	86
Office occupancy	241	17	263	22	277	14	300	23	319	19
Advertising	175	1	170	-5	182	12	199	17	231	32
Other	766	57	834	68	888	54	969	81	1,021	52
<b>Total</b>	<b>2,198</b>	<b>143</b>	<b>2,389</b>	<b>191</b>	<b>2,542</b>	<b>153</b>	<b>2,785</b>	<b>243</b>	<b>2,974</b>	<b>189</b>
<b>Cost of funds</b>										
Interest on savings	9,145	757	9,957	812	10,806	849	11,741	935	12,481	740
Interest on borrowing	698	-56	692	-6	671	-21	835	164	1,119	284
<b>Total</b>	<b>9,843</b>	<b>701</b>	<b>10,649</b>	<b>806</b>	<b>11,477</b>	<b>828</b>	<b>12,576</b>	<b>1,099</b>	<b>13,600</b>	<b>1,024</b>
<b>Net operating income after cost of funds</b>	<b>1,395</b>	<b>174</b>	<b>1,760</b>	<b>365</b>	<b>2,033</b>	<b>273</b>	<b>2,478</b>	<b>445</b>	<b>2,722</b>	<b>244</b>
Non-operating income	149	53	223	74	219	-4	188	-31	150	-38
Non-operating expense	126	-42	181	55	128	-53	180	52	147	-33
<b>Net non-operating income</b>	<b>23</b>	<b>95</b>	<b>42</b>	<b>19</b>	<b>91</b>	<b>49</b>	<b>8</b>	<b>-83</b>	<b>3</b>	<b>-5</b>
<b>Net income before income taxes</b>	<b>1,418</b>	<b>269</b>	<b>1,802</b>	<b>384</b>	<b>2,124</b>	<b>322</b>	<b>2,486</b>	<b>362</b>	<b>2,725</b>	<b>239</b>
Income taxes	420	78	549	129	651	102	761	110	855	94
<b>Net income</b>	<b>998</b>	<b>190</b>	<b>1,253</b>	<b>255</b>	<b>1,473</b>	<b>220</b>	<b>1,725</b>	<b>252</b>	<b>1,870</b>	<b>145</b>
<b>Selected ratios<sup>1</sup></b>										
To average assets:										
Gross operating income	7.83%	.05%	8.01%	.18%	8.05%	.04%	8.26%	.21%	8.32%	.06%
Operating expense	1.28	-.01	1.29	.01	1.27	-.02	1.29	.02	1.28	-.01
Cost of funds	5	7								
Net income	0.58	.07	0.68	.10	0.74	.06	0.80	.06	0.81	.01
Interest on savings to average savings	6.28	.04	6.34	.06	6.35	.01	6.42	.07	6.46	.04
Cost of funds to average savings and borrowing	6.35	.01	6.40	.05	6.39	-.01	6.48	.09	6.54	.06
Interest on mortgages to average mortgages	7.87	.13	8.3	.16	8.14	.11	8.28	.14	8.39	.11
Net income to net worth at end of preceding period	10.4	1.6	12.5	2.1	13.8	1.3	15.2	1.4	15.3	0.1

<sup>1</sup> Annualized by doubling. NOTE: Detail may not add to totals because of rounding.

creased less in the first half of 1978 than 6 months earlier. The record, however, suggests that at least a portion of this reduced growth in operating expenditures during the first half of the year was seasonal in nature.

The ratio of operating costs to average assets (annualized) was 1.28 percent during the first half of 1978, down slightly from the 1.29-percent ratio for the second half of last year. This very minor change was probably largely seasonal in nature. The ratio remained within the 1.27-1.29 percent range that has prevailed since late 1974, as shown in chart 2.

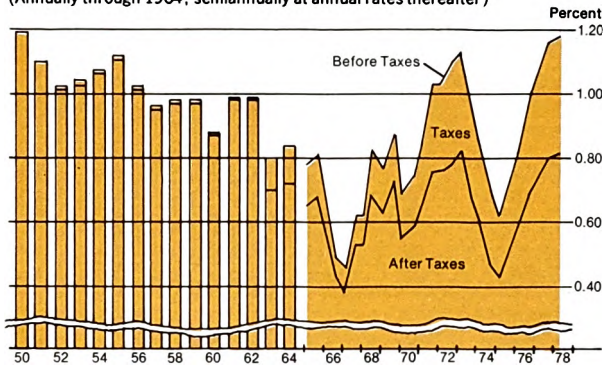
### Cost of Funds

Association funds cost \$13,600 million during January-June, or 8 percent more than in the preceding 6 months. This was a smaller rise than in late 1977, as slackened growth in interest paid on savings accounts more than offset the larger increase in interest paid on borrowing.

Interest paid on savings accounts rose 6 percent to total \$12,481 million in the first half of the year, considerably less than the 9-percent increase in other recent 6-month periods. This resulted, in part, from slower growth in savings balances, which rose slightly less than 6 percent, compared with a nearly 7½-percent rise from the first to the second half of 1977. A slightly smaller jump in the effective rate paid on savings accounts—4 basis points to 6.46 percent in the first half of 1978, compared with a 7 basis-point rise in the preceding 6 months—also contributed.

Interest paid on borrowed funds rose 34 percent from the second half of 1977 to the first half of this year to total \$1,119 million. This was substantially more than the 24-percent rise in this category from the first to the second half of last year. It reflected entirely a sharper rise in average borrowings—29 percent from the final 6 months of last year to the first 6 months of this year, compared with 20 percent from the first to the second half of 1977. The average cost of borrowed

**Chart 1.—Net Income Before and After Income Taxes of FSLIC-Insured S&L's as Percent of Average Assets**  
(Annually through 1964; semiannually at annual rates thereafter)



**Table 2.—Changes in Yield on Mortgage Portfolio of FSLIC-Insured Savings and Loan Associations and Spread Between Portfolio Yield and Current Mortgage Rates**  
(Semiannually at annual rate in basis points)

Semiannual period	Increase in mortgage portfolio yield from preceding period	Spread between interest rates on new mortgages made and portfolio yield*
1965— I	0	6
II	1	5
1966— I	-1	24
II	5	72
1967— I	3	52
II	2	45
1968— I	6	75
II	9	103
1969— I	7	125
II	16	178
1970— I	10	192
II	12	177
1971— I	13	96
II	11	88
1972— I	7	55
II	9	54
1973— I	8	56
II	13	110
1974— I	12	129
II	16	190
1975— I	8	157
II	15	142
1976— I	13	120
II	16	107
1977— I	11	78
II	14	78
1978— I	11	54

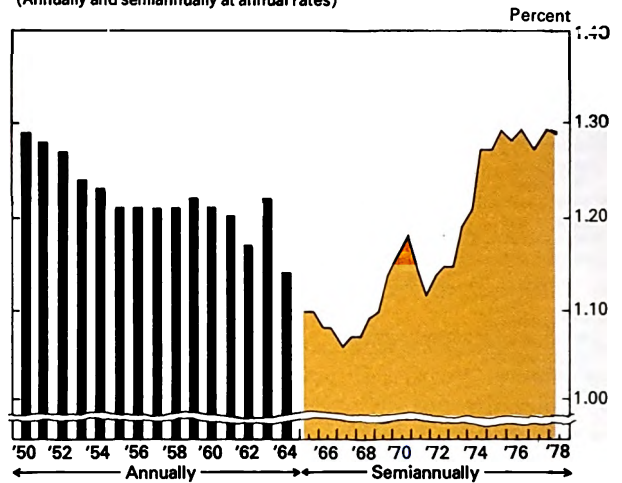
\*Average contract interest rate on conventional mortgages for purchasing previously-occupied homes closed by savings and loan associations less mortgage portfolio yield of FSLIC-insured associations in previous semiannual period.

funds rose by 25 basis points to 7.55 percent in the most recent period, about the same as between the first and the second halves of last year. (See chart 3.)

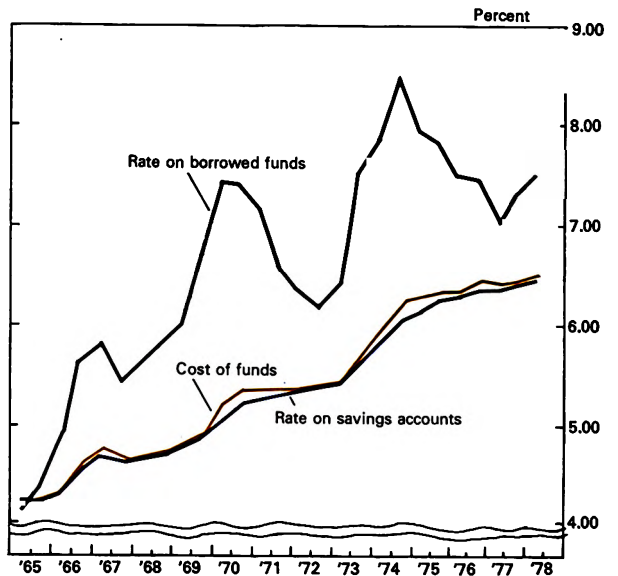
### Nonoperating Income and Expense

Net nonoperating income of associations was negligible during the first half of 1978, as it was in the preceding 6 months. Both nonoperating income and nonoperating expense were smaller than in the preceding period, but they declined by about the same amount.

**Chart 2.—Operating Expense as a Percent of Average Assets—FSLIC-Insured S&L's**  
(Annually and semiannually at annual rates)



**Chart 3.—Average Interest Dividend Rate on Savings Accounts, Average Interest Rate on Borrowed Funds, and Average Cost of Funds—FSLIC-Insured S&L's**  
(Semiannually at annual rates)



### Income Taxes

Provision for Federal, State, and local income taxes by insured associations rose by \$94 million to \$855 million in the first half of the year. This was a smaller rise than the \$110-million increase in the second half of 1977, reflecting primarily the slower growth in before-tax income. The ratio of income taxes to income before income taxes, however, rose from slightly under 31 percent in the last half of last year to slightly over 31 percent in the most recent period.



# FAIR HOUSING, EQUAL CREDIT, & THE COMMUNITY INVESTMENT ACT

## Tying Them All Together

**O**n May 18, 1978, the Federal Home Loan Bank Board adopted new regulations to enforce the Fair Housing Act and the Equal Credit Opportunity Act. These new regulations include sections from regulations adopted by the Bank Board in 1972 when the Fair Housing Act went into effect and contain several new provisions, both substantive and technical.

*by Lucy H. Griffin  
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For example, the new regulations prohibit the automatic denial of a loan application on the basis of the age or location of the dwelling. In addition, the regulations require savings and loans to display a new poster in all of their lobbies: to maintain loan application registers; to provide copies of written loan underwriting standards to loan shoppers; and to inform inquirers of their right to file written loan applications.

While the Bank Board was drafting the new regulations, it was also

preparing written enforcement guidelines. The former Office of Examinations and Supervision convened a special task force of Examiners and Supervisory Agents last January to prepare uniform enforcement guidelines based on their investigative and enforcement experience. As a result, each of the Bank Board's 12 District offices and the 12 Federal Home Loan Banks now have uniform standards and procedures to follow for enforcement of nondiscrimination regulations.

The thrust of the enforcement guidelines is to correct any problems which have been identified and to prevent their occurrence in the future. While correction does not necessarily relieve associations of liability to private parties, the guidelines should help to prevent practices by associations which might incur liability in the future.

The enforcement guidelines, like the regulations, incorporate principles applied by Federal courts in resolving discrimination cases.

The most important corrective action case is *U.S. v. West Peachtree Tenth Corporation*, in which the United States sued West Peachtree Tenth Corporation, of Atlanta, for alleged racial discrimination in rental housing. The court's 1971 order has served as a model for corrective action in subsequent cases.

The order enjoined West Peachtree Corporation from further discriminatory practices and required it to take the following affirmative actions: notify identified discrimination victims of the availability of its rental apartments; post in a prominent place a notice that the apartments are rented without regard to race, color, religion, or national origin; include in all advertisements a statement that the apartments are rented without discrimination; instruct all employees about the decree and appropriate practices for complying with it; and notify all firms which promote rentals for the defendant that Peachtree rents apartments without regard to race, color, religion, or national origin.

The order further required West Peachtree to prepare written objective nonracial standards and criteria for the processing and approval of applications for apartments. Finally, the order required Peachtree to report periodically on applications for apartments and Peachtree's disposition of those applications.

On February 1, 1978, the U.S. District Court for the district of

Utah entered a settlement agreement between Prudential Federal Savings and Loan Association of Salt Lake City and the U.S. Department of Justice. The Attorney General had charged Prudential with discrimination on the basis of sex by employing different and more stringent standards to determine the credit worthiness of a wife's income, by discounting or disregarding all or part of a wife's income in determining income qualifications for obtaining home mortgage and home improvement loans, by refusing to consider alimony or child support payments as income for the purpose of qualifying for a home mortgage or home improvement loan, and by giving lower ratings for mortgage loan purposes to married couples who rely on all or part of the wife's income to qualify for a loan than to married couples where only the husband's income was used to qualify for a loan.

The court-entered settlement agreement enjoined Prudential from continuing those practices and ordered the association to take affirmative steps to maintain and promote equal housing opportunity as follows: (a) train all employees who have responsibilities relating to loans in how to avoid discrimination on the basis of sex; (b) instruct all new employees in fair housing; (c) revise underwriting standards to ensure nondiscrimination in lending; (d) notify the public generally and the real estate community specifically of nondiscriminatory policies and practices by letter, by posting notices, and by advertising; (e) invite 12 identified individuals affected by their previous practices to re-apply for mortgage loans; (f) advise the Department of Justice of all the complaints received by the association; (g) maintain detailed records on all applications, including notes on communications with the applicant and identification of personnel making the notation, records of all persons making inquiries of loan availability, and

records showing all loan processing activity in each branch.

The Bank Board's enforcement guidelines reflect the affirmative action principles established by these cases.

### Bank Board Cases

In addition, a number of cases resolved by the Bank Board illustrate the types of action the Board will take under specific circumstances. The cases follow:

*Case 1*—A complainant alleged that his loan application had been denied because of the racial composition of the area in which the house was located. The association had, in fact, initially denied the loan and, upon his protest, had reconsidered and approved it. In spite of this subsequent approval, the Bank Board investigated the complaint and concluded that, because of the absence of any other valid business reason for denying the loan application, the association had probably acted in violation of part 528.2 of the Bank Board regulations. The Bank Board so advised the complainant and required the association to take steps to prevent recurrence of a similar problem in the future.

The savings and loan association agreed to conduct complete future appraisals of any proposed security properties and use those appraisals in making its decisions. During the next examination cycle, the examiners will review the appraisal practices of the association to ensure that it is fully complying with this commitment.

*Case 2*—To resolve a complaint from a citywide fair housing coalition, the Bank Board issued a consent cease and desist order to prevent future discriminatory practices by the savings and loan association involved. The Bank Board's investigation supported the allegation of the coalition—namely, that the association was redlining the city.

The order, therefore, required the association to invest its funds

primarily and wherever possible and appropriate in first mortgage loans secured by residential properties in the city where its only office is located; to solicit, through advertising, applications for residential loans in its community; to implement an educational program to inform its employees of their responsibilities under applicable Federal and local Fair Housing laws and regulations; and to maintain documentation on all in-person or written applications for loans to be secured by residential properties.

The Bank Board concluded that the association's failure to lend on residential properties in its community violated the sound and economical home financing objectives of its charter, adding that such practices are unsafe and unsound since their continuation would render the association incapable of providing savings and loan services to its members or to the community which it was organized to serve.

*Case 3*—An examination report showed that an institution usually refused to lend in amounts less than \$15,000. The report also showed that minority neighborhoods were excluded by this lending policy. The association's position was that smaller loans are more expensive than larger loans and that the cost of servicing them made them unprofitable.

The Office of General Counsel opined that, although the servicing costs on smaller loans may constitute a greater percentage of the borrowed amount than do expenses on larger loans, this alone does not justify the refusal to consider smaller loans. OGC ruled that applicants should be aware of the actual costs and afforded the opportunity to decide whether to seek the loan and pay the costs. The association was advised that it should write new guidelines eliminating the minimum dollar amount policy.

*Case 4*—An association was cited during an examination for lack of specific reasons in the adverse ac-

tion statements provided to an applicant upon denial of a loan. The Supervisory Agent and the Bank Board's Office of General Counsel decided that such reasons as "amount needed was more than this association wanted to lend on the property" or "property didn't meet minimum standards for a single-family dwelling" were not acceptable reasons for loan rejections and could conceal possible discriminatory reasons.

Subsequent examinations will include close scrutiny of this association's documentation of loan decisions to determine whether its lending procedure is, indeed nondiscriminatory.

What is the impact of these cases on savings and loan associations? Clearly, fair lending has become a matter of sound business practice and is no longer a matter of personal preference. Violations can directly affect the safety and soundness of an institution. It is, therefore, extremely important that top level management and the directors of associations pay close attention to this area.

### **Community Reinvestment Act**

Bank Board regulations provide savings and loans with several tools which are effective not only in assisting the Bank Board in conducting examinations but also, and more importantly, in helping S&L's to identify possible problems. For example, a Home Mortgage Disclosure Act statement must be prepared annually by associations that (1) have at least \$10 million in assets and (2) are located in Standard Metropolitan Statistical Areas. The review of the Home Mortgage Disclosure Act statement can quickly show top association management and the institution's board of directors where the savings and loan is actually lending.

However, the statement has one serious shortcoming: It does not identify demand for loans. There-

fore, management should use the Loan Application Register required by section 528.6 of the Bank Board's regulations to decide whether applications from certain neighborhoods are missing, and if so, what the association can do about it. The savings and loan should examine the register to determine loan demand from people, from places, and for types of housing.

This month—on November 6—the Community Reinvestment Act took effect and the Federal Home Loan Bank Board issued final regulations implementing the act. The act and the regulations require federally regulated lenders to outline on a map the local community or communities they serve and to maintain, starting 90 days after November 6, a Community Reinvestment Act statement for each community. (See News, page 41.)

The statement must include a description of each community served by the S&L and a listing of the types of credit extended to residents of that area such as loans on one- to four-family dwellings, home improvement loans, etc.

Thus, this is an ideal time for an association to study its Home Mortgage Disclosure Act statements, its Loan Application Register, and its written underwriting standards. The association's Community Reinvestment Act statement then can be written to correct any deficiencies found in the S&L's HMDA statement, loan application register, or underwriting standards.

The bottom line on the whole subject is not only compliance with the various fair housing, equal credit opportunity, and community reinvestment regulations, but good public relations and good business. A merely defensive posture quickly becomes evident in a community, but a policy of reaching out to do truly constructive and creative lending builds a stronger community and, in the end, a stronger base for your institution. ■

# The Performance of Minority-Controlled S&L's Is The Gap Closing?

In 1975, William Bradford, then an economist in the Bank Board's Office of Economic Research, published a working paper in which he examined and compared the performance of matched groups of minority- and white-operated savings and loan associations from 1968 to 1974.<sup>1</sup> Relative to the white-operated firms Bradford examined, the minority institutions, most of them black-controlled, were found to have lower net returns on assets as a result of lower profit margins. The profit margins, in turn, were lower because the minority firms' operating expenses, net nonoperating expenses, and interest on borrowed money were higher than those of the comparison group. The major cause of their lower profit margins appeared to be higher operating expenses, including personnel, occupancy, and advertising costs.

This article reexamines the same groups Bradford studied to see whether the differences revealed for 1968-74 persisted in 1977. It also examines minority-operated S&L's that were newly insured between

<sup>1</sup> William D. Bradford, "The Viability and Performance of Minority Controlled Savings and Loan Associations," Office of Economic Research, Working Paper #62, Federal Home Loan Bank Board, 1975.

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1972 and 1976 and compares them with an analogous group of newly insured white institutions.

The second comparison is useful as a description of new firms, but also, since it provides a means of comparing new with seasoned firms, it may enable us to determine why the older minority S&L's perform less well. That is, if both new minority and new white institutions perform less well than seasoned white associations and to the same degree, then the poorer performance of the fourth category—seasoned minority S&L's—might be explained as a failure to learn through experience. But if new minority associations perform less well than new white associations, it would suggest that the environment is less hospitable to the former or that their managements are less skilled.

## The Data

Four groups of institutions are included in this study: the 2 groups of seasoned S&L's Bradford had examined<sup>2</sup>; 34 newly insured minority institutions; and a group of matching, newly insured white institutions.

The selection criteria applied to the latter two groups were those used by Bradford:

<sup>2</sup> Bradford used 31 pairs of minority and white institutions. However, because 6 of the S&L's he used were not in the 1977 data file, only 25 white firms were reexamined. Of the six omitted S&L's, four merged with others and two are missing from the annual data file for unknown reasons, possibly late filing.

- (1) Insured at about the same time;
- (2) Located in the same SMSA or county;
- (3) The same general asset size; and
- (4) The same type, i.e., federally or State-chartered, stock or mutual.

In many cases, however, it was impossible to find pairs which met all these matching criteria. Therefore, rather than include white institutions which seemed greatly different from the corresponding 34 minority institutions, a smaller sample of 22 white S&L's was examined.

Of course, it would have been possible to include in the study only those minority institutions for which a matched white S&L could be found. But it was not obvious that those lacking a match were systematically different from those with one. And, since compromises with the selection criteria were almost always required, the advantage of having a larger sample seemed to outweigh the somewhat spurious advantage of working only with nearly matched pairs.

## Analyzing the Data

The lesson to be learned from the figures in table 1 is that the relatively poor performance of minority institutions which Bradford noted for 1968-74 persisted in 1977 for both seasoned and new institutions. One exception among the performance measures is that new minority S&L's have the highest gross income to total assets ratio of all four groups.

However, their costs are enough higher that their net income to total assets ratio is lower than for either new or old white firms.

As anticipated, the new white firms perform less well than do the seasoned white firms. One exception is the higher ratio of net income to net worth for new white institutions. At any new institution, however, this ratio is quite volatile because of a new S&L's minimal net worth. Consequently, the exception has little significance.

What was unexpected is that the figures reveal new minority firms to be performing better than seasoned minority firms. Again, the only exception is the new firms' lower net income to net worth ratio—the figure which is volatile in new institutions and has little significance. The new firms' better ratio of gross income to total assets might result because older firms have portfolios containing mortgages issued at lower interest rates than new mortgages. But that is no more than a partial explanation, since the new firms also have a higher ratio of net income to gross income.

Table 2 compares the loan portfolios of the various groups. For the seasoned institutions, the features noted by Bradford persist: the minority institutions have a somewhat smaller fraction of assets in mortgages, but make relatively more FHA-insured mortgages. For both seasoned groups, the proportion of FHA-insured mortgages has declined since 1968-74. In the case of the new institutions, minority S&L's hold a larger fraction of assets in mortgages than do their counterparts, though the fraction is still somewhat smaller than for seasoned white S&L's. Both groups of new S&L's hold insignificant amounts of FHA- or VA-insured loans.

Table 3 compares the asset and liability structures of the four groups. For the seasoned S&L's, the main points of difference are the much higher proportion of minority portfolios devoted both to real

estate owned through foreclosure (REO) and to loans and contracts to facilitate the sale of foreclosed property. Also, deposits at minority institutions consist more heavily of passbook and NOW accounts and, probably because of this, minority S&L's hold a larger fraction of their assets in cash and demand deposits. As noted above, the seasoned minority S&L's have made relatively more FHA-insured loans than has any other group. These differences are the same as those Bradford noted in 1975.

**Table 1.—Performance Ratios of Seasoned and New, Minority and White S&L's, 1977**

Ratio	Seasoned		New	
	Minority	White	Minority	White
Net income to gross income.....	6.36	10.67	7.00	9.92
Net income to total assets.....	.50	.84	.66	.82
Net income to net worth.....	11.50	15.40	7.16	22.94
Gross income to total assets.....	7.70	7.88	8.35	7.74

**Table 2.—Loan Portfolio Composition, 1977**

Item	Seasoned		New	
	Minority	White	Minority	White
<b>Selected ratios</b>				
Loans on savings accounts to assets.....	2.91	1.05	2.56	1.65
Insured improvement loans to assets.....	.22	.07	.10	.09
Uninsured improvement loans to assets.....	.78	.54	1.34	.69
Insured education loans to assets.....	.08	.04	.20	.00
Mobile home loans to assets.....	.06	.49	.20	.62
Total mortgages to assets.....	77.57	81.97	79.95	75.01
<b>Composition of mortgages (in percent)</b>				
VA single family.....	1.73	2.51	.71	.05
VA other.....	.30	.17	.02	.00
FHA single family.....	4.79	1.68	.14	.06
FHA 2-4.....	1.64	.10	.00	.00
FHA over 4.....	.18	.38	.00	.00
FHA other improved real estate.....	.01	.00	.00	.00
Conventional single family.....	63.35	68.45	76.49	85.72
Conventional 2-4.....	9.73	8.40	12.38	5.62
Conventional over 4.....	5.53	6.79	3.48	2.79
Conventional other improved real estate.....	12.51	10.48	5.95	4.47
Developed lots.....	.02	.08	.06	.22
Land acquisition.....	.04	.61	.20	.15
Unimproved land.....	.18	.34	.58	.92

Among newly insured S&L's, probably the most striking difference is in the REO proportion of the minority institutions' portfolios. Many of these institutions are so young that the defaulted loans should still be in the first or second year, when default is unexpected. Nonetheless, the REO proportion of new minority associations is approaching that of seasoned minority institutions and is 18 times higher than that of the white S&L's.

Both categories of new institutions have a larger fraction of their mortgage portfolios in single-family homes than do seasoned associations, and both hold very few VA- or FHA-insured loans. The new minority S&L's have a deposit structure similar to both new and seasoned white S&L's, although they continue to hold a somewhat larger proportion of assets as cash and demand deposits.

Table 4 indicates that operating expenses are relatively high for new institutions and higher for minority S&L's than for their counterparts. Although new minority S&L's have

**Table 3.—Assets and Liability Structure, Selected Ratios, 1977**

Ratio	[In percent]			
	Seasoned		New	
	Minority	White	Minority	White
Single family to total mortgages.....	69.87	72.65	77.33	85.83
VA mortgages to total mortgages.....	2.02	2.69	.73	.05
FHA mortgages to total mortgages.....	6.62	2.17	.14	.06
Total mortgages to total assets.....	77.57	81.97	79.95	75.01
Cash and demand deposits to total assets.....	2.88	1.56	2.88	1.49
Investment securities to total assets.....	6.01	7.42	6.90	10.24
Net fixed assets to total assets.....	1.23	1.18	1.13	1.68
REO and in judgment to total mortgages.....	.74	.12	.53	.03
Loans and contracts to facilitate to total mortgages.....	.99	.08	.01	.02
Total deposits to assets	86.44	85.74	85.66	83.45
FHLB advances to assets.....	2.79	2.68	4.72	3.77
Other borrowing to assets.....	1.74	.57	1.76	.85
Net worth to assets.....	4.43	6.26	2.76	6.81
Passbook + NOW deposits to total deposits.....	55.04	39.41	33.26	31.70

proportionately greater operating expenses than do new white S&L's, the difference is much smaller than it is for the seasoned S&L's. It will be interesting to follow these two

**Table 4.—Expense Items as Percent of Gross Income**

Expense item	Seasoned		New	
	Minority	White	Minority	White
Passbook and NOW account interest . . . . .	61.72	64.43	56.72	57.10
Operating expenses . . . . .	25.38	18.18	29.49	27.30
Net nonoperating expense . . . . .	1.48	.45	1.04	.51
Interest on borrowed money . . . . .	3.59	2.43	3.88	2.75
Income taxes . . . . .	1.48	3.84	1.87	2.43
Total expenses . . . . .	93.64	89.33	93.00	90.08

**Table 5.—Selected Operating Expense Components**

Expense component	Seasoned		New	
	Minority	White	Minority	White
Personnel compensation and directors' fees <sup>a</sup> . . . . .	40.89	43.74	40.41	41.66
Personnel compensation and directors' fees <sup>b</sup> . . . . .	.93	.73	1.18	1.03
Advertising expenses <sup>a</sup> . . . . .	4.09	6.04	6.47	8.65
Advertising expenses <sup>b</sup> . . . . .	.09	.11	.19	.22
Occupancy expense <sup>a</sup> . . . . .	11.33	10.02	11.50	9.20
Occupancy expense <sup>c</sup> . . . . .	.23	.15	.29	.20

<sup>a</sup> Relative to total operating expenses.

<sup>b</sup> Relative to deposits.

<sup>c</sup> Relative to total assets.

**Table 6.—Deposit to Interest Ratios**

Ratio	Seasoned		New	
	Minority	White	Minority	White
Deposit interest + dividends to deposits	5.49	5.91	5.42	5.23
Passbook interest to passbook deposits . . . . .	4.89	5.06	4.68	4.48
Nonpassbook interest to nonpassbook deposits . . . . .	6.18	6.47	5.79	5.55

**Table 7.—Income Structure Ratios**

Ratio	Seasoned		New	
	Minority	White	Minority	White
Interest on mortgage loans to gross income	80.10	79.73	70.66	71.32
Interest on other loans to gross income . . . . .	3.70	2.00	4.43	3.01
Interest + dividends on investment and deposits to gross income . . . . .	6.57	7.72	6.56	10.41
Loan fees and discounts to gross income . . . . .	4.00	6.68	11.20	10.04
Other operating income to gross income . . . . .	4.35	2.75	4.45	2.89

groups in subsequent years to see how experience affects operating costs.

Interest on borrowed money is similarly more costly for both new and minority S&L's, reflecting their greater reliance on borrowed funds. (See table 3.)

Table 5 shows that new institutions compared with seasoned S&L's have higher personnel costs relative to deposits, advertise more, and have greater occupancy expenses relative to assets. New minority institutions have the highest personnel and occupancy costs, while lower advertising expenses for new and seasoned minority firms reverse Bradford's earlier finding.

Table 6 shows that seasoned minority S&L's pay lower passbook and nonpassbook interest rates than do their counterparts. This agrees with Bradford's earlier results. Among new S&L's, however, minority firms pay slightly more than white firms, but both pay less than the seasoned white firms.

Even though mortgages are a somewhat smaller proportion of assets for minority firms, these institutions get about the same proportion of total income from mortgages as do other institutions. (See

table 7.) This suggests, as table 8 confirms, that the rate of interest received for mortgage lending is higher for minority than for white S&L's. One explanation might be riskier lending by minority firms: Table 3 noted the higher proportion of assets consisting of REO through foreclosure. Table 9 presents the default rates for the four groups and clearly shows much higher rates in this category for the minority firms.

**To Sum Up**

Only limited conclusions can be drawn from the comparisons made in this article. It is apparent that minority-operated S&L's did less well than their white-operated counterparts in 1977, a finding similar to Bradford's results for 1968-74. Moreover, there is little or no evidence that the performance of the seasoned minority firms is rising to meet that of the seasoned white firms.

What is interesting is that the gap between new minority and new white S&L's is generally less than that between seasoned minority and white firms, which is consistent with a surmise that seasoned minority firms have learned less with experience than have white firms. But that conclusion is almost pure conjecture, since we have no initial comparisons for the seasoned firms; perhaps, initially, their performances were even more different.

One other point to note is that the performance gap between the new and seasoned minority firms is less distinct than that between the new and seasonal white firms. In some respects, the new minority firms do better than the seasoned ones. If new minority firms experience the same improvements with time as white firms seem to have, their ultimate performance levels will much surpass those of today's seasoned minority firms. To see whether this occurs, however, will require repeated monitoring over future years. ■

**Table 8.—Income on Mortgages and Liquid Assets Ratios**

Ratio	Seasoned		New	
	Minority	White	Minority	White
Mortgage interest to total mortgage . . . . .	7.68	7.46	7.27	6.85
Interest and dividend income to liquid assets . . . . .	5.88	6.68	6.02	6.45

**Table 9.—Default Ratios**

(In percent)

Ratio	Seasoned		New	
	Minority	White	Minority	White
VA-FHA foreclosures . . . . .	.14	.02	.00	.00
Value VA-FHA foreclosures . . . . .	.11	.02	.00	.00
Conventional foreclosures . . . . .	.13	.03	.07	.03
Value conventional foreclosures . . . . .	.18	.03	.13	.03

**H**ave you taken a good look at your ambassadors of good will lately?

I'm referring, of course, to those words on paper you're sending through the mails these days.

If you're relying on spur-of-the-moment creativity and/or form letters that were worked up many years ago, you may be losing out on much valuable good will and new business.

More and more savings and loan associations are spending time preparing so-called "pattern" letters—a whole series of them—that can be adapted any way they wish. Typically, these letters are written in such a way that they can be spun out fast via the mag-card-typewriter route. Or, when the need calls for it, they can be individually typed with certain paragraphs originated for unique situations.

"But every situation that comes up is unique with us," you might counter.

If you'll stop and think about it, you'll find that this just isn't true. Recently, a savings and loan official ticked off the following situations that could, for all intents and purposes, be solved by a prewritten letter with only minor changes or additions in a very few cases:

(1) A "thank you for opening a new savings account" letter.

(2) A "we're sorry you closed your account, but let us serve you again" letter.

(3) A letter to a customer who has closed an old account and opened a new one, perhaps switching from a passbook account to a CD.

(4) A letter to people who have added \$500 or more to their accounts.

(5) A "glad you've moved into town and come see us" letter.

(6) A "we hear you're about to move into town and be sure to come see us when you arrive" letter.

(7) A letter to customers who have paid out their loans.

(8) A "new loan" letter— notifying the new customer that his/her loan has been approved.

(9) A letter to accompany a newspaper clipping about a local customer or prospect who has received an honor of some kind— new president of the Lions Club, for instance.

(10) A letter of congratulations to new parents.

There's nothing more powerful, short of an in-person interview, than a letter. But it's got to be good! I'm not referring to just any old spur-of-the-moment message. I'm talking, instead, about a letter that

by **Luther A. Brock**  
*Professor of Business Communications*  
*North Texas State University*  
*Denton, Tex.*

# Write a Better Letter

## And See Good Will— and Business—Grow!

almost steps right out of the envelope and shakes hands with your reader.

Even though you may never have considered yourself a writer, you, too, can work up a series of good will building letters that will stand you in very good stead if you take the time to try.

Here are a few principles to remember:

(1) Talk your letters, don't write them. Toss out all those time-worn expressions that, unfortunately, so many business letters are still full of. You know the type—"Enclosed please find" and "This is to confirm such-and-such" and "I would like to take this opportunity to . . ." and a ton more.

If you can learn to relax and "talk on paper," using much the same language you would use if your reader were with you in person, you'll be well on your way toward becoming an effective business writer.

For example, don't say: "We shall endeavor to be of assistance." That's about as stuffed-shirt sounding an expression as you could use. Say instead: "We want to help you."

Here are some more contrasts to show you what I mean:

**Stuffed-shirt sounding**  
Whenever a customer closes an account, we are indeed regretful.

Please be advised that your money is drawing interest each day.

We are happy you opened an account at First Federal Savings & Loan.

Mr. Weymeyer, do stop by soon.

**Warm and human**  
Whenever a customer closes an account, it's like losing an old friend.

It's a comforting thought when you realize your money is drawing interest for you 24 hours a day, 365 days a year.

We're delighted you are now a member of the First Federal family.

Mr. Weymeyer, may I count on your dropping by soon? The coffee pot is always on.

See the difference?

Test after test has proven that people warm up to conversational letters. Such messages seem so much more human, alive, and real. To paraphrase an ad slogan of just a few years back: "Try 'em, you'll like 'em."

(2) Don't be afraid to add a touch of slang—provided you don't overdo it.

Despite what your well-intentioned English teacher may have told you, "slanguage" can pep up your writing and make it fascinating. And remember: Unless you make an impression on your reader—a favorable impression, that is—just guess what's going to happen to your masterpiece. It'll get wadded and tossed in the waste basket very, very fast.

Some executives fear slang, and for no good reason. This fear, from what I've witnessed, stems from an incorrect perception of what literacy is all about.

Here are examples:

#### **Much too formal**

It has come to my attention that you will be moving to Centerville soon. May I take this opportunity to invite you to avail yourself of our services?

Mr. Green, I wish to say thank you for your business.

By opening a savings account for your children now, you will be helping to prepare them for a secure financial future.

Once more, you can see the vast improvement. True, this informal approach to business writing may seem strange at first. After all, you may have always thought that a business institution, particularly one of a financial nature, should maintain a degree of "apartness." But once you see how your customers and prospects pay MORE attention to informal letters, you'll be a convert for life to this more relaxed approach.

So often status-conscious executives confuse authority with stiffness. And the two ought not go hand in hand—ever. Winston Churchill, that masterful writer, recognized this. His words, though simple and to the point, will go down in history as words of wisdom. His more pompous associates never uttered a memorable phrase in their entire lives, for they were bent on being like everyone else. Be different—and be noticed!

(3) Rid your writing of downcast wording. Think positively and show your reader you do. He or she just might join in the fun.

#### **"Slanguage" in use**

I hear you'll be one of us soon! As soon as you're unpacked and settled, make a point to drop by. I would like to shake your hand and say, "Welcome to Centerville."

Mr. Green, thank you for being a customer of ours. It's folks like you that make me look forward to coming to work every morning!

One of the finest ways you can say "I love you" to your youngsters is to open a savings account for them now. Just a few years from now they will say "Thanks, Mom and Dad."

For example, take this negative statement: "Although we cannot grant your loan at present, we anticipate your giving us another opportunity at some future time."

Dead as a doornail. And negative, too.

Why not put a little sunshine in, like this: "Your qualifications for a loan, Mr. McAdams, show that we may be able to say yes sooner than you think. Six months from now, perhaps, will you give us another opportunity?"

Now, that would have to be calmed down if you knew, almost for certain, that you'd have to say no again. Nonetheless, notice the tone. So many business writers, though cheerful and optimistic in person, become Scrooges when they take pen in hand.

Try a little lightness, a little Pollyanna-ness even.

Notice the way the following downcast ideas are recast into more cheerful sentences—yet they communicate well:

#### **Negative, downcast**

I want to apologize for the inconvenience you're experiencing at our downtown location. This remodeling, however, is needed.

Setting aside money for savings is often frustrating. After all, we all need plenty of cash today as a result of inflation. However, savings do grow.

Please forgive us for making the mistake in your passbook. This is very embarrassing and I hope you will not hold it against us.

#### **Positive, upbeat**

Pardon our progress—but it's progress that's going to make it more convenient and enjoyable to do business with Lakeside Savings and Loan. While our remodeling goes on, just think about the new conveniences for you soon.

Just think how wonderful it would be to see your month-to-month savings mount up to a sizeable nestegg—and sooner than you might think!

Is my face red! You're right. Of course the amount in your passbook should be \$889.87, not \$789.87. This error has been corrected in our records. So all you need do now is to drop off your passbook in the next few days so we can make this correction in it.

These are just a few among many examples I could give you concerning the wonderful change in tone that occurs when you switch from negative to positive thinking. Just remember, it's the tone that counts. Anything can be said fairly positively if you'll spend just a bit more time planning your communications.

True, your fellow executives may read your letters, shake their heads, and exclaim, "I've never seen anything like this before written by us." But when they see the results, when they see more and more new business flowing in as a result of your updated letter-writing campaign, just watch 'em. Soon they, too, will start writing in a friendlier, more informal manner.

A veteran business writer once observed, "Informal language is language that rolls up its sleeves, spits on its hands, and goes to work."

Isn't that what you want your letters to do? ■

## New Third Party Payment Accounts Proposed to Aid Federal S&L's

The Federal Home Loan Bank Board took action November 1 to allow accountholders of Federal savings and loan associations to authorize payments to third parties through a new type of account—a Payment Order Account—that would be subject to withdrawal by non-negotiable, nontransferable orders.

The Bank Board moved swiftly to create the proposed new account after the U.S. District Court for the District of Columbia ruled on October 31 that commercial banks may make automatic transfers from savings to checking accounts for customers. This service, in effect, gives commercial bank depositors the equivalent of interest-bearing checking accounts.

"I see this as a necessary action to partially offset the competitive advantage granted commercial banks by the decision of the U.S. District Court," FHLBB Chairman Robert H. McKinney said. "We cannot allow commercial banks to enter the market place with an unfair advantage."

"Until the Congress grants negotiable order of withdrawal (NOW) account authority for all savings associations nationwide, this is our only alternative. We must exercise our authority to ensure that the housing finance industry remains safe and sound."

The Bank Board's action came in a proposed amendment to section 545.4-1 of the Federal regulations for the savings and loan system and in a proposed amendment to the Bank regulations limiting the rate on Payment Order Accounts to 5 percent—equal to the rate on NOW accounts and the new automatic funds transfer service of commercial banks.

Mr. McKinney said he hoped that public comments on the proposed POA's would be in the Bank Board's hands by December 1 and that the new accounts could be in use by Federals by January 1. State S&L's also may use the accounts where State laws permit.

In a Bank Board meeting and in a press briefing following it, Mr. McKinney said that a POA will not be a check, but will be a nonnegotiable instrument payable to a third party and "the best job the Bank Board can do" under the circumstances.

"We felt it imperative to move quickly when we saw automatic funds transfer going into effect today," he said. "We are acting to protect the industry." He added that he felt some S&L's would move into POA's immediately upon final authorization, "especially those near New York," where thrifts recently received NOW account authority. The new system would allow consumers to order withdrawal of funds from their accounts at any time and any place. Payees could cash drafts at the issuing S&L, but if an association designs its POA system to be payable through a commercial bank, then any bank could process POA drafts for the S&L.

## Two Named at Boston Bank

Raymond H. Elliott, President of the Federal Home Loan Bank of Boston, announced last month the appointments of Paul M. Peduto as Internal Auditor and Director of Data Systems and Paul W. Webber as Supervisory Associate.

In his new position, Mr. Peduto immediately assumed auditing responsibilities and gradually will take on data systems work. A Certified Public Accountant, Mr. Peduto was employed for four years with Peat, Marwick, Mitchell and Co., Boston, before joining the Boston Bank. From September 1972 to June 1974, he taught accounting at Tufts University, Medford, Mass., and at Northeastern University, Boston. He received a B.S. degree in business administration in 1972 and an M.B.A. degree in 1974, both from Northeastern University. Mr. Peduto and his wife, Barbara, live in Somerville, Mass. They have one daughter.

Before joining the Boston Bank, Mr. Webber had been employed with the Massachusetts Department of Banking beginning in March 1973, serving as assistant director of the thrift division. Mr. Webber attended the University of Massachusetts at Amherst. He and his wife, Mary Ann, have one son and live in Danvers, Mass.

## Cincinnati Bank Appointments

Charles Lee Thiemann, President of the Federal Home Loan Bank of Cincinnati, last month announced the promotions of H. Kirk Roberts to Vice President of Bank Services and William Paugh to Director of Data Processing.

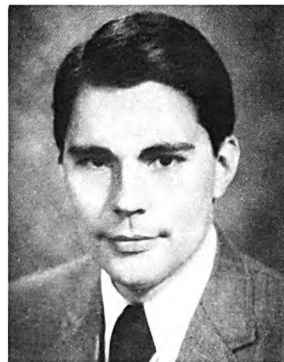
Most recently, Dr. Roberts was Assistant Vice President, Research Services, and before that he was the Bank's Senior Economist. Before coming to the Cincinnati Bank in May 1975, he was assistant professor in the economics department at Indiana University from 1971 to 1975. Receiving all



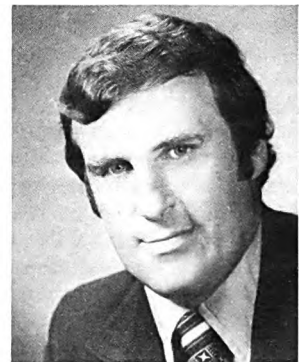
Mr. Peduto



Mr. Webber



Dr. Roberts



Mr. Paugh

his degrees from Indiana University, he holds a B.A. in business and an M.A. and Ph.D. in economics. In 1971, he was the recipient of the Henry Oliver Award in economic theory. From 1965 until 1967, he served with the U.S. Army. He and his wife, Nancy, have two children and live in Anderson Township.

Mr. Paugh, an Assistant Vice President, previously was Deputy Director of Data Processing. Before joining the Cincinnati Bank, Mr. Paugh was customer services supervisor with GT&E Data Services Corporation, Tampa, Fla., from 1968 to 1971. He also has served in the U.S. Air Force. He and his wife, Ann, have two children and live in Anderson Township.

At the same time, Dr. Thiemann announced the promotions of Richard E. Harmon to Manager of Systems and Programming, Carol M. Peterson to Urban Lending Coordinator, Kenneth D. Reece to Manager of Computer Operations, and Madelynn M. Uth to public information head.

Mr. Harmon will direct system and program development for the Financial and Research Departments. He received a B.A. degree from Bowling Green University in 1962 and an M.Ed. degree from Xavier University in 1965. He also served in the U.S. Army. He and his wife, Gayle, live in Anderson Township with their four children.

Mrs. Peterson, who most recently served as marketing representative in the Bank's Housing Services Department, will be involved with the implementation and monitoring of Community Investment Fund programs. She resides in Terrace Park with her two children.

Mr. Reece joined the Cincinnati Bank in 1970. He will have responsibility for the Bank's Computer Operations, Control, and Key punch Departments. Mr. Reece attended Xavier University and spent six years with the U.S. Air Force. He and his wife, Johanna, have two children and live in Milford, Ohio.

Mrs. Uth, in her new position, will be responsible for the Bank's major publications, including the Annual Report and the Quarterly Review, and will handle information releases and press relations for the Cincinnati Bank. She received a B.S. degree from the University of Cincinnati. She is married and has one son.

## Two Incomes, More Money Spent On Housing, Fuel Home Sales

Despite escalating housing costs, Americans are continuing to buy homes in near record numbers by using a working spouse's income to help meet costs and by exceeding the once standard, 25-percent-of-income-for-housing rule, a study by the U.S. League of Savings Associations revealed last month.

At least 45 percent of buyers of new or existing homes depend on 2 family incomes to make the purchases, the study said, and 38 percent exceed the 25-percent limitation—14 percent spending more than 30 percent of their monthly income on housing. (See the accompanying table.)

A third factor in continuing strong housing sales has been the willingness of lenders to write a surprising number of low downpayment loans—generally at 10 percent or less. Such mortgages are especially helpful to young, first-time homebuyers.

"The industry is adjusting to the change in homebuying patterns just as much as are homebuyers," said League vice president Joseph T. Benedict at a press conference announcing the study in Washington, D.C., on October 16. "The study proves that homeownership is still a desirable thing for American families, who are willing to forego other things in order to buy houses, and we in the industry are cooperating. Homeownership is still one of the greatest investments consumers can make."

But if inflation continues in the future as it has in the past, "we have doubts whether the present pace of homebuying can continue over the long term," declared League economist Dennis J. Jacobs, one of two authors of the study. The study, described as the first time such a survey has been made of homebuyers as contrasted with homeowners, was based on 8,500 conventional mortgage loans made last year at 200 cooperating savings and loan associations.

Other survey findings:

... About one-fourth of all first-time buyers in 1977 would not have been able to afford a home without the in-

### Percentage of Homebuyers Exceeding 25 Percent Rule, by Metropolitan Area

Metropolitan area	Percent
<b>Large:</b>	
Chicago .....	30
Houston .....	38
Los Angeles .....	46
New York .....	34
San Francisco .....	49
Washington .....	36
All U.S. metropolitan areas with populations of 1.5 million or more .....	41
<b>Medium-sized:</b>	
Columbus, Ohio .....	38
Hartford, Conn. ....	44
Peoria, Ill. ....	38
Richmond, Va. ....	27
Rochester, N.Y. ....	27
All U.S. metropolitan areas with populations between 250,000 and 1.5 million	40
<b>Small:</b>	
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All U.S. metropolitan areas with populations less than 250,000 .....	30
All of the United States .....	38

come of a second wage-earner in the family.

... Forty-five percent of all first-time homebuyers in 1977 made less than a \$5,000 downpayment.

... The typical homebuyer faces, on a national basis: \$400 in monthly housing expenses, including \$273 for mortgage interest and principal; \$60 for utilities; \$54 for real estate taxes; and \$13 for insurance.

... The median monthly housing expense for all buyers in large cities is \$442, or 16 percent higher than the monthly cost of \$382 in medium-sized cities, and 26 percent higher than the monthly cost of \$351 in small cities.

... The highest monthly housing expenses are borne by homebuyers in San Francisco, \$614; Los Angeles, \$567; and Washington, \$578.

Readers wishing to obtain a copy of the full report, at \$10 each, should write the U.S. League of Savings Associations, 111 East Wacker Drive, Chicago, Ill. 60601.

## Regulations Announced for Community Reinvestment Act

Federal regulators of banks and savings and loan associations last month announced final regulations implementing the Community Reinvestment Act. The regulations took effect November 6. The Act required the agencies to have in force regulations by that date and requires them to encourage institutions they regulate to help meet the credit needs of their communities, including low- and moderate-income neighborhoods, consistent with safe and sound operations.

Key factors are listed in the regulations for examiners to use in assessing a lender's record. An institution's performance will be taken into account when it applies for branches, mergers, charters and insurance, and certain other approvals. Past performance may be grounds for denial of an application.

The regulations apply to all such applications pending on November 6, as well as to those filed on or after that date.

The agencies will also consider the views of State supervisory authorities when State-chartered institutions apply for Federal deposit insurance or other approvals.

The regulations include the following principal provisions:

### 1. Delineation of community

Lenders are required to prepare and review at least annually maps delineating their local communities, without excluding low- and moderate-income neighborhoods. A local community consists of the contiguous areas around each office or group of offices of the institution, but need not take account of off-premises electronic facilities that receive deposits for more than one lender. The regulation specifies three bases for delineation of a community:

- Boundaries such as those of a Standard Metropolitan Statistical Area or county, where an institution's office or offices are located. Where appropriate, adjacent areas may be included, and adjustments may be made for boundaries such as State lines. Small institutions may delineate those areas of an SMSA or county it may reasonably be expected to serve.

- A lender may use its effective lending territory as delineating its local community, defined as areas where it makes a substantial portion of its loans, and other equidistant areas around each of its offices.

- A lender may use any other reasonably delineated areas that meet the purposes of the act and does not exclude a low exclude a low- and moderate-income area.

### 2. Community Reinvestment Act Statement

Within 90 days after November 6, 1978, the board of directors of each institution subject to the act shall adopt a Community Reinvestment Act Statement for each delineated local community. The statement must include:

1. The delineation of the local community;
2. A list of the principal types of credit the lender is prepared to extend in the local community;
3. A copy of the Community Reinvestment Act Notice cited below.

Lenders are encouraged to include in their statements a statement and periodic report of how they are helping to

meet community credit needs and how they attempt to ascertain the credit needs of their local community.

The lender's board of directors shall review and update the lender's statement at least annually.

### 3. Community Reinvestment Act Notice

Within 90 days after November 6, 1978, each lender must post in the lobby of each of its premises the following public notice:

"The Federal Community Reinvestment Act (CRA) requires the regulator to evaluate our performance in helping to meet the credit needs of this community, and to take this evaluation into account when the regulator decides on certain applications submitted by us. Your involvement is encouraged.

"You should know that:

"You may send signed written comments about our CRA Statement(s) or our performance in helping to meet community credit needs to (title and address of State member bank official) and to Community Reinvestment Officer (appropriate regulator) (address). Your letter, together with any responses by us may be made public.

"You may look at a file of all signed, written comments received by us within the past two years, any responses we have made to the comments, and all CRA Statements in effect during the past two years at our office located at (address). (You also may look at the file about this community at (name and address of designated office).)

"You may ask to look at any comments received by the (regulator or the regulator's district office).

"You also may request from (the regulator or district office) an announcement of applications covered by the CRA filed with (the regulator).

"We are a subsidiary of (name of holding company), a . . . holding company. Applications filed by . . . holding companies that are covered by the CRA are included in (the regulator's) announcement of applications referred to in a previous paragraph."

The parts of the above statements which are within parentheses apply only to lenders that serve more than one local community.

Consumers should note that they may request to be placed on a roster to receive announcements of CRA-covered applications that have been filed with the supervisory agency.

### 4. Files of Public Comments

Each lender must maintain files, readily available upon request for inspection by any member of the public, of all signed written comments received from the public within the past two years referring specifically to any CRA Statement or to the lender's performance in helping to meet the credit needs of its community. The lender may include its responses in this file. Any comments reflecting adversely upon the good name or reputation of any persons (natural or legal) or violating specific provisions of a law shall be deleted. Also, files respecting all offices of a lender shall be maintained at its head office. Materials relating to a local community shall be maintained at an office in that community. All letters in these files are open to public inspection.

Copies of the regulations are available on request from the Office of Communications, at the Bank Board's address.

# APPLICATIONS APPROVED

## New Branches

From January 1978 through June 1978, the Federal Home Loan Bank Board authorized the opening of 62 regular branch offices; 9 limited facility branches, and 7 satellite offices. (Locations in parentheses).

## Regular Branch Offices

- Phenix Federal Savings and Loan Association, Phenix City, Ala. (Union Springs)
- First Federal Savings and Loan Association, Texarkana, Ark. (Hope)
- Fidelity Federal Savings and Loan Association, Glendale, Calif. (San Jose)
- California Federal Savings and Loan Association, Los Angeles, Calif. (Glendale, Palm Springs, Richmond)
- Western Federal Savings and Loan Association, Los Angeles, Calif. (Mission Viejo, Community of La Canda)
- Union Federal Savings and Loan Association, Los Angeles, Calif. (Los Angeles)
- Home Federal Savings and Loan Association, San Diego, Calif. (Sacramento, Laguna Hills)
- Valley Federal Savings and Loan Association, Van Nuys, Calif. (Santa Barbara)
- Clearwater Federal Savings and Loan Association, Clearwater, Fla. (Pasco Co.)
- First Federal Savings and Loan Association of Broward Co., Ft. Lauderdale, Fla. (Delray Beach)
- Citizens Federal Savings and Loan Association of St. Lucie Co., Ft. Pierce, Fla. (Stuart)
- First Federal Savings and Loan Association of Osceola Co., Kissimmee, Fla. (Melbourne)
- First Federal Savings and Loan Association, Lake Worth, Fla. (Boynton Beach)
- Biscayne Federal Savings and Loan Association, Miami, Fla. (Miami)
- First Federal Savings and Loan Association, Miami, Fla. (Palm Beach Gardens)
- Naples Federal Savings and Loan Association, Naples, Fla. (Naples)
- Century Federal Savings and Loan Association of Ormond Beach, Ormond, Fla. (Flagler Beach)
- Home Federal Savings and Loan Association, Palm Beach, Fla. (Stuart)
- Home Federal Savings and Loan Association, St. Petersburg, Fla. (Clearwater)
- Home Federal Savings and Loan Association, Albany, Ga. (Americus)
- Standard Federal Savings and Loan Association, Chicago, Ill. (Bolingbrook)
- Uptown Federal Savings and Loan Association, Chicago, Ill. (Lincolnwood)
- Evansville Federal Savings and Loan Association, Evansville, In. (Ohio Township)
- Concordia Federal Savings and Loan Association, Evergreen Park, Ill. (Oak Lawn)
- Joliet Federal Savings and Loan Association, Joliet, Ill. (Bolingbrook)
- Union Federal Savings and Loan Association of Cook Co., Matteson, Ill. (Downers Grove)
- First Federal Savings and Loan Association of Fulton Co., Rochester, Ind. (Plymouth)
- Fidelity Federal Savings and Loan Association, Seymour, Ind. (Salem)
- First Federal Savings and Loan Association of Cedar Falls, Cedar Falls, Iowa (West Union)
- First Federal Savings and Loan Association of Council Bluffs, Council Bluffs, Iowa. (Harlan)
- Home Federal Savings and Loan Association of Harlan, Harlan, Iowa. (Red Oak)
- First Federal Savings and Loan Association, Pineville, Ky. (Williamsburg)
- Teche Federal Savings and Loan Association, Franklin, La. (New Iberia)
- First Federal Savings and Loan Association, Lowell, Mass. (Chelmsford)
- Standard Federal Savings and Loan Association, Troy, Mich. (Gross Pointe Woods)
- First Federal Savings and Loan Association, Great Falls, Mont. (Havre)
- First Federal Savings and Loan Association of Southeast Missouri, Cape Girardeau, Mo. (Jackson)
- Equitable Federal Savings and Loan Association, Fremont, Neb. (Wahoo)
- First Federal Savings and Loan Association, Lincoln, Neb. (Scottsbluff)
- Lincoln Federal Savings and Loan Association, Lincoln, Neb. (McCook)
- Heritage Federal Savings and Loan Association, Huntington, N.Y. (Selden)
- Westchester Federal Savings and Loan Association, New Rochelle, N. Y. (Bedford Hills, New Rochelle)

First Federal Savings and Loan Association, Shelby, N. C. (Kings Mountain)

First Federal Savings and Loan Association of Grand-Forks-Grafton, Grand Forks, N. D. (Tioga)

Northwestern Federal Savings and Loan Association of Williston, Williston, N. D. (Tioga)

First Federal Savings and Loan Association, Canton, Ohio. (Coshocton)

Peoples Federal Savings and Loan Association, Massillon, Ohio. (Canal Fulton)

First Federal Savings and Loan Association, Chickasha, Okla. (Lawton)

Frontier Federal Savings and Loan Association, Ponca City, Okla. (Lawton)

Security Federal Savings and Loan Association, Nashville, Tenn. (Parma Heights, Clarksville)

First Federal Savings and Loan Association, Beaumont, Texas. (Lumberton, Liberty)

First Federal Savings and Loan Association, Big Springs, Texas. (Odessa)

Hillsboro Federal Savings and Loan Association, Hillsboro, Texas. (Corsicana)

Doolin Federal Savings and Loan Association, New Martinsville, W. Va. (Vienna)

Cheyenne Federal Savings and Loan Association, Cheyenne, Wyo. (Rawlins)

#### Limited Facilities

Eureka Federal Savings and Loan Association, San Francisco, Calif. (Pacific Grove)

Coral Gables Federal Savings and Loan Association, Coral Gables, Fla. (Uninc. Dade)

First Federal Savings and Loan Association, Ft. Myers, Fla. (Naples)

First Federal Savings and Loan Association, Ft. Pierce, Fla. (Martin Co.)

Peoples Federal Savings and Loan Association, Lake Worth, Fla. (North Palm Beach)

First Federal Savings and Loan Association, Tarpon Springs, Fla. (Pasco Co.)

St. Paul Federal Savings and Loan Association, Chicago, Ill. (Addison)

Home Federal Savings and Loan Association, Algona, Iowa. (Forest City)

First Federal and Loan Association of Cedar Falls, Iowa. (Traer)

#### Satellites Approved

Biscayne Federal Savings and Loan Association, Miami, Fla. (Miami Beach)

Flagler Federal Savings and Loan Association, Miami, Fla. (Miami)

Union Federal Savings and Loan Association, Miami, Fla. (Miami Beach)

First Federal Savings and Loan Association, Tarpon Springs, Fla. (Pasco Co.)

First Federal Savings and Loan Association, Berwyn, Ill. (Stickney)

Home Federal Savings and Loan Association, Hamilton, Ohio. (Fairfield)

Liberty Federal Savings and Loan Association, Philadelphia, Pa. (Glenside)

From July 1978 through September 1978, the Federal Home Loan Bank Board authorized the opening of 24 regular branch offices and 7 limited facilities. (Locations in parentheses)

#### Regular Branch Offices

Home Federal Savings and Loan Association, Birmingham, Ala. (Decatur, Tuscaloosa)

First Federal Savings and Loan Association of Chilton Co., Clanton, Ala. (Centreville)

First Federal Savings and Loan Association, Decatur, Ala. (Decatur)

First Federal Savings and Loan Association of Monroe Co., Monroeville, Ala. (Thomasville)

First Federal Savings and Loan Association, Tuscaloosa, Ala. (Tuscaloosa)

Pacific Federal Savings and Loan Association, Hollywood, Calif. (Anaheim)

La Jolla Federal Savings and Loan Association, La Jolla, Calif. (Escondido)

California Federal Savings and Loan Association, Los Angeles, Calif. (Modesto)

Bay View Federal Savings and Loan Association, San Francisco, Calif. (Sacramento)

Brevard Federal Savings and Loan Association, Brevard, Fla. (Lynwood)

Coral Gables Federal Savings and Loan Association, Coral Gables, Fla. (Unincorporated)

First Federal Savings and Loan Association of Mid-Florida, Deland, Fla. (Leesburg)

Gulf Federal Savings and Loan Association, Fort Myers, Fla. (Unincorporated)

Home Federal Savings and Loan Association, Palm Beach, Fla. (Boca Raton)

Coast Federal Savings and Loan Association, Sarasota, Fla. (Ft. Myers)

First Federal Savings and Loan Association, Berwyn, Ill. (Berwyn)

First Federal Savings and Loan Association, Chicago, Ill. (Chicago)

Skokie Federal Savings and Loan Association, Skokie, Ill. (Franklin)

Security Federal Savings and Loan Association, Billings, Mont. (KalisPELL, Missoula)

American Federal Savings and Loan Association of Helena, Helena, Mont. (Townsend)

First Federal Savings and Loan Association of Grand Forks-Grafton, Grand Forks, N.D. (Minot)

#### Limited Facilities

Coast Federal Savings and Loan Association, Los Angeles, Calif. (Hemet)

Naples Federal Savings and Loan Association, Naples, Fla. (Unincorporated)

Guaranty Federal Savings and Loan Association, Adel, Ga. (Hahira)

State Federal Savings and Loan Association, Beatrice, Neb. (Gothenberg)

Home Federal Savings and Loan Association, Lexington, Neb. (Holdrege)

Standard Federal Savings and Loan Association, Cincinnati, Ohio (Cherry Grove)  
Franklin Federal Savings and Loan Association, Columbus, Ohio (Bexley)

#### **Conversion to Federal Charter by State-Chartered Associations**

From January 1978 through June 1978, the Federal Home Loan Bank Board authorized 3 State-chartered associations to convert to federally chartered associations. They were: Winchester Building and Savings Association, Winchester, Ky., to Pioneer Federal Savings and Loan Association, Winchester.

North Anne Arundel Savings and Loan Association, Inc., Pasadena, Md., to North Anne Arundel Federal Savings and Loan Association, Pasadena.

Plattsmouth Savings and Loan Association, Plattsmouth, Neb. to Pioneer Federal Savings and Loan Association, Plattsmouth.

#### **New Federal Charters Granted**

From January 1978 through September 1978, the Federal Home Loan Bank Board granted 6 new Federal charters as follows:

American Federal Savings and Loan Association of Alexander City, Alexander City, Ala.

Marion Federal Savings and Loan Association of Hamilton, Hamilton, Ala.

Broward Federal Savings and Loan Association of Sunrise, Fla.

Republic Federal Savings and Loan Association of Lafayette, La.

L'Acadien Federal Savings and Loan Association, New Iberia, La.

First Federal Savings and Loan Association of Evangeline Parish, Ville Platte, La.

#### **New Bank System Members Insured by FSLIC**

From April 1978 through September 1978, the Federal Home Loan Bank Board approved insurance of accounts for 13 savings and loan associations. They were:

American Federal Savings and Loan Association of Alexander City, Alexander City, Ala.

Home Savings and Loan Association, Mountain Home, Ark.  
Poinsett County Savings and Loan Association, Trumann, Ark.

California Women's Savings and Loan Association, Los Angeles, Calif.

Grand Country Savings and Loan Association, Granby, Colo.

Mountain State Savings and Loan Association, Ketchum, Idaho.

United Savings Association, Rock Island, Ill.

Century Savings Association of Kansas, Roeland Park, Kan.  
Barnesville Building and Loan Association, Barnesville, Minn.

Fidelity Savings and Loan Association, Camden, S.C.

Fayette County Savings and Loan Association, La Grange, Texas.

Sentinel Savings and Loan Association, Richlands, Va.

Liberty Savings and Loan Association, Warrenton, Va.

#### **Mergers**

The following mergers were approved by the Federal Home Loan Bank Board from February 1978 through June 1978:

Astoria Building and Loan Association, Astoria, Ill., into Home Savings and Loan Association, Galesburg, Ill.

Morton Savings and Loan Association, Morton, Kan., into Heritage Savings Association, Hays, Kan.

First Harford Federal Savings and Loan Association, Aberdeen, Md., into Atlantic Federal Savings and Loan Association, Baltimore, Md.

First Federal Savings and Loan Association of Battle Creek, Battle Creek, Mich. into Great Lakes Federal Savings and Loan Association, Ann Arbor, Mich.

First Financial Savings and Loan Association, Tupelo, Miss., into First Savings and Loan Association of New Albany, New Albany, Miss.

The Railroad Savings and Loan Company, Columbus, Ohio, into Central Savings and Loan Company, Columbus, Ohio.

Buckeye Savings Association, Forest Park, Ohio, into Cardinal Federal Savings and Loan Association, Cleveland, Ohio.

Mertztown Savings and Loan Association, Mertztown, Pa., into Red Hill Savings and Loan Association, Red Hill, Pa.  
Northampton Savings and Loan Association, Northampton, Pa., into Keystone Savings Association, Bethlehem, Pa.

First Federal Savings and Loan Association of Wilkes-Barre, Wilkes Barre, Pa., into Franklin Federal Savings and Loan Association of Wilkes-Barre, Wilkes-Barre.

Saluda Valley Federal Savings and Loan Association, Williamston, S.C., into Home Savings and Loan Association of the Piedmont, Easley, S.C.

The following mergers were approved by the Federal Home Loan Bank Board from July 1978 through September 1978:

Island Federal Savings and Loan Association, Honolulu, Hawaii, into First Federal Savings and Loan Association of Hawaii, Honolulu, Hawaii

Arthur Homestead and Loan Association, Arthur, Ill., into Champaign Loan and Building Association, Champaign, Ill.

Brighton Federal Savings and Loan Association, Chicago, Ill., into First Federal Savings and Loan Association, Chicago, Ill.

The Erie Savings and Loan Association, Erie, Kan., into Mid-American Federal Savings and Loan Association, Parsons, Kan.

Tracy Savings and Loan Association, Tracy, Minn., into Pipestone Federal Savings and Loan Association, Pipestone, Minn.

Rochester Savings and Loan Association, Rochester, Minn., into Home Federal Savings and Loan Association, Spring Valley, Minn.

University Savings Association, Houston, Texas, into Center Savings Association, Houston, Texas

Electra Federal Savings and Loan Association, Electra, Texas, into Olney Savings Association, Olney, Texas

Central Savings and Loan Association, Casper, Wyo., into Capitol Savings and Loan Association, Cheyenne, Wyo.

# STATISTICAL SERIES

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	64	S.6. — Housing Markets

## General Financial Data

**Table S.1.1.—Security Yields and Rates**  
(Percent)

Period	Short-term			Intermediate- and long-term						
	U.S. Government obligations <sup>1</sup>			Bonds and notes <sup>1</sup>				Mortgages		
	3-month bills	6-month bills	1-year bills	U.S. Government <sup>2</sup>		Aaa <sup>3</sup> State and local government	Aaa <sup>3</sup> corporate	FHA-insured <sup>4</sup>	Conventional <sup>4</sup>	
				5-year	20-year				New homes	Existing homes
1974.....	7.84	7.95	8.18	7.80	8.05	5.89	8.57	9.55	8.92	9.02
1975.....	5.77	6.01	6.75	7.77	8.19	6.42	8.83	9.20	9.01	9.21
1976.....	4.97	5.25	5.87	7.18	7.86	5.66	8.43	8.82	8.99	9.11
1977.....	5.27	5.53	5.71	6.99	7.67	5.20	8.02	8.68	9.01	9.02
<b>1977</b>										
Sept.....	5.81	6.04	6.13	7.04	7.57	5.27	7.92	8.72	9.04	9.04
Oct.....	6.16	6.43	6.52	7.32	7.71	5.31	8.04	8.78	9.07	9.08
Nov.....	6.10	6.41	6.52	7.34	7.76	5.15	8.08	8.78	9.07	9.08
Dec.....	6.07	6.40	6.52	7.48	7.87	5.07	8.19	8.91	9.09	9.12
<b>1978</b>										
Jan.....	6.44	6.70	6.80	7.77	8.14	5.20	8.41	9.11	9.15	9.15
Feb.....	6.45	6.74	6.86	7.83	8.22	5.24	8.47	( <sup>5</sup> )	9.18	9.20
Mar.....	6.29	6.63	6.82	7.86	8.21	5.11	8.47	9.29	9.26	9.24
Apr.....	6.29	6.73	6.96	7.98	8.32	5.41	8.56	9.37	9.30	9.35
May.....	6.41	7.02	7.28	8.18	8.44	5.57	8.69	9.67	9.37	9.37
June.....	6.73	7.23	7.53	8.36	8.53	5.73	8.72	( <sup>5</sup> )	9.46	9.48
July.....	7.01	7.44	7.79	8.54	8.69	5.80	8.88	9.92	9.57	9.63
Aug.....	7.25	7.46	7.79	8.33	8.45	5.60	8.69	9.78	9.70	9.77
Sept.....	7.85	7.99	8.01	8.43	8.47	5.50	8.56	9.78	9.73	9.84

<sup>1</sup> Monthly data are averages of daily secondary market quotations, except for State and local government bonds, which are based on Thursday quotations only. Except for bills, the quotations are for a limited number of suitable issues of the indicated type, including only general obligations for State and local government bonds. For bills, averages are based on market yields quoted on a bank-discount basis.

<sup>2</sup> Yields on most actively traded issued adjusted to constant maturities by U.S. Treasury.

<sup>3</sup> Aaa is the highest quality rating given by Moody's Investors Service.

<sup>4</sup> Monthly data are based on opinion reports of FHA field offices on prevailing conditions in their localities as of the first of the succeeding month. Yields are derived from secondary market prices for sec. 203, 30-year mortgages with minimum

downpayment and an assumed prepayment at the end of 15 years. Gaps in monthly data are because of periods of adjustment to changes in maximum permissible contract interest rate. Data represent gross yield to the investor—i.e., the yield to the purchaser before deduction of serving costs.

<sup>5</sup> Average effective interest rates; data prior to 1973 not completely comparable with later periods due to revision in series effective January 1973.

<sup>6</sup> Not available.

Note: Annual data are averages of monthly data. Figures for U.S. Government obligations are from the Board of Governors of the Federal Reserve System, for corporate and State and local government bonds from Moody's Investors Service, for FHA mortgages from the Federal Housing Administration, and for conventional mortgages from the Federal Home Loan Bank Board.

**Table S.1.2.—Measures of Money Stock and Time and Savings Accounts**

Period	Measures of the money stock (Seasonally adjusted data; in billions of dollars)			Time and savings accounts (in millions of dollars)				
	M <sub>1</sub> (Currency plus demand deposits) <sup>1</sup>	M <sub>2</sub> (M <sub>1</sub> plus time deposits at commercial banks other than large time CD's) <sup>2</sup>	M <sub>3</sub> (M <sub>2</sub> plus deposits at nonbank thrift institutions) <sup>3</sup>	Total	Type of institution			
					Savings and loan associations <sup>4</sup>	Credit unions <sup>5</sup>	Mutual Savings banks <sup>6</sup>	Commercial banks <sup>7</sup>
<b>December</b>								
1974 .....	284.4	613.5	981.7	786,951	242,959	27,551	98,701	417,740
1975 .....	295.2	664.7	1,092.5	875,204	286,043	33,048	109,873	446,240
1976 .....	313.5	740.5	1,236.5	986,372	333,912	38,968	122,802	488,690
<b>1977</b>								
Sept .....	333.0	795.1	1,344.9	1,084,299	377,208	45,103	131,688	530,280
Oct .....	335.9	801.4	1,357.9	1,091,395	379,604	45,441	132,250	534,100
Nov .....	336.2	805.4	1,367.1	1,103,617	381,333	45,977	132,537	543,770
Dec .....	338.5	809.5	1,376.1	1,118,354	386,875	46,832	134,017	550,630
<b>1978</b>								
Jan .....	341.7	815.9	1,386.6	1,126,592	389,544	47,317	134,771	554,960
Feb .....	341.8	819.1	1,393.1	1,136,343	391,840	48,093	135,200	561,210
Mar .....	342.9	822.6	1,400.3	1,156,285	398,992	49,706	136,997	570,590
Apr .....	346.5	830.3	1,411.4	1,156,562	399,550	49,931	136,931	570,150
May .....	350.6	835.2	1,419.9	1,171,636	401,930	50,789	137,307	581,610
June .....	352.8	840.6	1,429.8	1,183,056	408,586	52,076	138,674	583,720
July .....	354.2	846.2	1,440.9	1,188,764	411,660	51,551	139,093	586,460
Aug .....	356.7	853.5	1,455.1	1,195,008	413,972	51,772	139,274	589,990
Sept .....	361.8	864.2	(*)	(*)	420,378	52,867	140,699	593,770

<sup>1</sup> Average of daily figures for (1) demand deposits at all commercial banks other than those due to domestic commercial banks and the U.S. Government, less cash items in process of collection and F.R. float; (2) foreign demand balances at F.R. Banks; and (3) currency outside the Treasury, F.R. Banks, and vaults of all commercial banks. Federal Reserve data.

<sup>2</sup> Includes, in addition to currency and demand deposits, an average of daily figures for savings deposits, time deposits open account, and time certificates of deposits other than negotiable time certificates of deposit issued in denominations of \$100,000 or more by large weekly reporting commercial banks. Federal Reserve data.

<sup>3</sup> Includes M<sub>2</sub> plus the average of the beginning and end of month deposits of mutual savings banks, savings and loan associations, and credit unions. Federal Reserve data.

<sup>4</sup> FHLBB estimates for all operating associations described in the notes to table S.4.1.

<sup>5</sup> National Credit Union Administration estimates for all credit unions based on reports submitted by a sample of credit unions holding more than one-fifth of total assets. Data are revised annually to reflect benchmark data.

<sup>6</sup> National Association of Mutual Savings Banks data for all mutual savings banks. Figures include a small amount of demand deposits.

<sup>7</sup> Federal Reserve estimates for the last Wednesday of the month of all commercial bank holdings of time and savings deposits except (1) interbank. (2) U.S. Treasurer's open account, and commercial banks.

<sup>\*</sup> Not available.

<sup>†</sup> Revised

**Table S.1.3.—Selected Types of Savings**

(In millions of dollars)

Month	Net increase in deposits at FSLIC-insured savings and loan associations <sup>1</sup>		Net increase in regular deposits at mutual savings banks <sup>2</sup>		Net increase in shares at credit unions <sup>3</sup>	Net increase in time and savings deposits other than large CD's at commercial banks <sup>4</sup>	Net purchase of U.S. savings bonds <sup>5</sup>
	Excluding interest credited	Including interest credited	Excluding interest credited	Including interest credited			
<b>1977</b>							
Sept .....	1,666	5,859	-137	1,200	1,121	6,470	166
Oct .....	2,270	2,451	296	587	338	5,859	183
Nov .....	1,516	1,700	99	406	536	13,836	211
Dec .....	883	5,448	-131	1,289	855	11,089	172
<b>1978</b>							
Jan .....	2,877	3,071	-59	238	485	2,942	225
Feb .....	2,073	2,259	171	476	776	7,157	213
Mar .....	2,592	7,033	338	1,712	1,613	13,382	(?)
Apr .....	401	602	-553	-264	225	313	218
May .....	2,145	2,340	100	245	858	15,221	247
June .....	1,744	6,545	-75	1,550	1,287	2,874	136
July .....	2,812	3,019	38	-303	-525	3,237	99
Aug .....	2,069	2,274	-75	335	221	5,453	(?)
Sept <sup>6</sup> .....	1,576	6,322	-75	1,500	1,095	4,147	(?)

<sup>1</sup> FHLBB data as described in notes to table S.4.2.

<sup>2</sup> National Association of Mutual Savings Banks data for all mutual savings banks. Excluded are a small amount of school, club, and other special deposits included in figures shown in table S.1.2.

<sup>3</sup> National Credit Union Administration estimates as described in note to table S.1.2.

<sup>4</sup> Based on Federal Reserve data for last Wednesday of month for time and sav-

ings accounts as described in note to table S.1.2. minus negotiable time certificates of deposit issued in denominations of \$100,000 or more by large weekly reporting commercial banks. Includes interest credited to accounts.

<sup>5</sup> Sales of Series E and H bonds minus redemptions at sale price (i.e., exclusive of accrued discount) as reported by U.S. Treasury Department.

<sup>6</sup> Preliminary

<sup>7</sup> Not available.

# Federal Home Loan Mortgage Corporation

**Table S.2.1.—Federal Home Loan Mortgage Corporation: Operational Data**  
(In millions of dollars)

Period	Mortgage								
	Holdings (end of period)			Transactions (during period)				Commitments FHA/VA and conventional	
	Total	FHA/VA <sup>1</sup>	Conventional <sup>2</sup>	Purchases		Sales		Made (during period)	Outstanding (end of period)
				FHA/VA	Conventional <sup>2</sup>	FHA/VA	Conventional <sup>2</sup>		
1970 <sup>3</sup>	325	325		325				518	193
1971	968	821	147	564	214	48	65	801	182
1972	1,788	1,502	286	833	464	90	317	1,606	198
1973	2,604	1,800	804	335	999		409	1,629	186
1974	4,586	1,961	2,625	261	1,929		53	4,553	2,390
1975	4,987	1,881	3,106	119	1,594	70	951	982	111
1976	4,269	1,675	2,594	20	1,107	35	1,362	1,478	333
1977	3,267	1,450	1,817	20	4,104	7	4,033	5,501	1,063
1978									
January	3,134	1,437	1,697	2	398		503	337	961
February	3,001	1,436	1,565	13	350		470	451	1,021
March	3,202	1,443	1,759	21	323		127	593	1,234
April	3,061	1,428	1,633	4	352		465	512	1,347
May	2,863	1,411	1,452		479		651	811	1,640
June	2,246	1,393	853		500		793	762	1,870
July	2,019	1,376	643		520		725	738	2,055
August	2,441	1,359	1,082		742		299	838	2,142
September	2,496	1,343	1,153		670		402	760	2,130

<sup>1</sup> Include loans used to back bond issues guaranteed by GNMA.

<sup>2</sup> Include participations as well as whole loans.

<sup>3</sup> Data for 1970 include only the period beginning November 26 when the FHLMC first became operational.

**Table S.2.2.—Federal Home Loan Mortgage Corporation: Weekly Market Survey**  
(In percent, data for the week ending October 13, 1978)

Item	U.S. average	FHLMC Regional Office				
		Northeast	Atlanta	Chicago	Dallas	Los Angeles
Single-family conventionals:						
80-percent loans:						
Average quoted rate	9.85	9.625	9.875	9.875	9.875	10.0
Fees or points charged	1.2	1.0	1.0	2.0	1.0	1.0
95-percent loans:						
Average quoted rate	10.10	9.875	10.0	10.25	10.125	10.25
Fees or points charged	1.70	1.5	1.5	2.5	1.0	2.0
Over-the-counter quote on FHA/VA	97.2	97.0	96.0	97.0	98.0	98.0
Multifamily conventionals, average quoted rate	10.23	10.25	10.125	10.25	10.25	10.25

Note: FHLMC market data are obtained weekly through its "sample of 125." Each FHLMC Area Office contacts 25 of its seller/servicers for this information. No attempt is made to determine statistical accuracy. Rather, we seek quick informa-

tion to determine tone of the market. This survey is used for informational purposes and is not intended for any other use. Any other purposes for which it may be used are entirely at the discretion of the user.

# Federal Home Loan Banks

**Table S.3.1.—Federal Home Loan Banks: Combined Statement of Condition**

(In millions of dollars)

End of period	Assets				Total assets; total liabilities and capital accounts <sup>2</sup>	Liabilities			Capital accounts	
	Cash	Investments	Advances	Other		Deposits and borrowings	Consolidated obligations <sup>1</sup>	Other	Capital stock	Retained earnings
1973.....	157	3,437	15,147	266	19,007	1,745	14,449	317	2,122	374
1974.....	144	3,097	21,804	453	25,498	2,484	19,445	406	2,624	539
1975.....	108	4,376	17,845	383	22,712	2,700	16,383	334	2,705	590
1976.....	164	6,079	15,862	376	22,481	4,024	14,620	313	2,889	635
1977.....	134	3,749	20,173	510	24,566	4,286	16,009	296	3,295	680
<b>1977</b>										
Sept.....	181	5,093	17,053	385	22,712	3,637	14,796	292	3,226	761
Oct.....	156	4,465	17,746	397	22,764	3,413	14,946	381	3,243	781
Nov.....	151	4,343	18,492	405	23,391	3,633	15,512	179	3,265	802
Dec.....	134	3,749	20,173	510	24,566	4,286	16,009	296	3,295	680
<b>1978</b>										
Jan.....	163	3,952	20,422	445	24,982	4,059	16,274	376	3,567	706
Feb.....	144	4,798	20,845	445	26,232	4,205	17,475	190	3,631	731
Mar.....	153	5,079	21,278	444	26,954	4,522	17,632	302	3,739	759
Apr.....	145	3,719	22,957	505	27,326	4,557	17,816	400	3,765	788
May.....	168	5,445	23,664	498	29,775	5,077	19,871	221	3,786	820
June.....	188	4,121	25,274	471	30,054	5,099	19,953	331	3,818	853
July.....	187	4,383	26,605	469	31,644	5,378	21,060	463	3,855	888
Aug.....	169	3,944	27,869	466	32,448	5,366	22,002	267	3,889	924
Sept.....	127	3,808	29,158	521	33,614	5,684	22,652	392	3,925	961

<sup>1</sup> Represents Banks' participation exclusive of pass-throughs to the Federal Home Loan Mortgage Corporation.  
<sup>2</sup> Figures may vary from other published data on the Banks due to rounding and other reclassification of accounts.

Note: FHLBB data.

**Table S.3.2.—Federal Home Loan Banks: Selected Operating Factors**

Month	Number of borrowers (end of month)	Average cost <sup>1</sup> consolidated obligations—bonds		Average rate on FHLB advances <sup>3</sup>		Month	Number of borrowers (end of month)	Average cost <sup>1</sup> consolidated obligations—bonds		Average rate on FHLB advances <sup>3</sup>	
		Out-standing <sup>2</sup> (end of month)	Issued <sup>3</sup> (during month)	Out-standing <sup>2</sup> (end of month)	Made <sup>3</sup> (during month)			Out-standing <sup>2</sup> (end of month)	Made <sup>3</sup> (during month)		
		Percent per annum						Percent per annum			
December						1978					
1. 73.....	2,515	7.61	7.51	7.68	8.55	Jan.....	2,861	7.88	(*)	7.68	7.60
1974.....	2,607	8.17	7.54	8.33	8.40	Feb.....	2,820	7.87	7.82	7.72	7.80
1975.....	2,542	8.31	(*)	7.81	7.30	Mar.....	2,815	7.87	(*)	7.75	7.80
1976.....	2,549	8.09	(*)	7.63	6.60	Apr.....	2,839	7.87	(*)	7.77	7.90
1977.....	2,820	7.88	(*)	7.64	7.50	May.....	2,828	7.91	8.22	7.83	8.10
<b>1977</b>						June.....	2,961	7.91	(*)	7.91	8.40
Sept.....	2,682	7.96	(*)	7.57	7.00	July.....	2,989	7.93	8.68	7.99	8.60
Oct.....	2,735	7.96	(*)	7.60	7.30	Aug.....	3,040	7.93	8.47	8.04	8.60
Nov.....	2,782	7.88	7.37	7.62	6.40	Sept.....	3,080	7.96	(*)	8.10	8.70
Dec.....	2,820	7.88	(*)	7.64	7.50						

<sup>1</sup> Includes selling costs and pass-throughs to the Federal Home Loan Mortgage Corporation.  
<sup>2</sup> Weighted by amount outstanding at each rate.  
<sup>3</sup> Weighted by the amount issued or made at each rate. Advances made exclude renewals and conversions and the averages shown reflect changes in the types of

advances being made as well as changes in rates on specific types of advances.  
<sup>4</sup> No obligations issued.  
<sup>5</sup> Excludes advances to the Federal Home Loan Mortgage Corporation.  
 Note: FHLBB data.

**Table S.3.3.—Federal Home Loan Banks: Number of Members, by Type**

(September 30, 1978)

District Bank	Total number of members	Savings and loan associations				Savings banks	Insurance companies
		All S&LA's	Federals	State chartered			
				FSLIC insured	Other		
All Banks.....	4,241	4,158	2,006	2,047	105	81	2
Boston.....	209	157	69	49	39	52	
New York.....	328	313	104	208	1	15	
Pittsburgh.....	326	324	143	157	24	2	
Atlanta.....	677	677	456	220	1		
Cincinnati.....	539	538	299	203	36		1
Indianapolis.....	218	217	133	83	1		1
Chicago.....	507	505	185	320		2	
Des Moines.....	268	267	147	118	2	1	
Little Rock.....	605	605	196	409			
Topeka.....	223	223	106	116	1		
San Francisco.....	191	191	79	112			
Seattle.....	150	141	89	52		9	

**Table S.3.4.—Federal Home Loan Bank Advances Outstanding, by Bank**  
(In millions of dollars)

End of period	All Districts	Federal Home Loan Bank											
		Boston	New York	Pitts-burgh	Atlanta	Cincin-nati	Indian-apolis	Chicago	Des Moines	Little Rock	Topeka	San Francisco	Seattle
1973 .....	15,147	635	1,559	670	2,469	917	279	1,283	850	847	1,002	4,034	602
1974 .....	21,804	901	1,910	974	3,478	1,379	555	1,727	1,252	1,219	1,270	6,187	951
1975 .....	17,845	659	1,700	899	2,537	1,236	412	1,424	1,214	1,079	1,104	4,744	837
1976 .....	15,862	470	1,215	731	1,913	1,232	371	1,279	1,101	1,109	1,179	4,345	917
1977 .....	20,173	493	1,508	902	2,513	1,597	567	1,764	1,457	1,479	1,524	4,935	1,434
<b>1977</b>													
Sept.....	17,053	428	1,236	805	1,976	1,481	439	1,527	1,179	1,155	1,395	4,308	1,124
Oct.....	17,746	451	1,380	824	2,190	1,537	464	1,601	1,224	1,232	1,418	4,221	1,204
Nov.....	18,492	472	1,411	856	2,310	1,562	491	1,654	1,299	1,321	1,460	4,331	1,325
Dec.....	20,173	493	1,508	902	2,513	1,597	567	1,764	1,457	1,479	1,524	4,935	1,434
<b>1978</b>													
Jan.....	20,422	509	1,649	888	2,493	1,649	582	1,805	1,496	1,544	1,531	4,776	1,500
Feb.....	20,845	500	1,667	894	2,570	1,660	583	1,875	1,478	1,554	1,534	4,977	1,553
Mar.....	21,278	483	1,643	871	2,653	1,698	593	1,939	1,607	1,612	1,547	5,083	1,549
Apr.....	22,957	499	1,699	919	2,832	1,783	617	2,062	1,717	1,701	1,652	5,796	1,680
May.....	23,664	520	1,845	940	3,026	1,861	652	2,161	1,752	1,749	1,719	5,661	1,778
June.....	25,273	563	1,979	986	3,248	2,012	793	2,294	1,849	1,858	1,796	5,997	1,898
July.....	26,605	626	2,039	1,016	3,382	2,159	874	2,418	2,108	1,912	1,891	6,175	2,005
Aug.....	27,869	671	2,107	1,101	3,605	2,293	921	2,521	2,212	1,998	1,945	6,430	2,065
Sept.....	29,158	690	2,138	1,200	3,776	2,383	472	2,637	2,294	2,092	1,972	6,825	2,179

Note: FHLBB data. Detail may not add to total because of rounding.

**Table S.3.5.—Federal Home Loan Bank Advances Made and Repaid**  
(In millions of dollars)

Period	Made	Repaid	Net change	Period	Made	Repaid	Net change
1973 .....	10,013	2,845	7,168	<b>1978</b>			
1974 .....	12,763	6,106	6,657				
1975 .....	5,468	9,425	-3,957				
1976 .....	8,114	10,097	-1,983				
1977 .....	13,756	9,445	4,311				
<b>1977</b>				Jan.....	1,526	1,277	249
Sept.....	1,372	688	684	Feb.....	1,410	987	423
Oct.....	1,576	883	693	Mar.....	1,528	1,095	433
Nov.....	1,561	815	746	Apr.....	2,460	781	1,679
Dec.....	2,620	939	1,681	May.....	1,928	1,221	707
				June.....	2,606	997	1,609
				July.....	2,440	1,109	1,331
				Aug.....	2,213	949	1,264
				Sept.....	2,013	724	1,289

Note: FHLBB data. Advances made and repaid exclude renewals.

**Table S.3.6.—Consolidated Federal Home Loan Bank Obligations Outstanding—Bonds**  
(Sept. 30, 1978)

Date of maturity	Date of issue	Amount (millions)	Coupon rate (percent)	Date of maturity	Date of issue	Amount (millions)	Coupon rate (percent)
Nov. 27, 1978	Aug. 26, 1974	486	9.10	Nov. 25, 1981	Oct. 25, 1974	400	8.65
Feb. 26, 1979	June 21, 1974	580	8.65	Nov. 27, 1981	Oct. 27, 1971	200	6.60
Feb. 26, 1979	Sept. 25, 1974	585	9.45	Feb. 25, 1982	Aug. 25, 1975	500	8%
May 25, 1979	May 28, 1974	392	8%	Feb. 25, 1982	Feb. 27, 1978	800	7.95
May 25, 1979	Oct. 25, 1974	488	8.65	May 25, 1982	Nov. 25, 1977	700	7.45
May 25, 1979	Feb. 27, 1978	1,300	7.50	Nov. 26, 1982	May 25, 1978	800	8 1/4
Aug. 27, 1979	July 25, 1974	486	9 1/2	May 25, 1983	Apr. 12, 1973	161	7.30
Aug. 27, 1979	Nov. 25, 1977	900	7.20	Nov. 25, 1983	Feb. 25, 1975	300	7%
Nov. 26, 1979	Nov. 25, 1974	484	8.15	May 25, 1984	May 28, 1974	300	8%
Nov. 26, 1979	Dec. 23, 1974	467	7 1/2	May 25, 1984	May 25, 1976	300	7%
Nov. 26, 1979	July 25, 1978	700	8.60	Aug. 27, 1984	Aug. 25, 1976	500	7.85
Feb. 25, 1980	Mar. 25, 1970	350	7%	Nov. 26, 1984	Nov. 26, 1976	300	7%
Feb. 25, 1980	Feb. 25, 1974	300	7.05	Feb. 25, 1985	Feb. 25, 1977	500	7%
Feb. 25, 1980	May 25, 1978	1,200	8.10	May 28, 1985	Feb. 27, 1978	500	8 1/2
May 27, 1980	May 25, 1977	500	6.65	Nov. 25, 1985	Nov. 25, 1975	400	8.10
May 27, 1980	Aug. 25, 1978	1,000	8.40	May 26, 1987	May 25, 1977	300	7.65
Aug. 25, 1980	Aug. 25, 1976	700	7.30	Aug. 25, 1987	Aug. 25, 1977	400	7.60
Oct. 15, 1980	Oct. 15, 1970	200	7.80	Nov. 26, 1993	Oct. 25, 1973	400	7%
Nov. 25, 1980	Nov. 25, 1975	600	7%	Nov. 27, 1995 <sup>1</sup>	Nov. 19, 1970	140	8.60
Nov. 25, 1980	Nov. 26, 1976	500	6.70	Aug. 26, 1996 <sup>1</sup>	Aug. 2, 1971	150	7%
Feb. 25, 1981	Feb. 25, 1976	500	7.60	Feb. 25, 1997	Feb. 25, 1977	300	7 1/2
Aug. 25, 1981	Aug. 25, 1977	800	7.05	May 26, 1997 <sup>1</sup>	May 25, 1972	150	7.15

<sup>1</sup> These issues represent bonds issued by the Federal Home Loan Mortgage Corporation and guaranteed by the Government National Mortgage Association.

Note: FHLBB data.

**Table S.3.7.—Federal Home Loan Banks: Combined Statement of Condition, September 30, 1978, and September 30, 1977**  
(In thousands)

Statement of condition	Combined		Boston		New York		Pittsburgh		Atlanta		Cincinnati	Indianapolis		Chicago		Des Moines		Little Rock		Topeka		San Francisco		Seattle			
	1978	1977	1978	1977	1978	1977	1978	1977	1978	1977	1978	1978	1977	1978	1977	1978	1977	1978	1977	1978	1977	1978	1977	1978	1977		
<b>ASSETS</b>																											
Cash	\$126,759	\$181,411	\$3,018	\$2,574	\$22,138	\$34,718	\$12,243	\$19,591	\$4,635	\$8,863	\$8,817	\$12,557	\$2,861	\$5,470	\$8,801	\$3,894	\$35,460	\$34,672	\$8,824	\$5,998	\$11,463	\$13,483	(\$1,962)	\$31,079	\$10,461	\$8,512	
Investments, at cost	3,807,933	5,092,608	204,649	251,893	303,087	464,452	145,260	271,270	432,785	764,527	325,000	359,025	267,500	409,456	322,379	421,176	355,800	248,063	262,980	314,296	158,476	183,969	862,582	1,235,438	167,435	169,043	
Advances to members	29,157,878	17,053,548	690,479	428,395	2,138,310	1,235,546	1,199,554	805,223	3,776,222	1,975,742	2,382,784	1,481,462	972,258	439,032	2,636,621	1,526,659	2,293,824	1,179,107	2,092,322	1,155,422	1,971,504	1,394,418	6,825,275	4,308,294	2,178,725	1,124,248	
Other loans:																											
Guaranteed by AID, net	75,791	57,937	34,241	31,499	41,550	26,438																					
Other FHL Banks	58,600	64,700	12,000		3,500	9,700			20,000	20,000																	
Total other loans	134,391	122,637	46,241	31,499	45,050	36,138			20,000	20,000																	
Accrued interest receivable	204,045	85,909	4,501	2,330	14,644	8,757	7,818	4,602	24,672	766	15,727	8,993	3,402	1,352	17,578	9,964	123	106	13,845	7,276	36,192	648	51,650	34,340	13,893	6,775	
Bank premises and equipment	20,621	24,324	366	344	2,003	3,443	556	1,574	642	573	2,105	1,765	460	337	822	4,136	5,017	3,633	362	341	110	106	7,287	7,205	891	867	
Less: depreciation and amortization	(7,100)	(9,294)	(156)	(120)	(498)	(1,917)	(340)	(1,035)	(366)	(316)	(1,202)	(1,003)	(228)	(172)	(504)	(1,409)	(2,581)	(2,373)	(212)	(178)	(28)	(29)	(703)	(565)	(282)	(177)	
Net book value	13,521	15,030	210	224	1,505	1,526	216	539	276	257	903	762	232	165	318	2,727	2,436	1,260	150	163	82	77	6,584	6,640	609	690	
Other assets:																											
Investment in FHLMC	100,000	100,000	4,900	4,900	11,700	11,700	6,100	6,100	14,200	14,200	9,300	9,300	4,900	4,900	10,300	10,300	6,100	6,100	6,800	6,800	3,900	3,900	17,900	17,900	3,900	3,900	
Concessions and discount on C/O—Bonds	20,435	16,865	312	303	1,315	962	627	556	2,256	1,546	1,795	1,434	520	508	1,600	1,168	1,730	1,305	1,423	1,074	1,664	1,460	5,400	5,237	1,793	1,312	
Deferred charges—FHLBB cost of quarters	42,391	40,795	1,684	1,609	4,724	4,531	2,017	1,943	6,734	6,483	3,509	3,375	1,845	1,769	4,079	3,931	2,594	2,492	2,730	2,608	2,047	1,976	8,734	8,457	1,694	1,621	
Assessment—FHLBB operating expenses																											
Assessment—FHLBB capital expenditures	1,547		70		182		73		241		129	447	69		146		96		108		72		292		69		
Other	5,297	3,334	64	58	102	109	144	479	77	84	129	447	211	333	3,220	517	619	658	74	100	310	328	306	172	41	49	
Total other assets	169,670	160,994	7,030	6,870	18,023	17,302	8,961	9,078	23,508	22,313	14,862	14,556	7,545	7,510	19,345	15,916	11,139	10,555	11,135	10,582	7,993	7,664	32,632	31,766	7,497	6,882	
<b>Total assets</b>	<b>33,614,197</b>	<b>22,712,137</b>	<b>956,128</b>	<b>723,785</b>	<b>2,542,757</b>	<b>1,798,439</b>	<b>1,374,052</b>	<b>1,110,303</b>	<b>4,282,098</b>	<b>2,792,468</b>	<b>2,748,093</b>	<b>1,877,355</b>	<b>1,253,798</b>	<b>862,985</b>	<b>3,010,542</b>	<b>1,985,336</b>	<b>2,698,782</b>	<b>1,478,763</b>	<b>2,389,256</b>	<b>1,493,737</b>	<b>2,203,310</b>	<b>1,605,259</b>	<b>7,776,761</b>	<b>5,667,557</b>	<b>2,378,620</b>	<b>1,316,150</b>	
<b>LIABILITIES AND CAPITAL</b>																											
<b>Liabilities</b>																											
Deposits and borrowings:																											
Members—time	4,879,118	2,937,596	287,470	169,019	189,741	56,843	269,792	254,979	657,157	289,657	327,314	311,391	255,432	135,866	322,679	245,070	348,978	113,467	333,692	167,475	184,550	129,375	1,426,525	913,505	275,788	150,949	
Members—demand	745,242	634,378		5,077	103,431	98,394	64,334	71,974	84,671	80,603	74,266	62,028	40,423	40,593	47,311	45,908	114,928	106,129	43,997	45,904	47,462	36,681	89,236	11,106	35,183	29,981	
Other FHL Banks	58,600	64,700																			20,000	40,000	38,600	24,700			
Other borrowings	1,153								1,153																		
Total deposits and borrowings	5,684,113	3,636,674	287,470	174,096	293,172	155,237	334,126	326,953	742,981	370,260	401,580	373,419	295,855	176,459	369,990	290,978	463,906	219,596	377,689	213,379	252,012	206,056	1,554,361	949,311	310,971	180,930	
Accrued interest payable	373,920	276,878	10,201	8,860	27,957	21,202	14,643	11,409	42,667	33,207	28,924	20,870	11,275	8,067	31,628	22,177	31,080	16,998	28,121	16,806	26,354	21,132	94,388	81,486	26,682	14,664	
Consolidated obligations:																											
Bonds	21,579,595	16,686,640	374,040	372,800	3,616,815	1,664,815	714,485	581,850	2,392,620	1,768,730	1,644,535	1,283,900	601,875	489,875	1,743,985	1,609,430	1,556,660	1,388,660	1,449,190	1,362,190	1,463,960	1,407,960	4,519,650	3,877,650	1,501,780	878,780	
Discount notes	3,371,521	472,764	97,286		258,672	58,975	80,740		468,467	118,369	261,927	49,144	116,637	996	395,817	70,090	334,881	4,200	182,018	18,968	221,934	76,564	669,967	11,603	283,175	63,855	
Less: pass-throughs to FHLMC	(2,298,750)	(2,363,800)			(2,190,000)	(565,000)			(108,750)	(108,800)		(190,000)			(400,000)			(400,000)		(400,000)		(300,000)					
FHLB's participations	22,652,366	14,795,604	471,326	372,800	1,685,487	1,158,790	795,225	581,850	2,752,337	1,778,299	1,906,462	1,143,044	718,512	490,871	2,139,802	1,279,520	1,891,541	992,860	1,631,208	981,158	1,685,894	1,184,524	5,189,617	3,889,253	1,784,955	942,635	
Other liabilities:																											
Accounts payable	1,720	858	54	40	195	278	22	3	45	5	40	49	277	97	190	49	72	38	14	10	95	799	196	2	7		
Accounts payable—FHLBB operating expenses	577	2,332	23	100	64	265	26	196	91	350	47	186	26	101	54	211	36	140	42	156	29	105	110	422	29	100	
Other	15,659	13,043	930	721	9,626	6,015	315	364	295	559	214	461	447	71	1,604	3,323	216	318	163	179	124	197	776	736	949	99	
Total other liabilities	17,956	16,233	1,007	861	9,885	6,558	363	563	431	914	301	696	750	269	1,848	3,583	324	496	219	336	163	397	1,685	1,354	980	206	
<b>Total liabilities</b>	<b>28,728,355</b>	<b>18,725,389</b>	<b>770,004</b>	<b>556,617</b>	<b>2,016,501</b>	<b>1,341,787</b>	<b>1,144,357</b>	<b>920,775</b>	<b>3,538,416</b>	<b>2,182,680</b>	<b>2,337,267</b>	<b>1,538,029</b>	<b>1,026,392</b>	<b>675,666</b>	<b>2,543,268</b>	<b>1,596,258</b>	<b>2,386,851</b>	<b>1,229,950</b>	<b>2,037,237</b>	<b>1,211,679</b>	<b>1,964,423</b>	<b>1,412,109</b>	<b>6,840,051</b>	<b>4,921,404</b>	<b>2,123,588</b>	<b>1,138,435</b>	
<b>Capital</b>																											
Capital stock outstanding	3,925,171	3,225,802	153,381	140,888	423,824	372,989	181,473	152,627	606,284	501,753	325,528	269,411	174,883	146,595	364,667	304,144	249,966	201,588	284,497	230,376	194,385	155,733	751,743	603,526	214,540	146,172	
Retained earnings:																											
Legal reserve	471,710	402,550	18,293	16,022	55,142	48,130	25,670	21,820	65,227	56,117	44,672	38,878	24,811	21,557	51,565	44,825	31,231	25,803	31,716	26,054	20,641	17,413	84,301	71,074	18,441	14,857	
Undivided profits	488,961	358,396	14,450	10,258	47,290	35,533	22,552	15,081	72,171	51,918	40,626	31,037	27,712	19,167	51,042	40,109	30,734	21,422	35,806	25,628	23,861	20,004	100,666	71,553	22,051	16,686	
Total retained earnings	960,671	760,946	32,743	26,280																							

**Table S.3.8.—Federal Home Loan Banks: Combined Statement of Income for the Nine Months Ending September 30, 1978 and September 30, 1977**

(In thousands)

Statement of Income	Combined		Boston		New York		Pittsburgh		Atlanta		Cincinnati	Cincinnati	Indianapolis			Chicago		Des Moines		Little Rock		Topeka		San Francisco		Seattle	
	1978	1977	1978	1977	1978	1977	1978	1977	1978	1977	1978		1977	1978	1977	1978	1977	1978	1977	1978	1977	1978	1977	1978	1977	1978	1977
<b>INCOME</b>																											
Interest on advances to members	\$1,393,030	\$880,625	\$32,382	\$23,783	\$105,914	\$64,662	\$57,218	\$37,974	\$173,705	\$95,663	\$109,715	\$71,849	\$41,462	\$21,291	\$126,299	\$75,282	\$103,918	\$58,645	\$103,411	\$61,027	\$96,472	\$69,926	\$339,855	\$247,533	\$102,679	\$52,990	
Income from investments	238,009	239,356	11,345	10,949	15,197	22,199	14,983	17,776	27,054	35,558	21,627	19,334	14,182	19,173	19,129	21,982	16,955	11,857	19,677	15,611	10,218	7,091	54,142	48,607	13,500	9,219	
Interest and fees on AID loans	4,440	3,504	2,011	1,836	2,429	1,668					2,816	721	3,604	837	1,410	477	3,370	803	1,626	637	1,074	702	5,135	622	1	26	
Earned commitment fees	20,067	5,019	322	1					709	193	2,192	2,363			1,910	2,702	4,523	4,034									
Income from data processing services	10,487	10,897					1,862	1,798			1,821	92	160	49	1,277	358											
Other income	10,535	4,654	117	23	387	688	1,583	31	1,508	1,257	1,821																
<b>Total income</b>	<b>1,676,568</b>	<b>1,144,055</b>	<b>46,177</b>	<b>36,592</b>	<b>123,927</b>	<b>89,217</b>	<b>75,646</b>	<b>57,579</b>	<b>202,976</b>	<b>132,671</b>	<b>138,171</b>	<b>94,359</b>	<b>59,408</b>	<b>41,350</b>	<b>150,025</b>	<b>100,801</b>	<b>129,101</b>	<b>75,522</b>	<b>125,229</b>	<b>77,570</b>	<b>109,290</b>	<b>78,188</b>	<b>400,337</b>	<b>297,952</b>	<b>116,281</b>	<b>62,254</b>	
<b>EXPENSES</b>																											
Interest and other costs:																											
Interest and concessions—consolidated obligations	1,102,510	850,016	22,733	25,395	85,240	68,300	38,745	35,448	136,876	104,505	89,321	61,915	32,559	30,170	99,966	70,194	88,756	53,847	82,291	57,134	82,631	59,947	259,267	238,245	84,125	44,916	
Assessments—FHLB Board:																											
Operating expenses	5,495	5,062	232	230	625	603	258	245	855	788	455	421	247	224	516	474	344	317	395	352	268	237	1,032	948	268	223	
Amortization of capital expenditures	261	12			31		15		41		22				23		17		18		12						
Amortization of cost of quarters	1,307	52			144		64		207		108				125		80		84		63						
Assessments—Office of Finance	1,968	2,141	120	121	172	198	127	176	260	239	165	216	131	117	161	207	127	184	165	155	129	131	285	282	126	115	
Interest on deposits	245,059	123,714	12,968	5,948	5,617	2,574	16,866	11,281	24,532	12,224	19,015	13,817	10,670	5,634	17,979	10,947	12,626	5,930	17,808	7,086	12,502	7,488	78,401	32,874	16,075	7,911	
Other interest	42	340							4		18				1		15				270						
<b>Total interest and other costs</b>	<b>1,356,642</b>	<b>981,273</b>	<b>36,117</b>	<b>31,694</b>	<b>91,829</b>	<b>71,675</b>	<b>56,075</b>	<b>47,150</b>	<b>162,775</b>	<b>117,756</b>	<b>109,086</b>	<b>76,369</b>	<b>43,676</b>	<b>36,163</b>	<b>118,771</b>	<b>81,822</b>	<b>101,965</b>	<b>60,278</b>	<b>100,761</b>	<b>64,727</b>	<b>95,605</b>	<b>68,073</b>	<b>339,319</b>	<b>272,401</b>	<b>100,663</b>	<b>53,165</b>	
Other operating expenses:																											
Salaries and benefits	20,803	19,345	694	609	2,235	2,233	1,982	1,901	1,895	1,731	2,716	2,543	1,169	1,014	1,797	1,920	2,141	1,916	1,267	1,123	491	502	3,683	3,211	733	642	
Fees and professional services	1,422	1,162	74	56	115	126	88	49	100	86	235	100	94	98	128	81	112	70	49	36	62	47	296	358	69	55	
Travel expense	1,086	1,102	65	54	85	102	75	85	109	117	142	155	77	69	102	103	114	116	102	85	41	30	115	134	54	52	
Telephone and transmission costs	2,510	2,116	21	21	61	61	281	282	80	75	562	464	38	35	322	327	357	574	101	103	26	24	132	126	29	24	
Stationery and supplies	3,569	3,047	35	41	487	415	408	228	200	536	391	428	183	157	246	304	599	574	267	222	133	106	309	380	137	97	
Cost of quarters	3,303	3,063	179	167	403	483	329	340	295	301	414	336	185	136	391	445	450	250	76	75	52	39	384	346	141	141	
Depreciation—furniture and equipment	925	1,080	22	17	37	96	32	100	39	43	41	52	20	18	246	359	292	355	21	20	6	4	51	50	54	26	
Equipment rental and expense	4,752	4,470	53	52	229	328	536	549	215	172	747	654	232	237	617	652	774	569	114	104	160	147	1,046	970	29	36	
Other	1,306	1,303	71	61	106	134	73	69	138	141	112	96	61	54	197	200	164	110	52	51	22	20	252	323	58	44	
<b>Total other operating expenses</b>	<b>39,676</b>	<b>36,688</b>	<b>1,214</b>	<b>1,078</b>	<b>3,758</b>	<b>3,683</b>	<b>3,875</b>	<b>3,783</b>	<b>3,099</b>	<b>2,866</b>	<b>5,506</b>	<b>4,828</b>	<b>2,059</b>	<b>1,818</b>	<b>4,046</b>	<b>4,391</b>	<b>5,503</b>	<b>4,484</b>	<b>2,049</b>	<b>1,823</b>	<b>993</b>	<b>919</b>	<b>6,268</b>	<b>5,898</b>	<b>1,304</b>	<b>1,117</b>	
<b>Total expenses</b>	<b>1,396,318</b>	<b>1,017,961</b>	<b>37,331</b>	<b>32,772</b>	<b>95,587</b>	<b>75,358</b>	<b>59,950</b>	<b>50,933</b>	<b>165,874</b>	<b>120,622</b>	<b>114,594</b>	<b>81,197</b>	<b>45,735</b>	<b>37,981</b>	<b>122,817</b>	<b>86,213</b>	<b>107,468</b>	<b>64,762</b>	<b>102,810</b>	<b>66,550</b>	<b>96,598</b>	<b>68,992</b>	<b>345,587</b>	<b>278,299</b>	<b>101,967</b>	<b>54,282</b>	
<b>Net income</b>	<b>280,250</b>	<b>126,094</b>	<b>8,846</b>	<b>3,820</b>	<b>28,340</b>	<b>13,859</b>	<b>15,696</b>	<b>6,646</b>	<b>37,102</b>	<b>12,049</b>	<b>23,577</b>	<b>13,162</b>	<b>13,673</b>	<b>3,369</b>	<b>27,208</b>	<b>14,588</b>	<b>21,633</b>	<b>10,760</b>	<b>22,419</b>	<b>11,020</b>	<b>12,692</b>	<b>9,196</b>	<b>54,750</b>	<b>19,653</b>	<b>14,314</b>	<b>7,972</b>	

**Table S.3.9.—Federal Home Loan Banks: Combined Statement of Changes in Financial Position for the Nine Months Ending September 30, 1978 and September 30, 1977**

(In thousands)

Statement of changes in financial position	Combined		Boston		New York		Pittsburgh		Atlanta		Cincinnati	Cincinnati	Indianapolis			Chicago		Des Moines		Little Rock		Topeka		San Francisco		Seattle	
	1978	1977	1978	1977	1978	1977	1978	1977	1978	1977	1978		1977	1978	1977	1978	1977	1978	1977	1978	1977	1978	1977	1978	1977	1978	1977
<b>FINANCIAL RESOURCES WERE PROVIDED FROM:</b>																											
Operations:																											
Net income	\$280,249	\$126,093	\$8,846	\$3,820	\$28,339	\$13,859	\$15,696	\$6,646	\$37,102	\$12,049	\$23,577	\$13,162	\$13,673	\$3,369	\$27,208	\$14,588	\$21,633	\$10,759	\$22,419	\$11,020	\$12,692	\$9,196	\$54,750	\$19,653	\$14,314	\$7,972	
Noncash charges/(credit) to income:																											
Depreciation and amortization of fixed assets	1,401	1,710	29	27	91	88	112	117	44	67	145	132	53	31	330	453	375	608	26	26	9	6	108	104	79	51	
Amortization of concessions on C/O bonds	5,844	4,606	116	138	584	420	232	208	732	592	479	311	164	152	521	376	458	295	447	312	446	381	1,225	1,176	440	245	
Amortization of FHLB assessments	1,502		64		175		79		247		130				148		97		102								
Other	(254)	(122)	(57)		(1)	(4)		(3)	(1)	17	30				(162)	(142)	(33)	(1)				11					
<b>Total from operations</b>	<b>288,742</b>	<b>132,287</b>	<b>8,998</b>	<b>3,985</b>	<b>29,188</b>	<b>14,363</b>	<b>16,119</b>	<b>6,968</b>	<b>38,124</b>	<b>12,725</b>	<b>24,331</b>	<b>13,605</b>	<b>13,959</b>	<b>3,552</b>	<b>28,045</b>	<b>15,275</b>	<b>22,530</b>	<b>11,661</b>	<b>22,994</b>	<b>11,358</b>	<b>13,222</b>	<b>9,594</b>	<b>56,399</b>	<b>20,933</b>	<b>14,833</b>	<b>8,268</b>	
Net proceeds from issuance of C/O Bonds	5,991,547	2,335,856	116,835		381,481	161,656	213,691	49,917	903,716	237,472	527,257	162,651	151,792	1,995	536,243	265,591	497,314	179,609	546,208	79,855	388,450	358,181	1,184,326	593,508	544,234	245,421	
Discount notes	5,403,879	2,157,365	129,145		427,172	741,583	103,308		680,124	49,498	346,131	118,172	124,231	991	631,747	104,609	579,077	30,128	410,445	130,700	423,268	676,000	1,045,189	111,431	504,042	194,253	
Advances repaid	9,140,547	6,808,558	385,072	303,036	359,440	524,102																					

**Table S.4.1.—All Operating Savings and Loan Associations: Balance Sheet Data and Commitments**  
(In millions of dollars)

End of period	Assets			Total assets: total liabilities, and net worth	Liabilities and reserves					Loan commitments outstanding <sup>2</sup>
	Cash and investment securities <sup>1</sup>	Mortgage loans	Other assets		Savings capital	FHLB advances, other borrowed money	Loans in process	Other liabilities	Net worth <sup>3</sup>	
1974 <sup>4,5</sup>	23,251	249,301	22,993	295,545	242,959	24,780	3,244	6,105	18,442	7,454
1975	30,853	278,590	28,790	338,233	286,043	20,634	5,128	6,949	19,779	10,673
1976	35,724	323,005	33,179	391,907	333,912	19,083	6,840	8,074	21,998	14,826
<b>1977</b>										
Sept	39,672	366,800	37,881	444,353	377,146	22,947	9,723	10,196	24,341	21,620
Oct	40,602	371,671	38,253	450,526	379,538	24,237	9,837	12,240	24,674	21,554
Nov	40,478	376,420	38,706	455,604	381,265	25,581	9,904	13,850	25,004	21,259
Dec	39,150	381,163	38,928	459,241	386,800	27,840	9,911	9,506	25,184	19,875
<b>1978</b>										
Jan	40,309	384,182	39,747	464,238	389,544	27,943	9,828	11,479	25,444	19,523
Feb	41,599	387,591	40,495	469,685	391,840	28,714	9,902	13,462	25,767	20,614
Mar	41,823	392,428	41,030	475,281	398,992	29,323	10,414	10,518	26,034	22,308
Apr	41,853	397,284	41,810	480,947	399,550	31,904	10,937	12,186	26,370	23,398
May	42,444	402,305	42,303	487,052	401,930	32,759	11,386	14,239	26,738	23,939
June	41,505	407,965	42,106	491,576	408,586	34,270	11,632	10,046	27,042	22,927
July	43,627	411,956	42,718	498,301	411,660	35,730	11,540	11,972	27,399	22,393
Aug	44,188	416,677	43,433	504,298	413,972	37,219	11,422	13,906	27,779	22,047
Sept <sup>6</sup>	44,026	420,947	43,983	508,956	420,378	38,624	11,221	10,664	28,069	21,669

<sup>1</sup> Includes cash and demand deposits, U.S. Government and Federal Agency securities, bankers' acceptances and miscellaneous securities other than FHLB stock.

<sup>2</sup> Includes net undistributed income accrued by most, but not all associations.

<sup>3</sup> Not a balance sheet item.

<sup>4</sup> Data for the period specified reflect an increase in savings and mortgage balances of the indicated amount caused by addition of newly organized associations or a decrease (-) caused by conversion or merger into mutual savings and commercial banks or by liquidation.

Period	Mortgages	Savings
1974	63 million	65 million
1975	35 million	35 million
1976—July	-281 million	-342 million
Dec	-56 million	-80 million

Period	Mortgages	Savings
1977—Jan	-33 million	-37 million
June	2 million	4 million
Oct	-87 million	-97 million
1978—Jan	-299 million	-378 million
Apr	-61 million	-56 million
July	3 million	4 million

<sup>5</sup> Beginning January 1973, participation certificates guaranteed by FHLMC, loans and notes insured by the Farmers Home Administration, and certain other Government-insured, mortgage-type investments, previously included in conventional mortgage loans, are included in other assets.

<sup>6</sup> Preliminary data based on incomplete reporting.  
Note: FHLBB estimates based on reported monthly data for FSLIC-insured associations and periodic benchmark data for other associations. Estimates are subject to revision as benchmark data become available.

**Table S.4.2.—Savings Activity at Savings and Loan Associations**  
(In millions of dollars)

Period	All operating associations			FSLIC-insured associations						
	Gross savings receipts	Withdrawals	Net inflow <sup>1</sup>	Gross savings receipts			Withdrawals	Net inflow <sup>1</sup>	Net new savings received <sup>2</sup>	
				Interest/dividends credited	New savings received	Total				
1974	125,900	109,847	16,053	10,952	111,650	122,576	106,982	15,595	4,668	
1975	154,644	111,838	42,806	12,752	138,354	151,106	109,054	42,051	29,298	
1976	184,210	133,625	50,585	15,360	165,434	180,794	131,064	49,728	34,369	
1977	218,250	167,234	51,016	18,189	196,313	214,402	164,312	50,192	32,004	
<b>1977</b>										
Sept	20,484	14,531	5,953	4,193	15,948	20,141	14,282	5,859	1,666	
Oct	17,934	15,445	2,489	181	17,454	17,635	15,184	2,451	2,270	
Nov	15,425	13,698	1,727	184	14,985	15,069	13,469	1,700	1,516	
Dec	21,386	15,851	5,535	4,565	16,468	21,033	15,585	5,449	883	
<b>1978</b>										
Jan	21,680	18,557	3,123	194	21,319	21,319	18,248	3,071	2,877	
Feb	16,083	13,786	2,297	185	15,632	15,817	13,558	2,259	2,073	
Mar	23,410	16,258	7,152	4,441	18,578	22,019	15,987	7,033	2,592	
Apr	20,362	19,749	613	201	19,827	20,028	19,426	603	401	
May	18,900	16,620	2,380	195	18,485	18,680	16,340	2,340	2,145	
June	27,151	20,496	6,655	4,801	21,902	26,703	20,157	6,545	1,744	
July	24,408	21,338	3,070	207	23,803	24,010	20,991	3,020	2,812	
Aug	21,108	18,796	2,312	205	20,556	20,761	18,487	2,274	2,069	
Sept <sup>3</sup>	24,056	17,627	6,429	4,746	18,912	23,658	17,336	6,323	1,576	

<sup>1</sup> Gross savings receipts less withdrawals.

<sup>2</sup> New savings received less withdrawals.

<sup>3</sup> Preliminary data based on incomplete reporting.

Note: FHLBB data. All operating association data are estimates as described in the note to table S.4.1. Gross receipts and withdrawals for some months are overstated because of the inclusion of transfers among accounts at some associations.

**Table S.4.3.—Net Savings Inflow at Savings and Loan Associations**  
(In millions of dollars)

Period	All operating associations	FSLIC-insured associations												
		United States	Federal Home Loan Bank District											
			Boston	New York	Pittsburgh	Atlanta	Cincinnati	Indianapolis	Chicago	Des Moines	Little Rock	Topeka	San Francisco	Seattle
1974.....	16,068	15,595	251	1,792	685	3,105	1,470	822	1,167	1,344	1,640	807	1,856	654
1975.....	43,121	42,051	767	3,924	1,949	7,851	3,351	1,950	3,765	2,603	3,601	1,891	8,375	2,025
1976.....	50,703	49,728	795	4,006	2,219	9,053	4,003	2,362	4,809	2,988	4,535	2,105	10,511	2,343
1977.....	51,016	50,192	730	4,093	2,082	9,392	3,948	2,411	4,877	2,876	4,747	2,074	10,577	2,386
<b>1977</b>														
Sept.....	5,953	5,859	77	497	220	1,037	501	331	605	350	518	236	1,205	283
Oct.....	2,489	2,451	39	75	59	575	224	124	285	119	259	126	431	137
Nov.....	1,727	1,700	27	116	80	309	187	90	201	101	176	83	274	56
Dec.....	5,535	5,449	44	508	311	1,094	523	291	539	313	469	240	831	285
<b>1978</b>														
Jan.....	3,123	3,071	36	56	103	874	149	102	276	204	398	148	556	170
Feb.....	2,297	2,259	41	148	101	514	172	93	176	102	290	88	436	98
Mar.....	7,152	7,033	83	620	268	1,242	586	386	692	428	635	315	1,439	340
Apr.....	613	603	19	96	23	205	60	45	105	43	111	43	-149	1
May.....	2,380	2,340	40	248	79	417	179	108	207	105	219	129	538	70
June.....	6,655	6,545	78	493	300	1,084	548	383	638	396	602	293	1,431	298
July.....	3,070	3,020	60	141	103	676	189	141	245	145	380	136	665	138
Aug.....	2,312	2,274	56	140	75	522	185	101	139	135	217	118	468	119
Sept <sup>1</sup> .....	6,429	6,323	78	475	246	1,138	561	351	620	386	575	284	1,303	305

<sup>1</sup> Preliminary data based on incomplete reporting.  
Note: FHLBB data. All operating association data are estimates as described in the note to table S.491. Detail may not add to total because of rounding.

**Table S.4.4.—Net New Savings Received by FSLIC-Insured Savings and Loan Associations**  
(In millions of dollars)

Period	United States	Federal Home Loan Bank District												
		Boston	New York	Pittsburgh	Atlanta	Cincinnati	Indianapolis	Chicago	Des Moines	Little Rock	Topeka	San Francisco	Seattle	
1974.....	4,668	-33	519	201	1,177	475	242	109	686	891	396	-146	140	
1975.....	29,298	449	2,464	1,383	5,609	2,208	1,273	2,538	1,851	2,716	1,401	6,015	1,415	
1976.....	34,369	429	2,284	1,523	6,371	2,650	1,568	3,331	2,088	3,427	1,509	7,580	1,607	
1977.....	32,003	315	2,134	1,277	6,193	2,379	1,469	3,130	1,822	3,384	1,372	7,013	1,515	
<b>1977</b>														
Sept.....	1,666	30	55	67	298	148	112	212	102	195	71	303	72	
Oct.....	2,270	11	49	50	540	210	118	255	109	247	120	428	132	
Nov.....	1,516	-6	90	73	263	176	85	179	93	166	77	269	50	
Dec.....	883	-6	39	76	319	110	41	123	48	116	66	-105	58	
<b>1978</b>														
Jan.....	2,877	7	29	95	834	134	96	246	195	384	141	551	164	
Feb.....	2,073	11	122	94	469	159	88	152	94	281	82	430	93	
Mar.....	2,592	34	173	105	460	209	154	270	163	287	137	483	117	
Apr.....	401	-9	64	14	162	44	39	76	34	97	36	-152	-4	
May.....	2,145	8	221	71	371	167	102	183	98	208	122	531	64	
June.....	1,744	25	15	63	260	115	121	193	116	224	106	449	57	
July.....	2,812	31	111	94	634	171	135	214	135	366	129	660	132	
Aug <sup>1</sup> .....	2,069	27	109	67	472	170	95	113	127	205	111	461	112	
Sept <sup>1</sup> .....	1,576	28	-5	73	292	159	105	173	106	201	94	287	62	

<sup>1</sup> Preliminary data based on incomplete reporting.  
Note: FHLBB data. Net new savings received equal new savings (exclusive of interest/dividends credited) less withdrawals. Detail may not add to total because of rounding.

**Table S.4.5.—Mortgage Loan Activity of Savings and Loan Associations**  
(In millions of dollars)

Period	All operating associations, total loans closed	FSLIC-insured associations											Loans and participations purchased	Loans and participations sold	Net loan repayments <sup>1</sup>
		Loans closed									Refinancing	Other			
		Total	Purpose of loan												
			Construction of—			Purchase of—									
1-to 4-family homes	Other dwelling units	Other structures	1-to 4-family homes	Other dwelling units	Other improved real estate										
1974	38,958	38,050	6,350	1,039	1,334	22,110	897	843	3,169	2,317	5,903	3,504	23,229		
1975	55,040	53,799	8,492	1,376	1,737	30,024	1,360	1,515	6,101	3,194	8,544	5,206	28,230		
1976	78,776	77,103	12,686	1,816	2,049	44,752	2,463	1,786	7,980	3,571	12,799	8,447	37,335		
1977	107,368	105,287	17,845	2,472	2,252	61,313	3,470	1,908	11,370	4,657	14,497	13,846	48,467		
<b>1977</b>															
Sept.	9,865	9,679	1,592	265	201	5,809	311	159	923	419	1,224	1,265	4,461		
Oct.	9,277	9,103	1,594	174	193	5,300	290	150	1,005	399	1,115	1,201	4,125		
Nov.	9,138	8,967	1,525	223	192	5,152	295	185	986	410	1,054	1,307	4,031		
Dec.	9,233	9,060	1,492	227	199	5,001	344	194	1,123	478	1,150	1,324	4,210		
<b>1978</b>															
Jan.	7,115	6,983	1,194	160	151	3,860	274	149	865	331	949	1,048	3,618		
Feb.	6,828	6,703	1,207	132	133	3,736	212	138	825	319	829	883	3,289		
Mar.	9,418	9,244	1,854	219	186	5,097	301	165	1,013	407	1,055	1,191	4,343		
Apr.	9,026	8,860	1,801	174	222	4,927	236	157	946	398	924	1,033	3,909		
May	10,436	10,245	1,968	249	198	6,031	275	133	983	407	864	1,440	4,722		
June	11,472	11,262	1,990	234	225	6,968	256	181	967	441	950	1,281	5,356		
July	9,031	8,866	1,610	168	148	5,468	183	130	780	379	859	1,129	4,566		
Aug.	10,398	10,208	1,750	196	191	6,480	225	116	887	334	974	1,449	5,073		
Sept. <sup>2</sup>	9,198	9,030	1,567	181	186	5,412	173	112	779	311	789	1,226	4,373		

<sup>1</sup> Principal payments plus miscellaneous credits less debits for interest, taxes, etc.

<sup>2</sup> Preliminary data based on incomplete reporting.

Note: FHLBB data. All operating association data are estimates as described in note to table S.4.1.

**Table S.4.6.—Mortgage Loans Closed by Savings and Loan Associations**  
(In millions of dollars)

Period	All operating associations	FSLIC-insured associations												
		United States	Federal Home Loan Bank District											
			Boston	New York	Pittsburgh	Atlanta	Cincinnati	Indianapolis	Chicago	Des Moines	Little Rock	Topeka	San Francisco	Seattle
1974	38,958	38,050	873	2,581	1,658	6,681	4,035	1,858	3,531	2,124	3,704	1,959	7,191	1,851
1975	55,040	53,798	1,022	3,062	2,433	9,033	5,283	2,365	5,164	2,944	5,225	2,716	11,424	3,133
1976	78,776	78,776	1,192	3,680	3,012	11,712	6,943	3,423	7,730	4,240	7,661	3,867	19,067	4,577
1977	107,368	105,287	1,473	4,199	3,903	15,399	9,387	4,624	10,675	5,859	10,918	5,597	26,603	6,648
<b>1977</b>														
Sept.	9,865	9,679	143	429	368	1,448	929	469	1,014	551	1,003	525	2,197	604
Oct.	9,277	9,103	132	388	352	1,338	861	432	929	517	985	478	2,115	577
Nov.	9,138	8,967	126	377	341	1,311	793	416	915	532	919	466	2,199	572
Dec.	9,233	9,060	116	387	311	1,418	731	394	869	516	1,017	473	2,248	580
<b>1978</b>														
Jan.	7,115	6,983	85	289	233	1,186	461	255	683	358	777	373	1,801	481
Feb.	6,828	6,703	64	238	189	1,132	547	276	639	345	752	363	1,681	478
Mar.	9,418	9,244	100	316	298	1,477	757	376	885	470	1,038	507	2,341	680
Apr.	9,026	8,860	99	295	337	1,376	829	383	905	463	898	495	2,066	713
May	10,436	10,245	137	346	430	1,566	1,024	490	1,063	572	1,037	590	2,319	671
June	11,472	11,262	185	483	511	1,762	1,098	552	1,129	663	1,076	594	2,537	673
July	9,031	8,866	140	407	404	1,436	881	479	842	505	867	485	1,873	548
Aug.	10,398	10,208	159	431	428	1,527	970	540	1,005	604	1,035	556	2,347	606
Sept. <sup>1</sup>	9,198	9,030	142	349	367	1,295	846	470	883	548	882	493	2,216	539

<sup>1</sup> Preliminary data based on incomplete reporting.

Note: FHLBB data. All operating association data are estimates as described in the note to table S.4.1. Detail may not add to total because of rounding.

**Table S.4.7.—Mortgage Debt Held by All Operating Savings and Loan Associations by Type of Property and Mortgage <sup>1</sup>**  
(In millions of dollars)

End of year and quarter	Total	1- to 4-family homes				Residential property with 5 or more dwelling units			Nonresidential		
		Total	FHA	VA	Conventional	Total	FHA	Conventional	Total	Land	Other
1972 <sup>2</sup>	206,182	166,410	14,057	13,474	138,879	21,051	1,343	19,708	18,721	1,814	16,907
1973 <sup>2</sup>	231,733	187,078	13,813	14,604	158,661	22,779	1,321	21,458	21,876	2,294	19,582
1974 <sup>2</sup>	249,301	200,987	13,472	15,166	172,349	23,808	1,246	22,562	24,506	2,643	21,863
1975	278,590	223,903	13,450	15,968	194,485	25,547	1,172	24,375	29,140	3,064	26,076
<b>1976</b>											
Mar <sup>3</sup>	286,296	230,395	13,598	16,318	200,479	25,937	1,231	24,706	29,944	3,120	26,824
June <sup>2</sup>	299,238	240,976	13,645	16,578	210,753	26,812	1,287	25,525	31,450	3,202	28,248
Sept <sup>2</sup>	311,753	251,553	13,561	16,648	221,344	27,497	1,341	26,156	32,703	3,305	29,398
Dec <sup>2</sup>	323,005	260,794	13,372	16,602	230,820	28,425	1,357	27,068	33,786	3,392	30,394
<b>1977 <sup>4</sup></b>											
Mar	333,565	269,821	13,109	16,411	240,301	29,187	1,401	27,786	34,557	3,502	31,055
June	350,609	284,414	13,008	16,479	254,927	30,503	1,437	29,066	35,692	3,646	32,046
Sept.	366,800	298,429	12,801	16,433	269,195	31,581	1,467	30,114	36,790	3,815	32,975
Dec	381,163	310,686	12,426	16,238	282,022	32,513	1,487	31,026	37,964	4,002	33,962
<b>1978 <sup>5</sup></b>											
Mar	392,428	320,064	12,205	16,050	291,809	33,592	1,452	32,140	32,772	4,120	34,652
June	407,965	334,164	12,076	15,992	306,096	34,351	1,428	32,923	39,450	4,324	35,126

<sup>1</sup> Distribution is estimated primarily on the basis of data reported semiannually by FSLIC-insured associations.

<sup>2</sup> Data for the indicated period reflect an increase in total mortgage balances caused by an addition of newly organized associations, or a decrease caused by conversion or merges into mutual savings banks or by liquidation in the following amounts: 1972, \$—78 million; 1973, \$—35 million; 1974, \$—63 million; 1975—

1st, \$—17 million; 2d, \$—18 million; 1976—3d, \$—281 million; 4th, \$—56 million; 1977—1st, \$—37 million.

<sup>3</sup> Correction of misclassified assets reduced total mortgage balances by \$250 million in 1976—3d and by \$100 million in 1976—1st.

<sup>4</sup> Revised. <sup>5</sup> Preliminary.

Note: FHLBB data.

**Table S.4.8.—Average Cost of Funds <sup>1</sup> to FSLIC-Insured Savings and Loan Associations, by Bank District**  
(Percent)

Year half year	All Districts	Boston	New York	Pitts-burgh	Atlanta	Cincin-nati	Indian-apolis	Chicago	Des Moines	Little Rock	Topeka	San Francisco	Seattle
1973	5.60	5.58	5.45	5.53	5.58	5.55	5.48	5.56	5.62	5.68	5.70	5.73	5.65
1974	6.14	6.04	5.95	6.04	6.17	6.08	5.92	6.11	6.17	6.27	6.23	6.27	6.15
1975	6.32	6.23	6.06	6.20	6.33	6.26	6.16	6.29	6.41	6.53	6.50	6.44	6.30
1976	6.38	6.22	6.12	6.27	6.37	6.35	6.24	6.39	6.49	6.61	6.57	6.45	6.35
1977	6.44	6.22	6.16	6.32	6.42	6.41	6.34	6.49	6.54	6.67	6.63	6.48	6.40
<b>1974</b>													
Jan.-June	6.00	5.92	5.79	5.90	6.01	5.94	5.78	5.97	6.05	6.12	6.10	6.14	5.97
July-Dec.	6.28	6.16	6.06	6.15	6.30	6.19	6.04	6.24	6.29	6.40	6.37	6.44	6.32
<b>1975</b>													
Jan.-June	6.31	6.21	6.05	6.15	6.34	6.22	6.13	6.29	6.37	6.51	6.47	6.41	6.26
July-Dec.	6.34	6.25	6.10	6.24	6.34	6.30	6.19	6.31	6.44	6.55	6.52	6.42	6.34
<b>1976</b>													
Jan.-June	6.35	6.20	6.08	6.23	6.35	6.31	6.21	6.35	6.47	6.59	6.55	6.44	6.31
July-Dec.	6.40	6.24	6.15	6.31	6.39	6.38	6.26	6.43	6.51	6.62	6.59	6.45	6.39
<b>1977</b>													
Jan.-June	6.39	6.20	6.09	6.27	6.38	6.37	6.29	6.44	6.50	6.65	6.61	6.43	6.33
July-Dec.	6.48	6.23	6.22	6.37	6.45	6.45	6.39	6.54	6.57	6.69	6.65	6.53	6.46
<b>1978</b>													
Jan.-June	6.54	6.28	6.21	6.38	6.50	6.45	6.43	6.58	6.64	6.80	6.70	6.63	6.50

<sup>1</sup> Interest and dividends paid on savings. FHLB advances and other borrowed money during period as a percent of average savings and borrowings. (Averages

based on 7 monthend figures for half years and 13 monthends for years; half-year data have been annualized by doubling.)

**Table S.4.9.—Effective Interest/Dividend Rates Paid <sup>1</sup> by FSLIC-Insured Savings and Loan Associations, by Bank District (Percent)**

Year or half year	All Districts	Boston	New York	Pitts-burgh	Atlanta	Cincin-nati	Indian-apolis	Chicago	Des Moines	Little Rock	Topeka	San Francisco	Seattle
1973 .....	5.51	5.47	5.36	5.43	5.50	5.48	5.44	5.48	5.56	5.61	5.61	5.60	5.53
1974 .....	5.96	5.82	5.77	5.85	5.99	5.94	5.83	5.93	6.02	6.14	6.08	6.01	5.92
1975 .....	6.21	6.05	5.94	6.07	6.23	6.17	6.12	6.18	6.31	6.44	6.38	6.28	6.18
1976 .....	6.31	6.11	6.05	6.19	6.32	6.29	6.25	6.33	6.43	6.55	6.48	6.35	6.27
1977 .....	6.39	6.15	6.11	6.27	6.38	6.37	6.38	6.45	6.49	6.64	6.56	6.42	6.33
<b>1974</b>													
Jan.-June .....	5.86	5.75	5.65	5.74	5.87	5.83	5.72	5.83	5.94	6.02	6.01	5.94	5.81
July-Dec.....	6.04	5.89	5.85	5.92	6.08	6.03	5.93	6.01	6.09	6.24	6.18	6.10	6.04
<b>1975</b>													
Jan.-June .....	6.16	5.99	5.91	5.99	6.20	6.11	6.05	6.15	6.26	6.40	6.35	6.23	6.10
July-Dec.....	6.24	6.08	6.00	6.13	6.26	6.22	6.18	6.21	6.35	6.47	6.41	6.27	6.24
<b>1976</b>													
Jan.-June .....	6.28	6.08	6.00	6.15	6.30	6.25	6.21	6.28	6.40	6.53	6.46	6.33	6.23
July-Dec.....	6.34	6.13	6.09	6.23	6.34	6.32	6.29	6.37	6.45	6.59	6.50	6.36	6.31
<b>1977</b>													
Jan.-June .....	6.35	6.13	6.05	6.21	6.34	6.33	6.32	6.40	6.46	6.62	6.54	6.39	6.26
July-Dec.....	6.42	6.16	6.17	6.32	6.42	6.40	6.44	6.49	6.52	6.65	6.58	6.45	6.39
<b>1978</b>													
Jan.-June .....	6.46	6.18	6.13	6.30	6.45	6.47	6.46	6.50	6.56	6.73	6.62	6.51	6.37

<sup>1</sup> Interest/dividends paid on savings during period as a percent of average savings balances. (Averages based on 7 monthends for half years and 13 monthends for years; half-year ratios have been annualized by doubling.)

**Table S.4.10.—Interest Return on Mortgages Held <sup>1</sup> by FSLIC-Insured Savings and Loan Associations, by Bank District (Percent)**

Year or half year	All Districts	Boston	New York	Pitts-burgh	Atlanta	Cincin-nati	Indian-apolis	Chicago	Des Moines	Little Rock	Topeka	San Francisco	Seattle
1973 .....	7.17	7.06	6.75	7.03	7.28	7.16	7.18	6.92	7.13	7.31	7.25	7.34	7.44
1974 .....	7.43	7.33	7.03	7.32	7.53	7.47	7.47	7.25	7.41	7.63	7.54	7.51	7.69
1975 .....	7.66	7.60	7.19	7.54	7.69	7.70	7.68	7.47	7.63	7.84	7.77	7.85	7.97
1976 .....	7.95	7.80	7.46	7.83	7.94	7.98	7.96	7.83	7.91	8.15	8.06	8.11	8.32
1977 .....	8.21	8.01	7.68	8.05	8.14	8.24	8.21	8.13	8.15	8.38	8.32	8.45	8.60
<b>1974</b>													
Jan.-June .....	7.35	7.24	6.95	7.26	7.46	7.38	7.40	7.17	7.35	7.52	7.46	7.44	7.58
July-Dec.....	7.51	7.43	7.08	7.36	7.59	7.55	7.52	7.31	7.47	7.73	7.64	7.63	7.81
<b>1975</b>													
Jan.-June .....	7.59	7.48	7.17	7.45	7.65	7.61	7.59	7.42	7.55	7.75	7.70	7.74	7.86
July-Dec.....	7.74	7.72	7.23	7.61	7.75	7.80	7.76	7.55	7.71	7.93	7.86	7.91	8.08
<b>1976</b>													
Jan.-June .....	7.87	7.72	7.39	7.76	7.87	7.90	7.88	7.73	7.82	8.06	7.98	8.03	8.21
July-Dec.....	8.03	7.87	7.52	7.89	8.00	8.06	8.04	7.92	8.00	8.24	8.13	8.18	8.43
<b>1977</b>													
Jan.-June .....	8.14	7.96	7.63	8.02	8.07	8.17	8.12	8.06	8.09	8.32	8.26	8.35	8.53
July-Dec.....	8.28	8.05	7.73	8.08	8.21	8.30	8.29	8.19	8.21	8.44	8.37	8.54	8.67
<b>1978</b>													
Jan.-June .....	8.39	8.12	7.83	8.20	8.30	8.40	8.35	8.31	8.34	8.58	8.47	8.63	8.80

<sup>1</sup> Interest earned on mortgages as a percent of average mortgage balances, net of loans in process. (Averages based on 7 monthends for half years and 13 monthends for years; half-year ratios have been annualized by doubling.)

**Table S.4.11.—Minimum Ratio <sup>1</sup> of Liquid Assets <sup>2</sup> to Liquidity Base <sup>3</sup> Required of Members of the Federal Home Loan Bank System (Percent)**

Effective date	All liquid assets	Short-term liquid assets <sup>4</sup>	Effective date	All liquid assets	Short-term liquid assets <sup>4</sup>	Effective date	All liquid assets	Short-term liquid assets <sup>4</sup>
Dec. 1950 .....	6	( <sup>6</sup> )	May 1, 1971 .....	7½	( <sup>6</sup> )	Apr. 1, 1975 .....	5½	1½
Mar. 1, 1961 <sup>5</sup> .....	7	( <sup>6</sup> )	Aug. 1, 1971 .....	7	( <sup>6</sup> )	June 1, 1975 .....	6	2
Aug. 1, 1968 .....	6½	( <sup>6</sup> )	Jan. 1, 1972 .....	7	3	Sept. 1, 1975 .....	6½	2½
June 12, 1969 .....	6	( <sup>6</sup> )	May 1, 1973 .....	6½	2½	Mar. 1, 1976 .....	7	3
Dec. 1, 1969 .....	5½	( <sup>6</sup> )	Aug. 1, 1973 <sup>7</sup> .....	5½	1½	May 1, 1978 .....	6½	2½
Apr. 1, 1971 .....	6½	( <sup>6</sup> )	Sept. 1, 1974 <sup>7</sup> .....	5	1			

<sup>1</sup> Before Dec. 22, 1969, the indicated minimum was required on each day a member closed loans. Beginning Dec. 22, 1969, compliance has been monthly, on the basis of an average of daily liquid asset balances to an average of the liquidity base for the preceding month, or, in the case of members with less than \$25 million in assets, to the liquidity base at the end of the preceding month. Special provision is made in the case of deficiencies resulting from the withdrawal of savings.

<sup>2</sup> Liquid assets consisted of unpledged cash, deposits, and U.S. Government securities through June 10, 1969. Federal agency securities with 5 or less years to maturity were added June 11, 1969. Effective Dec. 22, 1969, and subject to some additional restrictions, the following were made eligible liquid assets: (a) time deposits at commercial banks with a maturity of 1 year or less, or a notice period of 90 days or less; (b) bankers' acceptances with a maturity of 6 months or less; (c) general obligations of State and local governments with a maturity of 2 years or less; (d) eligible liquid assets held subject to a repurchase agreement; and (e) accrued interest on liquid assets, or assets which would so qualify except for maturity. Effective Jan. 1, 1972, the amount of U.S. Government securities with a maturity of more than 7 years that could be counted as liquid assets was limited to one-half of 1 percent of the base and mutual savings banks could elect to hold that portion of required liquidity in excess of 5 percent in Federal funds and commercial paper. Beginning Nov. 21, 1973, unsecured Federal funds loans made eligible liquid assets for member associations. Effective May 14, 1974, maximum maturity for bankers acceptances increased to 9 months. Effective April 1, 1975: (a) maximum maturity for U.S. Government securities reduced to 5 years, except such securities with a

longer term held on March 31 and eligible as liquid assets would continue as such through March 31, 1977; (b) certain public housing authority notes guaranteed by the United States with maximum maturity of 24 months made eligible liquid assets.

<sup>3</sup> Before Nov. 1, 1970, the liquidity base consisted of a member's net withdrawable accounts (or the policy reserve required by State law, in the case of an insurance company). Beginning Nov. 1, 1970, borrowings payable on demand or due in 1 year or less were added.

<sup>4</sup> Short-term liquid assets consist of the liquid assets defined in footnote 2, except: (a) U.S. Governments and Federal agency securities with a maturity longer than 18 months; (b) commercial bank time deposits with a maturity longer than 6 months; (c) State and local government obligations; and (d) bankers' acceptances with a maturity longer than 6 months. Effective April 1, 1975: (a) maximum maturity for U.S. Government and Federal agency securities reduced to 12 months, except such securities held on March 31 and eligible as short-term liquid assets would continue as such; (b) certain public housing authority notes with a maturity of 6 months or less made eligible liquid assets. The requirement is not applicable to member mutual savings banks or insurance companies.

<sup>5</sup> During the period June 27-Nov. 1, 1966, members were permitted to reduce liquid asset holdings below the requirement by an amount not exceeding the smaller of (a) actual net savings withdrawn, or (b) 1 percent of withdrawable savings.

<sup>6</sup> No separate requirement.  
<sup>7</sup> Penalties for liquidity deficiencies caused by net savings withdrawals during August through December 1973 and April through October 1974 were waived.

**Table S.4.12.—Maximum Rates of Return Payable on Savings Accounts by Savings and Loan Associations that Are Members of the Federal Home Loan Bank System**

Type of account	Effective date and percentage rates				
	Jan. 21, 1970 <sup>1</sup>	July 6, 1973	Nov. 1, 1973	Dec. 23, 1974	June 1, 1978
Regular .....	<sup>2</sup> 5.00	5.25	5.25	5.25	5.25
Transaction (NOW) .....	( <sup>3</sup> )	( <sup>3</sup> )	<sup>3</sup> 5.00	<sup>3</sup> 5.00	<sup>3</sup> 5.00
90-day notice (for withdrawals) .....	<sup>4</sup> 5.25	5.75	<sup>5</sup> 5.75	<sup>5</sup> 5.75	<sup>5</sup> 5.75
Certificate with fixed or minimum term or qualifying period: Balance less than \$100,000:					
Owned by governmental units:					
All terms .....	( <sup>6</sup> )	( <sup>6</sup> )	( <sup>6</sup> )	7.75	8.00
Owned by others:					
90 days to 6 months .....	5.25	<sup>7</sup> 5.75	5.75	5.75	5.75
6 months to 1 year .....	<sup>7</sup> 5.25	<sup>7</sup> 5.75	5.75	5.75	5.75
1 year to 2 years .....	<sup>7</sup> 5.75	<sup>7</sup> 6.50	<sup>7</sup> 6.50	<sup>7</sup> 6.50	<sup>7</sup> 6.50
2 years to 2½ years .....	<sup>8</sup> 6.00	<sup>7</sup> 6.50	<sup>7</sup> 6.50	<sup>7</sup> 6.50	<sup>7</sup> 6.50
2½ years to 4 years .....	<sup>8</sup> 6.00	<sup>7</sup> 6.75	<sup>7</sup> 6.75	<sup>7</sup> 6.75	<sup>7</sup> 6.75
4 years to 6 years .....	<sup>8</sup> 6.00	( <sup>10</sup> )	<sup>9</sup> 7.50	<sup>9</sup> 7.50	<sup>9</sup> 7.50
6 years or more .....	<sup>8</sup> 6.00	( <sup>10</sup> )	<sup>9</sup> 7.50	<sup>9</sup> 7.75	<sup>9</sup> 7.75
8 years or more .....	<sup>8</sup> 6.00	( <sup>10</sup> )	<sup>9</sup> 7.50	<sup>9</sup> 7.75	<sup>9</sup> 8.00
Individual retirement (IRA) or Keogh (H.R. 10) account with term of 3 or more years .....	( <sup>11</sup> )	( <sup>11</sup> )	( <sup>11</sup> )	<sup>11</sup> 7.75	8.00
Money market certificate with 26 week term and minimum balance of \$10,000 .....	( <sup>12</sup> )	( <sup>12</sup> )	( <sup>12</sup> )	( <sup>12</sup> )	( <sup>12</sup> )
Balance \$100,000 <sup>13</sup> or more:					
All owners—all terms .....	( <sup>14</sup> )	( <sup>15</sup> )	( <sup>15</sup> )	( <sup>15</sup> )	( <sup>15</sup> )

<sup>1</sup> See this table in the June 1973 Journal for earlier information.

<sup>2</sup> 5.25 percent in Mass.

<sup>3</sup> Effective Jan. 1, 1974, only for associations with home offices in certain New England states.

<sup>4</sup> 5.50 percent in Mass.

<sup>5</sup> Beginning Nov. 27, 1974, maximum rate for notice accounts owned by governmental units was the same as for certificate accounts owned by such units.

<sup>6</sup> Before Nov. 27, 1974, maximum rate was the same as for other types of owners; from Nov. 27 through Dec. 22, 1974, maximum rate was 7.50 percent.

<sup>7</sup> \$1,000 minimum balance required, except in areas where mutual savings banks were permitting lower balance.

<sup>8</sup> \$5,000 minimum balance required, except in areas where mutual savings banks were permitting a lower balance.

<sup>9</sup> \$1,000 minimum balance required.

<sup>10</sup> No maximum rate with \$1,000 minimum balance; 6.75 percent maximum with lower minimum balance.

<sup>11</sup> Effective July 6, 1977; no separate category until then.

<sup>12</sup> First authorized June 1, 1978; maximum rate as of each Thursday is the average rate (discount basis) on 6-month U.S. Treasury bills as determined at the immediately preceding auction plus 25 basis points.

<sup>13</sup> \$50,000 for Puerto Rico only, beginning Sept. 3, 1970.

<sup>14</sup> From Jan. 21, 1970, through May 16, 1973, maximum rate was 6.50 percent for accounts with term of 60-89 days, 6.75 percent for 90-179 day accounts, 7.00 percent for 180-364 day accounts, and 7.50 percent for longer term accounts; thereafter no maximum rate.

<sup>15</sup> No maximum rate.

# Mortgage Markets

Table S.5.1.—Terms on Conventional Home Mortgage Loans Made: National Averages for All Major Types of Lenders <sup>1</sup>

Period	Contract interest rate <sup>2</sup> (percent)	Initial fees and charges <sup>3</sup> (percent)	Effective rate <sup>4</sup> (percent)	Term to maturity (years)	Loan amount (thousands)	Purchase price (thousands)	Loan-to-price ratio (percent)	Percentage distribution of estimated number of loans by loan-to-price ratio class			
								70.0 percent or less	70.1-80.0 percent	80.1-90.0 percent	Over 90.0 percent
<b>Purchase of newly built homes</b>											
1974 .....	8.72	1.30	8.92	26.3	29.8	40.1	75.8	32	42	20	12
1975 .....	8.75	1.54	9.01	26.8	33.3	44.6	76.1	26	42	19	14
1976 .....	8.76	1.44	8.99	27.2	35.9	48.4	75.8	28	41	21	11
1977 .....	8.80	1.33	9.01	27.9	40.5	54.3	76.3	26	43	21	11
<b>1977</b>											
Aug. ....	8.81	1.30	9.02	28.2	40.8	54.9	76.5	26	43	21	11
Sept. ....	8.82	1.34	9.04	28.2	41.7	56.0	76.3	26	42	22	10
Oct. ....	8.84	1.35	9.07	27.6	40.2	54.0	76.1	26	43	22	9
Nov. ....	8.85	1.38	9.07	28.2	42.0	56.4	76.5	25	42	21	11
Dec. ....	8.87	1.30	9.09	28.0	42.6	57.7	75.5	28	43	19	10
<b>1978</b>											
Jan. ....	8.93	1.41	9.15	28.3	43.3	58.0	76.4	25	44	21	10
Feb. ....	8.96	1.32	9.18	27.3	44.0	59.9	75.3	26	46	18	10
Mar. ....	9.03	1.37	9.26	27.4	43.5	58.8	75.5	30	38	20	11
Apr. ....	9.07	1.44	9.30	28.4	45.7	61.6	76.1	25	44	21	10
May. ....	9.14	1.34	9.37	27.7	44.2	59.8	75.5	29	39	21	12
June. ....	9.23	1.40	9.46	28.3	45.9	62.6	75.6	28	41	20	11
July. ....	9.34	1.40	9.57	28.2	45.3	60.7	75.4	28	43	18	11
Aug. ....	9.45	1.43	9.70	28.0	46.4	63.6	75.3	28	42	17	13
Sept. ....	9.50	1.36	9.73	27.8	46.7	64.6	74.1	31	40	20	9
<b>Purchase of previously occupied homes</b>											
1974 .....	8.84	1.09	9.01	23.0	24.5	34.7	72.4	35	45	16	4
1975 .....	9.01	1.19	9.21	24.0	27.4	38.2	73.4	31	47	17	5
1976 .....	8.92	1.17	9.11	24.5	29.8	41.3	73.8	30	47	18	5
1977 .....	8.83	1.17	9.02	25.8	34.7	47.5	75.1	27	48	20	6
<b>1977</b>											
Aug. ....	8.86	1.16	9.05	26.1	35.3	48.5	74.9	28	46	19	6
Sept. ....	8.86	1.14	9.05	25.9	35.8	49.5	74.5	29	46	19	6
Oct. ....	8.88	1.16	9.08	25.6	34.1	46.6	74.8	28	47	19	6
Nov. ....	8.89	1.18	9.08	26.0	36.2	50.2	74.5	28	47	19	6
Dec. ....	8.93	1.17	9.12	26.1	36.0	49.4	74.8	29	46	20	6
<b>1978</b>											
Jan. ....	8.95	1.22	9.15	26.1	36.9	50.6	74.8	28	47	19	7
Feb. ....	8.99	1.23	9.20	25.8	36.4	49.4	75.9	26	47	21	7
Mar. ....	9.04	1.22	9.24	26.2	37.6	51.0	75.6	26	45	21	8
Apr. ....	9.14	1.26	9.35	26.6	38.6	52.1	76.1	25	45	22	8
May. ....	9.17	1.22	9.37	26.2	38.2	51.7	76.0	26	44	23	7
June. ....	9.27	1.21	9.48	26.5	39.2	53.9	74.8	28	45	20	7
July. ....	9.41	1.27	9.63	26.5	39.2	53.7	75.1	28	46	20	7
Aug. ....	9.55	1.27	9.77	26.4	39.7	54.7	74.9	29	45	20	6
Sept. ....	9.62	1.26	9.84	26.6	41.3	57.5	74.4	29	44	21	6
<b>Combined construction-purchase</b>											
1974 .....	8.69	1.21	8.89	23.6	29.9	44.8	69.1	45	42	10	4
1975 .....	8.89	1.45	9.13	24.0	31.5	46.1	69.1	44	43	8	4
1976 .....	8.83	1.41	9.07	25.2	34.9	50.4	70.3	40	47	10	3
1977 .....	8.77	1.39	9.00	25.8	38.5	55.1	71.1	38	46	11	5
<b>1977</b>											
Aug. ....	8.78	1.49	9.03	26.2	39.6	56.4	71.8	37	46	13	5
Sept. ....	8.76	1.31	8.97	25.1	38.6	56.7	69.5	41	45	10	4
Oct. ....	8.79	1.39	9.01	26.2	38.4	56.9	69.7	43	41	11	5
Nov. ....	8.80	1.47	9.04	26.5	40.8	58.1	71.8	37	45	12	7
Dec. ....	8.83	1.43	9.07	26.7	40.6	57.5	72.1	35	51	10	4
<b>1978</b>											
Jan. ....	8.92	1.35	9.15	25.4	40.1	57.4	71.2	39	47	11	11
Feb. ....	8.84	1.52	9.09	26.0	42.7	61.7	70.2	39	49	9	4
Mar. ....	8.92	1.47	9.16	26.9	42.5	62.9	69.6	40	44	11	4
Apr. ....	8.98	1.34	9.20	26.0	43.5	62.1	71.2	39	50	7	4
May. ....	9.03	1.45	9.27	26.6	43.8	62.4	71.4	39	44	12	5
June. ....	9.04	1.33	9.26	26.4	43.6	63.9	70.0	46	40	9	5
July. ....	9.18	1.46	9.43	26.5	43.2	63.0	70.2	41	46	10	3
Aug. ....	9.24	1.44	9.50	26.3	45.9	65.8	70.9	41	46	10	4
Sept. ....	9.33	1.37	9.57	26.2	44.1	67.3	66.9	52	34	10	4

See footnotes at end of following table.

**Table S.5.2.—Terms on Conventional Home Mortgage Loans Made: National Averages for Savings and Loan Associations <sup>1</sup>**

Period	Contract interest rate <sup>2</sup> (percent)	Initial fees and charges <sup>3</sup> (percent)	Effective rate <sup>4</sup> (percent)	Term to maturity (years)	Loan amount (thousands)	Purchase price (thousands)	Loan-to-price ratio (percent)	Percentage distribution of estimated number of loans by loan-to-price ratio class			
								70.0 percent or less	70.1-80.0 percent	80.1-90.0 percent	Over 90.0 percent
<b>Purchase of newly built homes</b>											
1974.....	8.67	1.54	8.92	27.5	30.5	40.0	77.9	21	43	23	13
1975.....	8.78	1.62	9.05	27.8	34.1	44.9	77.4	23	44	21	13
1976.....	8.79	1.55	9.04	28.1	36.6	48.6	76.8	25	43	21	11
1977.....	8.81	1.43	9.04	28.4	41.1	54.6	77.0	23	46	21	10
<b>1977</b>											
Aug.....	8.83	1.41	9.06	28.5	40.9	54.5	77.0	24	46	21	10
Sept.....	8.86	1.43	9.09	28.6	42.3	56.5	76.8	25	44	21	10
Oct.....	8.87	1.43	9.10	28.5	41.3	54.8	76.8	24	46	21	9
Nov.....	8.87	1.44	9.10	28.5	42.2	56.2	76.8	24	44	22	11
Dec.....	8.90	1.42	9.13	28.6	43.3	58.0	76.3	25	46	21	9
<b>1978</b>											
Jan.....	8.93	1.44	9.17	28.7	43.7	58.3	76.4	25	46	21	9
Feb.....	8.97	1.44	9.20	28.7	44.7	60.0	76.4	25	45	19	11
Mar.....	9.03	1.52	9.28	28.7	44.1	58.6	76.9	24	43	22	10
Apr.....	9.10	1.50	9.35	28.7	45.4	60.5	76.7	24	45	21	10
May.....	9.17	1.49	9.41	28.5	44.9	60.1	76.2	26	41	21	12
June.....	9.27	1.50	9.52	28.6	45.3	61.1	75.8	28	42	21	9
July.....	9.34	1.47	9.59	28.4	44.2	60.0	75.5	NA	NA	NA	NA
Aug.....	9.48	1.58	9.75	28.8	46.4	63.0	75.5	NA	NA	NA	NA
Sept.....	9.55	1.51	9.80	28.7	47.3	64.1	75.7	NA	NA	NA	NA
<b>Purchase of previously occupied homes</b>											
1974.....	8.88	1.46	9.13	24.5	24.4	33.0	75.6	25	51	20	5
1975.....	9.05	1.40	9.28	25.1	27.7	37.4	75.6	25	50	20	5
1976.....	8.94	1.34	9.16	25.6	30.3	40.8	76.2	24	50	21	5
1977.....	8.86	1.32	9.08	26.6	35.1	46.9	76.8	22	50	22	6
<b>1977</b>											
Aug.....	8.90	1.32	9.12	26.7	35.5	47.8	76.4	24	48	22	6
Sept.....	8.92	1.30	9.13	26.7	36.5	49.2	76.4	23	50	21	6
Oct.....	8.93	1.33	9.15	26.5	35.0	46.7	76.7	22	50	22	6
Nov.....	8.94	1.32	9.16	26.5	36.0	48.3	76.3	24	50	20	6
Dec.....	8.96	1.31	9.18	26.7	36.3	48.9	76.3	23	49	22	6
<b>1978</b>											
Jan.....	9.00	1.33	9.22	26.7	37.0	49.9	76.3	24	50	20	6
Feb.....	9.03	1.34	9.25	26.5	36.4	48.5	77.2	21	51	22	7
Mar.....	9.10	1.34	9.32	26.9	38.0	50.4	77.0	22	49	22	7
Apr.....	9.19	1.37	9.42	27.1	38.5	51.3	77.1	22	47	23	8
May.....	9.23	1.35	9.45	27.0	38.6	51.3	77.4	22	47	24	7
June.....	9.36	1.37	9.59	27.2	39.8	53.4	76.7	24	46	23	7
July.....	9.48	1.43	9.72	26.9	37.9	50.9	76.6	NA	NA	NA	NA
Aug.....	9.62	1.43	9.86	27.0	39.1	52.9	76.3	NA	NA	NA	NA
Sept.....	9.70	1.43	9.94	27.3	41.1	55.5	76.4	NA	NA	NA	NA

<sup>1</sup> Savings and loan associations, mortgage bankers, commercial banks, and mutual savings banks.

<sup>2</sup> The estimated cost of mortgage insurance has been deducted from the contract rate for the relatively small number of loans including such costs in the rate.

<sup>3</sup> Includes any general or specific charges paid by the borrower, or seller, in order to obtain a loan, except those for mortgage, credit, life, or property insurance, for property transfer, and for title search and insurance.

<sup>4</sup> Contract rate plus initial fees and charges amortized over a 10-year period, on the assumption that, on the average, loans are prepaid at the end of that time.

Note: Data are weighted averages compiled by the FHLBB in cooperation with the Federal Deposit Insurance Corporation from individual loan data reported by a sample of the indicated types of lenders on fully amortized conventional first mortgage loans secured by single-family residential property; excluded are interim construction loans, refinancing loans, junior liens, and federally underwritten loans.

**Table S.5.3.—Mortgage Debt Outstanding, by Type of Property and Mortgage**  
(In millions of dollars)

End of year and quarter	Total	Property type					Mortgage type <sup>1</sup>		
		Total	Nonfarm			Commercial	Farm	FHA/VA-underwritten	Conventional
			Total	1- to 4-family homes	5 or more units				
1973 .....	682,321	641,068	509,343	416,211	93,132	131,725	41,253	135,044	374,716
1974 .....	742,512	696,224	549,347	449,371	99,976	146,877	46,288	140,212	409,576
1975 .....	801,537	750,660	591,362	490,761	100,601	159,298	50,877	146,984	445,085
<b>1976</b>									
1st .....	818,420	766,220	605,037	503,255	101,782	161,183	52,200	148,311	456,726
2d .....	840,533	786,740	622,691	519,790	102,901	164,049	53,793	150,548	472,143
3d .....	865,639	810,174	642,644	538,771	103,873	167,530	55,465	150,801	491,843
4th .....	889,202	832,171	660,961	556,456	104,505	171,210	57,031	154,146	506,815
<b>1977</b>									
1st .....	911,994	852,839	678,596	573,389	105,207	174,243	59,155	155,697	523,357
2d .....	948,826	886,934	707,356	600,262	107,094	179,578	61,815	158,652	548,704
3d .....	985,607	921,542	736,727	627,770	108,957	184,815	64,065	161,564	575,163
4th .....	1,021,169	955,284	763,691	652,405	111,286	191,593	65,885	161,739	601,660

<sup>1</sup> FHA/VA-figures are from Federal Housing Administration and Veterans Administration. Conventional data include all farm mortgages regardless of mortgage type.

Note: Except as noted all data are estimates, subject to revision, made by Federal Reserve in conjunction with FHLBB and Department of Commerce from data reported by various institutional and Government sources.

**Table S.5.4.—Mortgage Debt Outstanding on One- to Four-Family Nonfarm Properties by Type of Holder**  
(In millions of dollars)

End of year and quarter	Total	Savings and loan associations <sup>1</sup>	Life insurance companies	Mutual savings banks	Commercial banks	Federal and related agencies <sup>2</sup>			Mortgage pools or trusts <sup>3</sup>	Other holders
						FNMA <sup>2</sup>	FHLMC	Other		
1973 .....	416,211	187,078	20,426	48,811	67,998	20,370	2,446	4,334	13,636	51,112
1974 .....	449,371	200,987	19,026	49,213	74,758	23,778	4,217	5,422	18,639	53,331
1975 .....	490,761	223,903	17,590	50,025	77,018	25,813	4,588	7,475	28,081	56,268
<b>1976</b>										
1st .....	503,255	230,395	17,160	50,553	78,974	26,262	4,247	7,454	30,907	57,301
2d .....	519,790	240,976	16,855	51,326	81,281	26,112	4,166	5,749	34,322	59,003
3d .....	538,771	251,553	16,448	52,250	83,938	27,030	3,917	5,542	37,569	60,524
4th .....	556,456	260,794	16,088	53,089	86,234	26,934	3,889	4,701	42,084	62,643
<b>1977</b>										
1st .....	573,389	269,827	15,699	53,502	88,116	26,836	3,200	4,109	47,123	64,207
2d .....	600,262	284,433	15,418	55,000	93,393	27,933	2,901	4,393	50,219	66,562
3d .....	627,770	298,459	15,022	56,313	97,746	28,178	2,818	4,385	55,534	69,315
4th .....	652,405	310,729	14,727	57,637	101,361	28,504	2,738	4,471	60,573	71,665

<sup>1</sup> See notes to S.4.7.

<sup>2</sup> Except for balances backing securities insured or guaranteed by the agencies. Included in other, are Veterans Administration, Federal Housing Administration, Farmers Home Administration, and Federal Land Banks.

<sup>3</sup> Balances backing securities insured or guaranteed by Government National Mortgage Association, FHLMC, and Farmers Home Administration.

Note: Data, except for savings and loan associations, are partly estimated by Federal Reserve from data collected by Federal agencies and private organizations.

**Table S.5.5.—Mortgage Debt Outstanding on Nonfarm Residential Property with Five or More Units**  
(In millions of dollars)

End of year and quarter	Total	Savings and loan associations <sup>1</sup>	Life insurance companies	Mutual savings banks	Commercial banks	Federal and related agencies <sup>2</sup>			Mortgage pools and trusts <sup>3</sup>	Other holders
						FNMA	GNMA	Other		
1973.....	93,132	22,779	18,451	12,343	6,932	3,805	2,574	1,650	616	23,982
1974.....	99,976	23,808	19,625	12,923	7,619	5,800	2,598	2,542	785	24,276
1975.....	100,601	25,547	19,629	13,792	5,915	6,011	2,710	3,594	1,263	22,140
<b>1976</b>										
1st.....	101,782	25,937	19,565	13,699	6,981	5,920	2,733	3,433	1,699	21,815
2d.....	102,901	26,812	19,367	13,674	8,130	5,916	2,392	3,739	1,676	21,195
3d.....	103,873	27,497	19,234	13,915	8,144	5,932	2,582	3,871	1,784	20,914
4th.....	104,505	28,425	19,178	14,177	8,082	5,970	2,271	4,072	1,910	20,420
<b>1977</b>										
1st.....	105,207	29,188	18,921	14,291	7,974	5,994	2,343	3,878	2,314	20,304
2d.....	107,094	30,505	18,891	14,602	8,003	5,985	2,258	4,132	2,405	20,313
3d.....	108,957	31,585	18,831	14,952	8,383	5,970	2,077	4,314	2,682	20,163
4th.....	111,286	32,518	18,807	15,304	8,692	5,865	2,112	4,398	3,089	20,501

<sup>1</sup> See notes to table S.4.7.

<sup>2</sup> Except for balances backing securities insured or guaranteed by the agencies. Included in other, are Veterans Administration, Federal Housing Administration, Farmers Home Administration, and Federal Land Banks.

<sup>3</sup> Balances backing securities insured or guaranteed by Government National Mortgage Association, FHLMC, and Farmers Home Administration.

Note: Data, except for savings and loan associations, are partially estimated by Federal Reserve from data collected by Federal agencies and private organizations.

**Table S.5.6.—Foreclosures<sup>1</sup> by FSLIC-Insured Savings and Loan Associations Classified by Type of Mortgage**

Period	All types of mortgages						Conventional mortgages			FHA/VA mortgages		
	Number of mortgages foreclosed			Balance due on mortgages foreclosed			Number of mortgages foreclosed			Number of mortgages foreclosed		
	Number	Percent of average No. of mortgages held		Amount (\$ millions)	Percent of average Mortgage balances held		Number	Percent of average No. of mortgages held		Number	Percent of average No. of mortgages held	
		Actual	Annualized <sup>2</sup>		Actual	Annualized <sup>2</sup>		Actual	Annualized <sup>2</sup>		Actual	Annualized <sup>2</sup>
<b>1972</b>												
July—Dec.....	12,243	.105	.210	252.0	.131	.262	5,391	.054	.108	6,852	.378	.756
<b>1973</b>												
Jan.—June.....	13,015	.108	.216	292.8	.140	.280	5,324	.052	.104	7,691	.406	.812
July—Dec.....	12,260	.100	.200	283.8	.128	.256	5,315	.051	.102	6,945	.364	.728
<b>1974</b>												
Jan.—June.....	11,936	.095	.190	329.2	.142	.284	5,359	.051	.102	6,577	.327	.654
July—Dec.....	12,294	.097	.194	385.4	.160	.320	6,586	.061	.122	5,708	.296	.592
<b>1975</b>												
Jan.—June.....	12,823	.101	.202	520.5	.209	.418	7,727	.071	.142	5,096	.266	.532
July—Dec.....	12,156	.094	.188	565.4	.215	.430	7,811	.071	.142	4,345	.225	.450
<b>1976</b>												
Jan.—June.....	11,560	.087	.174	594.7	.211	.422	7,993	.071	.142	3,567	.185	.370
July—Dec.....	10,982	.081	.162	534.6	.176	.352	7,807	.067	.134	3,175	.168	.336
<b>1977</b>												
Jan.—June.....	10,540	.076	.152	458.2	.139	.278	7,045	.059	.118	3,495	.189	.378
July—Dec.....	9,360	.065	.130	409.7	.114	.228	6,423	.051	.102	2,937	.162	.324

<sup>1</sup> Foreclosures include deeds in lieu of foreclosure and are reported as of the date the judgment is obtained, even if subject to a redemption period.

<sup>2</sup> Foreclosure rates for semiannual periods expressed at annual rates without seasonal adjustment.  
Note: FHLBB data.

**Table S.6.1.—Indicators of Housing Activity**

(In thousands of units except for last column which is in millions of dollars)

Period <sup>1</sup>	Private housing units started <sup>2</sup>								Private nonfarm starts financed by Government home programs		New private housing units authorized <sup>3</sup>	New homes sold <sup>4</sup>	New construction put in place: total residential buildings <sup>5</sup>
	U.S. total	Region				Type of structure			FHA	VA			
		North-east	North central	South	West	1 unit	2-4 units	5 units or more					
1974.....	1,337.7	183.2	317.3	552.8	284.5	888.1	68.1	381.6	56.6	72.4	1,074.4	519	50,376
1975.....	1,160.4	149.2	294.0	442.1	275.1	892.2	64.0	204.3	69.1	73.7	939.2	549	46,472
1976.....	1,537.5	169.2	400.1	568.5	399.6	1,162.4	85.9	289.2	81.0	99.9	1,296.2	646	60,520
1977.....	1,974.8	193.9	448.9	787.0	545.0	1,441.1	122.3	411.5	131.4	218.1	1,690.0	819	80,353
<b>1977</b>													
Sept.....	2,012	176	460	834	542	1,508	124	380	101	135	1,695	845	81,677
Oct.....	2,139	232	480	907	520	1,532	127	480	79	145	1,781	870	83,022
Nov.....	2,096	212	509	817	558	1,544	134	418	98	122	1,822	819	84,005
Dec.....	2,203	199	432	905	667	1,574	153	476	147	147	1,778	857	87,246
<b>1978</b>													
Jan.....	1,548	118	286	650	494	1,156	101	291	71	113	1,526	813	79,380
Feb.....	1,569	64	394	598	513	1,103	79	387	76	120	1,534	774	85,273
Mar.....	2,047	152	444	903	548	1,429	126	492	103	139	1,647	793	88,141
Apr.....	2,165	244	482	874	565	1,492	142	531	111	137	1,740	828	92,433
May.....	2,054	188	463	868	535	1,478	89	487	103	121	1,597	845	94,533
June.....	2,124	212	476	889	547	1,441	148	535	88	128	1,821	812	94,902
July.....	2,119	221	466	888	544	1,453	135	531	104	122	1,632	( <sup>6</sup> )	93,944
Aug.....	2,044	219	410	837	578	1,454	142	448	101	117	1,571	( <sup>6</sup> )	92,724
Sept <sup>6</sup> .....	2,073	238	470	855	510	1,451	110	512	( <sup>6</sup> )	( <sup>6</sup> )	( <sup>6</sup> )	( <sup>6</sup> )	( <sup>6</sup> )

<sup>1</sup> Monthly data are seasonally adjusted annual rates.

<sup>2</sup> Bureau of the Census, Department of Commerce; figures are based on 13,000 permit-issuing places beginning 1967, 14,000 permit-issuing places beginning 1972.

<sup>3</sup> Bureau of the Census, Department of Commerce.

<sup>4</sup> Department of Housing and Urban Development.

<sup>5</sup> Not available.

<sup>6</sup> Preliminary.

**Table S.6.2.—Inventory of Unsold Homes**

End of month	New homes for sale (in thousands of units)				
	Total	Stage of construction			As ratio of new homes sold during month
		Completed	Under construction	Not started	
<b>December</b>					
1974.....	350	101	190	59	NA
1975.....	316	87	178	50	NA
1976.....	358	87	215	56	NA
1977.....	408	87	256	65	NA
<b>1977</b>					
June.....	369	75	231	63	5.0
July.....	379	75	240	62	5.9
Aug.....	390	82	242	66	5.3
Sept.....	392	81	247	64	5.5
Oct.....	403	84	256	63	6.4
Nov.....	408	84	256	68	7.4
Dec.....	408	87	256	65	8.0
<b>1978</b>					
Jan.....	401	85	246	70	7.0
Feb.....	389	81	237	70	6.2
Mar.....	398	79	246	73	5.3
Apr.....	404	79	254	71	4.8
May.....	412	79	263	71	5.1
June.....	425	81	266	79	5.7

Note: Bureau of the Census, Department of Commerce, and Department of Housing and Urban Development. Detail may not add to total because of rounding.

<sup>1</sup> Revised.

**Table S.6.3.—Rental Vacancy Rates for the United States and Major Regions**

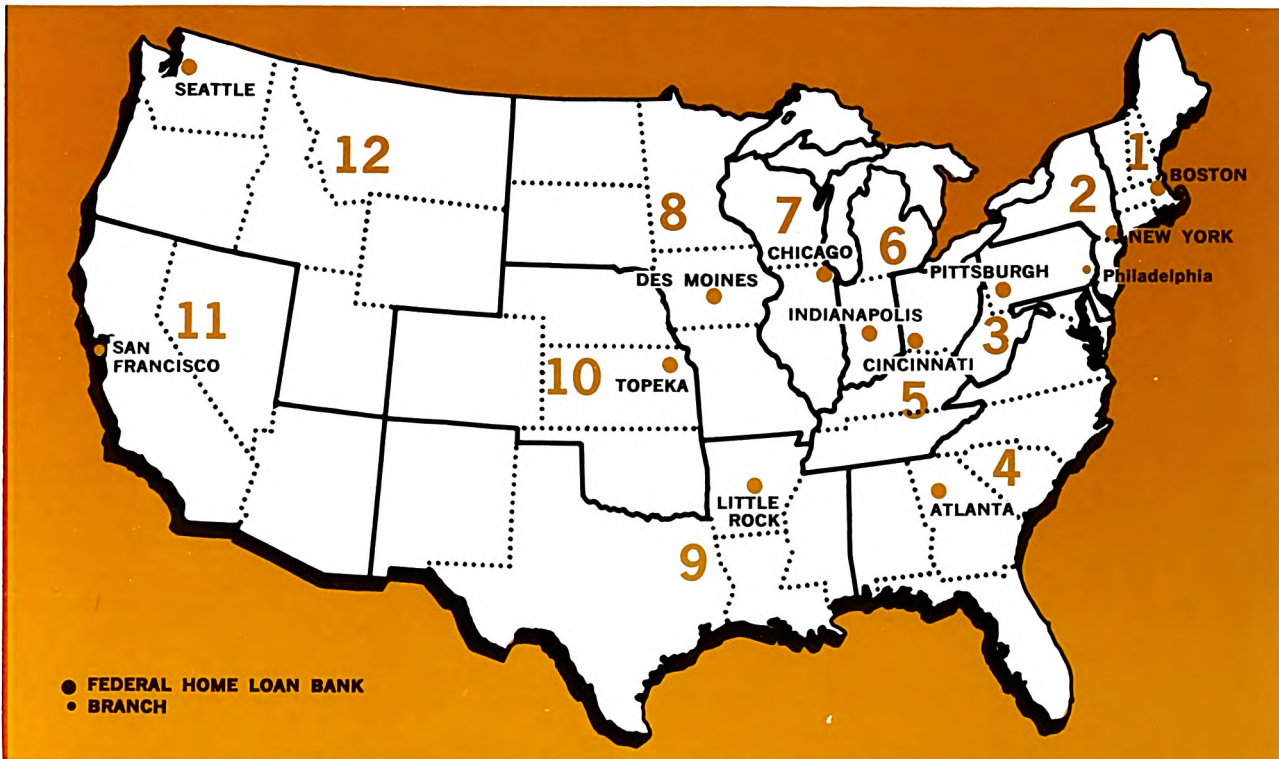
Year and quarter	United States	North-east	North central	South	West
<b>New series <sup>1 2</sup></b>					
1974.....	6.2	4.2	6.1	8.0	6.2
1975.....	6.0	4.1	5.7	7.7	6.2
1976.....	5.6	4.7	5.7	6.4	5.4
1977.....	5.2	5.1	5.1	5.7	5.0
<b>1977</b>					
1st.....	5.1	4.8	5.3	5.8	4.4
2nd.....	5.3	5.2	4.7	5.5	5.7
3d.....	5.4	5.4	5.1	5.7	5.5
4th.....	5.1	4.9	5.2	5.6	4.4
<b>1978</b>					
1st.....	5.0	4.8	5.3	5.4	4.4
2nd.....	6.4	5.5	5.7	7.3	6.7

<sup>1</sup> Revised to include vacant, for-rent units classified as dilapidated.

<sup>2</sup> Average of four quarters as published by Bureau of Census.

Note: Bureau of the Census, Department of Commerce.

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