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FEDERAL RESERVE BULLETIN

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Monetary Policy Report to the Congress

Report submitted to the Congress on February 21, 1989, pursuant to the Full Employment and Balanced Growth Act of 1978.[1]

MONETARY POLICY AND THE ECONOMIC OUTLOOK FOR 1989

Overall, 1988 was another year of progress for the U.S. economy, marked by further substantial increases in output and employment and by a significant improvement in the balance of trade. The dramatic stock-market break of October 1987 did seem to affect real activity for a time, but the underlying strength of the economy soon showed through, and, apart from losses of farm output caused by the drought, growth proceeded at a relatively strong pace throughout 1988. Moreover, the sizable employment gains in January of this year suggest that the economy entered 1989 with considerable forward momentum.

Inflation has remained in check into the seventh year of the expansion. Even so, developments during 1988 were a little worrying, as, for a second year, increases in prices were somewhat larger than they were in earlier years of the expansion. Part of the pressure on prices in 1988 came in the food area and reflected the influence of the drought. However, with labor markets tightening, there also was a quickening in the rise of wages and total hourly compensation, which affected prices more generally.

Federal Reserve policy mirrored the changing economic circumstances of 1988. Early in the year, as in late 1987, the Federal Reserve sought to limit repercussions from the plunge in stock prices and, in particular, to guard against the possibility of a significant contraction in business activity. Pressures on the reserve positions of depository institutions were eased a bit further in early 1988, and interest rates edged down for a time, extending the declines that had begun in October 1987. Growth of M2 and M3 was fairly rapid during this period, nearly reaching the upper bounds of the annual target ranges established by the Federal Open Market Committee (FOMC).

As it became clear in the spring that the economy still was strong, the focus of Federal Reserve policy shifted. For much of the year, there was heightened concern about the potential for increased inflation, largely reflecting rapid growth of spending and a continued tightening of labor and product markets. A sharp upswing in real net exports of goods and services that had begun in 1987 continued into 1988; while this upturn was a welcome and necessary part of the adjustment of the U.S. economy toward a better balance in its external accounts, it also intensified the demands on U.S. producers at a time when the utilization of domestic labor and capital already was quite high. Accommodating the improvement in our external position while limiting the risk of heightened inflation required restraint on the growth of domestic demand.

The shift by the Federal Reserve toward restraint was reflected in a tightening of reserve market conditions that began in late March and continued, in several steps, into 1989. Short-term market interest rates moved up during this period, influenced both by the System's tightening and by the strength of the economy, and the discount rate was raised in August, to its current level of 6½ percent. Growth of M2 moderated after the spring and ended the year just below the middle of the 1988 target range. The growth of M3 also ebbed over the last two quarters, as the needs of banks and thrift institutions to fund credit expansion slackened.

At present, short-term interest rates are about 2½ percentage points higher than they were early

1. The charts for the report are available on request from Publications Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

last spring. Long-term interest rates, by contrast, have changed little, on net, over that same period; although these rates turned up in the spring of 1988, they leveled off over the summer and edged down in the fall, even as short-term rates were continuing to rise. This behavior of bond yields seems to have reflected a lowering of market expectations of long-run inflation.

Monetary Policy for 1989

The commitment by the Federal Reserve to contain inflationary pressures is reflected in the FOMC's decisions to lower the ranges for monetary and credit expansion this year. The Committee has set a range of 3 to 7 percent for M2 growth during 1989 and a range of 3½ to 7½ percent for M3, reaffirming the target ranges established tentatively in June 1988. These ranges were reduced from those for 1988—a full percentage point for M2 and one-half percentage point for M3—signalling the Committee's determination to resist any upward tendencies in inflation in the coming year and to promote progress toward price stability over the long run. The monitoring range for the growth of domestic nonfinancial debt for 1989 was set at 6½ to 10½ percent, which also is lower than that of last year.

In recognition of the degree to which the relationship between the monetary aggregates and economic performance has varied in this decade, the Committee retained the spread of 4 percentage points between the upper and lower ends of the growth ranges that it adopted in 1988. Despite the deregulation of deposit interest rates, M2 velocity has remained very sensitive to changes in market interest rates over periods as long as a year or more. Depository institutions have been slow to adjust some of their offering rates, causing substantial changes over the short and intermediate term in the relative attractiveness to savers of deposits versus market instruments. In these circumstances, it is difficult to specify in advance a narrow range for the appropriate growth of M2 and the other aggregates in the coming year: such growth will depend on the forces affecting the economy and prices and on the response of depository institutions to any changes in market interest rates, both of which are subject to a substantial degree of uncertainty. Moreover, in 1989, the behavior of M2 and M3 also could be influenced by the resolution of problems in the thrift industry, depending, in part, on how pricing practices of these institutions change, on the reactions of retail and wholesale depositors in these institutions, and on the extent of any restraints on the growth of assets of savings and loan associations.

M2 and M3 are now around the lower ends of their 1989 ranges. This slow growth and the accompanying rise in velocity reflect the continuing effects of recent increases in market interest rates. In light of the slow adjustment of deposit rates, velocity could continue to increase, with growth in these monetary aggregates in the lower halves of their ranges. Given the uncertainties about the relation of movements in the aggregates to prices and output, the Committee agreed that in implementing policy, they would need to assess, in addition to the behavior of money, indicators of inflationary pressures and economic growth, as well as developments in financial and foreign exchange markets.

The Committee will continue to monitor the growth of domestic debt in 1989. The expansion of the debt of nonfinancial sectors may slow a little from the 8¾ percent pace of 1988, although it is expected once again to exceed the pace of growth in nominal income. The growth of debt could be importantly affected by corporate financial behavior. The expansion of private debt has been boosted in recent years by the substitution of debt for equity in connection with leveraged buyouts and other corporate restructurings, and business borrowing is likely to be especially sizable in the early part of this year, owing to the recent heavy volume of such activity. The federal government, once again, will be placing heavy demands on credit markets, financing its continuing deficit.

1. Ranges of growth for monetary and credit aggregates

Percent change, fourth quarter to fourth quarter

Monetary aggregate	1987	1988	1989
M2	5½ to 8½	4 to 8	3 to 7
M3	5½ to 8½	4 to 8	3½ to 7½
Debt	8 to 11	7 to 11	6½ to 10½

Economic Projections

In general, the Committee members, including the nonvoting Reserve Bank presidents, anticipate that real gross national product will grow moderately in 1989, that prices will rise at a pace similar to, or perhaps slightly above, that of 1988, and that the unemployment rate will remain near its recent level—the lowest in a decade and a half. On balance, the FOMC members anticipate a little less real growth and a somewhat higher rate of inflation than does the administration, but the differences are not large.

Members of the Committee believe that the progress of the economy in 1989 will be determined in large measure by developments on the inflation front. Although special factors, such as the drought, contributed to price increases last year, there also have been troubling indications—most notably in recent wage trends—that inflationary pressures have become more widespread and, potentially, more deeply rooted.

Given the tightening actions taken by the Federal Reserve over the past year and the policy of continued restraint on aggregate demand expressed in the monetary targets for 1989, the members of the Committee anticipate that, if there is any further acceleration of prices from the 1988 pace, it will be quite limited. The majority of the Committee members expect that the consumer price index will rise about 4½ to 5 percent this year. This would be a slightly larger increase than in 1988, and thus would represent something of a setback relative to the Committee's disinflationary objective. However, in light of the tautness of markets and the current momentum of wages and prices, these members viewed such a projection as realistic in the context of a prudent effort to restore price stability over time. It should be noted, however, that some members expect a rise in prices that is significantly below the central-tendency range; in their view this far more desirable outcome could flow from the dollar's recent firmness, which will damp the pressures from rising import prices, and from the recognition by business and labor that restraint is needed to preserve gains in international competitiveness.

A particular uncertainty in the inflation outlook for 1989 centers on the prospects for food prices. FOMC members generally assume that a return to more normal weather conditions this year, together with an increase in acres planted, will lead to a sharp rebound in crop production, in which case food prices might help to temper overall inflation. However, because stocks of some key agricultural commodities have been reduced to low levels, there also is risk that another year of drought could generate strong upward pressures on prices. In the energy area, consumer prices could rise sharply early this year, responding to the runup in oil prices around the end of 1988; nonetheless, world oil supplies still look ample, and members of the Committee are assuming that energy prices will increase only moderately over 1989 as a whole.

With respect to real GNP, the central-tendency forecast of the Committee members is for a rise of about 2½ to 3 percent in 1989, about the same as in 1988. However, this forecast incorporates a working assumption that increased farm output will add around two-thirds of a percentage point to the growth of GNP, similar to the amount that the drought pared from growth in 1988. Excluding this swing in farm output, the central-tendency forecast is for considerably slower growth of real output than last year's

2. Economic projections for 1989

Percent change, fourth quarter to fourth quarter

Item	1988 Actual	FOMC members and other FRB Presidents	
		Range	Central tendency
Nominal GNP	7.0	5½ to 8½	6½ to 7½
Real GNP	2.7	1½ to 3¼	2½ to 3
Consumer price index	4.3	3½ to 5½	4½ to 5
Average level in the fourth quarter, percent			
Unemployment rate	5.3	5 to 6	5¼ to 5½

gain, excluding drought losses, of more than 3 percent.

Although the economy clearly has entered 1989 on a strong note—even discounting the transitory influence of unusually mild weather in many parts of the country—the members feel that growth soon will move to a lower trajectory, owing both to the general influence of monetary restraint and to a number of sector-specific trends. In the business sector, the boom in capital outlays that was evident in the first half of 1988 has since abated, and surveys of plans for 1989 point to moderate gains in overall plant and equipment spending. Government purchases are expected to be held down by budgetary constraints; defense purchases, in particular, have been trending lower under the influence of cutbacks in real spending authority. Recent increases in mortgage rates likely portend some slackening in the pace of homebuilding, and the growth of consumption expenditures also should begin to taper off from the rapid pace of 1988, as a slowing of expansion elsewhere in the economy damps the growth of real disposable income.

With regard to the external sector, real net exports of goods and services declined over the second half of 1988, but most members of the Committee expect some improvement in the months ahead. However, substantial further progress in external adjustment will require a continuing commitment on the part of U.S. firms to capitalize on the enhanced competitiveness resulting from the depreciation of the dollar since 1985. That commitment must take the form not only of continued cost control and price restraint, but also of more intense efforts at marketing abroad and investment in new capacity where constraints are visible. Failure on these counts would almost certainly leave the U.S. economy considerably less well off over the long haul.

Government policy can do much to encourage businesses to make the longer-range commitments needed to bring about better balance in the economy and to foster longer-run growth. A monetary policy directed steadfastly at movement toward price stability is one critical ingredient. But also crucial is action to bring about further progress toward balance in the federal budget. The Committee has assumed that Gramm–Rudman–Hollings targets will be adhered to in the fiscal 1990 budget process; but the creation of an environment favorable for economic growth with stable prices requires that fiscal policies be put in place to produce the prescribed budget results in the out-years as well.

THE PERFORMANCE OF THE ECONOMY IN 1988

The U.S. economy completed a sixth year of expansion in 1988. Real gross national product rose about 2¾ percent over the course of the year, the number of jobs increased more than 3½ million, and the unemployment rate remained on a downward course, closing the year at 5.3 percent, its lowest level in 14 years. Progress also was made toward restoring external balance, as the merchandise trade deficit fell sharply.

The year began on a note of uncertainty. The sharp break in the stock market in the fall of 1987 had raised concern that the economy might falter, and some signs of weakness did emerge around the start of 1988. By early spring, however, it became clear that the expansion still had considerable vigor, coming in particular from rising exports and a boom in capital spending. Households, meanwhile, adjusted fairly readily to the loss of stock market wealth, and consumer spending rose at a strong pace throughout the year. Toward the end of the year, net exports and capital spending softened, but there was enough impetus from other sectors to keep real GNP on a firm upward course.

The rate of inflation, which had picked up in 1987, remained somewhat higher in 1988 than in earlier years. The step-up in inflation in 1987 had resulted mainly from a rebound in the price of oil and the pass-through of higher prices for imports. This past year, by contrast, extra price pressures reflected the impact of drought on the price of food and, more generally, a widespread pickup in labor costs in the domestic economy.

The rise in real GNP last year would have exceeded 3 percent but for a severe drought, one of the worst of this century, that caused huge losses of farm output. These losses accounted for most of the slowdown in GNP growth that oc-

curred after the first quarter of 1988. Fortunately, inventories of farm products had been sizable coming into 1988, and a drawdown of stocks helped to buffer households and others from the disruption to output. Within the farm sector, the drought strained the finances of some producers, but the financial condition of many others was not seriously affected, and the sector as a whole remains stronger fundamentally than in the first half of the 1980s, when the boom of the previous decade was unwinding.

In most of the nonfarm economy, the growth of activity was robust in 1988. Production in the manufacturing sector increased 5 percent, nearly matching the previous year's gain, and factory employment rose sharply. Employment also continued to grow rapidly in retail and wholesale trade and among the providers of business and health services. However, oil drilling, which had turned up in 1987, when oil prices were rising, experienced renewed weakness in 1988, intensifying economic stresses in some parts of the country.

The External Sector

The U.S. external accounts showed considerable improvement during 1988. On a balance of payments basis, the deficit on merchandise trade fell from an annual rate of $165 billion in the fourth quarter of 1987 to around $120 billion in the second quarter of 1988 and, on average, remained at that lower level in the second half of the year. Over the four quarters of last year, the value of exports rose more than 20 percent; adjusted for inflation, the increase was around 15 percent. Much of the strength in exports, which was concentrated in the first half of the year, appeared to be associated with an improvement in the price competitiveness of U.S. products resulting from an earlier depreciation of the dollar, as well as with efforts at cost control and increases in productivity among domestic producers. Demand for exports also was supported by surprisingly strong economic growth in other industrial countries. The growth in real export volume was spread over most categories of trade; gains were particularly large for capital goods (especially computers and computer parts), automotive products, and consumer goods. The volume of agricultural exports for 1988 was up 9 percent from that for 1987, despite declines in the second half of the year; the value of these exports was boosted further by the drought-induced rise in crop prices.

The value of merchandise imports, other than oil, rose about 7 percent during 1988. The volume of non-oil imports increased about 2 percent. This rise was concentrated mainly in the capital goods area; volume was down for other major categories of imports. The prices of imported industrial supplies (excluding oil) rose significantly in 1988; smaller increases were recorded for consumer goods, automotive products, and various machinery categories. However, price declines for oil and computers held the overall increase in import prices below that of 1987; on a fixed-weight basis, the rise in non-oil import prices during 1988 was 7¼ percent. The value of oil imports declined last year, as an increase in physical volume was more than offset by the decline in price.

For the first three quarters of 1988, the current account showed a cumulative deficit of $102 billion, which was balanced by recorded net capital inflows of $88 billion and a statistical discrepancy of $14 billion. Foreign official assets in the United States increased $28 billion on net (this rise included about $30 billion, on net, of official purchases of U.S. government securities). Net inflows through banks were $21 billion. Excluding banking flows, assets held in the United States by private foreigners increased $68 billion on net; purchases of U.S. government securities were sizable (in contrast to net sales in 1987), and direct investment by foreigners in the United States remained near record levels. Excluding bank flows, the assets held abroad by private U.S. residents increased $26 billion. These recorded capital flows during the first three quarters of 1988, plus the likely net inflows in the fourth quarter, brought the recorded U.S. net indebtedness to foreigners to almost $500 billion at the end of 1988.

The foreign exchange value of the U.S. dollar, which had fallen sharply from early 1985 through the end of 1987, has shown wide fluctuations in the subsequent period. Measured against the other G-10 currencies, the dollar currently is up somewhat, on net, from its end-of-1987 low.

However, it has declined in real (price-adjusted) terms against the currencies of our major trading partners among the developing countries, especially South Korea, Mexico, and Brazil.

From mid-April to late August of last year, the dollar rose sharply, on average, against the currencies of the other industrial countries, reflecting the influences of Federal Reserve monetary tightening and monthly trade reports that brightened the market's assessment of the outlook for U.S. external adjustment. When measured against a weighted average of the other G-10 currencies, the appreciation during that period was more than 15 percent. After holding steady through September, the dollar then declined sharply in October and November; market perceptions appeared to shift during that period toward a view that monetary restraint in other countries had increased relative to that in the United States, and incoming trade data suggested a stalling of the adjustment process. Since November, the dollar has again risen, partly in response to further tightening actions by the Federal Reserve.

Measured against the G-10 currencies, the dollar currently is about 7 percent above its December 1987 level. If adjustment is made for changes in relative prices, the resulting real appreciation is somewhat greater, as inflation in the United States has exceeded the weighted average of the inflation rates of the other major industrial countries.

The Household Sector

At the start of 1988, concern about the possible effect of the stock market break on the real economy centered on the household sector. The drop in share values had pared roughly half a trillion dollars from household wealth, and the degree to which spending would be cut in response to this loss of wealth was not clear.

In the event, the loss of wealth may indeed have left an imprint on consumer demand. The personal saving rate did rise after the crash and, over the next year, averaged about a percentage point higher than in the year preceding the crash. But, with exports and capital investment booming, the growth of jobs and real incomes remained strong in 1988, and the uncertainties spawned by the crash soon gave way to renewed optimism among households. Thus, after the initial, one-time jump in the saving rate, real consumption expenditures grew at about the same pace as the trend in after-tax income; the rise over the year was about 3½ percent.

Consumer spending for big-ticket items was brisk in 1988. The unit sales of domestically produced automobiles moved up a bit from the 1987 pace, and the sales of light trucks and vans, which have more than doubled since the expansion began in 1983, reached another new high. Adjusted for inflation, total consumer spending for motor vehicles increased 6½ percent over the four quarters of the year. Among the household durables, real outlays for furniture and appliances, which had slowed in 1987, moved up 7½ percent during 1988, renewing the strength that had been evident over the 1983–86 period.

Real residential investment fell slightly in the first half of 1988, but it turned up in the second half and, by the fourth quarter, was a little above the level of a year earlier. Starts of multifamily housing units, which had slumped in 1987, fell further in the first quarter of 1988, but then flattened out over the remainder of the year; vacancy rates for multifamily dwellings remain high in many areas and are likely to hold down new construction of these units for some time. In the single-family sector, starts edged down through the first three quarters of 1988, but rebounded toward year-end to the highest levels since the fall of 1987. By historical standards, these swings in single-family starts during 1988 were relatively mild; indeed, from a longer-term perspective, the past six years have been an unusually stable period in the single-family market, in sharp contrast to the boom-and-bust cycles of the 1970s and early 1980s. Total housing starts, of course, have fallen sharply since 1986 because of the steep decline in construction of multifamily units.

The Business Sector

Virtually all indicators of business activity exhibited strength in 1988. Business sales, in nominal terms, rose 9 percent over the year. Hiring was brisk in most sectors, and operating rates rose further; in the industrial sector, capacity utiliza-

tion at the end of 1988 was at its highest level since 1979. Corporate profits remained healthy.

A surge in business equipment spending that had begun in 1987 extended through the first half of 1988, when outlays grew, in real terms, at an annual rate of about 20 percent. The surge was led by sizable investment in high-technology items—computers, communication equipment, and the like—but outlays for other types of equipment also were strong. After midyear, the rise in equipment spending slowed, and some weakness became evident toward the end of the year. However, most reports from the field suggest that the underlying trend in equipment spending still is pointing firmly upward.

Business spending for new construction declined in 1988, reversing the moderate increase of the previous year. Commercial construction, the biggest item in the total, continued to be restrained in 1988 by the big overhang of vacancies that grew out of the building boom of the mid-1980s. Gas and oil drilling, following the lead of oil prices, fell back a little from the pace of late 1987, but remained above the lows of 1986. Construction of buildings for industrial use was little changed over 1988; although capacity utilization is high in manufacturing, many producers also appear to be limiting their needs for additional space by shifting toward technologies that use more compact equipment, by economizing on inventories, or by conserving on space in other ways.

Inventory investment, which had been sizable in late 1987, moderated in 1988, and, with sales on an upward trajectory, stock overhangs were not a problem for most businesses. In manufacturing, stocks grew more rapidly in 1988 than they had in recent years, but much of the accumulation was in industries in which orders and shipments also were generally strong; the ratio of inventories to sales for all of manufacturing moved down during the year from the already low levels of late 1987. In retail trade, concern about a possible overhang of the stocks of nondurables eased a bit during the year, as the ratio of stocks to sales in that sector edged gradually lower from a February high. By contrast, auto dealers' stocks rose sharply in the fourth quarter, and auto manufacturers have enhanced sales incentives and moved to a lower assembly rate in an effort to pare inventories. For all of manufacturing and trade combined, the ratio of inventories to sales varied little over the course of 1988 and was near the lower end of the range in which it has been since the business expansion began.

The Government Sector

Budgetary constraints have led to a slowing of government purchases, both at the federal level and among state and local governments. The federal government's purchases of goods and services—the part of federal spending that adds directly to the gross national product—fell 4 percent in real terms from the fourth quarter of 1987 to the fourth quarter of 1988. Roughly half of the decline reflected a drought-induced reduction in the farm inventories owned or financed by the Commodity Credit Corporation (CCC), a reduction that is counted as a negative federal purchase. Excluding this inventory swing, federal purchases were down 2 percent over the year—the first decline since 1976. Over the eight years that preceded 1988, real federal purchases, other than those of the CCC, had risen at an average pace of nearly 5 percent, considerably faster than the growth of real GNP. The downturn in 1988 reflected cuts in the defense area; other non-CCC federal purchases rose somewhat over the year.

On a budget basis, total federal outlays, which are almost three times as great as federal purchases alone, continued to rise in fiscal year 1988, but at a somewhat slower rate than in most previous years. There were further increases in entitlements, greater demands on deposit insurance agencies, and increases in net interest payments. Meanwhile, the growth of federal receipts slowed in 1988 from the rapid pace of the previous year. Receipts from social security taxes rose more than 10 percent, in part because of a rate increase in January of 1988. However, growth in receipts from personal income taxes slowed, as increases in employment and nominal incomes were offset by final reductions in income tax rates legislated under the 1986 tax reforms. The federal budget deficit in fiscal year 1988 was $155 billion, slightly above the level of the previous year.

The real purchases of goods and services by state and local governments rose 3 percent over the four quarters of 1988, a little more than in 1987 but less than the average rate of growth over the preceding three years. Spending for construction, which had risen rapidly in the mid-1980s, was little changed during 1988 as a whole, although some pickup was evident in the fourth quarter. Employment in the state and local sector continued to rise during 1988, reflecting, in part, the increased demands for teachers and other school workers associated with growth in the number of elementary students.

The Labor Markets

The rise in the number of jobs during 1988 was somewhat above that of 1987 and brought the total increase in payroll employment since late 1982 to about 18½ million. Virtually all parts of the economy shared in last year's gain. The number of jobs in manufacturing increased 400,000; employment in construction was up 300,000. Close to a million new jobs were created in retail and wholesale trade, and 1.3 million were added in services. Except for a brief slowdown in the summer, the growth of jobs was strong throughout the year.

The continued rise in employment last year led to a tightening of labor markets and called attention to limits on the potential growth of the supply of labor and of output. Growth of the working-age population has slowed in the 1980s, and the increase during 1988 was the smallest annual rise in more than two decades. This slowing of population growth in the 1980s has led, in turn, to a more moderate rate of growth in the labor force, even as the rate of labor force participation, especially for adult women, has continued to rise. A big boost to output during the expansion has come from putting unemployed workers back on the job; now, however, with the unemployment rate at less than 5½ percent, the labor force is more fully utilized than at any time in the last decade and a half.

The tightening of labor markets in 1988 was associated with a pickup in the rise of wages and labor costs. The employment cost index for wages and salaries in the private nonfarm sector increased a bit more than 4 percent over the year—almost a percentage point more than in 1987. The pickup was most pronounced among white collar workers and in the service-producing industries, where unemployment rates currently are the lowest. The cost of benefits provided to employees rose 6¾ percent over the year, nearly twice the increase of 1987; the rise reflected both the hike in the payroll tax at the start of 1988 and a surge in the cost of health benefits. Total compensation per hour—wages and salaries plus benefits—rose nearly 5 percent over the four quarters of 1988, after two years in which the annual increases had been in the neighborhood of 3¼ percent.

Productivity gains slackened somewhat in 1988. The rise in output per hour in the nonfarm business sector over the four quarters of the year was only 0.7 percent—about half a percentage point below the average over this decade. This slippage in productivity growth in 1988, combined with the faster rate of increase in hourly compensation, resulted in a 4 percent rise in unit labor costs in the nonfarm business sector over the four quarters of 1988—well above the average rate of increase during the previous five years.

Price Developments

The broader measures of prices—including the GNP price measures, the producer price index, and the consumer price index—all indicate that inflation was in a range of 4 to 4½ percent in 1988. Except for the CPI, which had moved up into this range in 1987, these measures showed some acceleration last year, and all of them—including the CPI—rose more rapidly than they did in the first four years of the expansion. In contrast to 1987, when the indexes were boosted by a rebound in energy prices and rising prices for imports, the inflationary pressures this past year were augmented by larger increases in labor costs in the U.S. economy and the drought's influence on agricultural prices.

The drought's effects appeared quickly at the retail level in the summer, as price increases picked up for a wide variety of consumer foods. By late autumn, however, the impact of the drought on food prices began to dissipate, and inflation in the food sector returned to a more

moderate path. The increase in consumer food prices over the year as a whole was 5¼ percent—about 2 percentage points above the average of the preceding five years. Prices in 1989 will be sensitive to weather developments over the spring and summer. In the past, major droughts in the United States have been one-year events, often separated in time by several good growing seasons, and most agricultural observers have been assuming that farm output will rebound in 1989, thereby restraining the prices of farm crops. Currently, however, dry conditions still prevail in some important growing regions, and crop prices could rise abruptly if moisture supplies are deficient in coming months.

Energy prices were little changed at the consumer level during 1988 after a sharp rise in 1987—a pattern that resulted mainly from the continued gyrations in world oil markets. The price of oil, which had risen sharply in 1987, moved lower for much of 1988, as the efforts of OPEC to restrain production unraveled. In late 1988, a new agreement by OPEC to limit production, coupled with higher-than-expected oil consumption and production shortfalls in non-OPEC countries, caused prices to rise sharply once again; however, despite these fluctuations, prices have not made any sustained departure from the range in which they generally have been since the summer of 1986.

Price increases for goods and services other than food and energy were larger in 1988 than in 1987. The pickup, while fairly moderate, was widespread and probably reflected in large part the past year's acceleration in hourly compensation and unit labor costs in the domestic economy. By contrast, the pressures from rising import prices appeared to be a bit less pronounced than in 1987. Even so, higher prices for imports probably were an influence in some areas; the retail prices of apparel, for example, rose nearly 5 percent for the second year in a row. The price increases for industrial commodities slowed in 1988 after steep increases during 1987; by most measures, however, the year-to-year rate of rise in these prices has remained somewhat above that of inflation in general. The producer prices of intermediate inputs, excluding food and energy, rose more than 7 percent during 1988, reflecting the high levels of capacity utilization in a number of industries, as well as the tightening of labor markets.

MONETARY POLICY AND FINANCIAL DEVELOPMENTS DURING 1988

During 1988, Federal Reserve policy continued to be characterized by a flexible approach to monetary targeting, with System actions responding to emerging conditions in the economy and in financial markets, as well as to growth of the monetary aggregates. This approach has been necessitated by the short-run variability in the relation of these aggregates to economic performance, owing primarily to their sizable response to changing interest rates, in addition to spending. In the early months of last year, monetary policy was eased in light of incoming data suggesting a weakening in the economic expansion and the possibility of further financial market disruptions. Subsequent information, however, suggested a growing threat of inflationary pressures, as the economic expansion remained strong and margins of available labor and productive capacity dwindled. To head off a potential acceleration of inflation, the Federal Open Market Committee tightened reserve conditions in a series of steps beginning in the spring and extending into 1989. The monetary aggregates were running close to the upper ends of their growth ranges before the tightening actions, but subsequently slowed, and they closed the year in the middle portions of their ranges.

Implementation of Monetary Policy

During the early months of last year, the Committee sought to counter any economic weakness that could result from the stock market break and to ensure the smooth functioning of domestic financial markets. Indicators of aggregate demand suggested that there was a risk of weakness in the economy that warranted some easing of monetary policy. In addition, special emphasis was placed on monitoring domestic financial markets for signs of any new distress and on being alert to the need to alter the provision of reserves quickly in response to any trouble. Against this backdrop, reserve conditions were

eased slightly in early February, contributing to reductions in short- and long-term interest rates.

Throughout the spring, incoming economic data suggested that the economy had overcome the effects of lower equity prices on confidence and spending. This information indicated that the economy was expanding at a rate that threatened progress toward long-run price stability. Bond yields increased during this period, as indications of economic strength contradicted the earlier market forecasts of a general slowdown and raised concerns about an uptrend in inflation. Based on evidence of a greater potential for higher wage and price inflation and in the context of rapid growth in M2 and M3, the Federal Reserve firmed reserve conditions further in a series of steps beginning in March and culminating in early August with a hike of one-half percentage point in the discount rate. These moves brought about substantial increases in short-term interest rates, but were accompanied by only small increases in Treasury bond yields, as investors viewed Federal Reserve actions as heading off a long-term acceleration of inflation. The upturn in short-term interest rates, coupled with more optimistic expectations of future inflation, helped boost the foreign exchange value of the dollar during this period.

In view of the policy restraint already in place, which was being reflected in slowing growth in the monetary aggregates, and some signs that economic growth may have been moderating, the Committee postponed any further action over the late summer and early fall, awaiting further information on the course of the economy. During October and November, the foreign exchange value of the dollar declined, partly in response to a rise in foreign interest rates relative to U.S. market interest rates and to investor concern over the lack of progress in reducing the U.S. federal budget deficit and the slowing improvement in the U.S. trade deficit.

In late fall, incoming data suggested that previous monetary restraint had not been sufficient to relieve the potential for higher inflation, and the Committee resumed tightening reserve conditions in a series of moves beginning in November and extending into the new year. As a result of these measures, short-term market interest rates rose. In contrast, bond yields continued to fluctuate narrowly, signalling the market's continued confidence that inflationary pressures would be contained. This confidence, together with the firming of policy, contributed to a strengthening of the foreign exchange value of the dollar.

Behavior of Money and Credit

M2 expanded 5.3 percent last year, just below the middle of its target range of 4 to 8 percent. Although demands for M2 were supported by strong growth in income and spending, they were reduced by increases in its opportunity cost—that is, the difference between market interest rates and the yields on M2-type instruments. Early in the year, opportunity costs had declined in response to decreases in market interest rates relative to deposit rates in late 1987 and early 1988, leading to strong growth in M2 and a decline in its velocity—the ratio of nominal GNP to M2—during the first quarter. But as market interest rates moved upward after March and deposit rates lagged behind, the velocity reversed, and it rose 1.7 percent for all of 1988. The response of offering rates was especially sluggish in the last part of 1988. One reason may have been regulatory pressure on thrift institutions and the closing of many insolvent institutions, which often had been overly aggressive in pricing deposits. The extent to which thrift institutions were offering higher rates than banks on small time deposits was greatly reduced, and partly as a consequence, growth of retail deposits was much stronger at banks than at those institutions.

The growth of the components of M2 also responded to changes in deposit rates and market interest rates. Yields on liquid deposits—interest-bearing checking deposits, savings deposits, and money market deposit accounts—changed very little over the year. During the first half of 1988, liquid retail deposits expanded at a strong pace, largely reflecting increases in their relative attractiveness stemming from declines in market interest rates and, to a lesser extent, in rates on small time deposits. Their growth slowed markedly over the last half of 1988, following the reversal in the pattern of interest rate movements. Growth in small-denomination time deposits was particularly robust throughout 1988.

3. Growth of money and debt[1]
Percentage changes

Period	M1	M2	M3	Debt of domestic nonfinancial sectors
Fourth quarter to fourth quarter				
1979	7.7	8.2	10.4	12.3
1980	7.4	9.0	9.6	9.6
1981	5.2 (2.5)[2]	9.3	12.3	10.0
1982	8.7	9.1	9.9	9.0
1983	10.2	12.1	9.8	11.3
1984	5.3	7.7	10.5	14.2
1985	12.0 (13.0)[3]	8.9	7.7	13.2
1986	15.6	9.3	9.1	13.3
1987	6.4	4.2	5.7	9.8
1988	4.3	5.3	6.2	8.7
Quarterly growth rates (annual rates)				
1988: 1	3.2	6.2	6.8	8.2
2	6.4	6.9	7.2	8.7
3	5.2	3.8	5.5	8.6
4	2.4	3.8	4.9	8.4

1. M1, M2, and M3 incorporate effects of benchmark and seasonal adjustment revisions made in February 1989.
2. M1 figure in parentheses is adjusted for shifts to NOW accounts in 1981.
3. M1 figure in parentheses is the annualized growth rate from the second to the fourth quarter of 1985.

Expansion in the early months of the year may have resulted, in part, from shifts in household investment preferences away from stocks toward the safety of these savings instruments. Later, rising yields on small time deposits relative to those on more liquid deposits led households to shift funds from liquid deposits to small-denomination time deposit accounts.

M3 grew 6.2 percent last year, placing it slightly above the midpoint of its target range of 4 to 8 percent. This increase from a 5.8 percent growth in 1987 reflected a modest pickup in the issuance of managed liabilities in M3 to fund credit expansion at banks and thrift institutions. M3 followed a trajectory near the upper end of its target range in the first half of 1988, but moderated thereafter, in association with slowing credit growth at depository institutions. For the year, large time deposits and other managed liabilities included in M3 but not in M2 grew rapidly, as inflows into M2-type deposits were insufficient for banks and thrift institutions to finance their desired pace of asset expansion. This was particularly true in the second half of the year, when M2 growth moderated. To some extent, M3 growth last year was bolstered compared with 1987 by a greater reliance by banks on managed liabilities included in M3 than on nonmoney stock instruments, such as bank borrowings from overseas branches. In contrast, as in recent years, the heavy use of Federal Home Loan Bank advances by thrift institutions—which are not included in M3—has had a moderating effect on M3 growth.

At 4.3 percent, M1 growth last year was down more than 2 percentage points from 1987. Growth of interest-bearing checking accounts moderated, while demand deposits continued running off. As in recent years, the growth of M1 displayed great sensitivity to changes in market rates of interest. Households shifted savings balances between NOW accounts and those M2 components, such as small time deposits, whose yields responded to increases in market rates much more quickly than those on NOW accounts. Because substitutions of this type are internalized within M2, M2 has displayed less sensitivity to interest rates than has M1 in this decade. Demand deposits, the other highly interest-sensitive component of M1, again declined in 1988, partly reflecting increases in their opportunity costs and declines in compensating balances. The amount of such balances that businesses must hold in these non-interest-bearing accounts to compensate banks for services falls when interest rates rise.

The debt of domestic nonfinancial sectors expanded nearly 8¾ percent during 1988, down from 9 percent in 1987, placing it near the midpoint of the Committee's monitoring range of 7 to

11 percent. Although debt expansion was well below the pace of the mid-1980s, it still exceeded nominal GNP growth. Federal debt grew marginally faster last year than in 1987. Expansion in nonfederal debt moderated, as state and local governments trimmed debt issuance and as households expanded their mortgage debt at a less robust pace in response to higher mortgage rates. Growth of business debt picked up a bit from the 1987 pace, with short-term debt growing faster than long-term debt. Corporate borrowing was particularly strong, reflecting increased external financing needs for capital investments and for mergers, buyouts, and stock repurchases.

Other Financial Developments

Although the economy continued to grow at a strong pace last year and the financial markets recovered from their skittishness following the stock market break of 1987, financial developments in certain markets and sectors warranted the attention of policymakers. Of particular note were the worsening condition of the thrift industry, the need to achieve sounder capitalization of commercial banking organizations, and the rising indebtedness of businesses involved in restructuring activity.

As the year wore on, the dimensions of the problems facing the thrift industry became clearer. Although industry losses eased in the third quarter from their record levels in the first half of 1988, this development appears largely to have reflected FSLIC-assistance transactions during the third quarter, rather than a significant underlying improvement in earnings.

Despite the turmoil in the thrift industry, there has been no noticeable disruption of mortgage activity. In part, the development of a deep secondary mortgage market has separated the origination of loans from the need to fund them. For this reason, the base of mortgage credit has broadened in recent years, making the provision of mortgages far less dependent on the condition of any one type of financial institution or on the regional supply of loanable funds. During the 1980s, the share of home mortgage credit held in securitized form has increased from about 10 percent to more than one-third. The spread between interest rates on fixed-rate mortgages, which have an average life of roughly ten years, and yields on ten-year Treasury notes did not change appreciably over 1988, which also implies that the mortgage markets continued functioning well despite the problems of many savings and loan associations.

In contrast to the thrift industry, preliminary data indicate that U.S. commercial bank profits were reasonably strong in 1988, even after abstracting from the one-time jump in earnings in the fourth quarter associated with the resumption of Brazilian debt payments. Moreover, most large money-center banks with a significant amount of loans to developing countries have continued to build capital, which provides a cushion against default losses. Giving added impetus to efforts to raise equity was the agreement by bank supervisory authorities of major industrial countries to set more stringent, risk-based standards of capital adequacy. These standards, to be fully phased in by 1992, place a greater emphasis on equity capital, take into account the off-balance-sheet activities of banks, and provide a more uniform regulatory treatment of banks based in different countries.

As in 1987, banks lent considerable sums to finance mergers and leveraged buyouts. Although banks have reported that these loans have had a lower rate of loss than all other business loans combined, and although LBO borrowers typically obtain some insurance against higher loan rates, concern remains about bank exposure to losses in the event of an adverse turn in business conditions. For this reason, the Federal Reserve is closely monitoring developments in this area and has just revised its bank examination guidelines to ensure that member bank loans used to finance buyouts and other highly leveraged corporate restructurings meet prudent credit standards.

Leveraged buyouts and other mergers and restructurings led to a record pace of net equity retirements by nonfinancial corporations in 1988. Despite the large volume of this activity in recent years, the overall corporate debt-to-equity ratio is not out of line with observations since the early 1970s, reflecting increased market valuation of equities since the early 1980s. Much of the recent financial restructuring has been a response to fundamental economic factors; it may impose a

discipline on corporate management, which in turn can stimulate efforts to improve productivity. Nevertheless, heavy commitments of cash flow to service debt reduce a firm's ability to cope with stresses or industry-specific shocks. To some extent, the substitution of debt for equity is motivated by simple tax-saving considerations, such as the full deduction for interest payments and the double taxation of dividends. For these reasons, reforming the corporate tax system should be a component of public policy in addressing this difficult issue. □

Trends in Banking Structure since the Mid-1970s

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The structure of the American banking system has changed significantly since the mid-1970s. Over the period from 1977 to 1987, the number of banking organizations has declined considerably, while the share of banking assets controlled by the largest banking organizations has increased sharply. At the same time, banks have expanded beyond their traditional geographic borders; differences between commercial banks and nonbank financial institutions have diminished; and the number of bank mergers and acquisitions has soared. The factors responsible for these developments are still at work and will likely lead to continued rapid change in banking structure.

Recent structural change in the banking industry is of interest for at least three reasons. First, changes in costs attributable to changes in bank size may affect the operating efficiency of banks and, in turn, their profitability, and the prices, quality, and convenience of the services they offer. Second, theory and empirical evidence suggest that changes in banking structure and entry conditions may affect the degree of competition for financial services. As in nonfinancial industries, the degree of competition in banking also influences profitability and the prices of services offered by firms. Finally, concern over potential changes in the structure of the banking industry historically has stimulated debate over the consequences of increases in aggregate concentration of economic resources in banking.

Because of the extensive recent changes in banking structure and the important issues that such changes raise, it is timely to examine the causes and significance of these developments. The first section of this article discusses the causes of the major structural changes that have occurred in banking over the past decade. The later sections analyze data describing these changes at the national, regional, state, and local levels.

Causes of Recent Changes in Banking Structure

Recent changes in banking structure have been made possible by two primary developments: (1) recently enacted legislation has allowed banking organizations to expand geographically; (2) legislative and regulatory changes have facilitated mergers and acquisitions among banking organizations located in the same geographic area.

Legislation Affecting Geographic Expansion by Banks

Legislation relaxing constraints on the geographic expansion of banks and bank holding companies has come principally from the states.[1] This legislation has substantially increased opportunities for bank expansion both within states and across state lines. The legislation itself has been spurred by a number of forces, including technological changes making it easier to make loans and gather deposits from distant customers, the attempts of regulators to arrange takeovers of an increasing number of failing and troubled banks, efforts by state authorities and

1. The only recent federal legislation affecting the geographic expansion of banks was the Depository Institutions Amendments of 1982 (the "Garn–St Germain Act"). This act permitted a limited amount of interstate banking by allowing acquisitions of large failing banks by out-of-state banking organizations. So far, it has been used rarely.

local business and community groups seeking to attract capital into a state, and the desires of the banking industry itself.

The states that have passed legislation allowing increased intrastate and interstate geographic expansion of banking organizations in the 1970s and 1980s are listed in the box. As indicated, intrastate expansion can occur either through bank branching or by multibank holding company acquisition or expansion. Since 1970, the number of states that reduced branching restrictions has grown markedly, rising from 6 during the 1970s to 22 during the 1980s. As a result, 35 states currently allow unlimited statewide branching or statewide expansion through acquisition of existing banks. Eleven states allow only limited branching, but two of these have passed

BROADENING THE ABILITY OF BANKS TO EXPAND GEOGRAPHICALLY

Intrastate and interstate expansion
The following tabulation lists the states that changed laws to permit banks to expand geographically by various methods. It vividly shows the increases in the past two decades in the power of banks to expand.

Decade	Intrastate expansion		Interstate banking
	Bank branching	Multibank holding companies	
1970s ...	Iowa Maine New Jersey New York Ohio Virginia	Georgia Michigan New York	Maine
1980s ...	Alabama Connecticut Florida Georgia Indiana Kansas Massachusetts Michigan Minnesota Mississippi Nebraska New Hampshire North Dakota Ohio Oklahoma Oregon Pennsylvania Tennessee Texas Utah Washington West Virginia	Arkansas Illinois Indiana Kansas Kentucky Louisiana Nebraska Oklahoma Pennsylvania Washington West Virginia	All except five states.[3]

State branching laws
The listing below shows the current distribution of branching laws by state. As indicated, two of the states that now have only limited branching will allow statewide branching in the 1990s.

Statewide branching	Limited branching	Unit banking
Alabama[1] Alaska Arizona California Connecticut Delaware Florida[1] Georgia[1] Hawaii Idaho Indiana[1] Kansas[1] Maine Maryland Massachusetts Michigan Mississippi[1,2] Nebraska[1] Nevada New Hampshire New Jersey New York North Carolina North Dakota[1] Ohio Oklahoma[1] Oregon Rhode Island South Carolina South Dakota Utah Vermont Virginia Washington West Virginia	Arkansas[2] Iowa Kentucky Louisiana Minnesota Missouri New Mexico Pennsylvania[2] Tennessee Texas Wisconsin	Colorado Illinois Montana Wyoming

1. Statewide branching by merger.
2. These states will permit statewide branching in the future: Arkansas in 1999; Mississippi in 1989; and Pennsylvania in 1990.
3. The five are Hawaii, Iowa, Kansas, Montana, and North Dakota.

legislation that will permit statewide branching in the future. Only four states remain unit banking states, allowing no branching.

The easing of restrictions on the intrastate expansion of multibank holding companies permits banking organizations to expand statewide by chartering separate banks under one holding company. Thus, expansion through multibank holding companies can be accomplished even in states where branching is limited or prohibited. The number of states that liberalized constraints on multibank holding company expansion grew from 3 in the 1970s to 11 in this decade. Mississippi is the only state that has not enacted a law allowing statewide operation of multibank holding companies. Since Mississippi allows statewide branching, however, this restriction on holding companies does not limit geographic expansion.

The passage of laws allowing interstate banking has had an even more dramatic effect on banking structure than has the widespread liberalization of intrastate banking laws. The McFadden Act (1927) and Section 3(d) (the "Douglas Amendment") of the Bank Holding Company Act of 1956 limit the expansion of national banks by making them subject to state limitations on geographic expansion. Since the 1970s, all but five states have passed laws permitting the acquisition of state-chartered banks by out-of-state banking organizations. Given the application of federal laws, these revised state laws also open federally chartered banks to acquisition by out-of-state bank holding companies. With the exception of one passed in Maine in 1975, all state laws governing interstate banking have been enacted since 1982. Although a majority of state laws still limit entry to banking organizations from nearby states, some states are beginning to permit entry on a nationwide basis.

Legislative Changes Affecting Local Market Structure

Changes in the structure of the banking industry at the local level have historically been limited by antitrust laws. However, during the 1980s the implementation of these laws changed with the passage of legislation that reduced the differences between commercial banks and nonbank financial firms.

In applying antitrust laws to the banking industry, courts have traditionally defined banking markets to include only banks from local geographic markets. This approach, which excluded nonbank financial firms from banking markets, reflected concern over the limited number of institutions that provided financial services to consumers and small businesses, and the fact that banks were the only institutions that offered such unique and widely used products as demand deposits and commercial loans. Consequently, antitrust laws generally deterred large institutions in the same local area from merging and held intact the basic structure of the banking industry.

Legislation allowing nonbank depository institutions to compete more directly with banks has altered the effect of antitrust laws. In 1980 and 1982, Congress expanded the investment powers of thrift institutions and also permitted them to offer transactions accounts that are functionally equivalent to demand deposits. These changes allowed savings and loans and savings banks to offer many of the products that traditionally had been available only from banks. As these institutions have taken advantage of the new powers, the composition of their balance sheets has become more like that of banks, although substantial differences remain.

Federal and state legislation also has reduced the differences between banks and various nondepository financial firms. At the federal level, legislation phased out interest rate ceilings on most bank accounts beginning in 1980 and permitted interest-bearing transactions accounts throughout the country. In 1982, banks were allowed to issue insured money market deposit accounts. These changes came in response to high inflation and interest rates in the late 1970s and the subsequent movement of funds out of the banking system. They allowed banks to offer deposit interest rates that were competitive with those of money market mutual funds, which were then growing rapidly. At the state level, legislation was passed that went beyond federal laws in expanding the range of activities open to banks and other financial institutions. Some states, for example, granted banks broader securities pow-

ers and others permitted banks to offer real estate or insurance services that even today are not allowed by federal regulators.

The U.S. Department of Justice and federal banking agencies have responded to new banking legislation in part by modifying antitrust policies. As thrift institutions were granted expanded powers, regulators began to include them, either wholly or partially, in local markets for banking services. By including additional firms in a local market, the market share of each bank in that market is reduced, and thus fewer bank mergers raise antitrust concerns. Moreover, the reduction of differences between banks and nondepository financial intermediaries has prompted the Justice Department to relax guidelines governing mergers among banking organizations. The guidelines, which specify those acquisitions the Justice Department likely would challenge as anticompetitive because of their effect on concentration, now are more liberal for banking than they are for other industries.

In the evolving competitive and regulatory environment, banking organizations have been eager to take advantage of the new opportunities to merge with, or acquire, other banks. The number of bank mergers and acquisitions since the mid-1970s has risen to a historically high level.[2] One reason for increased merger and acquisition activity may be the belief that larger size or a greater variety of products will lower costs or increase consumer satisfaction. Past empirical studies of bank costs have generally found little evidence linking size and efficiency, but they cannot measure possible increases in consumer convenience. In addition, because detailed cost data are available mainly for small banks and for only a few large banking organizations, most cost studies have focused on small banks.

Banks also may merge and acquire for reasons other than perceived cost savings. They may do so in response to acquisitions by rival firms, increases in the perceived size of geographic markets, or the desire of managers to provide convenient service in all parts of their markets. Mergers and acquisitions also may reflect banks' attempts to obtain diversification benefits that stem from geographic expansion or to better position themselves for increased competition from other financial institutions. Finally, by increasing firm size, mergers and acquisitions may serve the function of raising the compensation of bank managers. Currently, however, no consensus exists among observers of the banking industry on the relative merits of these explanations.

Overall, during the 1980s, legislative and regulatory changes have caused banking organizations to increase significantly their geographic coverage and the range of products they offer. The sections that follow discuss the structural changes that accompanied these developments.

AGGREGATE STRUCTURAL CHANGE

Aggregate banking structure can be measured either by the number of banking organizations or by the relative size of these organizations as reflected in the concentration of banking assets.

Number of Banks and Banking Organizations

While deregulation has had a major effect on some elements of U.S. banking structure, it has had little effect on the number of insured commercial banks.[3] Between 1976 and 1987, the number of banks declined 4 percent, from 14,399 to 13,753 (table 1). The number of commercial banks has declined at a faster pace in the past two years, possibly foreshadowing a longer-term trend; but, as recently as 1985, there were slightly more banks than in 1976.

2. The number of bank mergers grew gradually from 135 in 1976 to 188 in 1980. It then jumped 91 percent to 359 in 1981, marking the beginning of a period of accelerated consolidation. Bank mergers totaled 422 in 1982, 432 in 1983, and 553 in 1984, before falling to 472 in 1985, the most recent year for which data are available.

3. The number of banking organizations is smaller than the number of commercial banks because banks that are part of the same holding company are consolidated to determine the number of discrete banking organizations. Banks owned by the same holding company are counted separately in determining the number of commercial banks.

1. Changes in the number of insured commercial banks, 1977–87

Type of change	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Number of banks, beginning of period	14,399	14,398	14,379	14,351	14,422	14,402	14,438	14,462	14,513	14,434	14,235
New banks organized	154	148	204	206	199	316	366	400	318	248	212
Banks that ceased operations	(1)	0	(2)	0	0	(1)	0	0	(26)	(32)	(207)
Consolidations and absorptions											
Banks converted into branches	(156)	(154)	(217)	(117)	(196)	(247)	(300)	(345)	(309)	(301)	(528)
Other	(1)	(14)	(16)	(16)	(18)	(34)	(64)	(37)	(75)	(14)	n.a.
Voluntary liquidations	0	0	0	(3)	0	0	(1)	(2)	(24)	(132)	n.a.
Other changes	3	1	3	1	(5)	2	23	35	37	32	41
Number of banks, end of period	14,398	14,379	14,351	14,422	14,402	14,438	14,462	14,513	14,434	14,235	13,753
Net increase (decrease)	(1)	(19)	(28)	71	(20)	36	24	51	(79)	(199)	(482)
MEMO: Failures of FDIC-insured banks	6	7	10	10	10	42	48	79	120	138	184

n.a. not available

The relative stability in the number of banks resulted from a robust pace of formation of new banks that largely offset an otherwise strong movement within the banking industry toward greater consolidation. From 1976 through 1987, nearly 2,800 banks were chartered—an average of 252 per year. The number of new banks formed each year trended upward until 1984, when it peaked at 400.

Exit by banks from the industry typically occurred either because of failures or through mergers and subsequent conversions to branches. More than four-fifths of the banks that left the industry since 1976 were converted into branches of other banks. Bank failures, however, soared during the mid-1980s to reach 184 in 1987.[4] Although many factors contributed to these failures, most involved small banks whose loan portfolios were concentrated in weak sectors of the economy, such as agriculture or energy. Of the 654 banks that have failed since 1976, only 41 percent actually ceased operations. Most failed banks were acquired by other institutions as part of purchase-and-assumption transactions under the supervision of the Federal Deposit Insurance Corporation.[5]

4. In 1988, the number of bank failures rose to 200.

5. Under a purchase and assumption, the FDIC arranges the sale of a failed institution as a means of protecting depositors' funds. In such transactions the acquiring institution typically assumes all the liabilities of the failed institution, but only purchases those assets whose value has not been impaired. Ownership of the lower-quality assets usually falls to the FDIC.

In contrast to the relatively stable number of commercial banks, the number of *banking organizations* has declined more than 17 percent since 1976, or more than four times the rate of decline for banks (table 2). As used here, the term "banking organization" includes all bank holding companies and independent banks, that is, banks not affiliated with holding companies.

Most of the decline in the number of banking organizations came about through acquisitions by multibank holding companies. Such acquisitions enabled these companies to double the number of banks under their control from 2,296 in 1976 to 4,465 in 1987 and contributed to a dramatic decrease of 59 percent in the number of independent banks (table 2).[6] These acquisitions also significantly changed the distribution of assets among types of banking organizations. In

6. The decrease in the number of independent banks also reflects growth of one-bank holding companies that resulted from independent banks converting to a holding company structure. Such conversions are frequently undertaken to broaden the range of services that a banking organization can provide or to enlarge the geographic region that it may serve through its nonbank subsidiaries. Also, holding companies sometimes are used to provide leverage capacity beyond that available to a bank or to reduce tax payments. Despite these factors, conversions of independent banks to one-bank holding companies have no immediate effect on the total number or relative size of banking organizations and thus do not affect the structure of the banking industry.

2. Distribution of banking organizations, by type of organization[1]

Type of organization	1976					1987				
	Number of organizations	Percent of total	Assets[2] (billions of dollars)	Percent of total assets	Average Size (millions of dollars)	Number of organizations	Percent of total	Assets[2] (billions of dollars)	Percent of total assets	Average Size (millions of dollars)
Independent[3]	10,608	85.5	303.7	30.3	28.6	4,375	42.6	233.7	9.0	53.4
One-bank holding companies	1,495	12.1	341.5	34.0	228.4	4,919	47.9	537.0	20.7	109.2
Multibank holding companies	301	2.4	358.5	35.7	1,191.0	985	9.6	1,826.7	70.3	1,854.5
Total	12,404	100.0	1,003.7	100.0	80.9	10,279	100.0	2,597.3	100.0	252.7
MEMO: banks in multibank holding companies	2,296	....	358.5	....	156.1	4,465	....	1,826.7	....	409.1

1. In this table and those that follow, figures may not add to totals because of rounding.

2. Domestic banking assets.

3. Not affiliated with a holding company.

1976, insured domestic banking assets were distributed almost evenly among multibank holding companies, one-bank holding companies, and independent banks, with each group controlling about one-third of all banking assets (table 2). By 1987, multibank holding companies had increased their share of assets to 70 percent; one-bank holding companies held 21 percent of total assets; and banks not affiliated with holding companies controlled only 9 percent.

The emergence since the 1970s of multibank holding companies as the dominant type of organization has greatly affected the size distribution of firms in the industry. Table 3 contrasts size distributions for 1976 and 1987 based on domestic banking assets. Because the average size of banking organizations was affected significantly over this period by an increase in total banking assets, real growth in the economy, and the inflationary conditions of the time, data for 1987 are presented in terms of both nominal asset values and values deflated by the cumulative change in total domestic banking assets since 1976. The adjusted data are used to indicate changes in the relative sizes of banking organizations.

Comparing adjusted data for 1976 and 1987 reveals that banking organizations continue to exhibit significant diversity in size. Small organizations remain numerically dominant; however, the number of such institutions and the share of assets they control has declined. The only size category to show an increase in either the number of companies or their asset share is that with

3. Size distribution of banking organizations in nominal and adjusted assets[1]

Asset size category (millions of dollars)	1976				1987							
					Actual				Adjusted[2]			
	Number of organizations	Percent	Assets (billions of dollars)	Percent	Number of organizations	Percent	Assets (billions of dollars)	Percent	Number of organizations	Percent	Assets (billions of dollars)	Percent
Less than 50	10,542	85.0	167.7	16.7	6,389	62.2	152.0	5.9	8,902	86.6	133.7	13.3
51–100	943	7.6	64.0	6.4	2,071	20.1	143.9	5.5	719	7.0	48.5	4.8
101–1,000	767	6.2	207.7	20.7	1,557	15.1	358.9	13.8	511	5.0	142.5	14.2
1,001–5,000	130	1.0	265.2	26.4	173	1.7	401.9	15.5	108	1.1	242.3	24.1
5,001–25,000	18	.1	203.1	20.2	72	.7	822.1	31.7	37	.4	374.0	37.3
Greater than 25,000	4	*	96.0	9.6	17	.2	718.5	27.7	2	*	62.7	6.2
Total	**12,404**	**100.0**	**1,003.7**	**100.0**	**10,279**	**100.0**	**2,597.3**	**100.0**	**10,279**	**100.0**	**1,003.7**	**100.0**

1. Based on domestic banking assets.

2. Assets were deflated by the change in total domestic banking assets between 1976 and 1987.

*Less than 0.05.

4. Distribution of domestic banking assets of insured commercial banking organizations, 1976 and 1987

Size class percentile	1976		1987	
	Domestic banking assets (billions of dollars)	Percent of total	Domestic banking assets (billions of dollars)	Percent of total
99	533.9	53.2	1,603.2	61.7
90–98	265.0	26.3	597.1	23.0
80–89	63.9	6.4	122.9	4.7
70–79	39.2	3.9	76.4	2.9
60–69	28.6	2.9	55.8	2.2
50–59	22.0	2.2	42.7	1.6
40–49	17.0	1.7	32.7	1.3
30–39	13.1	1.3	25.5	1.0
20–29	9.9	1.0	19.1	.7
10–19	7.1	.7	14.0	.5
0–9	4.1	.4	7.9	.3
Total	**1,003.7**	**100.0**	**2,597.3**	**100.0**
MEMO:				
0–89	204.8	20.5	397.0	15.3

assets between $5 billion and $25 billion. To a large extent the increase in this size category reflects the recent rise of large regional and "superregional" organizations, the vast majority of which are multibank holding companies.[7] Many of these firms have pursued particularly aggressive acquisition strategies that were made possible by the dismantling of barriers to intrastate and interstate banking. Such acquisitions have reduced the number of small companies and given rise to larger organizations. Many regional and superregional institutions also have been able to sustain growth rates in excess of industry norms in large part because of their location in areas of the country—especially the Northeast and Southeast—where the economy has grown relatively rapidly.

Aggregate Concentration of Banking Assets

As the size of banking organizations increased, overall asset concentration within the industry rose significantly (table 4). In 1976, assets were heavily skewed toward the largest organizations: the top 1 percent of the organizations controlled 53 percent of total assets. By 1987, the share belonging to the top 1 percent had grown to 62 percent. In comparison, the proportion of assets accounted for by organizations in the 90th through the 98th percentiles—institutions with assets between $166 million and $2 billion—declined from 26 percent to 23 percent. The share controlled by the group of banking organizations below the 90th percentile, which comprises those with domestic banking assets of less than $166 million as of year-end 1987, fell from 21 percent to 15 percent.

Analyzing changes in the share of domestic banking assets held by the 100 largest banking organizations helps to indicate more clearly where the greatest amount of concentration within the industry has occurred (table 5). The composition of the top 100 corresponds closely to that of the top 1 percent of all banking organizations discussed above. The 100 largest organizations by and large are multibank holding companies, each of which has combined domestic banking assets exceeding $2 billion.

The growth in assets controlled by the 100 largest banking organizations varied significantly depending on the size of the organization. As table 5 indicates, the overall share of total U.S. banking assets held by the 100 largest institutions grew from 50 percent to 62 percent between 1977 and 1987. However, little of this increase was attributable to the largest institutions. The 10 largest organizations in that group actually suffered a decline in their percentage share as loan problems at several money center banks and the exclusion of New York institutions from regional compacts enacted by several states worked

5. Shares of domestic banking assets accounted for by the largest banking organizations

Percent

Year	Rank by asset size				MEMO: Top 100
	1–10	11–25	26–50	51–100	
1987	20.2	14.6	13.5	13.2	61.5
1986	20.0	13.5	12.7	12.9	59.1
1985	20.3	12.8	12.6	12.0	57.7
1984	20.3	12.8	10.4	11.5	55.0
1983	21.0	12.8	9.4	11.1	54.3
1982	21.8	12.4	8.8	10.6	53.6
1981	21.1	12.0	8.5	10.1	51.7
1980	21.6	11.5	8.5	9.8	51.4
1979	21.3	11.3	8.9	9.7	51.2
1978	21.1	11.3	8.7	9.7	50.8
1977	21.0	11.0	8.5	9.7	50.2

7. In this article, "superregional" denotes a banking organization with at least $10 billion in assets that has banking subsidiaries in more than one state.

against an increase in their relative holdings. The share of assets held by the banking organizations ranked 11 through 25 rose from 11 percent to 15 percent. However, the largest increases belonged to banking organizations ranked 26 through 100, whose share of assets grew from 18 percent to 27 percent. Included in this group of institutions are many of the previously mentioned regional and superregional organizations that have grown rapidly in recent years.

Comparisons with earlier periods and with data from other economic sectors show that concentration in the banking industry over the 1976–87 period appears to have increased significantly. The percentage of total domestic banking assets controlled by the top 1 percent of banking organizations between 1960 and 1975 changed less than 1 percent; from 1976 to 1987, however, the share increased 9 percent. By comparison, recent evidence from the manufacturing sector as a whole shows virtually no change in the level of aggregate concentration.[8]

The use of domestic banking assets to measure firm size may understate the degree of concentration that exists within the industry. If all assets, domestic and foreign, of U.S. chartered banks are counted, the share of assets controlled by the top 1 percent of banking organizations is 67 percent rather than 62 percent. The difference reflects the large foreign loan exposures of money center institutions. If off-balance-sheet assets and assets of nonbank subsidiaries of bank holding companies were also added, the level of concentration would increase even further, since few small organizations engage in transactions that generate off-balance-sheet assets or have significant amounts of nonbank assets.[9] Regardless of which of these asset measures is used, however, the overall trend toward sharply higher aggregate concentration in commercial banking since the mid-1970s remains significant.

6. Distribution of assets among selected financial institutions, 1976 and 1987

Type of financial institution	1976		1987		MEMO: annual growth rate in percent, 1976–87
	Assets (billions of dollars)	Percent of total	Assets (billions of dollars)	Percent of total	
All banking organizations[1]	1,004.2	58.2	2,597.0	49.8	9.0
Savings and loans	385.1	22.3	1,261.6	24.2	11.4
Mutual savings banks	134.8	7.8	263.0	5.0	6.3
Credit unions	43.3	2.5	181.8	3.5	13.9
Finance companies	111.1	6.4	452.1	8.7	13.6
U.S. branches and agencies of foreign banks	45.7	2.7	462.7	8.9	23.4
Total	**1,724.2**	**100.0**	**5,218.2**	**100.0**	**10.6**

1. Domestic banking assets.

At least two factors, however, may mitigate the significance of increased aggregate concentration. First, banks and other financial firms now often compete more directly, thereby reducing the ability of any one banking organization or group of organizations to dominate a market for deposits, loans, or other financial services. Second, since the mid-1970s, assets held by domestic banking organizations have declined relative to those of other financial institutions that have a large percentage of their assets in loans. Table 6 shows the relatively slow growth of aggregate bank assets over the 1976–87 period compared with those of savings and loans, credit unions, finance companies, and foreign banking organizations. The rapid growth of assets at U.S. branches of foreign banks suggests that competition has increased between American banks and banks chartered in foreign countries. Only mutual savings banks have grown more slowly than domestic banks. As a result, the share of financial institution assets held by domestic

8. Aggregate concentration in the manufacturing sector typically is expressed in terms of share of value added by the largest firms. Over the 1962–82 period, the share of value added by the 100 largest firms increased only 1 percent. The share of value added by the 200 largest firms rose just 3 percent over the same period.

9. Data on off-balance-sheet assets are reported by multibank holding companies and one-bank holding companies with more than $150 million in total assets. The data do not encompass all of the types of off-balance-sheet activity in which banks now engage; however, even available data give some indication of the extent to which such assets are heavily concentrated among the largest banking organizations. As of year-end 1987, for example, loan commitments, standby letters of credit, commercial letters of credit, swaps, and foreign exchange contracts totaled about $3 trillion, of which the 50 largest bank holding companies accounted for $2.8 trillion. Similarly, nonbank subsidiary assets of the 50 largest bank holding companies amounted to $134 billion as of year-end 1987, compared with a total of $149 billion for all multibank holding companies and one-bank holding companies with more than $150 million in assets.

banking organizations fell from 58 percent in 1976 to 50 percent in 1987.[10] The decline in part reflects the shift of prime corporate customers from the bank loan market to other credit markets, such as commercial paper.[11] Regardless of the reasons for the decline, however, the diminished role of banking organizations within the financial services sector of the economy may lessen the significance of higher levels of aggregate concentration in banking.

Regional Structural Change

Changes in banking structure at the regional level have had important effects on the aggregate structure of banking. Regional banking structure grew in importance with the lifting of state restrictions on interstate banking. However, even before states began to liberalize interstate banking laws, banking organizations were able to circumvent restrictions on geographic expansion to a limited extent. A few companies were allowed by the Bank Holding Company Act of 1956 to continue operating in states in which they were already present. Some banking organizations also expanded nationwide by establishing loan production offices and nonbank subsidiaries, such as consumer finance and mortgage banking companies. In the past decade, an array of technological advances, including electronic funds transfers, loan sales, and automated teller machine transactions, has provided banking organizations with still other means of extending their reach beyond state borders. However, none of these forms of circumventing restrictions on interstate banking broadened the ability of banks to expand geographically to the extent that the passage of interstate banking laws did.

One measure of the effect that laws permitting interstate banking have had on bank structure is the number of interstate mergers of banking organizations that has occurred during the 1980s. Before 1983 no merger of banking organizations in which both of the firms had deposits of more than $1 billion had ever taken place across state lines. Since then, there have been 34 such mergers. Collectively, interstate mergers of banking organizations with more than $1 billion in assets account for 47 percent of all mergers of that size that were consummated over the 1980–87 period. The number of interstate mergers rose dramatically following the Supreme Court's 1985 decision affirming the constitutionality of regional interstate compacts.

The extent of interstate banking can also be gauged from the volume of banking assets in a state controlled by out-of-state organizations. In 20 states, at least 20 percent of banking assets are owned by out-of-state institutions (table 7). In Arizona, Connecticut, Idaho, Maine, South Carolina, and Washington, more than 45 percent of domestic banking assets are controlled by out-of-state firms.[12]

The adoption of laws permitting expansion across state borders began slowly. Indeed, even after Maine acted, interstate banking was not addressed legislatively in other states until 1982. Since then, the number of states that permit interstate banking has grown steadily and, at year-end 1987, stood at 45.

In general, states that passed legislation later in the period adopted more liberal forms of interstate banking legislation. Initially, several states, including South Dakota and Delaware, passed relatively restrictive laws that permitted out-of-state banks to acquire or establish only "limited purpose" banks that specialized in certain well-defined activities, such as credit card processing. Later, many states adopted laws permitting entry on a reciprocal basis to full-service banks from out of state; that is, out-

10. Comparing balance sheets across firm types is problematic because balance sheets of different types of financial institutions differ in many respects. For example, if size were measured by equity rather than by assets, or if off-balance-sheet items were included in size calculations, the shares listed in table 6 would be substantially different. However, use of different measures would not change the conclusion that banks were smaller relative to other financial institutions in 1987 than they were in 1976.

11. Between 1976 and 1987, commercial paper outstanding increased from $52.0 billion to $373.6 billion, for a compound annual growth rate of 19.6 percent.

12. Although only 34 percent of domestic banking assets in Texas are held by out-of-state organizations, Texas ranks first in the absolute level of assets controlled by outside firms. This position results in part from acquisitions of failing banks under the Garn–St Germain Act rather than solely from acquisitions under state legislation.

7. State banking assets owned by out-of-state organizations[1]

States[2]	Total banking assets (billions of dollars)	Assets held by *out-of-state* organizations (billions of dollars)	Percent of total
Texas	174,281.1	59,871.7	34.4
Florida	112,148.0	39,202.8	35.0
Connecticut	36,829.5	25,607.2	69.5
Washington	31,492.6	24,818.0	78.8
Pennsylvania	144,129.3	19,153.7	13.3
Arizona	27,421.0	16,176.0	59.0
Georgia	54,872.7	14,061.8	25.6
Indiana	50,178.2	13,677.7	27.3
Tennessee	41,299.5	12,779.1	30.9
Kentucky	34,806.9	12,560.0	36.1
Maryland	46,349.4	12,013.1	25.9
New York	409,259.2	11,292.6	2.8
Illinois	157,133.1	9,743.1	6.2
South Carolina	19,065.3	9,086.6	47.7
Oregon	19,408.0	8,339.4	43.0
New Jersey	79,916.7	7,748.0	9.7
District of Columbia	15,658.3	6,797.9	43.4
Ohio	94,682.2	6,230.7	6.6
Wisconsin	40,355.7	6,207.7	15.4
Maine	7,189.6	6,198.9	86.2
Rhode Island	13,260.8	4,660.8	35.1
Virginia	58,630.5	3,909.3	6.7
Nevada	11,259.1	3,514.5	31.2
Idaho	7,213.5	3,286.4	45.6
Utah	10,548.2	3,173.4	30.1
South Dakota	20,073.2	2,857.4	14.2
Iowa	29,985.6	2,778.2	9.3
Montana	7,003.6	2,679.5	38.3
Colorado	24,421.8	2,450.6	10.0
North Dakota	6,821.5	2,140.8	31.4
Michigan	79,091.0	2,128.8	2.7
Oklahoma	26,349.5	1,439.1	5.5
Nebraska	16,737.6	1,417.3	8.5
Delaware	52,234.8	1,139.5	2.2
New Mexico	9,815.5	867.2	8.8
Alaska	4,640.8	764.8	16.5
Wyoming	4,151.0	463.4	11.2
Minnesota	52,386.3	419.3	.8
Louisiana	34,955.7	284.3	.8
Missouri	52,294.4	100.9	.2
West Virginia	15,505.9	78.5	.5
California	249,765.3	76.8	*
Alabama	31,498.7	33.6	.1
North Carolina	59,849.0	22.6	*
Kansas	24,548.5	9.5	*
Massachusetts	94,612.4	5.1	*
Arkansas	17,961.8	0.0	0
Hawaii	11,864.6	0.0	0
Mississippi	18,726.9	0.0	0
New Hampshire	10,106.6	0.0	0
Vermont	5,076.2	0.0	0
Total	**2,657,866.5**	**362,267.6**	**13.6**

1. Data shown are as of June 30, 1988; however, acquisitions recorded through November 1988 of full-service banks are included.

2. Ranked in descending order on the basis of assets held by out-of-state organizations.

*Less than 0.1 percent.

of-state banks were allowed to enter a state and offer a complete range of banking services provided that a reciprocal arrangement was extended to that state's own banks. Such laws, which have been passed by 33 states including those with the most banking assets, are currently the most popular form of interstate banking legislation. When specifically crafted to include only contiguous states or states located in the same region, reciprocal laws have resulted in so-called regional compacts.

The formation of regional compacts has had a

8. Geographic distribution of domestic banking assets, 1987

Region[1]	Number of banking organizations	Banking assets (billions of dollars)	Percent change in assets 1976–87	Percent change in number of organizations 1976–87	Share of assets held by the 10 largest organizations (in percent)	
					1976	1987
Northeast	198	155.3	306.5	−33.1	51.9	77.8
Middle-Atlantic	484	695.3	234.3	−34.3	58.5	58.1
Southeast	1,548	459.8	117.3	−28.5	18.3	43.5
Midwest	3,875	604.6	143.8	−26.4	24.5	29.4
Southwest	3,450	335.4	132.2	−1.8	24.0	35.9
West	652	349.2	171.4	52.3	75.1	70.4

1. The regions are delineated as follows:
Northeast = Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont; Middle-Atlantic = Delaware, New Jersey, New York, and Pennsylvania; Southeast = Alabama, District of Columbia, Florida, Georgia, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, and West Virginia; Midwest = Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Missouri, Montana, North Dakota, Ohio, South Dakota, and Wisconsin; Southwest = Arkansas, Arizona, Colorado, Kansas, Louisiana, Nebraska, New Mexico, Oklahoma, Texas, and Wyoming; West = Alaska, California, Hawaii, Idaho, Nevada, Oregon, Utah, and Washington.

significant effect on the structure of the banking industry. To highlight this fact, table 8 presents data on regional structure for 1976 and 1987.[13] The data show that over the 1976–87 period, most regions recorded substantial consolidation in terms of both declining numbers of banking organizations and rising levels of concentration as measured by the share of domestic banking assets accounted for by the ten largest banking organizations. Of the regions, the Northeast and Southeast registered large declines in the number of organizations and the greatest increases in concentration. These areas pioneered interstate banking and include those states that formed especially long-lasting and distinct compacts. It is within these regions that many superregional institutions, whose interstate mergers and acquisitions have had such a significant effect on national levels of concentration, are located.

In the Midwest and Middle-Atlantic regions, the number of organizations also declined precipitously, but changes in concentration ratios have been much smaller. These changes apparently reflect bank failures and the acquisition of small banks by a few large, multibank organizations within individual states. The West is the only region where the number of banking organizations rose, and the level of concentration declined. The shrinkage of assets at large banking organizations and a continued robust rate of bank formations in California appear to be behind these developments in the West.

In recent years, reciprocal legislation has increasingly been superseded by even more liberal laws that allow unconditional entry by out-of-state banks on a national basis. Thus far, twelve states have adopted or established "trigger" dates for such legislation.[14] It is not yet clear whether banking organizations will take advantage of the opportunity to expand nationwide or just continue their recent pattern of expansion into nearby states. However, legislation permitting nationwide banking creates at least the potential for substantial increases in concentration by allowing more money center and superregional banking organizations to merge.

Structural Change at the State Level

Changes in banking laws governing intrastate expansion also contributed importantly between 1976 and 1987 to consolidation of the banking industry. As with interstate banking legislation, state branching laws since the mid-1970s have become increasingly liberal, as evidenced by the growth in the number of states that permit statewide branching. Statewide branching now exists in 34 states and the District of Columbia in contrast to 1976 when just 21 states permitted it.

More liberal branching laws have affected banking structure in several respects. Table 9 illustrates a clear relationship between levels of concentration in a state and the type of branching laws in that state. Without exception, the states with the highest levels of concentration permit statewide branching. Those with more restrictive forms of branching have substantially lower statewide concentration ratios.[15]

More liberal branching laws also contributed to a proliferation of bank branches. Over the 1976–87 period, the number of bank branches rose from 33,027 to 46,314, in large part reflecting the acquisition and subsequent conversion of banks to branches by multibank holding companies and the establishment of new branches. As the number of acquisitions leading to branch conversions rose, levels of statewide concentration also generally increased. Between 1976 and 1987, nearly four-fifths of the states experienced some increase in concentration as measured by the share of domestic banking assets belonging to the five largest firms.

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13. Regions are defined in the table to reflect as closely as possible reciprocal enabling legislation adopted by the states; but because the manner in which states have defined regions is not uniform, definitions of regions are to some degree arbitrary. Assets belonging to multibank holding companies are assigned to regions based on the location of branches and subsidiary banks rather than on the location of the parent organization.

14. Notwithstanding the trend toward more liberal interstate banking laws, several states have either retained or introduced caps on the percentage of state banking assets that can be held by any one banking organization.

15. Other factors besides branching laws affect banking concentration at the state level. For example, the size of the state in terms of area or population clearly influences the ranking of states in table 9.

9. State concentration ratios[1]

State[2]	Concentration ratios (five largest firms)		Change since 1976[3]	MEMO: Type of branching[4]
	1976	1987		
Rhode Island	94.1	94.4	.3	S
Nevada	96.5	91.0	(5.5)	S
Arizona	94.6	89.2	(5.4)	S
Hawaii	90.7	89.0	(1.7)	S
Oregon	85.3	88.0	2.7	S
Idaho	88.6	87.2	(1.4)	S
District of Columbia	89.9	85.1	(4.8)	S
Maine	71.7	83.1	11.4	S
North Carolina	67.4	79.7	12.2	S
South Dakota	50.9	77.7	26.8	S
Connecticut	62.4	77.2	14.8	S
Washington	75.5	77.2	1.7	S
Alaska	85.0	75.4	(9.6)	S
Utah	73.5	75.0	1.5	S
South Carolina	62.3	74.5	12.2	S
Vermont	60.5	73.3	12.8	S
Massachusetts	66.1	73.3	7.2	S
Alabama	55.0	71.2	16.2	S
Virginia	52.5	68.6	16.1	S
New Hampshire	45.7	67.7	22.0	S
California	77.9	66.9	(11.0)	S
Michigan	48.0	64.6	16.6	S
Minnesota	59.9	63.5	3.6	L
Georgia	49.6	63.4	13.8	S
Colorado	57.2	62.9	5.7	U
New Mexico	60.7	61.9	1.2	L
Tennessee	43.6	59.8	16.2	L
Maryland	63.5	58.1	(5.4)	S
New Jersey	32.3	57.9	25.6	S
New York	55.9	57.8	1.9	S
Florida	35.8	57.3	21.5	S
Pennsylvania	38.8	56.0	17.2	L
Ohio	36.6	55.8	19.2	S
Texas	35.0	55.3	20.3	L
Missouri	43.6	53.0	9.4	L
Wyoming	48.2	52.4	4.2	U
Montana	56.2	51.4	(4.8)	U
Mississippi	35.9	50.4	14.5	S
Wisconsin	34.0	46.8	12.8	L
Louisiana	26.9	45.7	18.8	L
Illinois	43.6	44.8	1.2	U
Kentucky	30.3	40.7	10.4	L
Delaware	92.0	39.0	(53.0)	S
North Dakota	50.2	38.7	(11.5)	S
Indiana	27.1	37.5	10.4	L
Nebraska	30.3	33.2	2.9	S
West Virginia	16.7	32.0	15.3	S
Oklahoma	31.6	28.3	(3.3)	S
Iowa	22.1	27.7	5.6	L
Arkansas	22.5	25.3	2.8	L
Kansas	14.1	19.3	5.2	S
Average	54.7	60.9	6.2	

1. Based on domestic banking assets.
2. Ranked in descending order based on data as of year-end 1987.
3. Decreases shown in parentheses.
4. L = limited, S = statewide, U = unit banking.

The largest increases in statewide concentration occurred in South Dakota (27 percentage points), New Jersey (26), New Hampshire (22), Florida (22), and Texas (20). Besides changes in intrastate branching laws, several other factors contributed to the higher concentration in these states. The dramatic rise in the level of concentration in South Dakota has been due primarily to state legislation enabling a few large out-of-state banks to set up credit card and insurance operations. The special nature of these operations limits the importance of the change in state concentration. Expansion of multibank holding companies along with liberalized branching laws contributed to higher levels of concentration in New Jersey, New Hampshire, Florida, and Texas. Of the states with decreases in concentration, Delaware recorded the largest change: entry into that state by several out-of-state holding companies that formed limited-purpose banks accounted for most of this decrease. As in South Dakota, the establishment of these firms has had little effect on other Delaware banking organizations.

Concentration in Local Banking Markets

Although the structure of the banking industry at the national, regional, and state levels lately has received increased attention, most interest in banking structure traditionally has focused on local markets for banking services. These markets have typically been defined to cover relatively small areas, in many cases no larger than metropolitan areas or counties. Although recent technological developments allowing banking services to be provided by mail, telephone, and automated teller machine have led many to argue that local markets as traditionally defined are overly restrictive, studies of the behavior of individuals and small businesses suggest that the market for some basic banking services contin-

ues to be geographically limited. For this reason, in antitrust cases, courts and regulators generally continue to use local banking markets to focus on changes in the level of concentration in banking.

Increases in local banking concentration, it is believed, might reduce competition among providers of banking services. When antitrust regulators or the courts examine competition in a local banking market because a proposed merger appears to raise a serious competitive issue, a great deal of information on the distribution of bank customers, commuting patterns, advertising patterns, and other dimensions of economic integration is taken into account so that the geographic extent of the market can be accurately determined. However, in empirical analyses using a national cross-section of banking markets, such detailed definitions are not feasible. As a result, these analyses usually measure urban banking markets by Metropolitan Statistical Areas (MSAs) and rural banking markets by non-MSA counties. For local markets defined in these ways, market concentration can then be measured by the percentage of market deposits held by the three largest banks in the market. The average market concentration ratios presented here follow this convention.[16]

Table 10 presents the national average of three-firm concentration ratios for the years 1976 to 1986 for all urban and rural banking markets in the United States. Contrary to the results reported for aggregate concentration, average local market concentration has been quite stable. For urban markets, the average three-firm concentration ratio fell from 68.5 in 1976 to 65.8 in 1982, before reversing trend and rising to 67.5 in 1986. Rural markets followed a similar, but even more muted, trend, with the average concentration level falling from 90.1 in 1976 to 89.4 in 1982, before rising to 89.5 in 1986. For both urban and rural markets, average market concentration decreased in most states over the period. Twenty-two states had increases in average urban market concentration while 28 had decreases. Average concentration in rural markets rose in 15 states and fell in 33. Breaking the decade into two five-year periods, decreases in concentration were much more prevalent over 1976–81 than over the decade as a whole, with only six states having increases in average local market concentration for urban and rural banking markets. In contrast, over the 1981–86 period, about two-thirds of the states saw increases in average concentration in urban banking markets, while states were split evenly between increases and decreases in concentration in rural markets.

The point in time at which the trend toward lower local concentration ceases coincides with the passage of federal legislation in 1980 and in 1982 that allowed increased competition between banks and other financial institutions and led to the easing by antitrust authorities of restrictions on local bank mergers and acquisitions. On the other hand, increased competition for banks from other financial institutions as a result of these legislative changes should alleviate anti-

10. Average three-firm concentration ratios for urban and rural U.S. banking markets, 1976–86

Year	Average three-firm concentration ratio	
	Urban markets	Rural markets
1976	68.45	90.06
1977	67.79	89.97
1978	67.29	89.88
1979	66.78	89.75
1980	66.39	89.65
1981	66.04	89.45
1982	65.83	89.38
1983	65.92	89.41
1984	66.34	89.44
1985	66.71	89.47
1986	67.51	89.47
MEMORANDA[1]		
Number of states with increases in the ratio		
1976–86	22	15
1976–81	6	6
1981–86	33	24
Number of states with decreases in the ratio		
1976–86	28	33
1976–81	44	41
1981–86	17	24

1. Alaska is not included, and the District of Columbia and New Jersey have no rural banking markets. Also, one state had no change in the average concentration level of its rural markets over 1976–81.

16. The three-firm concentration ratio is commonly used in analyses of local banking markets because the number of firms included in a concentration ratio should be proportionate to the size of the area being examined. In the case of local markets, including more than three firms in a concentration ratio would result in high levels of concentration in almost all markets.

Local market concentration is measured using deposits rather than assets because asset data are available only at the firm level, while deposit data can be disaggregated by local geographic area.

trust concerns about the slight upward trend since 1982 in local market concentration. The change in trend in local concentration also coincides with widespread adoption of interstate banking laws. These laws increase the possibility of entry into local banking markets by banking organizations operating elsewhere. The potential for entry does not directly affect the structure of local banking markets. However, it may increase competition among firms already in the market and induce such firms to set lower prices to inhibit entry. Even discounting these sources of increased competition, changes in local market concentration are much smaller than, and often in the opposite direction of, those observed at the state, regional, and national levels.

CONCLUSION

Since the mid-1970s, the U.S. banking system has become significantly more concentrated at the national, regional, and state levels, though not on the local level. Nationally, decreases in the number of banking organizations and dramatic increases in concentration have occurred principally due to the growth of very large regional and superregional bank holding companies, often through merger or acquisition. Changes in regional and state concentration vary, with the Northeast and Southeast showing the greatest increases. Four-fifths of the states recorded increases in concentration over the past decade, but the extent of the increase varied widely. Concentration in local banking markets decreased slightly over the 1976–82 period, with smaller increases occurring since then.

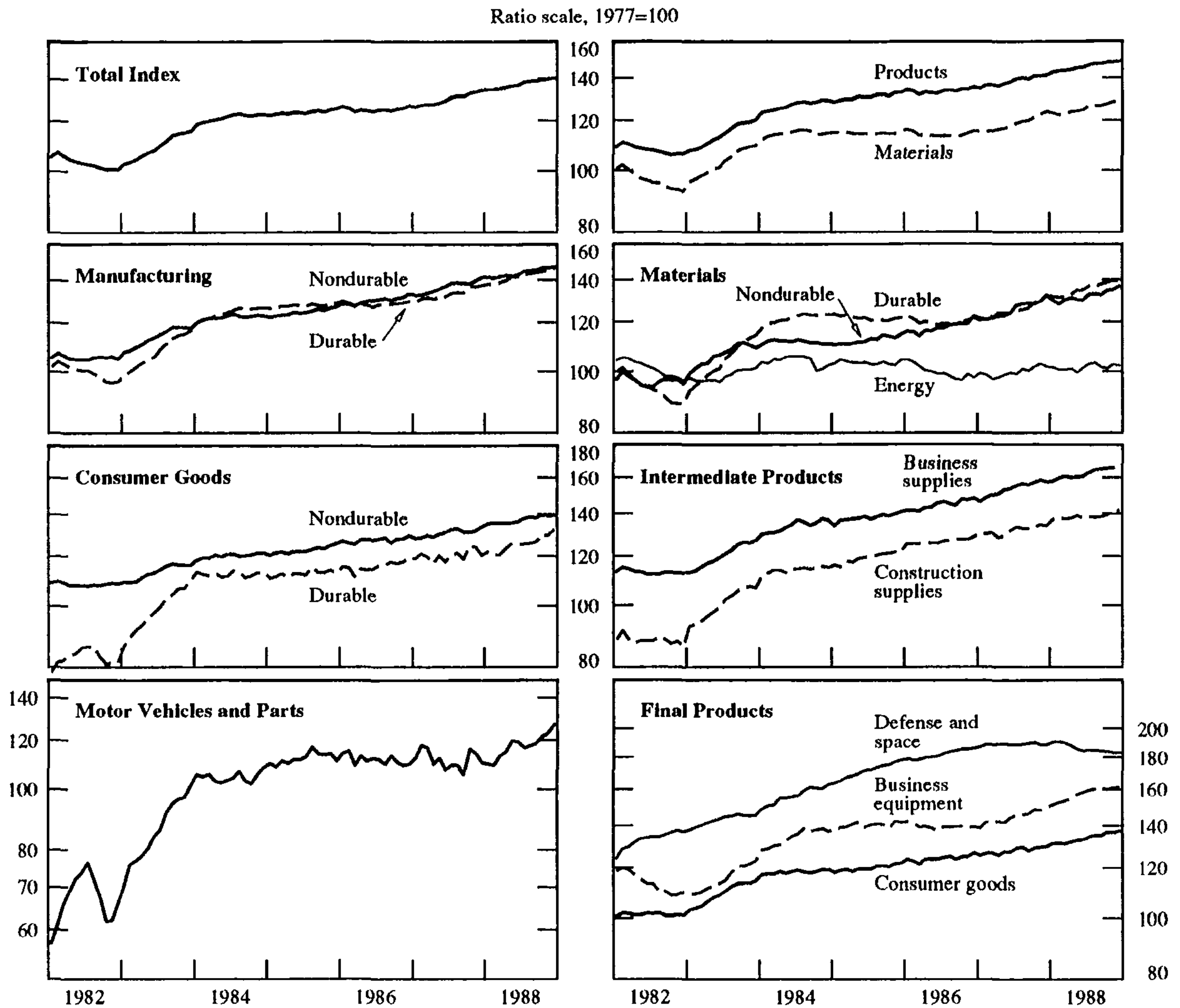
These structural changes can be traced in large part to relaxation of legal restrictions on the geographic expansion of banking organizations and on the products they can offer. The enactment of interstate banking laws in 45 of the 50 states and increased concentration at the state level helped bring about increases in national and regional concentration. These increases occurred in part because interstate banking laws allowed the development of fast-growing superregional and regional bank holding companies. At the state level, increases in concentration can be tied to more liberal branching laws adopted in the past decade.

While legislative and economic changes have led to increased concentration among banking organizations, they have also allowed increased competition between banks and other financial institutions. Greater competition for banks from thrift institutions and other firms and the lack of any substantial increase in concentration at the local level should mitigate antitrust concerns raised by structural changes. □

Industrial Production

Released for publication January 18

Industrial production increased 0.3 percent in December after having risen a revised 0.4 percent in November. A sharp rise in motor vehicles and continuing strength in construction supplies paced the December advance. Business equipment rose slightly in December but has changed little, on balance, since September, as commercial equipment has declined and growth in other major components, except transit equipment, has slowed. At 140.2 percent of the 1977 average, the total index in December was 4.7 percent higher than it was a year earlier. For the fourth quarter as a whole, production advanced about 4 percent at an annual rate after having risen 7 percent during the third quarter.



All series are seasonally adjusted. Latest figures: December.

Group	1977 = 100		Percentage change from preceding month					Percentage change, Dec. 1987 to Dec. 1988
	1988		1988					
	Nov.	Dec.	Aug.	Sept.	Oct.	Nov.	Dec.	
	Major market groups							
Total industrial production	**139.8**	**140.2**	**.3**	**.1**	**.5**	**.4**	**.3**	**4.7**
Products, total	148.3	148.8	.5	.1	.5	.1	.3	5.3
Final products	146.5	146.9	.5	.0	.5	.0	.3	5.1
Consumer goods	136.5	137.2	.6	−.1	1.4	−.2	.5	5.7
Durable	129.5	132.1	.3	.5	2.7	−.1	2.0	9.8
Nondurable	139.0	139.1	.7	−.3	1.0	−.2	.1	4.3
Business equipment	160.9	161.1	.5	.4	−.5	.6	.2	7.6
Defense and space	183.3	183.2	.0	−.2	−.3	−.4	−.1	−3.0
Intermediate products	154.4	155.2	.5	.4	.4	.6	.5	5.9
Construction supplies	140.9	141.7	−.2	.2	.7	1.1	.6	5.9
Materials	128.3	128.6	.1	.0	.7	.8	.2	3.9
	Major industry groups							
Manufacturing	145.7	146.2	.3	.3	.6	.3	.3	5.2
Durable	145.0	145.5	.2	.4	.4	.4	.4	6.0
Nondurable	146.7	147.1	.3	.1	.9	.1	.3	4.2
Mining	104.4	104.4	−.5	.0	−.8	1.4	.0	−.2
Utilities	114.4	115.4	2.9	−4.0	.9	.3	.8	3.3

NOTE. Indexes are seasonally adjusted.

In market groups, output of consumer durable goods rose 2.0 percent in December, reflecting the large gain in motor vehicles. Automobile assemblies increased to an annual rate of 7.9 million units from the rate of 7.6 million units in November, and output of light trucks for consumer use also advanced sharply. Production of other consumer goods was about unchanged. Within business equipment, production of transit equipment, particularly motor vehicles for business use and commercial aircraft, surged in December. Commercial equipment declined, largely reflecting weakness in computers and communications equipment. Materials output also posted a small gain in December as nondurables, mainly paper and chemicals, advanced. However, durable materials were unchanged, and energy materials declined as crude oil extraction was reduced.

In industry groups, manufacturing advanced 0.3 percent in December as both durables and nondurables increased. Within manufacturing, the most notable gains were in transportation equipment, lumber, paper, and petroleum products. Mining output was unchanged in December, and production at utilities increased 0.8 percent.

Capacity utilization in total industry for December 1988 was estimated at 84.2 percent, up 0.1 percentage point from November. In manufacturing, capacity utilization for December was 84.4 percent, 0.1 percentage point higher than it was in November, and 1.8 percentage points higher than it was a year earlier. Detailed data for capacity utilization are shown separately in "Capacity Utilization," Federal Reserve monthly statistical release, G.3.

Total industrial production—Revisions

Estimates as shown last month and current estimates

Month	Index (1977=100)		Percentage change from previous months	
	Previous	Current	Previous	Current
Sept.	138.6	138.6	.1	.1
Oct.	139.3	139.3	.5	.5
Nov.	139.9	139.8	.5	.4
Dec.	...	140.2	...	.3

Statements to Congress

Statement by Manuel H. Johnson, Vice Chairman, Board of Governors of the Federal Reserve System, before the Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives, January 5, 1989.

I am pleased to have the opportunity to appear before this committee to discuss how the debt-servicing difficulties of some of the developing countries have affected the U.S. banking system.

The subject that you have asked me to address today has received ongoing attention in recent years by bank regulators. That attention has been against the background of the basic framework that has evolved. That framework involves the continuing cooperative efforts of the borrowing countries, the multilateral financial institutions, the commercial banks, and the industrial countries.

The potential effect on the U.S. banking system of the debt problems of the developing countries has been managed with some degree of success. First, bank exposure to developing countries has declined since the emergence of the first signs of the debt problem in 1982. Second, the condition of U.S. banks is stronger now in terms of capital and earnings that provide a base to deal with any problems. Third, supervision over foreign lending by the regulatory authorities has been strengthened. Finally, regulation over foreign lending has been amended to accommodate emerging solutions while still being consistent with standards of safety and soundness. I will address each of these topics separately.

Bank Exposure

Loans to all foreign borrowers by U.S. banks have declined significantly since the beginning of the debt crisis. As of June 1982, U.S. banks had $344 billion outstanding to borrowers located outside the United States. Of this total, $197 billion, or 57 percent, represented exposure to borrowers in developed countries. On the other hand, in 1982 U.S. bank exposure to the 15 countries associated with the Baker initiative totaled $90 billion.[1] Mexico, the largest borrower among the developing countries, owed $25 billion, which at the time represented an average of 38 percent of combined gross capital funds.[2] Exposure to Mexico by the nine money center banks totaled $14 billion and represented almost 50 percent of their combined gross capital funds. In 1982 banks had little or no loan-loss reserves against these loans.

As of June 1988, the exposure of U.S. banks to all foreign borrowers amounted to $280 billion. These borrowers are still primarily located in major developed countries where such borrowings constitute $176 billion, or 63 percent of the total. Exposure to the Baker-15 countries has declined to $76 billion, which represents 58 percent of gross capital funds of all U.S. commercial bank lenders. This amount compares with 136 percent of capital in June 1982.

The impact of the debt problems of the developing countries has been felt most severely by the nine large banks. Their combined exposure to the Baker-15 countries as of June 1988 was $53 billion, representing approximately 100 percent of their combined capital. But this exposure relating to capital was half that of 1982 and the lowest it had been at any time since such data were first collected in 1977.

1. The Baker-15 countries are Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Ivory Coast, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela, and Yugoslavia.

2. Gross capital funds include equity, subordinated debt, and loan-loss reserves. Exposure is cross-border claims on a foreign country that includes deposits with banks, securities, loans, acceptances, and investments in unconsolidated subsidiaries.

The large banks have continued to support additional lending to those heavily indebted countries where efforts are being made toward structural economic reform and where the country is endeavoring to maintain normal creditor–debtor relationships. As a consequence, the large banks have continued to shoulder a greater share of new lending to the heavily indebted countries.

Many smaller and regional banks have, on the other hand, largely abandoned strategies that would further involve them in continued international lending in the developing countries. These banks traditionally have been less involved in international lending and have reduced their exposures to heavily indebted countries by various means, including loan swaps and sales.

New types of transactions involving bank loans to developing countries have emerged and are being used by all banks to adjust their portfolios. These types include debt conversions in which nonbank investors purchase loans to a particular debtor country and then exchange the loans for investments. They also include debt settlements in which individual borrowers from developing countries reach an agreement with their external bank creditors to prepay their debts on favorable terms.

The volume of debt conversions and settlements has increased significantly since mid-1987. These transactions still account for only a small proportion of all bank claims on heavily indebted countries. Nonetheless, the availability of such techniques—and more generally the development of the secondary market for loans to major borrowing countries—has given U.S. banks, particularly those banks that are not otherwise extensively involved in international banking, added flexibility in managing their international loan portfolios.

In part by taking advantage of these opportunities, total U.S. bank exposure to the 15 countries associated with the Baker initiative dropped $8.6 billion over the year ending June 1988. A disproportionate share of this reduction was accounted for by large regional banks, as distinct from the largest multinational banks. Nonetheless, the top nine banks did reduce their total exposure over the year by $2.6 billion, but their share of total bank exposure rose. The largest banks typically have reported smaller discounts in such transactions than did the regional banks. This outcome is associated with the capacity of the former group of banks to employ a wider range of debt-reduction techniques, including sales, exchanges for other credits, and debt-for-equity swaps.

U.S. banks' reductions in exposures to the Baker-15 countries over the year ending June 1988 involved essentially a handful of countries. Reductions in banks' exposures to Mexico of $3.7 billion accounted for slightly more than 40 percent of the total and were largely associated with negotiated debt retirements by private-sector borrowers in Mexico. Declines in U.S. banks' exposures to Brazil and Chile were roughly proportionate to the decline in total exposure, while a smaller-than-proportionate decline was reported for claims on Venezuela. Small increases were reported in the total of U.S. banks' exposures to Argentina and Colombia.

Condition of the Banking System

U.S. banks today are in a better position to absorb the impact of any suspension of debt servicing by borrowers, domestic or foreign. A number of reasons justify this assessment.

First, primary capital ratios of the large multinational banks, the major lenders to developing countries' borrowers, have increased significantly. In 1982, the average primary capital-to-asset ratio for multinational banks was 4.82 percent. Today it stands at 8.19 percent.

Second, earnings of the large multinational banks are at high levels. There was some slowing of the growth of earnings in the third quarter, but nevertheless, bank earnings in 1988 were healthy. Diversified earnings help to act as a cushion if a major borrower suspends debt service.

Finally, banks have increased their loan–loss reserves against claims on developing countries. For the nine largest banks, these reserves now total almost $14 billion. These reserves represent approximately 26 percent of exposure to those heavily indebted developing countries that have incurred external financial difficulties.

Supervision and Regulation over International Lending

Supervision over lending practices of banks is a matter of continuing attention by U.S. bank regulatory authorities. This has been especially true in the past decade in the area of international lending. Loans to private-sector foreign borrowers are evaluated in the same manner as domestic loans. Regulatory classification procedures are the same for all loans regardless of whether the loan is domestic or foreign. Regulators continually review bank managements' policies and procedures on lending to ensure that the risk in the loan portfolios is being properly evaluated and that adequate reserves against future loan losses are being provided.

Lending to foreign borrowers involves an added risk that is commonly referred to as transfer risk. This risk involves the possibility that a country's economic and financial policies may not be compatible with producing an environment that provides sufficient foreign exchange earnings to meet debt-servicing requirements. The bank regulatory agencies review and evaluate transfer risk uniformly. This is accomplished through the Interagency Country Exposure Review Committee (ICERC). ICERC meets three times a year to make judgements on the degree of transfer risk inherent in lending to 80 countries. The resulting categorizations are applied uniformly to all borrowers in a country whether public or private although some differentiations are made at times for trade credits.

The committee also recommends the level of charge-off or Allocated Transfer Risk Reserve (ATRR) in those countries where debt service has been interrupted for a protracted period of time. Banks have the option of writing off the loans to the level established by the regulatory authorities or of establishing an ATRR for that amount. The ATRR is not counted as capital.

This system of evaluating transfer risk was established in 1979 and modified in 1983 in line with the provisions of the International Lending Supervision Act passed by the Congress.

Lending to foreign borrowers is monitored by the regulatory authorities through quarterly reporting. Banks that lend to foreign borrowers are required to report the aggregate claims on borrowers for each country. The results are aggregated into a country exposure lending survey, which is issued publicly. The latest report is attached as an appendix.[3] Country exposure reports of individual banks are also reviewed to determine any sizable new lending by a particular bank or to an individual country.

Regulatory Actions

Since mid-year 1987, the Federal Reserve Board has taken several actions to grant U.S. banking organizations additional flexibility in managing their exposure through debt-for-equity swaps. Before these amendments in August 1987 and February 1988, the Board's Regulation K, which governs the international activities of U.S. banking organizations, allowed U.S. banking organizations to invest in up to 20 percent of the voting shares of any company, regardless of the nature of its activities. A number of U.S. banking organizations sought additional flexibility from the Board to invest, through a debt-for-equity swap, in a larger percentage of the shares of a foreign company engaged in nonfinancial activities. The banking organizations felt that being able to purchase a larger percentage of shares would enhance their ability to bid on, supervise, and ultimately divest themselves of such investments. In considering such amendments to its regulations, the Board balanced its long-standing safety and soundness concerns over the mixing of banking and commerce against a desire to allow banking organizations flexibility in managing their claims on developing countries.

The effect of the two amendments to Regulation K was to permit U.S. bank holding companies to invest in up to 100 percent of the voting shares of a nonfinancial company that was being privatized by the government of the eligible country and up to 40 percent of the equity (including voting shares) of any company located in an eligible country, subject to certain conditions that prevent the U.S. banking organization from having actual control of that company.

3. The attachments to this statement are available on request from Publications Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

These investments are not to be permanent in nature; they must be divested within the lesser of 15 years or 2 years of the date on which the bank holding company is permitted to repatriate in full the investment in the foreign company. The Board also expanded the general consent provisions for such investments. These are the limits within which an investment may be made without first seeking the Board's approval. They have been expanded to the greater of $15 million or 1 percent of the equity of the investor.

It would appear, based on the reactions of the U.S. banking organizations that had sought the more liberalized treatment, that the 1987 and 1988 amendments were responsive to their concerns. It should be noted, however, that a significant number of debt-for-equity investments are being made under the original portfolio investment provisions of Regulation K. It should also be noted that most debt-for-equity transactions have involved the exchange of bank claims for equity holdings by nonbanking organizations. Moreover, several of the developing countries have at least temporarily placed restrictions on, or suspended, their debt-for-equity swap programs because of concern about the effect of such transactions on their money supply.

CONCLUSION

The international financial system should be able to deal with the international debt problem. One major reason is that many developing countries acting in their own interest have adopted strong adjustment programs and have continued to service their debts. While significant progress has been made in managing the external debt problems of developing countries, we are far from being able to declare that these problems and their consequences in the banking system are behind us. □

Statement by Alan Greenspan, Chairman, Board of Governors of the Federal Reserve System, before the Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives, January 24, 1989.

I am pleased to appear before this committee to discuss the current economic situation and the outlook for 1989. As you know, the Federal Reserve will submit its semiannual report on monetary policy to the Congress next month. That report will cover in detail the Federal Open Market Committee's (FOMC's) policy targets for 1989, as well as our expectations for real growth and inflation. Today, I would like to focus on some of the broader considerations bearing on our economic prospects.

The overall record shows 1988 to have been another year of progress for the U.S. economy. Setting aside the effects on aggregate output of last summer's drought, real GNP appears to have risen more than 3 percent over the course of the year. That pace was considerably faster than was expected by many analysts at the start of the year, and it came on the heels of a strong increase of 5 percent in gross national product in 1987. Especially encouraging in terms of the prospects for sustained expansion is that these surprising gains have been achieved without a flare-up of inflation. Prices have accelerated only slightly, with increases in most broad indexes holding in the range of 4 to 4½ percent.

As we enter 1989, there are few signs of any significant impediments to continued expansion. Business cycle history tells us some places to look for danger signals. One of them is excessive accumulation of inventories; at present, overhangs of stocks are rather isolated and manageable. Another is overbuilding of capacity; while there clearly are a good many empty office buildings around the country, industrial capacity is relatively fully utilized—indeed, tight in some industries. Still another is out-of-control costs and inadequate profit margins; again, there appear to be no widespread problems.

However, this is not to say that we have little reason for concern. Resource utilization has risen to levels that at numerous times in the past have been associated with a worsening of inflation. If growth were to continue indefinitely at the recent pace, the concomitant tightening of supply conditions for labor and materials would

risk a serious intensification of inflationary pressures at some not-too-distant point in the future.

How fast the economy can now grow without a significant pickup in inflation is obviously a key question. The answer depends, of course, on the amount of slack in labor markets and in industry and on prospects for the growth of labor and capital resources and of technological efficiency. Inflation in the longer term is essentially a monetary phenomenon. But excess pressures on productive resources have usually been the major trigger engendering financial tensions that too often have been relieved through inflationary monetary expansion. Unfortunately, such pressures can be extremely hard to discern in a timely way. Economic relationships are complex and difficult to pin down; the lags between changes in resource utilization and in prices can be long, and the translation into credit and financial excess inexact. Moreover, conventional measures of resource utilization may not be sufficiently sensitive to the increasing openness of the U.S. economy in recent years and to other changes in the economic structure. Nonetheless, a careful examination of the historical experience—in conjunction with a knowledge of demographic trends and other long-run developments—provides ample evidence of where the risks lie.

The labor market is showing clear signs of tightening. Gains in employment exceeded 2 million last year, according to the Census survey of households; these gains outstripped the growth in the labor force, and the unemployment rate fell to its lowest levels since the 1970s. However, the demographic composition of the work force has changed considerably since the 1970s. And workers now seem to be placing greater emphasis on job preservation as opposed to bigger wage gains, while businesses strive to contain costs and to enhance competitiveness. Accordingly, the wage pressures associated with a 5¼ percent jobless rate today are less than they would have been 10 or 15 years earlier. It also is unlikely that a few tenths of a percentage point up or down on the unemployment rate would change the inflation outlook dramatically. Nonetheless, the available evidence points to a high probability of stepped-up wage pressures should unemployment decline significantly further.

In part, that assessment reflects the fact that unemployment now is well within the range of 4½ to 6½ percent that encompasses most estimates of the "natural rate" of unemployment. The concept of a natural rate of unemployment, that is, a rate consistent with stable inflation over the long run, is a useful notion for empirical studies of the relationship between tightness in the labor market and inflation. Unemployment below the natural rate presumably would provide sustained impetus to inflation, while unemployment above the natural rate would tend toward disinflation. Any figure for the natural rate should be viewed cautiously, given the uncertainties and the complexity of the economic relationships involved; indeed, the most recent estimates are perceptibly lower than many analysts thought likely only a few years earlier.

Nonetheless, increases in compensation—although volatile from quarter to quarter—picked up roughly a percentage point last year, to the range of 4½ to 5 percent. Pay gains in many occupations and regions of the country where labor demand has been especially strong have been somewhat greater. In the Northeast, for example, hourly compensation increased nearly 5½ percent over the year ending last September. Reports of labor shortages and wage pressures are widespread in some regions, and there is some fear that the tenor of wage negotiations may shift in a direction inimical to cost restraint.

Measures of industrial supply conditions are more ambiguous, but on the whole also point to a tightening. Utilization rates for plant and equipment, as in the labor market, have moved up sharply over the past few years. Capacity utilization in manufacturing, after having hovered around 80 percent from 1984 to mid-1987, has climbed to 84½ percent. Some industries, including steel, paper, and chemicals, have been operating flat out, or close to it.

The conventional measures, however, may well overstate the degree of price pressure. Capacity is a somewhat elusive concept. For example, facilities can be moved in and out of use or put on different operating schedules in response to fluctuations in demand and prices. Moreover, measures of domestic capacity do not take account of the availability of materials and supplies from abroad—a factor of some importance in our increasingly open economy. Indeed, the informa-

tion compiled monthly by the National Association of Purchasing Management suggests that what may be called "deliverability" was diminishing only moderately at year-end, after marked deterioration in 1987 and early 1988. Vendors were missing their schedules less often, while average lead times for orders of production materials were no longer than they were a year earlier.

Our estimates of aggregate production capabilities clearly are imprecise. Moreover, labor markets and industrial facilities may well be flexible enough to allow us to operate for some time at higher levels of resource utilization without a visible deterioration in inflation. But there is little doubt that margins of slack have been reduced. The risk of greater inflation could be appreciable if real GNP continued to increase at recent rates over the next several years.

With most of the slack having been taken up, our growth will tend to be limited by the rate at which our productive capacity expands. Most estimates place the growth in productive capacity—or long-term potential GNP—in the area of 2½ to 3 percent per year. Growth of the labor force has dropped markedly since the 1970s; given the trends in the working-age population, in participation rates, and in the average workweek, such growth is likely to remain relatively slow in coming years. And while one can hope for some offset from better labor productivity performance, the improvements that we have seen to date in the economy-wide data have not been dramatic. Gains in nonfarm business productivity have picked up somewhat in the 1980s, but—at only about 1¼ percent per year—they fall far short of those recorded in the 1950s and 1960s. In part, the disappointing productivity performance reflects the low level of net investment.

To be sure, we have not had great success in forecasting intermediate shifts in productivity in years past. It is possible that forces not now visible could impart a significant upward push to productivity. This could boost potential economic growth beyond 3 percent per year. However, a policy that assumes such outcomes risks significant inflationary imbalances. I think it is wiser to have "money in the bank before we spend it," so to speak.

Containing the pressures on labor and capital resources—while continuing to reduce our external imbalance—will require a slowing in domestic demand. Such an outcome will be facilitated to the extent that the federal budget deficit is reduced. With the Gramm–Rudman–Hollings procedures providing some discipline on spending decisions, the budget looks to be a mildly restraining influence on domestic demand this year. But it is crucial that further steps be taken in support of a long-term policy of reducing budget deficits and the associated claims on the nation's saving.

Lower budget deficits will pay off over the longer run: they will free up domestic saving to finance investment that embodies the most up-to-date technology. Therein lies a major hope for attaining the productivity gains so crucial to growth in potential GNP. In the 1980s, a large inflow of capital from abroad has made it possible to finance both the federal budget deficit and a high level of gross private investment without untenable pressures on credit markets. However, a country cannot depend forever upon foreign saving; at some point we will have to rely more fully on our own resources. The paucity of aggregate domestic saving in recent years has been exacerbated by a sharp fall in private saving, and we cannot count on a major reversal of that trend. We have endeavored in the past few decades to implement tax policies to augment household and business saving; by all accounts, they have met with only limited success. Accordingly, the surest way to overcome the shortage of domestic saving is through sizable reductions in budget deficits.

Monetary policy also will bear importantly on our economic prospects, and I will be reporting to the Congress next month on the Federal Reserve's plans for monetary policy in 1989. Let me comment, however, on the notion I hear all too frequently that current rates of inflation are acceptable to the Federal Reserve. Fundamentally, our strategy continues to be centered on moving toward, and ultimately reaching, stable prices, that is, price levels sufficiently stable so that expectations of change do not become major factors in key economic decisions. Current inflation rates, by that criterion, clearly are too high and must be brought down. Progress toward that

goal in 1988 was inhibited by the lagged effects of the sharp decline in the dollar over the 1985–87 period and by the drought-induced flare-up in food prices. However, the dollar now is at levels where U.S. industry is quite competitive. Of course, we recognize that achieving the joint goals of growth and price stability will require persistence and patience. To the extent that labor and management perceive our commitment, the dynamics of the wage–price process will work in our favor.

The pursuit of such a strategy on the part of the Federal Reserve embodies an acute awareness of the great cost to our economy and society should a more intense inflationary process become entrenched. The experience of the past two decades vividly illustrates the problems that arise when accelerating prices and wages have to be countered later by severely restrictive policies. There are unavoidable adverse implications for production and employment, as well as for the financial health of many individuals and businesses. For that reason, it is our judgment—as I indicated to the Congress last July—that the long-run costs of a return to higher inflation, and the risks of this occurring under current circumstances, are sufficiently great that Federal Reserve policy at this juncture might well be advised to err more on the side of restrictiveness than of stimulus.

Let me conclude by saying that I view our economic prospects in 1989 and beyond as favorable, but that such an outcome is by no means assured. I have spoken at length of the risk of rising inflation when labor and product markets are operating at or near full capacity. The deficits in the federal budget and in our external accounts also are serious problems that must be dealt with. However, if we remain attentive to the course of events and take prudent actions on a timely basis, I am optimistic that we can make further progress toward the objectives of full employment and price stability. □

Chairman Greenspan presented substantially identical testimony before the Joint Economic Committee, January 31, 1989.

Statement by Alan Greenspan, Chairman, Board of Governors of the Federal Reserve System, before the Committee on Finance, U.S. Senate, January 26, 1989.

I am pleased to be here today to address issues raised by recent trends in corporate restructuring activity. The spate of mergers, acquisitions, leveraged buyouts (LBOs), share repurchases, and divestitures in recent years is a significant development. It has implications for shareholders, the efficiency of our companies, employment and investment, financial stability, and, of course, tax revenues and our tax system. While the evidence suggests that the restructurings of the 1980s probably are improving, on balance, the efficiency of the American economy, the worrisome and possibly excessive degree of leveraging associated with this process could create a set of new problems for the financial system.

Corporate restructuring is not new to American business. It has long been a feature of our enterprise system, a means by which firms adjust to ever-changing product and resource markets, and to perceived opportunities for gains from changes in management and management strategies.

Moreover, waves of corporate restructuring activity are not new. We experienced a wave of mergers and acquisitions around the turn of this century and again in the 1920s. In the postwar period, we witnessed a flurry of so-called conglomerate mergers and acquisitions in the late 1960s and early 1970s.

However, the 1980s have been characterized by features not present in the previous episodes. The recent period has been marked not only by acquisitions and mergers but also by significant

increases in leveraged buyouts, divestitures, asset sales, and share repurchase programs. In many cases, recent activity reflects the breakup of the big conglomerate deals packaged in the 1960s and 1970s. Also, the recent period has been characterized by the retirement of substantial amounts of equity (more than $500 billion since 1983) mostly financed by borrowing in the credit markets.

The accompanying increase in debt has resulted in an appreciable rise in leverage ratios for many of our large corporations. Aggregate book value debt–equity ratios, based on balance sheet data for nonfinancial firms, have increased sharply in the 1980s, moving outside their range in recent decades, although measures based on market values have risen more modestly.

Along with this debt expansion, the ability of firms in the aggregate to cover interest payments has deteriorated. The ratio of gross interest payments to corporate cash flow before interest provision is currently about 35 percent, close to the 1982 peak when interest rates were much higher. Moreover, current interest coverage rates are characteristic of past recession periods, when weak profits have been the culprit. Lately profits have been fairly buoyant; the current deterioration has been due to heavier interest burdens.

A measure of credit quality erosion is suggested by an unusually large number of downgradings of corporate bonds in recent years. The average bond rating of a large sample of firms has declined since the late 1970s from A+ to A−.

Causes of Restructuring Activity

To fashion an appropriate policy response, if any, to this extraordinary phenomena, there are some key questions that must be answered: What is behind the corporate restructuring movement? Why is it occurring now, in the middle and late 1980s, rather than in some earlier time? Why has it involved such a broad leveraging of corporate balance sheets? And finally, has it been good or bad for the American economy?

The 1980s has been a period of dramatic economic changes: large swings in the exchange value of the dollar, with substantial consequences for trade-dependent industries; rapid technological progress, especially in automation and telecommunications; rapid growth in the service sector; and large movements in real interest rates and relative prices. Clearly, such changes in the economic environment imply major, perhaps unprecedented, shifts in the optimal mix of assets at firms—owing to corresponding shifts in synergies—and new opportunities for improving efficiency. Some activities need to be shed or curtailed, and others added or beefed up. Moreover, the long period of slow productivity growth in the 1970s may have partly exacerbated the buildup of a backlog of inefficient practices.

When assets become misaligned or less than optimally managed, there is clearly an increasing opportunity to create economic value by restructuring companies, restoring what markets perceive as a more optimal mix of assets. But restructuring requires corporate control. And managers, unfortunately, often have been slow in reacting to changes in their external environment, some more so than others. Hence, it shouldn't be a surprise that, in recent years, unaffiliated corporate restructurers, some call them corporate raiders, have significantly bid up the control premiums over the passive investment value of companies that are perceived to have suboptimal asset allocations. If a company has an optimal mix, there is no economic value to be gained from restructuring and, hence, no advantage in obtaining control of a company for such purposes. In that case, there is no incentive to bid up the stock price above the passive investment value based on its existing, presumed optimal, mix of assets. But in an economy knocked partially off kilter by real interest rate increases and gyrations in foreign exchange and commodity prices, there emerge significant opportunities for value-creating restructuring at many companies.

This presumably explains why tender offer prices of common stock in potential restructurings have risen significantly during the past decade. Observed stock prices generally (though not always) reflect values of shares as passive investments. But there are, for any individual company, two or more prices for its shares, reflecting the degree of control over a company's mix of assets.

Tender-offer premiums over passive investment values presumably are smaller than control premiums to the extent that those making tender offers believe that, restructured, the value of shares is still higher than the tender. Nonetheless, series on tender-offer premiums afford a reasonable proxy of the direction of control premiums.

Such tender-offer premiums ranged from 13 percent to 25 percent in the 1960s, but have moved to 45 percent and higher during the past decade, underscoring the evident increase in the perceived profit to be gained from corporate control and restructuring.

Interest in restructuring also has been spurred by the apparent increased willingness and ability of corporate managers and owners to leverage balance sheets. The gradual replacement of managers who grew up in the Depression and developed a strong aversion to bankruptcy risk probably accounts for some of the increased proclivity to issue debt now.

Moreover, innovations in capital markets have made the increased propensity to leverage feasible. It is now much easier than it used to be to mobilize tremendous sums of debt capital for leveraged purchases of firms. Improvements in the loan–sale market among banks and the greater presence of foreign banks in U.S. markets have greatly increased the ability of banks to participate in merger and acquisition transactions. The phenomenal development of the market for low-grade corporate debt, so-called junk bonds, also has enhanced the availability of credit for a wide variety of corporate transactions. The increased liquidity of this market has made it possible for investors to diversify away firm-specific risks by building portfolios of such debt.

The tax benefits of restructuring activities are, of course, undeniable, but this is not a particularly new phenomenon. Our tax system has long favored debt finance by taxing the earnings of corporate debt capital only at the investor level, while earnings on equity capital are taxed at both the investor and corporate levels. There have been other sources of tax savings in mergers that do not depend on debt finance, involving such items as the tax basis for depreciation and foreign tax credits. And taxable owners benefit when firms repurchase their own shares, using what is, in effect, a tax-favored method of paying cash dividends. In any event, the recent rise in restructuring activity is not easily tied to any change in tax law.

Evidence about the economic consequences of restructuring is beginning to take shape, but much remains conjectural. It is clear that the markets believe that the recent restructurings are potentially advantageous. Estimates range from $200 billion to $500 billion or more in paper gains to shareholders since 1982. Apparently, only a small portion of that has come at the expense of bondholders. These gains are reflections of the expectations of market participants that the restructuring will, in fact, lead to a better mix of assets within companies and greater efficiencies in their use. This, in turn, is expected to produce marked increases in future productivity and, hence, in the value of American corporate business. Many of the internal adjustments brought about by changes in management or managerial policies are still being implemented, and it will take time before they show up for good or ill in measures of performance.

So far, various pieces of evidence indicate that the trend toward more ownership by managers and tighter control by other owners and creditors has generally enhanced operational efficiency. In the process, both jobs and capital spending in many firms have contracted as unprofitable projects are scrapped. But no clear trends in these variables are yet evident in restructured firms as a group. For the business sector, generally, growth of both employment and investment has been strong.

If what I have outlined earlier is a generally accurate description of the causes of the surge in restructurings of the past decade, one would assume that a stabilization of interest rates, exchange rates, and product prices would slow the emergence of newly misaligned companies and opportunities for further restructuring. Such a development would presumably lower control premiums and reduce the pace of merger, acquisition, and LBO activity.

This suggests that the most potent policies for defusing the restructuring boom over the long haul are essentially the same macroeconomic policies toward budget deficit reduction and price

stability that have been the principal policy concerns of recent years.

FINANCIAL RISKS

Whatever the trends in restructuring, we cannot ignore the implications that the associated heavy leveraging has for broad-based risk in the economy. Other things equal, greater use of debt makes the corporate sector more vulnerable to an economic downturn or a rise in interest rates. The financial stability of lenders, in turn, may also be affected. How much is another question. The answer depends greatly on which firms are leveraging, which financial institutions are lending, and how the financings are structured.

Most of the restructured firms appear to be in mature, stable, noncyclical industries. Restructuring activity has been especially prevalent in the trade, services, and, more recently, the food and tobacco industries. For such businesses, a substantial increase in debt may raise the probability of insolvency by only a relatively small amount. However, roughly two-fifths of merger and aquisition activity, as well as LBOs, have involved companies in cyclically sensitive industries that are more likely to run into trouble in the event of a severe economic downturn.

Lenders to leveraged enterprises have been, in large part, those that can most easily absorb losses without major systemic consequences. They include mutual funds, pension funds, and insurance companies, which generally have diversified portfolios, have traditionally invested in securities involving some risk, such as equities, and are not themselves heavily leveraged. To the extent that such debt is held by individual institutions that are not well diversified, there is some concern. At the Federal Reserve, we are particularly concerned about the increasing share of restructuring loans made by banks. Massive failures of these loans could have broader ramifications.

Generally, we must recognize that the line between equity and debt has become increasingly fuzzy in recent years. Convertible debt has always had an intermediate character, but now there is almost a continuum of securities varying in their relative proportions of debt and equity flavoring. Once there was a fairly sharp distinction between being unable to make interest payments on a bond, which frequently led to liquidation proceedings, and merely missing a dividend. Now the distinction is much smaller. Outright defaults on original issue high-yield bonds have been infrequent to date, but payment difficulties have led to more frequent exchanges of debt that reduce the immediate cash needs of troubled firms. Investors know when they purchase such issues that the stream of payments received may well differ from the stream promised, and prices tend to move in response to changes in both debt and equity markets. In effect, the yields on debt capital rise toward that of equity capital when scheduled repayments are less secure.

POLICY IMPLICATIONS

In view of these considerations, and the very limited evidence on the effects of restructuring at the present time, it would be unwise to arbitrarily restrict corporate restructuring. We must resist the temptation to seek to allocate credit to specific uses through the tax system or through the regulation of financial institutions. Restrictions on the deductibility of interest on certain types of debt for tax purposes or on the granting of certain types of loans unavoidably involve an important element of arbitrariness, one that will affect not only those types of lending intended but other types as well. Moreover, foreign acquirers could be given an artificial edge to the extent that they could avoid these restrictions. Also, the historical experience with various types of selective credit controls clearly indicates that, in time, borrowers and lenders find ways around them.

All that does not mean that we should do nothing. The degree of corporate leveraging is especially disturbing in that it is being subsidized by our tax structure. To the extent that the double taxation of earnings from corporate equity capital has added to leveraging, debt levels are higher than they need, or should, be. Our options for dealing with this distortion are, unfortunately, constrained severely by the federal government's still serious budget deficit problems. One straightforward approach to this dis-

tortion, of course, would be to substantially reduce the corporation income tax. Alternatively, partial integration of corporate and individual income taxes could be achieved by allowing corporations a deduction for dividends paid or by giving individuals credit for taxes paid at the corporate level. But these changes taken alone would result in substantial revenue losses. A rough estimate of IRS collections from taxing dividends is in the range of $20 billion to $25 billion.

Dangers of risk to the banking system associated with high debt levels also warrant attention. The Federal Reserve, in its role as a supervisor of banks, has particular concerns in this regard. In 1984, the Board issued supervisory guidelines for assessing LBO-related loans, which are set forth in an attachment to my text.[1] The Federal Reserve is currently in the process of reviewing its procedures regarding the evaluation of bank participation in highly leveraged financing transactions. The circumstances associated with highly leveraged deals require that creditors exercise credit judgment with special care. Doing so entails assessing those risks that are firm-specific as well as those common to all highly leveraged firms. □

1. The attachments to this statement are available on request from Publications Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

Announcements

FINAL GUIDELINES ISSUED ON RISK-BASED CAPITAL REQUIREMENTS

The Federal Reserve Board issued final guidelines on January 19, 1989, to implement risk-based capital requirements for state member banks and bank holding companies. The guidelines are based on the framework adopted July 11, 1988, by the Basle Committee on Banking Regulations and Supervisory Practices, which includes supervisory authorities from 12 major industrial countries.

The guidelines represent the culmination of a review process on the subject of risk-based capital initiated in 1986 by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

The guidelines are designed to achieve the following important goals:

- Establishment of a uniform capital framework, applicable to all federally supervised banking organizations.
- Encouragement of international banking organizations to strengthen their capital positions.
- Reduction of a source of competitive inequality arising from differences in supervisory requirements among nations.

The guidelines establish a systematic analytical framework that makes regulatory capital requirements more sensitive to differences in risk profiles among banking organizations; takes off-balance-sheet exposures explicitly into account in assessing capital adequacy; and minimizes disincentives to holding liquid, low-risk assets.

The guidelines provide for phasing in risk-based capital standards through the end of 1992 at which time the standards become fully effective. At that time, banking organizations will be required to have capital equivalent to 8 percent of assets, weighted by risk.

Banking organizations must have a ratio of at least 4 percent Tier 1 capital—which consists of core capital elements including common stockholders' equity, retained earnings, and perpetual preferred stock—to weighted risk assets. The other half of required capital (Tier 2), can include, among other supplementary capital elements, limited-life preferred stock and subordinated debt, and loan–loss reserves up to certain limits.

Initially, the risk-based capital guidelines do not establish a minimum level of capital. However, by year-end 1990, banking organizations are expected to meet a minimum interim target ratio of qualifying total capital to weighted risk assets of 7.25 percent, at least one-half of which should be in the form of Tier 1 capital.

Highlights of the guidelines include the following:

- Application of the two-tier requirement to bank holding companies. Bank holding companies may include cumulative perpetual preferred stock, as well as noncumulative preferred stock, in Tier 1 capital. However, cumulative and noncumulative perpetual preferred stock cannot exceed 25 percent of total Tier 1 capital.
- Bank holding companies are temporarily allowed to count goodwill acquired before March 12, 1988, as capital in Tier 1, but they may not include in capital goodwill acquired subsequent to that date. After 1992, however, all goodwill is to be deducted from bank holding companies' Tier 1 capital. Banks must deduct all goodwill from capital immediately.
- Loans secured by first mortgages on residential properties of one to four units, either owner-occupied or rented, are assigned a 50 percent risk weight, rather than the 100 percent risk weight initially proposed, provided the loans are of high quality and covered by an adequate margin of conservatively valued collateral.

The risk weights assigned to assets and credit equivalent amounts of off-balance-sheet items are based primarily on credit risk. Other types of exposure, such as interest rate, liquidity, and

funding risks, as well as asset quality problems, are not factored into the risk-based ratio. Such risks, however will be taken into account in determining a final assessment of an organization's capital adequacy.

NEW MEMBERS APPOINTED TO THRIFT INSTITUTIONS ADVISORY COUNCIL

The Federal Reserve Board announced on January 11, 1989, the names of six new members appointed to its Thrift Institutions Advisory Council (TIAC) to replace those members whose terms have expired and designated a new President and Vice President of the Council for 1989.

The Council is an advisory group made up of 12 representatives from thrift institutions. The panel was established by the Board in 1980 and includes representatives from savings and loans, savings banks, and credit unions. The Council meets at least four times each year with the Board of Governors to discuss developments relating to thrift institutions, the housing industry, mortgage finance, and certain regulatory issues.

Gerald M. Czarnecki, Chairman of the Board and Chief Executive Officer of HONFED, Honolulu, Hawaii, will serve as President of the Council, and Donald B. Shackelford, Chairman of the Board of State Savings Bank, Columbus, Ohio, will serve as Vice President.

The six new members, named for two-year terms that began January 1, 1989, are the following:

Ms. Charlotte Chamberlain, Executive Vice President for Strategic Planning, Glendale Federal Savings and Loan Association, Glendale, California; Adam A. Jahns, Chairman and President, Cragin Federal Savings & Loan Association, Chicago, Illinois; H.C. Klein, President and General Manager, Little Rock Air Force Base Federal Credit Union, Jacksonville, Arkansas; Philip E. Lamb, Chairman and Chief Executive Officer, Springfield Institute for Savings, Springfield, Massachusetts; Mrs. Marion O. Sandler, President–Chief Executive Officer, World Savings & Loan Association, Oakland, California; and Charles B. Stuzin, Chairman, President, and Chief Executive Officer, Citizens Federal Savings and Loan Association, Miami, Florida.

The other members of the Council are the following: Robert S. Duncan, Chairman, President, and Chief Executive Officer, Magnolia Federal Bank for Savings, Hattiesburg, Mississippi; Joe C. Morris, Chairman of the Board, Columbia Savings Association, Overland Park, Kansas; Joseph W. Mosmiller, Chairman and Chief Executive Officer, Loyola Federal Savings and Loan Association, Baltimore, Maryland; and Louis H. Pepper, Chairman and Chief Executive Officer, Washington Mutual Savings Bank, Seattle, Washington.

NEW MEMBERS APPOINTED TO CONSUMER ADVISORY COUNCIL

The Federal Reserve Board named on January 15, 1989, 13 new members to its Consumer Advisory Council to replace those members whose terms have expired and designated a new Chairman and Vice Chairman of the Council for 1989.

The Consumer Advisory Council was established by the Congress in 1976, at the suggestion of the Board, to advise the Board on the exercise of its duties under the Consumer Protection Act and on other consumer-related matters. The 30-member Council, with staggered three-year terms of office, meets three times a year.

Ms. Judith N. Brown, National Treasurer of the American Association of Retired Persons, was designated Chairman and Mr. William E. Odom, Chairman of the Board of Ford Motor Credit Company, was designated Vice Chairman.

The 13 new members are the following:

George H. Braasch, Assistant General Counsel, Sears, Roebuck, and Co., Chicago, Illinois. At Sears, Mr. Braasch has responsibility for consumer credit and related financial services for the Sears Merchandise Group. He specializes in regulatory compliance with federal and state consumer credit laws.

Cliff Cook, Vice President, Puget Sound National Bank in Tacoma, Washington. Mr. Cook serves as the Compliance Officer for the Puget Sound Bancorp.

R. B. (Joe) Dean, Administrator for Community and Consumer Affairs for South Carolina National Bank in Columbia, South Carolina. Mr. Dean is responsible for

the bank's consumer regulatory compliance programs and activities.

William C. Dunkelberg, Dean of the School of Business and Management at Temple University in Philadelphia, Pennsylvania. Before joining Temple's staff last year, Mr. Dunkelberg was a Professor of Economics and Management with Purdue University and served as the associate director of the Credit Research Center at the university.

James Fletcher, President and Director of South Shore Bank in Chicago and Vice President of Shorebank Corporation, South Shore's bank holding company. Mr. Fletcher serves as a director of the Neighborhood Institute, a not-for-profit, community-based, social and economic development organization.

James W. Head, Executive Director of the National Economic Development and Law Center in Berkeley, California. The Center is a nonprofit, public-interest organization that provides technical and legal assistance to community economic development corporations, community organizations, and local and state governments.

Barbara Kaufman, founder and codirector of Call for Action in San Francisco, California. This all-volunteer public service radio program handles off-the-air telephone calls on consumer problems from the community.

Michelle S. Meier, Counsel for Government Affairs for Consumers Union of the United States, Inc., in Washington, D.C. In this capacity, her work focuses on consumer financial services, product safety, and environmental issues.

Linda K. Page, Director of the Ohio Department of Commerce, Columbus, Ohio. The agency she directs serves as the state's chief regulatory and licensing agency for financial institutions and financial transactions. Before serving as the Director of Ohio's Department of Commerce, Ms. Page was the state's Superintendent of Banks.

Vincent P. Quayle, Director of the St. Ambrose Housing Aid Center in Baltimore, Maryland. The Center rehabilitates properties providing low-income housing to area residents. In addition, the Center's staff assists families with the many facets of the mortgage process.

Clifford N. Rosenthal, Executive Director of the National Federation of Community Development Credit Unions located in New York City. The Federation works to expand the role of community credit unions as providers of financial services to low-income consumers.

Alan M. Silberstein, Senior Vice President of Chemical Bank in New York City. Mr. Silberstein heads the bank's consumer banking organization in the New York metropolitan area, with responsibility for 206 branches.

David B. Ward, Senior Vice President of Beneficial Management Corporation in Peapack, New Jersey. He is responsible for governmental affairs at the state and federal levels with the agencies that regulate Beneficial's consumer credit and insurance companies and its credit card operations.

The other members of the Council are the following:

Naomi G. Albanese
Former Professor of Home Economics
University of North Carolina
Greensboro, North Carolina

Betty Tom Chu
Chairman
Trust Savings Bank
Arcadia, California

Jerry D. Craft
Executive Vice President
First National Bank of Atlanta
Atlanta, Georgia

Donald C. Day
President
New England Securities Corporation
Boston, Massachusetts

Richard B. Doby
Financial Services Consultant
Denver, Colorado

Richard H. Fink
President
Citizens for a Sound Economy
Washington, D.C.

Stephen Gardner
Assistant Attorney General
State of Texas
Dallas, Texas

Elena Hanggi
Director
Institute for Social Justice
Little Rock, Arkansas

Robert A. Hess
President and General Manager
Wright Patman Congressional
Federal Credit Union
Washington, D.C.

Ramon W. Johnson
Professor of Finance
College of Business and
Graduate Business
University of Utah
Salt Lake City, Utah

A.J. King
Chairman
Valley Bank of Kalispell
Kalispell, Montana

Richard L.D. Morse
Professor of Family Economics
Kansas State University
Manhattan, Kansas

Sandra Phillips
Executive Director
Pittsburgh Partnership for
Neighborhood Development
Pittsburgh, Pennsylvania

Ralph E. Spurgin
President and Chief Executive Officer
Limited Credit Services, Inc.
Columbus, Ohio

Lawrence Winthrop
President
Consumer Credit Counseling Service
of Oregon, Inc.
Portland, Oregon

Preliminary Figures on Operating Income of Federal Reserve Banks

Preliminary figures indicate that operating income of the Federal Reserve Banks amounted to $19.524 billion during 1988. Net income before dividends, additions to surplus, and payments to the Treasury totaled $17.548 billion. About $17.4 billion was paid to the U.S. Treasury during 1988.

Income from the Federal Reserve System is derived primarily from interest accrued on U.S. government securities that the Federal Reserve has acquired through open market operations. Income from the provision of financial services amounted to $658 million.

Operating expenses of the 12 Reserve Banks and branches totaled $1.208 billion, including $127 million for earnings credits granted to depository institutions under the Monetary Control Act of 1980. Assessments by the Board of Governors for Board expenditures totaled $84 million, and the cost of currency amounted to $164 million.

Net deductions from income amounted to $489 million, primarily resulting from losses on assets denominated in foreign currencies. Statutory dividends to member banks were $126 million; additions to Reserve Bank surplus were $65 million; and payments to the Treasury amounted to $17.356 billion.

Under the policy established by the Board of Governors at the end of 1964, all net income after the statutory dividend to member banks and the amount necessary to equate surplus to paid-in capital is transferred to the U.S. Treasury as interest on Federal Reserve notes.

Proposed Actions

The Federal Reserve Board issued for public comment on January 12, 1989, a proposal to amend its Regulation Z (Truth in Lending) to implement the Home Equity Loan Consumer Protection Act. Comment is requested by March 21, 1989.

The Federal Reserve Board announced on January 23, 1989, that it has extended until April 28, 1989, the public comment period regarding its proposal to rescind a provision of Regulation Y (Bank Holding Companies and Change in Bank Control) that permits a state bank in a holding company to acquire the shares of nonbank companies engaged in activities that the bank may conduct directly [53 Federal Register 48915 (December 5, 1988)]. The Board has also postponed the informal hearing regarding this matter from February 3, 1989, until April 7, 1989.

The Federal Reserve Board announced on January 30, 1989, that should the Board adopt the amendment to its Regulation CC (Availability of

Funds and Collection of Checks) (12 CFR Part 229) restricting the delayed disbursement of teller's checks, such an amendment would not be effective April 1, 1989, as previously published in the Board's proposed rule [53 Federal Register 24093 (June 27, 1988)]. The Board is providing this public notice to allay the concerns of commenters that a final rule will be adopted with an insufficient lead time for implementation.

The Federal Reserve Board requested on January 31, 1989, public comment on whether U.S. companies operating in the government debt markets of certain foreign countries have the same competitive opportunities as domestic companies in those markets. Comment must be received by May 1, 1989.

Revised List Published on OTC Stocks Subject to Margin Regulations

The Federal Reserve Board published on January 27, 1989, a revised list of over-the-counter (OTC) stocks that are subject to its margin regulations, effective February 13, 1989.

This revised List of Marginable OTC Stocks supersedes the list that was effective on November 14, 1988. The changes that have been made to the list, which now includes 3,070 OTC stocks, are as follows: 76 stocks have been included for the first time, 61 under National Market System (NMS) designation; 53 stocks previously on the list have been removed for substantially failing to meet the requirements for continued listing; 64 stocks have been removed for reasons such as listing on a national securities exchange or involvement in an acquisition.

The list includes all OTC securities designated by the Board pursuant to its established criteria as well as all stocks designated as NMS securities for which transaction reports are required to be made pursuant to an effective transaction reporting plan. Additional OTC securities may be designated as NMS securities in the interim between the Board's quarterly publications and will be immediately marginable. The next publication of the Board's list is scheduled for May 1989.

Besides NMS-designated securities, the Board will continue to monitor the market activity of other OTC stocks to determine which stocks meet the requirements for inclusion and continued inclusion on the list.

Revisions to Table 1.24 in the Federal Reserve Bulletin

The nondeposit funds series that is published regularly in table 1.24 of the Federal Reserve Bulletin has been revised in this issue. All of the revisions in the data that are not seasonally adjusted reflect new estimates of borrowings from lenders other than U.S. commercial banks (lines 3 and 6 in the new table, lines 3 and 4 in the old table). The other component that is not seasonally adjusted, net balances due to related foreign offices, has not been revised. In addition, more comprehensive seasonal adjustments have been calculated for the revised series.

The series revisions reflect changes in the method of estimating borrowing from nonbanks. The old series was calculated until November 1980 by subtracting interbank loans from total borrowing. Subsequently, because of changes in data availability, the series was carried forward by adding cumulative changes in several components of nonbank borrowing to the October 1980 level of the series.

The impetus to change this method of calculation came from a study of the data that showed that the estimates were biased downward due to inadequate representation of borrowings by foreign-related institutions beginning November 1980, and were biased upward in earlier years because of differences in the way lenders and borrowers report interbank transactions. The revised series is calculated as a sum of components: some components were used to estimate the old series, but others were developed to improve the coverage of the new series. Data for all components of the new series are available beginning November 1980; earlier data were adjusted to be as comparable as possible with the new series. The revised nonbank borrowing series is currently nearly $30 billion higher than the old series mainly due to differences in calculating

(1) borrowing from nonbanks by foreign-related institutions and (2) federal funds borrowing.

Revised data on the nonbank borrowing series are available from January 1973 through December 1988. Requests for these data may be addressed to the Banking and Money Market Statistics Section, Division of Monetary Affairs, Board of Governors of the Federal Reserve System, Washington, D.C., 20551.

Changes in Board Staff

The Board of Governors has announced the appointment of Bruce J. Summers as Associate Director in the Division of Federal Reserve Bank Operations, effective February 6, 1989.

The Board of Governors also announced the appointment of Scott G. Alvarez as Assistant General Counsel in the Legal Division and has approved a title change for Ricki R. Tigert from Assistant General Counsel to Associate General Counsel.

Mr. Summers had been at the Federal Reserve Bank of Richmond since 1974 and was the Senior Vice President over Supervision and Regulation and Discount and Credit. He received a B.A. from the University of Notre Dame and an M.A. from the University of Illinois.

Mr. Alvarez joined the Board's staff in 1981 as an Attorney and was promoted to Senior Counsel in 1986. He holds an A.B. from Princeton University and a J.D. from Georgetown University.

System Membership: Admission of State Banks

The following state banks were admitted to membership in the Federal Reserve System during the period January 1 to January 31, 1989.

Illinois

Bloomingdale .... Countryside Bank of Stratford

Vernon Hills............... Exchange Bank of Lake County

Michigan

Troy .... Midwest Guaranty Bank

Legal Developments

FINAL RULE—AMENDMENT TO REGULATIONS G, T, U AND X

The Board of Governors is amending 12 C.F.R. Parts 207, 220, 221 and 224, its Securities Credit Transactions; List of Marginable OTC Stocks. The List of Marginable OTC Stocks is comprised of stocks traded over-the-counter (OTC) that have been determined by the Board of Governors of the Federal Reserve System to be subject to the margin requirements under certain Federal Reserve regulations. The List is published four times a year by the Board as a guide for lenders subject to the regulations and the general public. This document sets forth additions to or deletions from the previously published List which was effective November 14, 1988, and will serve to give notice to the public about the changed status of certain stocks.

Effective February 13, 1989, accordingly, pursuant to the authority of sections 7 and 23 of the Securities Exchange Act of 1934, as amended (15 U.S.C. §§ 78g and 78w), and in accordance with 12 C.F.R. §§ 207.2(k) and 207.6(c) (Regulation G), 12 C.F.R. §§ 220.2(s) and 220.17(c) (Regulation T), and 12 C.F.R. §§ 221.2(j) and 221.7(c) (Regulation U), there is set forth below a listing of deletions from and additions to the Board's List of Marginable OTC Stocks:

Deletions From List

Stocks Removed For Failing Continued Listing Requirements

Amerford International Corp.: $.05 par common
Associated Hosts, Inc.: $.10 par common

Banks of Mid-America, Inc.: $2.50 par cumulative convertible preferred
Bolt Technology Corporation: No par common

Cabot Medical Corporation: Warrants (expire 01-16-89)
Central Realty Investors, Inc.: $1.00 par common
Cermetek Microelectronics, Inc.: $.01 par common
Citipostal Inc.: $.04 par common
Classic Corporation: $.01 par common
Compuscan, Inc.: $.10 par common
Convenient Food Mart, Inc.: $.10 par common
Convergent Solutions, Inc.: Warrants (expire 05-15-92)

Develcon Electronics Ltd.: No par common
Digitext, Inc.: $.01 par common
DMI Furniture, Inc.: $.10 par common
Dyansen Corporation: Class A, warrants (expire 12-30-88)

Elexis Corporation: $.01 par common
Evergood Products Corp.: $.01 par common

First Commerce Bancshares, Inc. (Nebraska): $1.00 par common
First Federal Savings Bank (Tennessee): $1.00 par common

GardenAmerica Corporation: No par common

Hodgson Houses, Inc.: $.01 par common
Hosposable Products, Inc.: Class A, warrants (expire 01-07-90)
HPSC, Inc.: Warrants (expire 01-15-89)

Independent Bankshares, Inc. (Texas): $1.25 par common

J.P.M. Industries, Inc.: Class A, no par common

Marine Petroleum Trust: $1.00 par units of beneficial interest
Mars Stores, Inc.: $.50 par common
Medmaster Systems, Inc.: $.01 par common
Meyers Parking System, Inc.: $.10 par common
Michaels, J., Inc.: $1.00 par common
Microbiological Sciences, Inc.: $.10 par common
Multi-Local Media Corporation: $.01 par common

Nahama & Weagant Energy Corp.: No par common
National Bancshares Corporation of Texas: $5.00 par common 10% subordinated debentures

Old Republic International Corporation: Series F, $4.00 par convertible exchangeable preferred

Pyramid Oil Company: No par common

RealAmerica Co.: $1.00 par common
Redken Laboratories, Inc.: $.50 par common
Repco Incorporated: $1.00 par common
Rockwood Holding Company: $1.00 par common

Southwest Airlines Co.: Warrants (expire 06-25-90)
Suburban Bankshares, Inc.: Class A, $.10 par common

T.R.V. Minerals Corporation: No par common
Taylor, S. Companies, Inc.: $.001 par common
Tinsley Laboratories, Inc.: $1.00 par common
Transducer Systems, Inc.: No par common
Triangle Industries Inc.: Class A, $1.00 par common $1.00 par cumulative convertible junior preferred
Trustcorp, Inc.: Series A, $2.90 par cumulative convertible preferred
Tucker Holding Company, Inc.: $.10 par common

U. S. Shelter Corporation: $1.00 par common

Waterford Glass Group, PLC.: American Depository Receipts representing 10 ordinary shares

XEBEC: No par common

Stocks Removed For Listing On A National Securities Exchange Or Being Involved In An Acquisition

Acuson Corporation: $.001 par common
Advanced Genetic Sciences, Inc.: $.01 par common
Air Cargo Equipment Corp.: $1.00 par common
Alleco Inc.: $1.00 par common 9-½% convertible subordinated debentures
Alliance Imaging Inc.: $.01 par common
American Consulting Corp., Inc.: $.01 par common

BankVermont Corporation: $1.00 par common
Beazer PLC: American Depository Receipts
Berkshire Hathaway Inc.: $5.00 par common
Buehler International, Inc.: $.01 par common

Cable TV Industries: No par common
Canrad, Inc.: $.75 par common
Centerre Bancorporation: $10.00 par common
Citizens Financial Group, Inc.: $1.00 par common
City Savings Bank of Meriden (Connecticut): $1.00 par common
Convergent, Inc.: $.01 par common
Cullum Companies, Inc.: $1.00 par common
Cypress Semiconductor Corp.: $.01 par common

Delta Woodside Industries, Inc.: $.01 par common
Downey Designs International, Inc.: $.01 par common

East Weymouth Savings Bank: $1.00 par common
Entertainment Publications, Inc.: No par common
Entre' Computer Centers, Inc.: $.01 par common

Farmers Group, Inc.: $1.00 par common
First Federal Savings & Loan Association of Kalamazoo: $.01 par common
First NH Banks, Inc.: $1.00 par common

Golden Valley Microwave Foods, Inc.: $.01 par common
Gotaas-Larson Shipping Corp.: $1.00 par common
Graphic Packaging Corporation: $.01 par common
Groff Industries, Inc.: $.50 par common
Guaranty National Corporation: $1.00 par common

Harvard Industries, Inc.: $.10 par common
HHB Systems, Inc.: $.01 par common
Hyponex Corporation: $.10 par common

Indian Head Banks, Inc. (New Hampshire): $5.00 par common
Intertan, Inc.: $1.00 par common

Kimmins Corporation: $.01 par common

London House, Inc.: $.10 par common
Longview Fibre Company: $7.50 par common

Magma Copper Company: Class B, $.01 par common
Metropolitan Consolidated Industries, Inc.: $.10 par common
Minstar, Inc.: $.10 par common
Morgan, Olmstead, Kennedy & Gardner Capital Corporation: $.01 par common

National City Corporation: $4.00 par common
Nevada National Bancorporation: $.66-⅔ par common

Orion Research Inc.: $.10 par common

Regis Corporation: $.05 par common
Resource Pension Shares 1: $.01 par shares of beneficial interest
Resource Pension Shares 2: $.10 par shares of beneficial interest
Resource Pension Shares 3: $.10 par shares of beneficial interest
Restaurant Management Services, Inc.: $.10 par common
Richmond Hill Savings Bank: $1.00 par common

Service Merchandise Company, Inc.: $.50 par common
Shawmut National Corporation: $.01 par common
Sierra Capital Realty Trust IV: No par common
Somerset Bancorp, Inc.: $2.50 par common
Southernnet, Inc.: $.01 par common

Thetford Corporation: $.25 par common

Unibancorp, Inc.: $5.00 par common

Viking Freight, Inc.: No par common
VM Software, Inc.: $.01 par common
Vulcan Packaging Inc.: No par common

Wilton Enterprises, Inc.: $.10 par common

Additions To The List

3-D Systems, Inc.: No par common

American Steel & Wire Corporation: $.20 par common

Banc One Corporation: Series B, no par convertible preferred
BHA Group, Inc.: Class B, $.01 par common
Bird Incorporated: $1.85 cumulative convertible preferred
Bliss & Laughlin Industries, Inc.: $.01 par common

California State Bank: No par common
Carolina First Corporation: $1.00 par common
Centennial Savings Bank: $1.00 par common
Community Bancorp, Inc.: $.01 par common
Computer Components Corporation: $.01 par common Warrants (expire 06–18–91)
Continental Savings of America (California): $1.11 par common

DEL Electronics Corp.: $.10 par common

Eastco Industrial Safety Corp.: $.01 par common
E.R.C. Environmental & Energy Services Co., Inc.: $.05 par common

F.F.O. Financial Group, Inc.: $.10 par common
Fidelity Savings Association (Pennsylvania): $1.00 par common
First Financial Caribbean Corporation: $1.00 par common
FLS Holdings, Inc.: Series A, $.01 par convertible preferred
FMS Financial Corporation: $.10 par common

Garnet Resources Corporation: $.01 par common
Genex Corporation: $.60 par convertible preferred
Genus, Inc.: No par common
GNW Financial Corporation: $.01 par common

Henley Group, Inc., The: $.05 par common
Hingham Institution for Savings: $1.00 par common
Homeowners Group, Inc.: $.01 par common
Homestyle Buffet, Inc.: $.01 par common
Horizon Gold Shares, Inc.: $.01 par common

Imagine Films Entertainment, Inc.: Warrants (expire 07–30–93)
IMCO Recycling Inc.: $.10 par common
Ironstone Group, Inc.: $.01 par common

Key Production Company, Inc.: $.25 par common
Kimmins Environmental Service Corp.: 9% convertible subordinated debentures

LEP Group, PLC.: American Depository Receipts
Lindsay Manufacturing Company: $1.00 par common
Logic Devices, Inc.: No par common
LYPHOMED, Inc.: 5-½% convertible subordinated debentures

Mallon Resources Corporation: $.01 par common
Management Technologies, Inc.: $.01 par common
Medical Devices, Inc.: $.10 par common
Metcalf & Eddy Companies, Inc.: $.01 par common
Metro Bancshares, Inc.: $.01 par common
Midwest Grain Products, Inc.: No par common

New England Bancorp, Inc.: $.25 par common
Nu-West Industries, Inc.: $.01 par common $100 par convertible preferred

Office Depot, Inc.: $.01 par common
O.I. Corporation: $.10 par common
Otisville Biopharm, Inc.: Warrants (expire 05–28–90)
Ovex Fertility Corp.: $.01 par common

P & F Industries, Inc.: $10.00 par convertible preferred
Pacific Agricultural Holdings, Inc.: No par common
Pacific Bancorporation: $1.88 par common
Pentech International, Inc.: $.01 par common
Precision Standard, Inc.: $.0001 par common
Prima Energy Corporation: $.015 par common
Prime Bancorp, Inc.: $1.00 par common
Provident Life & Accident Insurance Company of America: Class A, $1.00 par common

Quadra Logic Technologies, Inc.: No par common

Rainbow Technologies, Inc.: $.001 par common

RF & P Corporation: Non-voting, dividend obligations, $.50 par common

Satellite Information Systems Company: No par common
Showbiz Pizza Time, Inc.: $.10 par common
Softsel Computer Products, Inc.: $.01 par common

Timberjack Corporation: $.01 par common
Tompkins, PLC.: American Depository Receipts
Total Energold Corporation: No par common
Tyco Toys, Inc.: Warrants (expire 06–07–93)

VMS Strategic Land Fund II: $.01 par common
VSB Bancorp, Inc.: $.01 par common

Wainwright Bank & Trust Company: $1.00 par common
Wellington Leisure Products, Inc.: $.01 par common
Williams, A. L., Corporation, The: 7.25% convertible subordinated debentures
World-Wide Technology, Inc.: $.01 par common

Final Rule—Amendment to Regulations H and Y

The Board of Governors is amending 12 C.F.R. Part 208, its Regulation H, and 12 C.F.R. Part 225, its Regulation Y, to reflect its revised proposal as Risk-Based Capital Guidelines.

Since the early 1980s, the Board of Governors of the Federal Reserve System has employed minimum supervisory leverage ratios of primary and total capital-to-total assets in assessing the capital adequacy of state-chartered banks that are members of the Federal Reserve System and bank holding companies (collectively, "banking organizations").

While these ratios of capital-to-total assets have served as useful tools for assessing capital adequacy, the Board has determined that there is a need for a measure that is more sensitive to the risk profiles of individual banking organizations. In this regard, the Board, together with the other U.S. Federal banking agencies, first proposed in early 1986, and again in 1987 in conjunction with the Bank of England, the adoption of a risk-based capital measure that took explicit account of broad differences in risks among a banking organization's assets and off-balance sheet items.

The Board deferred action on these earlier proposals in order to participate in the development of a more broadly based capital framework that would be applicable to international banking organizations. As a result of consultations with supervisory authorities from certain major industrial countries, on March 1, 1988, the Federal Reserve issued for public comment a revised risk-based capital framework that superseded the previous proposals. The revised proposal was based upon a risk-based capital measure developed jointly by supervisory authorities from the 12 countries that are represented on the Basle Committee on Banking Regulations and Supervisory Practices.

The comment period for the Federal Reserve's proposal ended on May 13, 1988. The Board received comments that addressed various aspects of its proposal from over 180 respondents. Based upon the comments received, discussion with the other U.S. banking agencies, and further consultation with international supervisory authorities, the Board has made some modifications to its March 1988 proposal.

The Board is now issuing in final form its revised proposal as Risk-Based Capital Guidelines. The Board is issuing two sets of guidelines: one is applicable to state member banks, and the other is applicable to bank holding companies. The guidelines will be appended to the appropriate supervisory regulations for those organizations—for state member banks, the Board's Regulation H (12 C.F.R. Part 208) and for bank holding companies, Regulation Y (12 C.F.R. Part 225).

The Board's adoption of these guidelines achieves important goals long sought by U.S. banking supervisors. First, it establishes a risk-based capital framework that is more sensitive than the current leverage ratios to risk factors, including off-balance sheet exposures. Second, it encourages international banking organizations to strengthen their capital positions. Finally, it mitigates a source of competitive inequity arising from different supervisory capital requirements across countries.

These guidelines represent a major step in the process of coordinating with regulatory authorities of other countries to establish appropriate capital standards for banking organizations, in accordance with the International Lending Supervision Act of 1983. In that regard, the Board notes that the regulatory authorities of the 12 major industrial countries intend to issue appropriate directives to those banking organizations falling under their supervision, in order to facilitate implementation of the risk-based capital framework on an international basis.

The framework for calculating risk-based capital ratios will take effect on March 15, 1989. As further detailed below, the minimum supervisory ratios reflected in the framework's transitional provisions become effective on December 31, 1990. The supervisory ratios in their final form become effective on December 31, 1992.

Pursuant to the Board's authority under section 5(b) of the Bank Holding Company Act of 1956 (12 U.S.C. 1844(b)), and section 910 of the International Lending Supervision Act of 1983 (12 U.S.C. 3909), the Board amends 12 C.F.R. Parts 208 and 225 as follows:

Part 208—Membership of State Banking Institutions in the Federal Reserve System

1. The authority citation for Part 208 continues to read as follows:

Authority: 12 U.S.C. 248, 321–338, 486, 1814, 3907, 3909, and 15 U.S.C. 781(i).

2. The Board amends Section 208.13 of Part 208 to read as follows:

Section 208.13—Capital Adequacy.

The standards and guidelines by which the capital adequacy of state member banks will be evaluated by the Board are set forth in Appendix A to Part 208 for risk-based capital purposes, and in Appendix B to the Board's Regulation Y, 12 C.F.R. Part 225, with respect to the ratios relating capital to total assets.

3. The Board adds an Appendix A to Part 208 to read as set forth below.

Appendix A—Capital Adequacy Guidelines for State Member Banks: Risk-Based Measure

I. Overview

The Board of Governors of the Federal Reserve System has adopted a risk-based capital measure to assist in the assessment of the capital adequacy of state member banks.[1] The principal objectives of this measure are to:

(i) make regulatory capital requirements more sensitive to differences in risk profiles among banks;

(ii) factor off-balance sheet exposures into the assessment of capital adequacy;

(iii) minimize disincentives to holding liquid, low-risk assets; and

(iv) achieve greater consistency in the evaluation of the capital adequacy of major banks throughout the world.[2]

The risk-based capital guidelines include both a definition of capital and a framework for calculating weighted risk assets by assigning assets and off-balance sheet items to broad risk categories. A bank's risk-based capital ratio is calculated by dividing its qualifying capital (the numerator of the ratio) by its weighted risk assets (the denominator).[3] The definition of qualifying capital is outlined below in Section II, and the procedures for calculating weighted risk assets are discussed in Section III. Attachment I illustrates a sample calculation of weighted risk assets and the risk-based capital ratio.

The risk-based capital guidelines also establish a schedule for achieving a minimum supervisory standard for the ratio of qualifying capital to weighted risk assets and provide for transitional arrangements during a phase-in period to facilitate adoption and implementation of the measure at the end of 1992. These interim standards and transitional arrangements are set forth in Section IV.

The risk-based guidelines apply to all state member banks on a consolidated basis. They are to be used in the examination and supervisory process as well as in the analysis of applications acted upon by the Federal Reserve. Thus, in considering an application filed by a state member bank, the Federal Reserve will take into account the bank's risk-based capital ratio, the reasonableness of its capital plans, and the degree of progress it has demonstrated toward meeting the interim and final risk-based capital standards.

The risk-based capital ratio focuses principally on broad categories of credit risk, although the framework for assigning assets and off-balance sheet items to risk categories does incorporate elements of transfer risk, as well as limited instances of interest rate and market risk. The risk-based ratio does not, however, incorporate other factors that can affect a bank's financial condition. These factors include overall interest rate exposure; liquidity, funding and market risks; the quality and level of earnings; investment or loan portfolio concentrations; the quality of loans and investments; the effectiveness of loan and investment policies; and management's ability to monitor and control financial and operating risks.

In addition to evaluating capital ratios, an overall assessment of capital adequacy must take account of

1. Supervisory ratios that relate capital to total assets for state member banks are outlined in Appendix B to Part 225 of the Federal Reserve's Regulation Y, 12 C.F.R. Part 225.

2. The risk-based capital measure is based upon a framework developed jointly by supervisory authorities from the countries represented on the Basle Committee on Banking Regulations and Supervisory Practices (Basle Supervisors' Committee) and endorsed by the Group of Ten Central Bank Governors. The framework is described in a paper prepared by the BSC entitled "International Convergence of Capital Measurement," July 1988.

3. Banks will initially be expected to utilize period-end amounts in calculating their risk-based capital ratios. When necessary and appropriate, ratios based on average balances may also be calculated on a case-by-case basis. Moreover, to the extent banks have data on average balances that can be used to calculate risk-based ratios, the Federal Reserve will take such data into account.

these other factors, including, in particular, the level and severity of problem and classified assets. For this reason, the final supervisory judgment on a bank's capital adequacy may differ significantly from conclusions that might be drawn solely from the level of its risk-based capital ratio.

The risk-based capital guidelines establish *minimum* ratios of capital to weighted risk assets. In light of the considerations just discussed, banks generally are expected to operate well above the *minimum* risk-based ratios. In particular, banks contemplating significant expansion proposals are expected to maintain strong capital levels substantially above the *minimum* ratios and should not allow significant diminution of financial strength below these strong levels to fund their expansion plans. Institutions with high or inordinate levels of risk are also expected to operate well above minimum capital standards. In all cases, institutions should hold capital commensurate with the level and nature of the risks to which they are exposed. Banks that do not meet the minimum risk-based standard, or that are otherwise considered to be inadequately capitalized, are expected to develop and implement plans acceptable to the Federal Reserve for achieving adequate levels of capital within a reasonable period of time.

The Board will monitor the implementation and effect of these guidelines in relation to domestic and international developments in the banking industry. When necessary and appropriate, the Board will consider the need to modify the guidelines in light of any significant changes in the economy, financial markets, banking practices, or other relevant factors.

II. Definition of Qualifying Capital for the Risk-Based Capital Ratio

A bank's qualifying total capital consists of two types of capital components: "core capital elements" (comprising Tier 1 capital) and "supplementary capital elements" (comprising Tier 2 capital). These capital elements and the various limits, restrictions, and deductions to which they are subject, are discussed below and are set forth in Attachment II.

To qualify as an element of Tier 1 or Tier 2 capital, a capital instrument may not contain or be covered by any covenants, terms, or restrictions that are inconsistent with safe and sound banking practices.

Redemptions of permanent equity or other capital instruments before stated maturity could have a significant impact on a bank's overall capital structure. Consequently, a bank considering such a step should consult with the Federal Reserve before redeeming any equity or debt capital instrument (prior to maturity) if such redemption could have a material effect on the level or composition of the institution's capital base.[4]

A. The Components of Qualifying Capital.

1. *Core capital elements (Tier 1 capital).* The Tier 1 component of a bank's qualifying capital must represent at least 50 percent of qualifying total capital and may consist of the following items that are defined as core capital elements:

(i) Common stockholders' equity.

(ii) Qualifying noncumulative perpetual preferred stock (including related surplus).

(iii) Minority interest in the equity accounts of consolidated subsidiaries.

Tier 1 capital is generally defined as the sum of the core capital elements less goodwill.[5] (See Section II (B) below for a more detailed discussion of the treatment of goodwill, including an explanation of certain limited grandfathering arrangements.)

a. *Common stockholders' equity.* Common stockholders' equity includes: common stock; related surplus; and retained earnings, including capital reserves and adjustments for the cumulative effect of foreign currency translation, net of any treasury stock.

b. *Perpetual preferred stock.* Perpetual preferred stock is defined as preferred stock that does not have a maturity date, that cannot be redeemed at the option of the holder of the instrument, and that has no other provisions that will require future redemption of the issue. In general, preferred stock will qualify for inclusion in capital only if it can absorb losses while the issuer operates as a going concern (a fundamental characteristic of equity capital) *and* only if the issuer has the ability and legal right to defer or eliminate preferred dividends.

The only form of perpetual preferred stock that state member banks may consider as an element of Tier 1 capital is noncumulative perpetual preferred. While the guidelines allow for the inclusion of noncumulative perpetual preferred stock in Tier 1, it is desirable from a supervisory standpoint that voting common stockholders' equity remain the dominant form of Tier 1 capital. Thus, state member banks should avoid over-

4. Consultation would not ordinarily be necessary if an instrument were redeemed with the proceeds of, or replaced by, a like amount of a similar or higher quality capital instrument and the organization's capital position is considered fully adequate by the Federal Reserve.

5. During the transition period and subject to certain limitations set forth in Section IV below, Tier 1 capital may also include items defined as supplementary capital elements.

reliance on preferred stock or non-voting equity elements within Tier 1.[6]

Perpetual preferred stock in which the dividend is reset periodically based, in whole or in part, upon the bank's current credit standing (that is, auction rate perpetual preferred stock, including so-called Dutch auction, money market, and remarketable preferred) will not qualify for inclusion in Tier 1 capital.[7] Such instruments, however, qualify for inclusion in Tier 2 capital.

c. *Minority interest in equity accounts of consolidated subsidiaries.* This element is included in Tier 1 because, as a general rule, it represents equity that is freely available to absorb losses in operating subsidiaries. While not subject to an explicit sublimit within Tier 1, banks are expected to avoid using minority interest in the equity accounts of consolidated subsidiaries as an avenue for introducing into their capital structures elements that might not otherwise qualify as Tier 1 capital or that would, in effect, result in an excessive reliance on preferred stock within Tier 1.

2. *Supplementary capital elements (Tier 2 capital).* The Tier 2 component of a bank's qualifying total capital may consist of the following items that are defined as supplementary capital elements:

(i) Allowance for loan and lease losses (subject to limitations discussed below).

(ii) Perpetual preferred stock and related surplus (subject to conditions discussed below).

(iii) Hybrid capital instruments (as defined below) and mandatory convertible debt securities.

(iv) Term subordinated debt and intermediate-term preferred stock, including related surplus (subject to limitations discussed below).

The maximum amount of Tier 2 capital that may be included in a bank's qualifying total capital is limited to 100 percent of Tier 1 capital (net of goodwill).

The elements of supplementary capital are discussed in greater detail below.[8]

a. *Allowance for loan and lease losses.* Allowances for loan and lease losses are reserves that have been established through a charge against earnings to absorb future losses on loans or lease financing receivables. Allowances for loan and lease losses exclude "allocated transfer risk reserves,"[9] and reserves created against identified losses.

During the transition period, the risk-based capital guidelines provide for reducing the amount of this allowance that may be included in an institution's total capital. Initially, it is unlimited. However, by year-end 1990, the amount of the allowance for loan and lease losses that will qualify as capital will be limited to 1.5 percent of an institution's weighted risk assets. By the end of the transition period, the amount of the allowance qualifying for inclusion in Tier 2 capital may not exceed 1.25 percent of weighted risk assets.[10]

b. *Perpetual preferred stock.* Perpetual preferred stock, as noted above, is defined as preferred stock that has no maturity date, that cannot be redeemed at the option of the holder, and that has no other provisions that will require future redemption of the issue. Such instruments are eligible for inclusion in Tier 2 capital without limit.[11]

c. *Hybrid capital instruments and mandatory convertible debt securities.* Hybrid capital instruments include instruments that are essentially permanent in nature and that have certain characteristics of both equity and debt. Such instruments may be included in Tier 2 without limit. The general criteria hybrid capital instruments must meet in order to qualify for inclusion in Tier 2 capital are listed below:

6. The Federal Reserve's capital guidelines for bank holding companies limit the amount of perpetual preferred stock that may be included in Tier 1 to 25 percent of Tier 1. (See 12 C.F.R. Part 225, Appendix A.)

7. Adjustable rate noncumulative perpetual preferred stock (that is, perpetual preferred stock in which the dividend rate is not affected by the issuer's credit standing or financial condition but is adjusted periodically according to a formula based solely on general market interest rates) may be included in Tier 1.

8. The Basle capital framework also provides for the inclusion of "undisclosed reserves" in Tier 2. As defined in the framework, undisclosed reserves represent accumulated after-tax retained earnings that are not disclosed on the balance sheet of a bank. Apart from the fact that these reserves are not disclosed publicly, they are essentially of the same quality and character as retained earnings, and, to be included in capital, such reserves must be accepted by the bank's home supervisor. Although such undisclosed reserves are common in some countries, under generally accepted accounting principles (GAAP) and long-standing supervisory practice, these types of reserves are not recognized for state member banks.

9. Allocated transfer risk reserves are reserves that have been established in accordance with Section 905(a) of the International Lending Supervision Act of 1983, 12 U.S.C. § 3904(a), against certain assets whose value U.S. supervisory authorities have found to be significantly impaired by protracted transfer risk problems.

10. The amount of the allowance for loan and lease losses that may be included in Tier 2 capital is based on a percentage of gross weighted risk assets. A bank may deduct reserves for loan and lease losses in excess of the amount permitted to be included in Tier 2 capital, as well as allocated transfer risk reserves, from the sum of gross weighted risk assets and use the resulting net sum of weighted risk assets in computing the denominator of the risk-based capital ratio.

11. Long-term preferred stock with an original maturity of 20 years or more (including related surplus) will also qualify in this category as an element of Tier 2. If the holder of such an instrument has a right to require the issuer to redeem, repay, or repurchase the instrument prior to the original stated maturity, maturity would be defined, for risk-based capital purposes, as the earliest possible date on which the holder can put the instrument back to the issuing bank.

(1) The instrument must be unsecured; fully paid-up; and subordinated to general creditors and must also be subordinated to claims of depositors.

(2) The instrument must not be redeemable at the option of the holder prior to maturity, except with the prior approval of the Federal Reserve. (Consistent with the Board's criteria for perpetual debt and mandatory convertible securities, this requirement implies that holders of such instruments may not accelerate the payment of principal except in the event of bankruptcy, insolvency, or reorganization.)

(3) The instrument must be available to participate in losses while the issuer is operating as a going concern. (Term subordinated debt would not meet this requirement.) To satisfy this requirement, the instrument must convert to common or perpetual preferred stock in the event that the accumulated losses exceed the sum of the retained earnings and capital surplus accounts of the issuer.

(4) The instrument must provide the option for the issuer to defer interest payments if: (a) the issuer does not report a profit in the preceding annual period (defined as combined profits for the most recent four quarters), *and* (b) the issuer eliminates cash dividends on common and preferred stock.

Mandatory convertible debt securities in the form of equity contract notes that meet the criteria set forth in 12 C.F.R. Part 225, Appendix B, also qualify as unlimited elements of Tier 2 capital. In accordance with that appendix, equity commitment notes issued prior to May 15, 1985 also qualify for inclusion in Tier 2.

d. *Subordinated debt and intermediate-term preferred stock.* The aggregate amount of term subordinated debt (excluding mandatory convertible debt) and intermediate-term preferred stock that may be treated as supplementary capital is limited to 50 percent of Tier 1 capital (net of goodwill). Amounts in excess of these limits may be issued and, while not included in the ratio calculation, will be taken into account in the overall assessment of a bank's funding and financial condition.

Subordinated debt and intermediate-term preferred stock must have an original weighted average maturity of at least five years to qualify as supplementary capital. (If the holder has the option to require the issuer to redeem, repay, or repurchase the instrument prior to the original stated maturity, maturity would be defined, for risk-based capital purposes, as the earliest possible date on which the holder can put the instrument back to the issuing bank.)

In the case of subordinated debt, the instrument must be unsecured and must clearly state on its face that it is not a deposit and is not insured by a Federal agency. To qualify as capital in banks, debt must be subordinated to general creditors and claims of depositors. Consistent with current regulatory requirements, if a state member bank wishes to redeem subordinated debt before the stated maturity, it must receive prior approval of the Federal Reserve.

e. *Discount of supplementary capital instruments.* As a limited-life capital instrument approaches maturity it begins to take on characteristics of a short-term obligation. For this reason, the outstanding amount of term subordinated debt and any long- or intermediate-life, or term, preferred stock eligible for inclusion in Tier 2 is reduced, or discounted, as these instruments approach maturity: one-fifth of the original amount, less any redemptions, is excluded each year during the instrument's last five years before maturity.[12]

f. *Revaluation reserves.* Such reserves reflect the formal balance sheet restatement or revaluation for capital purposes of asset carrying values to reflect current market values. In the United States, banks, for the most part, follow GAAP when preparing their financial statements, and GAAP generally does not permit the use of market-value accounting. For this and other reasons, the Federal banking agencies generally have not included unrealized asset values in capital ratio calculations, although they have long taken such values into account as a separate factor in assessing the overall financial strength of a bank.

Consistent with long-standing supervisory practice, the excess of market values over book values for assets held by state member banks will generally not be recognized in supplementary capital or in the calculation of the risk-based capital ratio. However, all banks are encouraged to disclose their equivalent of premises (building) and equity revaluation reserves. Such values will be taken into account as additional

12. For example, outstanding amounts of these instruments that count as supplementary capital include: 100 percent of the outstanding amounts with remaining maturities of more than five years; 80 percent of outstanding amounts with remaining maturities of four to five years; 60 percent of outstanding amounts with remaining maturities of three to four years; 40 percent of outstanding amounts with remaining maturities of two to three years; 20 percent of outstanding amounts with remaining maturities of one to two years; and 0 percent of outstanding amounts with remaining maturities of less than one year. Such instruments with a remaining maturity of less than one year are excluded from Tier 2 capital.

considerations in assessing overall capital strength and financial condition.

B. Deductions from Capital and Other Adjustments.

Certain assets are deducted from a bank's capital for the purpose of calculating the risk-based capital ratio.[13] These assets include:

(i) Goodwill—deducted from the sum of core capital elements.

(ii) Investments in banking and finance subsidiaries that are not consolidated for accounting or supervisory purposes and, on a case-by-case basis, investments in other designated subsidiaries or associated companies at the discretion of the Federal Reserve—deducted from total capital components.

(iii)Reciprocal holdings of capital instruments of banking organizations—deducted from total capital components.

1. *Goodwill and other intangible assets.*

a. *Goodwill.* Goodwill is an intangible asset that represents the excess of the purchase price over the fair market value of identifiable assets acquired less liabilities assumed in acquisitions accounted for under the purchase method of accounting. State member banks generally have not been allowed to include goodwill in regulatory capital under current supervisory policies. Consistent with this policy, all goodwill in state member banks will be deducted from Tier 1 capital.[14]

b. *Other intangible assets.* The Federal Reserve is not proposing, as a matter of general policy, to deduct automatically any other intangible assets from the capital of state member banks. The Federal Reserve, however, will continue to monitor closely the level and quality of other intangible assets—including purchased mortgage servicing rights, leaseholds, and core deposit value — and take them into account in assessing the capital adequacy and overall asset quality of banks.

Generally, banks should review all intangible assets at least quarterly and, if necessary, make appropriate reductions in their carrying values. In addition, in order to conform with prudent banking practice, an institution should reassess such values during its annual audit. Banks should use appropriate amortization methods and assign prudent amortization periods for intangible assets. Examiners will review the carrying value of these assets, together with supporting documentation, as well as the appropriateness of including particular intangible assets in a bank's capital calculation. In making such evaluations, examiners will consider a number of factors, including:

(1) The reliability and predictability of any cash flows associated with the asset and the degree of certainty that can be achieved in periodically determining the asset's useful life and value;

(2) The existence of an active and liquid market for the asset; and

(3) The feasibility of selling the asset apart from the bank or from the bulk of its assets.

While all intangible assets will be monitored, intangible assets (other than goodwill) in excess of 25 percent of Tier 1 capital (which is defined net of goodwill) will be subject to particularly close scrutiny, both through the examination process and by other appropriate means. Whenever necessary—in particular, when assessing applications to expand or to engage in other activities that could entail unusual or higher-than-normal risks—the Board will, on a case-by-case basis, continue to consider the level of an individual bank's tangible capital ratios (after deducting all intangible assets), together with the quality and value of the bank's tangible and intangible assets, in making an overall assessment of capital adequacy.

Consistent with long-standing Board policy, banks experiencing substantial growth, whether internally or by acquisition, are expected to maintain strong capital positions substantially above minimum supervisory levels, without significant reliance on intangible assets.

2. *Investments in certain subsidiaries.* The aggregate amount of investments in banking or finance subsidiaries[15] whose financial statements are not consolidated for accounting or bank regulatory reporting purposes will be deducted from a bank's total capital components.[16] Generally, investments for this purpose are defined as equity and debt capital investments and

13. Any assets deducted from capital in computing the numerator of the ratio are not included in weighted risk assets in computing the denominator of the ratio.

14. An exception is made for those state member banks that have acquired goodwill in connection with supervisory mergers with troubled or failed depository institutions and that were given explicit authority to include such goodwill in capital under the then-existing capital policy. Consistent with this approach, state member banks will be allowed to include such goodwill in Tier 1 capital for risk-based capital purposes.

15. For this purpose, a banking and finance subsidiary generally is defined as any company engaged in banking or finance in which the parent institution holds directly or indirectly more than 50 percent of the outstanding voting stock, or which is otherwise controlled or capable of being controlled by the parent institution.

16. An exception to this deduction would be made in the case of shares acquired in the regular course of securing or collecting a debt previously contracted in good faith. The requirements for consolidation are spelled out in the instructions to the commercial bank Consolidated Reports of Condition and Income (Call Report).

any other instruments that are deemed to be capital in the particular subsidiary.

Advances (that is, loans, extensions of credit, guarantees, commitments, or any other forms of credit exposure) to the subsidiary that are not deemed to be capital will generally not be deducted from a bank's capital. Rather, such advances generally will be included in the bank's consolidated assets and be assigned to the 100 percent risk category, unless such obligations are backed by recognized collateral or guarantees, in which case they will be assigned to the risk category appropriate to such collateral or guarantees. These advances may, however, also be deducted from the bank's capital if, in the judgment of the Federal Reserve, the risks stemming from such advances are comparable to the risks associated with capital investments or if the advances involve other risk factors that warrant such an adjustment to capital for supervisory purposes. These other factors could include, for example, the absence of collateral support.

Inasmuch as the assets of unconsolidated banking and finance subsidiaries are not fully reflected in a bank's consolidated total assets, such assets may be viewed as the equivalent of off-balance sheet exposures since the operations of an unconsolidated subsidiary could expose the bank to considerable risk. For this reason, it is generally appropriate to view the capital resources invested in these unconsolidated entities as primarily supporting the risks inherent in these off-balance sheet assets, and not generally available to support risks or absorb losses elsewhere in the bank.

The Federal Reserve may, on a case-by-case basis, also deduct from a bank's capital, investments in certain other subsidiaries in order to determine if the consolidated bank meets minimum supervisory capital requirements without reliance on the resources invested in such subsidiaries.

The Federal Reserve will not automatically deduct investments in other unconsolidated subsidiaries or investments in joint ventures and associated companies.[17] Nonetheless, the resources invested in these entities, like investments in unconsolidated banking and finance subsidiaries, support assets not consolidated with the rest of the bank's activities and, therefore, may not be generally available to support additional leverage or absorb losses elsewhere in the bank. Moreover, experience has shown that banks stand behind the losses of affiliated institutions, such as joint ventures and associated companies, in order to protect the reputation of the organization as a whole. In some cases, this has led to losses that have exceeded the investments in such organizations.

For this reason, the Federal Reserve will monitor the level and nature of such investments for individual banks and, on a case-by-case basis may, for risk-based capital purposes, deduct such investments from total capital components, apply an appropriate risk-weighted capital charge against the bank's proportionate share of the assets of its associated companies, require a line-by-line consolidation of the entity (in the event that the bank's control over the entity makes it the functional equivalent of a subsidiary), or otherwise require the bank to operate with a risk-based capital ratio above the minimum.

In considering the appropriateness of such adjustments or actions, the Federal Reserve will generally take into account whether:

(1) The bank has significant influence over the financial or managerial policies or operations of the subsidiary, joint venture, or associated company;

(2) The bank is the largest investor in the affiliated company; or

(3) Other circumstances prevail that appear to closely tie the activities of the affiliated company to the bank.

3. *Reciprocal holdings of banking organizations' capital instruments.* Reciprocal holdings of banking organizations' capital instruments (that is, instruments that qualify as Tier 1 or Tier 2 capital)[18] will be deducted from a bank's total capital components for the purpose of determining the numerator of the risk-based capital ratio.

Reciprocal holdings are cross-holdings resulting from formal or informal arrangements in which two or more banking organizations swap, exchange, or otherwise agree to hold each other's capital instruments. Generally, deductions will be limited to intentional cross-holdings. At present, the Board does not intend to require banks to deduct non-reciprocal holdings of such capital instruments.[19,20]

17. The definition of such entities is contained in the instructions to the commercial bank Call Report. Under regulatory reporting procedures, associated companies and joint ventures generally are defined as companies in which the bank owns 20 to 50 percent of the voting stock.

18. See 12 C.F.R. Part 225, Appendix A for instruments that qualify as Tier 1 and Tier 2 capital for bank holding companies.

19. Deductions of holdings of capital securities also would not be made in the case of interstate "stake out" investments that comply with the Board's Policy Statement on Nonvoting Equity Investments, 12 C.F.R. 225.143. In addition, holdings of capital instruments issued by other banking organizations but taken in satisfaction of debts previously contracted would be exempt from any deduction from capital.

20. The Board intends to monitor non-reciprocal holdings of other banking organizations' capital instruments and to provide information

III. Procedures for Computing Weighted Risk Assets and Off-Balance Sheet Items

A. Procedures.

Assets and credit equivalent amounts of off-balance sheet items of state member banks are assigned to one of several broad risk categories, according to the obligor, or, if relevant, the guarantor or the nature of the collateral. The aggregate dollar value of the amount in each category is then multiplied by the risk weight associated with that category. The resulting weighted values from each of the risk categories are added together, and this sum is the bank's total weighted risk assets that comprise the denominator of the risk-based capital ratio. Attachment I provides a sample calculation.

Risk weights for all off-balance sheet items are determined by a two-step process. First, the "credit equivalent amount" of off-balance sheet items is determined, in most cases by multiplying the off-balance sheet item by a credit conversion factor. Second, the credit equivalent amount is treated like any balance sheet asset and generally is assigned to the appropriate risk category according to the obligor, or, if relevant, the guarantor or the nature of the collateral.

In general, if a particular item qualifies for placement in more than one risk category, it is assigned to the category that has the lowest risk weight. A holding of a U.S. municipal revenue bond that is fully guaranteed by a U.S. bank, for example, would be assigned the 20 percent risk weight appropriate to claims guaranteed by U.S. banks, rather than the 50 percent risk weight appropriate to U.S. municipal revenue bonds.[21]

The terms "claims" and "securities" used in the context of the discussion of risk weights, unless otherwise specified, refer to loans or debt obligations of the entity on whom the claim is held. Assets in the form of stock or equity holdings in commercial or financial firms are assigned to the 100 percent risk category, unless some other treatment is explicitly permitted.

B. Collateral, Guarantees, and Other Considerations.

1. *Collateral.* The only forms of collateral that are formally recognized by the risk-based capital framework are: cash on deposit in the bank; securities issued or guaranteed by the central governments of the OECD-based group of countries,[22] U.S. Government agencies, or U.S. Government-sponsored agencies; and securities issued by multilateral lending institutions or regional development banks. Claims fully secured by such collateral are assigned to the 20 percent risk weight category.

The extent to which qualifying securities are recognized as collateral is determined by their current market value. If a claim is only partially secured, that is, the market value of the pledged securities is less than the face amount of a balance sheet asset or an off-balance sheet item, the portion that is covered by the market value of the qualifying collateral is assigned to the 20 percent risk category, and the portion of the claim that is not covered by collateral in the form of cash or a qualifying security is assigned to the risk category appropriate to the obligor or, if relevant, the guarantor. For example, to the extent that a claim on a private sector obligor is collateralized by the current market value of U.S. Government securities, it would be placed in the 20 percent risk category, and the balance would be assigned to the 100 percent risk category.

2. *Guarantees.* Guarantees of the OECD and non-OECD central governments, U.S. Government agen-

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on such holdings to the Basle Supervisors' Committee as called for under the Basle capital framework.

21. An investment in shares of a fund whose portfolio consists solely of various securities or money market instruments that, if held separately, would be assigned to different risk categories, is generally assigned to the risk category appropriate to the highest risk-weighted security or instrument that the fund is permitted to hold in accordance with its stated investment objectives. However, in no case will indirect holdings through shares in such funds be assigned to the zero percent risk category. For example, if a fund is permitted to hold U.S. Treasuries and commercial paper, shares in that fund would generally be assigned the 100 percent risk weight appropriate to commercial paper, regardless of the actual composition of the fund's investments at any particular time. Shares in a fund that may invest only in U.S. Treasury securities would generally be assigned to the 20 percent risk category. If, in order to maintain a necessary degree of short-term liquidity, a fund is permitted to hold an insignificant amount of its assets in short-term, highly liquid securities of superior credit quality that do not qualify for a preferential risk weight, such securities will generally not be taken into account in determining the risk category into which the bank's holding in the overall fund should be assigned. Regardless of the composition of the fund's securities, if the fund engages in any activities that appear speculative in nature (for example, use of futures, forwards, or option contracts for purposes other than to reduce interest rate risk) or has any other characteristics that are inconsistent with the preferential risk weighting assigned to the fund's investments, holdings in the fund will be assigned to the 100 percent risk category. During the examination process, the treatment of shares in such funds that are assigned to a lower risk weight will be subject to examiner review to ensure that they have been assigned an appropriate risk weight.

22. The OECD-based group of countries comprises all full members of the Organization for Economic Cooperation and Development (OECD), as well as countries that have concluded special lending arrangements with the International Monetary Fund (IMF) associated with the Fund's General Arrangements to Borrow. The OECD includes the following countries: Australia, Austria, Belgium, Canada, Denmark, the Federal Republic of Germany, Finland, France, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. Saudi Arabia has concluded special lending arrangements with the IMF associated with the Fund's General Arrangements to Borrow.

cies, U.S. Government-sponsored agencies, state and local governments of the OECD-based group of countries, multilateral lending institutions and regional development banks, U.S. depository institutions, and foreign banks are also recognized. If a claim is partially guaranteed, that is, coverage of the guarantee is less than the face amount of a balance sheet asset or an off-balance sheet item, the portion that is not fully covered by the guarantee is assigned to the risk category appropriate to the obligor or, if relevant, to any collateral. The face amount of a claim covered by two types of guarantees that have different risk weights, such as a U.S. Government guarantee and a state guarantee, is to be apportioned between the two risk categories appropriate to the guarantors.

The existence of other forms of collateral or guarantees that the risk-based capital framework does not formally recognize may be taken into consideration in evaluating the risks inherent in a bank's loan portfolio —which, in turn, would affect the overall supervisory assessment of the bank's capital adequacy.

3. *Mortgage-backed securities.* Mortgage-backed securities, including pass-throughs and collateralized mortgage obligations (but not stripped mortgage-backed securities), that are *issued* or *guaranteed* by a U.S. Government agency or U.S. Government-sponsored agency are assigned to the risk weight category appropriate to the issuer or guarantor. Generally, a privately-issued mortgage-backed security meeting certain criteria set forth in the accompanying footnote,[23] is treated as essentially an indirect holding of the underlying assets, and assigned to the same risk category as the underlying assets, but in no case to the zero percent risk category. Privately-issued mortgage-backed securities whose structures do not qualify them to be regarded as indirect holdings of the underlying assets are assigned to the 100 percent risk category. During the examination process, privately-issued mortgage-backed securities that are assigned to a lower risk weight category will be subject to examiner review to ensure that they meet the appropriate criteria.

While the risk category to which mortgage-backed securities is assigned will generally be based upon the issuer or guarantor or, in the case of privately-issued mortgage-backed securities, the assets underlying the security, any class of a mortgage-backed security that can absorb more than its *pro rata* share of loss without the whole issue being in default (for example, a so-called subordinated class or residual interest), is assigned to the 100 percent risk category. Furthermore, all stripped mortgage-backed securities, including interest-only strips (IOs), principal-only strips (POs), and similar instruments are also assigned to the 100 percent risk weight category, regardless of the issuer or guarantor.

4. *Maturity.* Maturity is generally not a factor in assigning items to risk categories with the exception of claims on non-OECD banks, commitments, and interest rate and foreign exchange rate contracts.

Except for commitments, short-term is defined as one year or less *remaining* maturity and long-term is defined as over one year *remaining* maturity. In the case of commitments, short-term is defined as one year or less *original* maturity and long-term is defined as over one year *original* maturity.[24]

C. Risk Weights.

Attachment III contains a listing of the risk categories, a summary of the types of assets assigned to each category and the weight associated with each category, that is, 0 percent, 20 percent, 50 percent, and 100 percent. A brief explanation of the components of each category follows.

1. *Category 1: zero percent.* This category includes cash (domestic and foreign) owned and held in all offices of the bank or in transit and gold bullion held in the bank's own vaults or in another bank's vaults on an allocated basis, to the extent it is offset by gold bullion liabilities.[25] The category also includes all direct claims (including securities, loans, and leases) on, and the portions of claims that are directly and unconditionally guaranteed by, the central governments[26] of the OECD countries and U.S. Gov-

23. A privately-issued mortgage-backed security may be treated as an indirect holding of the underlying assets provided that: (1) the underlying assets are held by an independent trustee and the trustee has a first priority, perfected security interest in the underlying assets on behalf of the holders of the security; (2) either the holder of the security has an undivided *pro rata* ownership interest in the underlying mortgage assets or the trust or single purpose entity (or conduit) that issues the security has no liabilities unrelated to the issued securities; (3) the security is structured such that the cash flow from the underlying assets in all cases fully meets the cash flow requirements of the security without undue reliance on any reinvestment income; and (4) there is no material reinvestment risk associated with any funds awaiting distribution to the holders of the security. In addition, if the underlying assets of a mortgage-backed security are composed of more than one type of asset, for example, U.S. Government-sponsored agency securities and privately-issued pass-through securities that qualify for the 50 percent risk category, the entire mortgage-backed security is generally assigned to the category appropriate to the highest risk-weighted asset underlying the issue. Thus, in this example, the security would receive the 50 percent risk weight appropriate to the privately-issued pass-through securities.

24. Through year-end 1992, remaining, rather than original, maturity may be used for determining the maturity of commitments.

25. All other holdings of bullion are assigned to the 100 percent risk category.

26. A central government is defined to include departments and ministries, including the central bank, of the central government. The U.S. central bank includes the 12 Federal Reserve Banks, and the stock held in these banks as a condition of membership is assigned to

ernment agencies,[27] as well as all direct local currency claims on, and the portions of local currency claims that are directly and unconditionally guaranteed by, the central governments of non-OECD countries, to the extent that the bank has liabilities booked in that currency. A claim is not considered to be unconditionally guaranteed by a central government if the validity of the guarantee is dependent upon some affirmative action by the holder or a third party. Generally, securities guaranteed by the U.S. Government or its agencies that are actively traded in financial markets, such as GNMA securities, are considered to be unconditionally guaranteed.

2. *Category 2: 20 percent.* This category includes cash items in the process of collection, both foreign and domestic; short-term claims (including demand deposits) on, and the portions of short-term claims that are guaranteed[28] by, U.S. depository institutions[29] and foreign banks;[30] and long-term claims on, and the portions of long-term claims that are guaranteed by, U.S. depository institutions and OECD banks.[31]

This category also includes the portions of claims that are conditionally guaranteed by OECD central governments and U.S. Government agencies, as well as the portions of local currency claims that are conditionally guaranteed by non-OECD central governments, to the extent that the bank has liabilities booked in that currency. In addition, this category includes claims on, and the portions of claims that are guaranteed by, U.S. Government-sponsored[32] agencies and claims on, and the portions of claims guaranteed by, the International Bank for Reconstruction and Development (World Bank), the Interamerican Development Bank, the Asian Development Bank, the African Development Bank, the European Investment Bank, and other multilateral lending institutions or regional development banks in which the U.S. Government is a shareholder or contributing member. General obligation claims on, or portions of claims guaranteed by the full faith and credit of, states or other political subdivisions of the U.S. or other countries of the OECD-based group are also assigned to this category.[33]

This category also includes the portions of claims (including repurchase agreements) collateralized by cash on deposit in the bank; by securities issued or guaranteed by OECD central governments, U.S. Government agencies, or U.S. Government-sponsored agencies; or by securities issued by multilateral lending institutions or regional development banks in which the U.S. Government is a shareholder or contributing member.

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the zero percent risk category. The definition of central government does not include state, provincial, or local governments; or commercial enterprises owned by the central government. In addition, it does not include local government entities or commercial enterprises whose obligations are guaranteed by the central government, although any claims on such entities guaranteed by central governments are placed in the same general risk category as other claims guaranteed by central governments. OECD central governments are defined as central governments of the OECD-based group of countries; non-OECD central governments are defined as central governments of countries that do not belong to the OECD-based group of countries.

27. A U.S. Government agency is defined as an instrumentality of the U.S. Government whose obligations are fully and explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. Government. Such agencies include the Government National Mortgage Association (GNMA), the Veterans Administration (VA), the Federal Housing Administration (FHA), the Export-Import Bank (Exim Bank), the Overseas Private Investment Corporation (OPIC), the Commodity Credit Corporation (CCC), and the Small Business Administration (SBA).

28. Claims guaranteed by U.S. depository institutions and foreign banks include risk participations in both bankers acceptances and standby letters of credit, as well as participations in commitments, that are conveyed to other U.S. depository institutions or foreign banks.

29. U.S. depository institutions are defined to include branches (foreign and domestic) of federally-insured banks and depository institutions chartered and headquartered in the 50 states of the United States, the District of Columbia, Puerto Rico, and U.S. territories and possessions. The definition encompasses banks, mutual or stock savings banks, savings or building and loan associations, cooperative banks, credit unions, and international banking facilities of domestic banks. U.S.-chartered depository institutions owned by foreigners are also included in the definition. However, branches and agencies of foreign banks located in the U.S., as well as all bank holding companies, are excluded.

30. Foreign banks are distinguished as either OECD banks or non-OECD banks. OECD banks include banks and their branches (foreign and domestic) organized under the laws of countries (other than the U.S.) that belong to the OECD-based group of countries. Non-OECD banks include banks and their branches (foreign and domestic) organized under the laws of countries that do not belong to the OECD-based group of countries. For this purpose, a bank is defined as an institution that engages in the business of banking; is recognized as a bank by the bank supervisory or monetary authorities of the country of its organization or principal banking operations; receives deposits to a substantial extent in the regular course of business; and has the power to accept demand deposits. Claims on, and the portions of claims that are guaranteed by, a non-OECD central bank are treated as claims on, or guaranteed by, a non-OECD bank, except for local currency claims on, and the portions of local currency claims that are guaranteed by, a non-OECD central bank that are funded in local currency liabilities. The latter claims are assigned to either the zero percent risk category.

31. Long-term claims on, or guaranteed by, non-OECD banks and all claims on bank holding companies are assigned to the 100 percent risk category, as are holdings of bank-issued securities that qualify as capital of the issuing banks.

32. For this purpose, U.S. Government-sponsored agencies are defined as agencies originally established or chartered by the Federal government to serve public purposes specified by the U.S. Congress but whose obligations are *not explicitly* guaranteed by the full faith and credit of the U.S. Government. These agencies include the Federal Home Loan Mortgage Corporation (FHLMC), the Federal National Mortgage Association (FNMA), the Farm Credit System, the Federal Home Loan Bank System, and the Student Loan Marketing Association (SLMA). Claims on U.S. Government-sponsored agencies include capital stock in a Federal Home Loan Bank that is held as a condition of membership in that Bank.

33. Claims on, or guaranteed by, states or other political subdivisions of countries that do not belong to the OECD-based group of countries are placed in the 100 percent risk category.

3. *Category 3: 50 percent.* This category includes loans fully secured by first liens[34] on 1–4 family residential properties,[35] either owner-occupied or rented, provided that such loans have been made in accordance with prudent underwriting standards, including a conservative loan-to-value ratio;[36] are performing in accordance with their original terms; and are not 90 days or more past due or carried in nonaccrual status.[37] Also included in this category are privately-issued mortgage-backed securities provided that:

(1) the structure of the security meets the criteria described in section III (B)(3) above;

(2) if the security is backed by a pool of conventional mortgages, *each* underlying mortgage meets the criteria described above in this section for eligibility for the 50 percent risk weight category at the time the pool is originated; and

(3) if the security is backed by privately-issued mortgage-backed securities, *each* underlying security qualifies for the 50 percent risk category. Privately-issued mortgage-backed securities that do not meet these criteria or that do not qualify for a lower risk weight are generally assigned to the 100 percent risk weight category.

Also assigned to this category are *revenue* (non-general obligation) bonds or similar obligations, including loans and leases, that are obligations of states or other political subdivisions of the U.S. (for example, municipal revenue bonds) or other countries of the OECD-based group, but for which the government entity is committed to repay the debt with revenues from the specific projects financed, rather than from general tax funds.

Credit equivalent amounts of interest rate and foreign exchange rate contracts involving standard risk obligors (that is, obligors whose loans or debt securities would be assigned to the 100 percent risk category) are included in the 50 percent category, unless they are backed by collateral or guarantees that allow them to be placed in a lower risk category.

4. *Category 4: 100 percent.* All assets not included in the categories above are assigned to this category, which comprises standard risk assets. The bulk of the assets typically found in a loan portfolio would be assigned to the 100 percent category.

This category includes long-term claims on, or guaranteed by, non-OECD banks, and all claims on non-OECD central governments that entail some degree of transfer risk.[38] This category also includes all claims on foreign and domestic private sector obligors not included in the categories above (including loans to nondepository financial institutions and bank holding companies); claims on commercial firms owned by the public sector; customer liabilities to the bank on acceptances outstanding involving standard risk claims;[39] investments in fixed assets, premises, and other real estate owned; common and preferred stock of corporations, including stock acquired for debts previously contracted; commercial and consumer loans (except those assigned to lower risk categories due to recognized guarantees or collateral and loans for residential property that qualify for a lower risk weight); mortgage-backed securities that do not meet criteria for assignment to a lower risk weight (including any classes of mortgage-backed securities that can absorb more than their *pro rata* share of loss without the whole issue being in default); and all stripped mortgage-backed and similar securities.

Also included in this category are industrial development bonds and similar obligations issued under the auspices of states or political subdivisions of the OECD-based group of countries for the benefit of a private party or enterprise where that party or enterprise, not the government entity, is obligated to pay the principal and interest, and all obligations of states or political subdivisions of countries that do not belong to the OECD-based group.

The following assets also are assigned a risk weight of 100 percent if they have not been deducted from capital: investments in unconsolidated companies, joint ventures or associated companies; instruments that qualify as capital issued by other banking organizations; and any intangibles, including grandfathered goodwill.

34. If a bank holds the first and junior lien(s) on a residential property and no other party holds an intervening lien, the transaction is treated as a single loan secured by a first lien for the purpose of determining the loan-to-value ratio.

35. The types of properties that qualify as 1–4 family residences are listed in the instructions to the commercial bank Call Report.

36. The loan-to-value ratio is based upon the most current appraised value of the property. All appraisals must be made in a manner consistent with the Federal banking agencies' real estate appraisal guidelines and with the bank's own appraisal guidelines.

37. Residential property loans that do not meet all the specified criteria or that are made for the purpose of speculative property development are placed in the 100 percent risk category.

38. Such assets include all non-local currency claims on, or guaranteed by, non-OECD central governments and those portions of local currency claims on, or guaranteed by, non-OECD central governments that exceed the local currency liabilities held by the bank.

39. Customer liabilities on acceptances outstanding involving non-standard risk claims, such as claims on U.S. depository institutions, are assigned to the risk category appropriate to the identity of the obligor or, if relevant, the nature of the collateral or guarantees backing the claims. Portions of acceptances conveyed as risk participations to U.S. depository institutions or foreign banks are assigned to the 20 percent risk category appropriate to short-term claims guaranteed by U.S. depository institutions and foreign banks.

D. Off-Balance Sheet Items.

The face amount of an off-balance sheet item is incorporated into the risk-based capital ratio by multiplying it by a credit conversion factor. The resultant credit equivalent amount is assigned to the appropriate risk category according to the obligor, or, if relevant, the guarantor or the nature of the collateral.[40] Attachment IV sets forth the conversion factors for various types of off-balance sheet items.

1. *Items with a 100 percent conversion factor.* A 100 percent conversion factor applies to direct credit substitutes, which include guarantees, or equivalent instruments, backing financial claims, such as outstanding securities, loans, and other financial liabilities, or that back off-balance sheet items that require capital under the risk-based capital framework. Direct credit substitutes include, for example, financial standby letters of credit, or other equivalent irrevocable undertakings or surety arrangements, that guarantee repayment of financial obligations such as: commercial paper, tax-exempt securities, commercial or individual loans or debt obligations, or standby or commercial letters of credit. Direct credit substitutes also include the acquisition of risk participations in bankers acceptances and standby letters of credit, since both of these transactions, in effect, constitute a guarantee by the acquiring bank that the underlying account party (obligor) will repay its obligation to the originating, or issuing, institution.[41] (Standby letters of credit that are performance-related are discussed below and have a credit conversion factor of 50 percent.)

The full amount of a direct credit substitute is converted at 100 percent and the resulting credit equivalent amount is assigned to the risk category appropriate to the obligor or, if relevant, the guarantor or the nature of the collateral. In the case of a direct credit substitute in which a risk participation[42] has been conveyed, the full amount is still converted at 100 percent. However, the credit equivalent amount that has been conveyed is assigned to whichever risk category is lower: the risk category appropriate to the obligor, after giving effect to any relevant guarantees or collateral, or the risk category appropriate to the institution acquiring the participation. Any remainder is assigned to the risk category appropriate to the obligor, guarantor, or collateral. For example, the portion of a direct credit substitute conveyed as a risk participation to a U.S. domestic depository institution or foreign bank is assigned to the risk category appropriate to claims guaranteed by those institutions, that is, the 20 percent risk category.[43] This approach recognizes that such conveyances replace the originating bank's exposure to the obligor with an exposure to the institutions acquiring the risk participations.[44]

In the case of direct credit substitutes that take the form of a syndication as defined in the instructions to the commercial bank Call Report, that is, where each bank is obligated only for its *pro rata* share of the risk and there is no recourse to the originating bank, each bank will only include its *pro rata* share of the direct credit substitute in its risk-based capital calculation.

Financial standby letters of credit are distinguished from loan commitments (discussed below) in that standbys are irrevocable obligations of the bank to pay a third-party beneficiary when a customer (account party) *fails to repay* an outstanding loan or debt instrument (direct credit substitute). Performance standby letters of credit (performance bonds) are irrevocable obligations of the bank to pay a third-party beneficiary when a customer (account party) *fails to perform* some other contractual non-financial obligation.

The distinguishing characteristic of a standby letter of credit for risk-based capital purposes is the combination of irrevocability with the fact that funding is triggered by some failure to repay or perform an obligation. Thus, any commitment (by whatever name) that involves an *irrevocable* obligation to make a payment to the customer or to a third party in the event the customer *fails to repay* an outstanding debt obligation or *fails to perform* a contractual obligation is treated, for risk-based capital purposes, as respectively, a financial guarantee standby letter of credit or a performance standby.

A loan commitment, on the other hand, involves an obligation (with or without a material adverse change or similar clause) of the bank to fund its customer *in the normal course* of business should the customer seek to draw down the commitment.

40. The sufficiency of collateral and guarantees for off-balance sheet items is determined by the market value of the collateral or the amount of the guarantee in relation to the face amount of the item, except for interest and foreign exchange rate contracts, for which this determination is made in relation to the credit equivalent amount. Collateral and guarantees are subject to the same provisions noted under Section III (B).

41. Credit equivalent amounts of acquisitions of risk participations are assigned to the risk category appropriate to the account party obligor, or, if relevant, the nature of the collateral or guarantees.

42. That is, a participation in which the originating bank remains liable to the beneficiary for the full amount of the direct credit substitute if the party that has acquired the participation fails to pay when the instrument is drawn.

43. Risk participations with a remaining maturity of over one year that are conveyed to non-OECD banks are to be assigned to the 100 percent risk category, unless a lower risk category is appropriate to the obligor, guarantor, or collateral.

44. A risk participation in bankers acceptances conveyed to other institutions is also assigned to the risk category appropriate to the institution acquiring the participation or, if relevant, the guarantor or nature of the collateral.

Sale and repurchase agreements and asset sales with recourse (to the extent not included on the balance sheet) and forward agreements also are converted at 100 percent. The risk-based capital definition of the sale of assets with recourse, including the sale of 1–4 family residential mortgages, is the same as the definition contained in the instructions to the commercial bank Call Report. So-called "loan strips" (that is, short-term advances sold under long-term commitments without direct recourse) are defined in the instructions to the commercial bank Call Report and for risk-based capital purposes as assets sold with recourse.

Forward agreements are legally binding contractual obligations to purchase assets with certain drawdown at a specified future date. Such obligations include forward purchases, forward forward deposits placed,[45] and partly-paid shares and securities; they do not include commitments to make residential mortgage loans or forward foreign exchange contracts.

Securities lent by a bank are treated in one of two ways, depending upon whether the lender is at risk of loss. If a bank, as agent for a customer, lends the customer's securities and does not indemnify the customer against loss, then the transaction is excluded from the risk-based capital calculation. If, alternatively, a bank lends its own securities or, acting as agent for a customer, lends the customer's securities and indemnifies the customer against loss, the transaction is converted at 100 percent and assigned to the risk weight category appropriate to the obligor, to any collateral delivered to the lending bank, or, if applicable, to the independent custodian acting on the lender's behalf.

2. *Items with a 50 percent conversion factor.* Transaction-related contingencies are converted at 50 percent. Such contingencies include bid bonds, performance bonds, warranties, standby letters of credit related to particular transactions, and performance standby letters of credit, as well as acquisitions of risk participations in performance standby letters of credit. Performance standby letters of credit represent obligations backing the performance of nonfinancial or commercial contracts or undertakings. To the extent permitted by law or regulation, performance standby letters of credit include arrangements backing, among other things, subcontractors' and suppliers' performance, labor and materials contracts, and construction bids.

45. Forward forward deposits accepted are treated as interest rate contracts.

The unused portion of commitments with an original maturity exceeding one year,[46] including underwriting commitments, and commercial and consumer credit commitments also are converted at 50 percent. Original maturity is defined as the length of time between the date the commitment is issued and the earliest date on which:

(1) the bank can, at its option, unconditionally (without cause) cancel the commitment,[47] *and*
(2) the bank is scheduled to (and as a normal practice actually does) review the facility to determine whether or not it should be extended.

Such reviews must continue to be conducted at least annually for such a facility to qualify as a short-term commitment.

Commitments are defined as any legally binding arrangements that obligate a bank to extend credit in the form of loans or leases; to purchase loans, securities, or other assets; or to participate in loans and leases. They also include overdraft facilities, revolving credit, home equity and mortgage lines of credit, and similar transactions.

Normally, commitments involve a written contract or agreement and a commitment fee, or some other form of consideration. Commitments are included in weighted risk assets regardless of whether they contain "material adverse change" clauses or other provisions that are intended to relieve the issuer of its funding obligation under certain conditions. In the case of commitments structured as syndications, where the bank is obligated solely for its *pro rata* share, only the bank's proportional share of the syndicated commitment is taken into account in calculating the risk-based capital ratio.

Facilities that are unconditionally cancellable (without cause) at any time by the bank are not deemed to be commitments, provided the bank makes a separate credit decision before each drawing under the facility. Commitments with an original maturity of one year or less are deemed to involve low risk and, therefore, are not assessed a capital charge. Such short-term commitments are defined to include the unused portion of lines of credit on retail credit cards and related plans (as defined in the instructions to the commercial bank Call Report) if the bank has the

46. Through year-end 1992, remaining maturity may be used for determining the maturity of off-balance sheet loan commitments; thereafter, original maturity must be used.

47. In the case of consumer home equity or mortgage lines of credit secured by liens on 1–4 family residential properties, the bank is deemed able to unconditionally cancel the commitment for the purpose of this criterion if, at its option, it can prohibit additional extensions of credit, reduce the credit line, and terminate the commitment to the full extent permitted by relevant Federal law.

unconditional right to cancel the line of credit at any time, in accordance with applicable law.

Once a commitment has been converted at 50 percent, any portion that has been conveyed to other U.S. depository institutions or OECD banks as participations in which the originating bank retains the full obligation to the borrower if the participating bank fails to pay when the instrument is drawn, is assigned to the 20 percent risk category. This treatment is analogous to that accorded to conveyances of risk participations in standby letters of credit. The acquisition of a participation in a commitment by a bank is converted at 50 percent and assigned to the risk category appropriate to the account party obligor or, if relevant, the nature of the collateral or guarantees.

Revolving underwriting facilities (RUFs), note issuance facilities (NIFs), and other similar arrangements also are converted at 50 percent regardless of maturity. These are facilities under which a borrower can issue on a revolving basis short-term paper in its own name, but for which the underwriting banks have a legally binding commitment either to purchase any notes the borrower is unable to sell by the roll-over date or to advance funds to the borrower.

3. *Items with a 20 percent conversion factor.* Short-term, self-liquidating trade-related contingencies which arise from the movement of goods are converted at 20 percent. Such contingencies generally include commercial letters of credit and other documentary letters of credit collateralized by the underlying shipments.

4. *Items with a zero percent conversion factor.* These include unused portions of commitments with an original maturity of one year or less,[48] or which are unconditionally cancellable at any time, provided a separate credit decision is made before each drawing under the facility.

Unused portions of lines of credit on retail credit cards and related plans are deemed to be short-term commitments if the bank has the unconditional right to cancel the line of credit at any time, in accordance with applicable law.

E. Interest Rate and Foreign Exchange Rate Contracts.

1. *Scope.* Credit equivalent amounts are computed for each of the following off-balance sheet interest rate and foreign exchange rate instruments:

I. Interest Rate Contracts
- A. Single currency interest rate swaps.
- B. Basis swaps.
- C. Forward rate agreements.
- D. Interest rate options purchased (including caps, collars, and floors purchased).
- E. Any other instrument that gives rise to similar credit risks (including when-issued securities and forward forward deposits accepted).

II. Exchange Rate Contracts
- A. Cross-currency interest rate swaps.
- B. Forward foreign exchange contracts.
- C. Currency options purchased.
- D. Any other instrument that gives rise to similar credit risks.

Exchange rate contracts with an original maturity of fourteen calendar days or less and instruments traded on exchanges that require daily payment of variation margin are excluded from the risk-based ratio calculation. Over-the-counter options purchased, however, are included and treated in the same way as the other interest rate and exchange rate contracts.

2. *Calculation of credit equivalent amounts.* Credit equivalent amounts are calculated for each individual contract of the types listed above. To calculate the credit equivalent amount of its off-balance sheet interest rate and exchange rate instruments, a bank sums these amounts:

(1) the mark-to-market value[49] (positive values only) of each contract (that is, the current exposure); and

(2) an estimate of the potential future credit exposure over the remaining life of each contract.

The potential future credit exposure on a contract, including contracts with negative mark-to-market values, is estimated by multiplying the notional principal amount by one of the following credit conversion factors, as appropriate:

Remaining Maturity	Interest Rate Contracts	Exchange Rate Contracts
One year or less.....	0	1.0%
Over one year.......	0.5%	5.0%

Examples of the calculation of credit equivalent amounts for these instruments are contained in Attachment V.

48. Through year-end 1992, remaining maturity may be used for determining term to maturity for off-balance sheet loan commitments; thereafter, original maturity must be used.

49. Mark-to-market values are measured in dollars, regardless of the currency or currencies specified in the contract, and should reflect changes in both interest rates and counterparty credit quality.

Because exchange rate contracts involve an exchange of principal upon maturity, and exchange rates are generally more volatile than interest rates, higher conversion factors have been established for foreign exchange contracts than for interest rate contracts.

No potential future credit exposure is calculated for single currency interest rate swaps in which payments are made based upon two floating rate indices, so-called floating/floating or basis swaps; the credit exposure on these contracts is evaluated solely on the basis of their mark-to-market values.

3. *Risk weights.* Once the credit equivalent amount for interest rate and exchange rate instruments has been determined, that amount is assigned to the risk weight category appropriate to the counterparty, or, if relevant, the nature of any collateral or guarantees.[50] However, the maximum weight that will be applied to the credit equivalent amount of such instruments is 50 percent.

4. *Avoidance of double counting.* In certain cases, credit exposures arising from the interest rate and exchange instruments covered by these guidelines may already be reflected, in part, on the balance sheet. To avoid double counting such exposures in the assessment of capital adequacy and, perhaps, assigning inappropriate risk weights, counterparty credit exposures arising from the types of instruments covered by these guidelines may need to be excluded from balance sheet assets in calculating banks' risk-based capital ratios.

5. *Netting.* Netting of swaps and similar contracts is recognized for purposes of calculating the risk-based capital ratio *only* when accomplished through netting by novation.[51] While the Federal Reserve encourages any reasonable arrangements designed to reduce the risks inherent in these transactions, other types of netting arrangements are not recognized for purposes of calculating the risk-based ratio at this time.

IV. Minimum Supervisory Ratios and Standards

The interim and final supervisory standards set forth below specify *minimum* supervisory ratios based primarily on broad credit risk considerations. As noted above, the risk-based ratio does not take explicit account of the quality of individual asset portfolios or the range of other types of risks to which banks may be exposed, such as interest rate, liquidity, market or operational risks. For this reason, banks are generally expected to operate with capital positions above the minimum ratios. This is particularly true for institutions that are undertaking significant expansion or that are exposed to high or unusual levels of risk.

Upon adoption of the risk-based framework, any bank that does not meet the interim or final supervisory ratios, or whose capital is otherwise considered inadequate, is expected to develop and implement a plan acceptable to the Federal Reserve for achieving an adequate level of capital consistent with the provisions of these guidelines or with the special circumstances affecting the individual institution. In addition, such banks should avoid any actions, including increased risk-taking or unwarranted expansion, that would lower or further erode their capital positions.

A. Minimum Risk-Based Ratio After Transition Period.

As reflected in Attachment VI, by year-end 1992, all state member banks should meet a minimum ratio of qualifying total capital to weighted risk assets of 8 percent, of which at least 4.0 percentage points should be in the form of Tier 1 capital net of goodwill. (Section II above contains detailed definitions of capital and related terms used in this section.) The maximum amount of supplementary capital elements that qualifies as Tier 2 capital is limited to 100 percent of Tier 1 capital net of goodwill. In addition, the combined maximum amount of subordinated debt and intermediate-term preferred stock that qualifies as Tier 2 capital is limited to 50 percent of Tier 1 capital. The maximum amount of the allowance for loan and lease losses that qualifies as Tier 2 capital is limited to 1.25 percent of gross weighted risk assets. Allowances for loan and lease losses in excess of this limit may, of course, be maintained, but would not be included in a bank's total capital. The Federal Reserve will continue to require banks to maintain reserves at levels fully sufficient to cover losses inherent in their loan portfolios.

Qualifying total capital is calculated by adding Tier 1 capital and Tier 2 capital (limited to 100 percent of Tier 1 capital) and then deducting from this sum certain investments in banking or finance subsidiaries that are not consolidated for accounting or supervisory purposes, reciprocal holdings of banking organization capital securities, or other items at the direction of the Federal Reserve. These deductions are discussed above in Section II(B).

50. For interest and exchange rate contracts, sufficiency of collateral or guarantees is determined by the market value of the collateral or the amount of the guarantee in relation to the credit equivalent amount. Collateral and guarantees are subject to the same provisions noted under Section III (B).

51. Netting by novation, for this purpose, is a written bilateral contract between two counterparties under which any obligation to each other to deliver a given currency on a given date is automatically amalgamated with all other obligations for the same currency and value date, *legally* substituting one single net amount for the previous gross obligations.

B. Transition Arrangements.

The transition period for implementing the risk-based capital standard ends on December 31, 1992.[52] Initially, the risk-based capital guidelines do not establish a minimum level of capital. However, by year-end 1990, banks are expected to meet a minimum interim target ratio for qualifying total capital to weighted risk assets of 7.25 percent, at least one-half of which should be in the form of Tier 1 capital. For purposes of meeting the 1990 interim target, the amount of loan loss reserves that may be included in capital is limited to 1.5 percent of weighted risk assets and up to 10 percent of a bank's Tier 1 capital may consist of supplementary capital elements. Thus, the 7.25 percent interim target ratio implies a minimum ratio of Tier 1 capital to weighted risk assets of 3.6 percent (one-half of 7.25) and a minimum ratio of core capital elements to weighted risk assets ratio of 3.25 percent (nine-tenths of the Tier 1 capital ratio).

Part 225—Bank Holding Companies and Change in Bank Control

1. The authority citation for Part 225 continues to read as follows:

Authority: 12 U.S.C. 1817(j)(13), 1818, 1843(c)(8), 1844(b), 3106, 3108, 3907, 3909.

2. The Board amends the Appendices to Part 225 by redesignating the current Appendix A as Appendix B and adding a new Appendix A to read as set forth below.

52. The Basle capital framework does not establish an initial minimum standard for the risk-based capital ratio before the end of 1990. However, for the purpose of calculating a risk-based capital ratio prior to year-end 1990, no sublimit is placed on the amount of the allowance for loan and lease losses includable in Tier 2. In addition, this framework permits, under temporary transition arrangements, a certain percentage of a bank's Tier 1 capital to be made up of supplementary capital elements. In particular, supplementary elements may constitute 25 percent of a bank's Tier 1 capital (before the deduction of goodwill) up to the end of 1990; from year-end 1990 up to the end of 1992, this allowable percentage of supplementary elements in Tier 1 declines to 10 percent of Tier 1 (before the deduction of goodwill). Beginning on December 31, 1992, supplementary elements may not be included in Tier 1. The amount of subordinated debt and intermediate-term preferred stock temporarily included in Tier 1 under these arrangements will not be subject to the sublimit on the amount of such instruments includable in Tier 2 capital. Goodwill must be deducted from the sum of a bank's permanent core capital elements (that is, common equity, noncumulative perpetual preferred stock, and minority interest in the equity of unconsolidated subsidiaries) plus supplementary items that may temporarily qualify as Tier 1 elements for the purpose of calculating Tier 1 (net of goodwill), Tier 2, and total capital.

3. The Board amends the redesignated Appendix B to Part 225 by adding at the end of the title to Appendix B ": Leverage Measure".
4. The Board redesignates the current Appendix B as Appendix C.

APPENDIX A—CAPITAL ADEQUACY GUIDELINES FOR BANK HOLDING COMPANIES: RISK-BASED MEASURE

I. Overview

The Board of Governors of the Federal Reserve System has adopted a risk-based capital measure to assist in the assessment of the capital adequacy of bank holding companies ("banking organizations").[1] The principal objectives of this measure are to:

(i) make regulatory capital requirements more sensitive to differences in risk profiles among banking organizations;
(ii) factor off-balance sheet exposures into the assessment of capital adequacy;
(iii) minimize disincentives to holding liquid, low-risk assets; and
(iv) achieve greater consistency in the evaluation of the capital adequacy of major banking organizations throughout the world.[2]

The risk-based capital guidelines include both a definition of capital and a framework for calculating weighted risk assets by assigning assets and off-balance sheet items to broad risk categories. An institution's risk-based capital ratio is calculated by dividing its qualifying capital (the numerator of the ratio) by its weighted risk assets (the denominator).[3] The definition of qualifying capital is outlined below in Section II, and the procedures for calculating weighted risk assets are discussed in Section III. Attachment I illustrates a sample calculation of weighted risk assets and the risk-based capital ratio.

1. Supervisory ratios that relate capital to total assets for bank holding companies are outlined in Appendix B of this Part.

2. The risk-based capital measure is based upon a framework developed jointly by supervisory authorities from the countries represented on the Basle Committee on Banking Regulations and Supervisory Practices (Basle Supervisors' Committee) and endorsed by the Group of Ten Central Bank Governors. The framework is described in a paper prepared by the BSC entitled "International Convergence of Capital Measurement," July 1988.

3. Banking organizations will initially be expected to utilize period-end amounts in calculating their risk-based capital ratios. When necessary and appropriate, ratios based on average balances may also be calculated on a case-by-case basis. Moreover, to the extent banking organizations have data on average balances that can be used to calculate risk-based ratios, the Federal Reserve will take such data into account.

The risk-based capital guidelines also establish a schedule for achieving a minimum supervisory standard for the ratio of qualifying capital to weighted risk assets and provide for transitional arrangements during a phase-in period to facilitate adoption and implementation of the measure at the end of 1992. These interim standards and transitional arrangements are set forth in Section IV.

The risk-based guidelines apply on a consolidated basis to bank holding companies with consolidated assets of $150 million or more. For bank holding companies with less than $150 million in consolidated assets, the guidelines will be applied on a bank-only basis unless: (a) the parent bank holding company is engaged in nonbank activity involving significant leverage;[4] or (b) the parent company has a significant amount of outstanding debt that is held by the general public.

The risk-based guidelines are to be used in the inspection and supervisory process as well as in the analysis of applications acted upon by the Federal Reserve. Thus, in considering an application filed by a bank holding company, the Federal Reserve will take into account the organization's risk-based capital ratio, the reasonableness of its capital plans, and the degree of progress it has demonstrated toward meeting the interim and final risk-based capital standards.

The risk-based capital ratio focuses principally on broad categories of credit risk, although the framework for assigning assets and off-balance sheet items to risk categories does incorporate elements of transfer risk, as well as limited instances of interest rate and market risk. The risk-based ratio does not, however, incorporate other factors that can affect an organization's financial condition. These factors include overall interest rate exposure; liquidity, funding and market risks; the quality and level of earnings; investment or loan portfolio concentrations; the quality of loans and investments; the effectiveness of loan and investment policies; and management's ability to monitor and control financial and operating risks.

In addition to evaluating capital ratios, an overall assessment of capital adequacy must take account of these other factors, including, in particular, the level and severity of problem and classified assets. For this reason, the final supervisory judgment on an organization's capital adequacy may differ significantly from conclusions that might be drawn solely from the level of the organization's risk-based capital ratio.

The risk-based capital guidelines establish *minimum* ratios of capital to weighted risk assets. In light of the considerations just discussed, banking organizations generally are expected to operate well above the minimum risk-based ratios. In particular, banking organizations contemplating significant expansion proposals are expected to maintain strong capital levels substantially above the minimum ratios and should not allow significant diminution of financial strength below these strong levels to fund their expansion plans. Institutions with high or inordinate levels of risk are also expected to operate above minimum capital standards. In all cases, institutions should hold capital commensurate with the level and nature of the risks to which they are exposed. Banking organizations that do not meet the minimum risk-based standard, or that are otherwise considered to be inadequately capitalized, are expected to develop and implement plans acceptable to the Federal Reserve for achieving adequate levels of capital within a reasonable period of time.

The Board will monitor the implementation and effect of these guidelines in relation to domestic and international developments in the banking industry. When necessary and appropriate, the Board will consider the need to modify the guidelines in light of any significant changes in the economy, financial markets, banking practices, or other relevant factors.

II. Definition of Qualifying Capital for the Risk-Based Capital Ratio

An institution's qualifying total capital consists of two types of capital components: "core capital elements" (comprising Tier 1 capital) and "supplementary capital elements" (comprising Tier 2 capital). These capital elements and the various limits, restrictions, and deductions to which they are subject, are discussed below and are set forth in Attachment II.

To qualify as an element of Tier 1 or Tier 2 capital, a capital instrument may not contain or be covered by any covenants, terms, or restrictions that are inconsistent with safe and sound banking practices.

Redemptions of permanent equity or other capital instruments before stated maturity could have a significant impact on an organization's overall capital structure. Consequently, an organization considering such a step should consult with the Federal Reserve before redeeming any equity or debt capital instrument (prior to maturity) if such redemption could have a material effect on the level or composition of the organization's capital base.[5]

4. A parent company that is engaged in significant off-balance sheet activities would generally be deemed to be engaged in activities that involve significant leverage.

5. Consultation would not ordinarily be necessary if an instrument were redeemed with the proceeds of, or replaced by, a like amount of a similar or higher quality capital instrument and the organization's capital position is considered fully adequate by the Federal Reserve. In the case of limited-life Tier 2 instruments, consultation would

A. The Components of Qualifying Capital.

1. *Core capital elements (Tier 1 capital).* The Tier 1 component of an institution's qualifying capital must represent at least 50 percent of qualifying total capital and may consist of the following items that are defined as core capital elements:

(i) Common stockholders' equity.

(ii) Qualifying perpetual preferred stock (including related surplus), subject to certain limitations described below.

(iii) Minority interest in the equity accounts of consolidated subsidiaries.

Tier 1 capital is generally defined as the sum of the core capital elements less goodwill.[6] (See Section II (B)) below for a more detailed discussion of the treatment of goodwill, including an explanation of certain limited grandfathering arrangements.)

a. *Common stockholders' equity.* Common stockholders' equity includes: common stock; related surplus; and retained earnings, including capital reserves and adjustments for the cumulative effect of foreign currency translation, net of any treasury stock.

b. *Perpetual preferred stock.* Perpetual preferred stock is defined as preferred stock that does not have a maturity date, that cannot be redeemed at the option of the holder of the instrument, and that has no other provisions that will require future redemption of the issue. In general, preferred stock will qualify for inclusion in capital only if it can absorb losses while the issuer operates as a going concern (a fundamental characteristic of equity capital) *and* only if the issuer has the ability and legal right to defer or eliminate preferred dividends.

Perpetual preferred stock in which the dividend is reset periodically based, in whole or in part, upon the banking organization's current credit standing (that is, auction rate perpetual preferred stock, including so-called Dutch auction, money market, and remarketable preferred) will not qualify for inclusion in Tier 1 capital.[7] Such instruments, however, qualify for inclusion in Tier 2 capital.

For bank holding companies, both cumulative and noncumulative perpetual preferred stock qualify for inclusion in Tier 1. However, the aggregate amount of such stock (whether cumulative or noncumulative) that may be included in a holding company's Tier 1 is limited to one-third of the sum of core capital elements, excluding the perpetual preferred stock (that is, items (i) and (iii) above). Stated differently, the aggregate amount may not exceed 25 percent of the sum of all core capital elements, including perpetual preferred stock (that is, items (i), (ii) and (iii) above). Any perpetual preferred stock outstanding in excess of this limit may be included in Tier 2 capital without any sublimits within that tier (see discussion below).

The limits on preferred stock are consistent with the Board's long-standing view that common equity should remain the dominant form of a banking organization's capital structure. In addition to these limits, the Board believes that, in general, banking organizations should avoid overreliance on other nonvoting equity instruments in their Tier 1 capital.

c. *Minority interest in equity accounts of consolidated subsidiaries.* This element is included in Tier 1 because, as a general rule, it represents equity that is freely available to absorb losses in operating subsidiaries. While not subject to an explicit sublimit within Tier 1, banking organizations are expected to avoid using minority interest in the equity accounts of consolidated subsidiaries as an avenue for introducing into their capital structures elements that might not otherwise qualify as Tier 1 capital or that would, in effect, result in an excessive reliance on preferred stock within Tier 1.

2. *Supplementary capital elements (Tier 2 capital).* The Tier 2 component of an institution's qualifying total capital may consist of the following items that are defined as supplementary capital elements:

(i) Allowance for loan and lease losses (subject to limitations discussed below).

(ii) Perpetual preferred stock and related surplus (subject to conditions discussed below).

(iii) Hybrid capital instruments (as defined below), perpetual debt, and mandatory convertible debt securities.

(iv) Term subordinated debt and intermediate-term preferred stock, including related surplus (subject to limitations discussed below).

The maximum amount of Tier 2 capital that may be included in an organization's qualifying total capital is limited to 100 percent of Tier 1 capital (net of goodwill).

generally be obviated if the new security is of equal or greater maturity than the one it replaces.

6. During the transition period and subject to certain limitations set forth in Section IV below, Tier 1 capital may also include items defined as supplementary capital elements.

7. Adjustable rate perpetual preferred stock (that is, perpetual preferred stock in which the dividend rate is not affected by the issuer's credit standing or financial condition but is adjusted periodically according to a formula based solely on general market interest rates) may be included in Tier 1 up to the limits specified for perpetual preferred stock.

The elements of supplementary capital are discussed in greater detail below.[8]

a. *Allowance for loan and lease losses.* Allowances for loan and lease losses are reserves that have been established through a charge against earnings to absorb future losses on loans or lease financing receivables. Allowances for loan and lease losses exclude "allocated transfer risk reserves,"[9] and reserves created against identified losses.

During the transition period, the risk-based capital guidelines provide for reducing the amount of this allowance that may be included in an institution's total capital. Initially, it is unlimited. However, by year-end 1990, the amount of the allowance for loan and lease losses that will qualify as capital will be limited to 1.5 percent of an institution's weighted risk assets. By the end of the transition period, the amount of the allowance qualifying for inclusion in Tier 2 capital may not exceed 1.25 percent of weighted risk assets.[10]

b. *Perpetual preferred stock.* Perpetual preferred stock, as noted above, is defined as preferred stock that has no maturity date, that cannot be redeemed at the option of the holder, and that has no other provisions that will require future redemption of the issue. Such instruments are eligible for inclusion in Tier 2 capital without limit.[11]

c. *Hybrid capital instruments, perpetual debt, and mandatory convertible debt securities.* Hybrid capital instruments include instruments that are essentially permanent in nature and that have certain characteristics of both equity and debt. Such instruments may be included in Tier 2 without limit. The general criteria hybrid capital instruments must meet in order to qualify for inclusion in Tier 2 capital are listed below:

(1) The instrument must be unsecured; fully paid-up; and subordinated to general creditors. If issued by a bank, it must also be subordinated to claims of depositors.

(2) The instrument must not be redeemable at the option of the holder prior to maturity, except with the prior approval of the Federal Reserve. (Consistent with the Board's criteria for perpetual debt and mandatory convertible securities, this requirement implies that holders of such instruments may not accelerate the payment of principal except in the event of bankruptcy, insolvency, or reorganization.)

(3) The instrument must be available to participate in losses while the issuer is operating as a going concern. (Term subordinated debt would not meet this requirement.) To satisfy this requirement, the instrument must convert to common or perpetual preferred stock in the event that the accumulated losses exceed the sum of the retained earnings and capital surplus accounts of the issuer.

(4) The instrument must provide the option for the issuer to defer interest payments if: (a) the issuer does not report a profit in the preceding annual period (defined as combined profits for the most recent four quarters), *and* (b) the issuer eliminates cash dividends on common and preferred stock.

Perpetual debt and mandatory convertible debt securities that meet the criteria set forth in 12 C.F.R. Part 225, Appendix B, also qualify as unlimited elements of Tier 2 capital for bank holding companies.

d. *Subordinated debt and intermediate-term preferred stock.* The aggregate amount of term subordinated debt (excluding mandatory convertible debt) and intermediate-term preferred stock that may be treated as supplementary capital is limited to 50 percent of Tier 1 capital (net of goodwill). Amounts in excess of these limits may be issued and, while not included in the ratio calculation,

8. The Basle capital framework also provides for the inclusion of "undisclosed reserves" in Tier 2. As defined in the framework, undisclosed reserves represent accumulated after-tax retained earnings that are not disclosed on the balance sheet of a banking organization. Apart from the fact that these reserves are not disclosed publicly, they are essentially of the same quality and character as retained earnings, and, to be included in capital, such reserves must be accepted by the banking organization's home supervisor. Although such undisclosed reserves are common in some countries, under generally accepted accounting principles (GAAP) and long-standing supervisory practice, these types of reserves are not recognized for banking organizations in the United States. Foreign banking organizations seeking to make acquisitions or conduct business in the United States would generally be expected to disclose publicly at least the degree of reliance on such reserves in meeting supervisory capital requirements.

9. Allocated transfer risk reserves are reserves that have been established in accordance with Section 905(a) of the International Lending Supervision Act of 1983, 12 U.S.C. 3904(a), against certain assets whose value U.S. supervisory authorities have found to be significantly impaired by protracted transfer risk problems.

10. The amount of the allowance for loan and lease losses that may be included in Tier 2 capital is based on a percentage of gross weighted risk assets. A banking organization may deduct reserves for loan and lease losses in excess of the amount permitted to be included in Tier 2 capital, as well as allocated transfer risk reserves, from the sum of gross weighted risk assets and use the resulting net sum of weighted risk assets in computing the denominator of the risk-based capital ratio.

11. Long-term preferred stock with an original maturity of 20 years or more (including related surplus) will also qualify in this category as an element of Tier 2. If the holder of such an instrument has a right to require the issuer to redeem, repay, or repurchase the instrument prior to the original stated maturity, maturity would be defined, for risk-based capital purposes, as the earliest possible date on which the holder can put the instrument back to the issuing banking organization.

will be taken into account in the overall assessment of an organization's funding and financial condition.

Subordinated debt and intermediate-term preferred stock must have an original weighted average maturity of at least five years to qualify as supplementary capital.[12] (If the holder has the option to require the issuer to redeem, repay, or repurchase the instrument prior to the original stated maturity, maturity would be defined, for risk-based capital purposes, as the earliest possible date on which the holder can put the instrument back to the issuing banking organization.)

In the case of subordinated debt, the instrument must be unsecured and must clearly state on its face that it is not a deposit and is not insured by a Federal agency. Bank holding company debt must be subordinated in right of payment to all senior indebtedness of the company.

e. *Discount of supplementary capital instruments.* As a limited-life capital instrument approaches maturity it begins to take on characteristics of a short-term obligation. For this reason, the outstanding amount of term subordinated debt and any long- or intermediate-life, or term, preferred stock eligible for inclusion in Tier 2 is reduced, or discounted, as these instruments approach maturity: one-fifth of the original amount, less any redemptions, is excluded each year during the instrument's last five years before maturity.[13]

f. *Revaluation reserves.* Such reserves reflect the formal balance sheet restatement or revaluation for capital purposes of asset carrying values to reflect current market values. In the United States, banking organizations, for the most part, follow GAAP when preparing their financial statements, and GAAP generally does not permit the use of market-value accounting. For this and other reasons, the Federal banking agencies generally have not included unrealized asset values in capital ratio calculations, although they have long taken such values into account as a separate factor in assessing the overall financial strength of a banking organization.

Consistent with long-standing supervisory practice, the excess of market values over book values for assets held by bank holding companies will generally not be recognized in supplementary capital or in the calculation of the risk-based capital ratio. However, all banking organizations are encouraged to disclose their equivalent of premises (building) and equity revaluation reserves. Such values will be taken into account as additional considerations in assessing overall capital strength and financial condition.

B. Deductions from Capital and Other Adjustments.

Certain assets are deducted from an organization's capital for the purpose of calculating the risk-based capital ratio.[14] These assets include:

(i) Goodwill—deducted from the sum of core capital elements. (See discussion below of limited grandfathering of bank holding company goodwill during the transition period.)

(ii) Investments in banking and finance subsidiaries that are not consolidated for accounting or supervisory purposes, and investments in other designated subsidiaries or associated companies at the discretion of the Federal Reserve—deducted from total capital components (as described in greater detail below).

(iii) Reciprocal holdings of capital instruments of banking organizations—deducted from total capital components.

1. *Goodwill and other intangible assets.*

a. *Goodwill.* Goodwill is an intangible asset that represents the excess of the purchase price over the fair market value of identifiable assets acquired less liabilities assumed in acquisitions accounted for under the purchase method of accounting. Any goodwill carried on the balance sheet of a bank holding company after December 31, 1992, will be deducted from the sum of core capital elements in determining Tier 1 capital for ratio calculation purposes. Any goodwill in existence before March 12, 1988, is "grandfathered" during the transition period and is not deducted from core capital elements until after December 31, 1992. However, bank holding

12. Unsecured term debt issued by bank holding companies prior to March 12, 1988, and qualifying as secondary capital at the time of issuance would continue to qualify as an element of supplementary capital under the risk-based framework, subject to the 50 percent of Tier 1 capital limitation. Bank holding company term debt issued on or after March 12, 1988, must be subordinated in order to qualify as capital.

13. For example, outstanding amounts of these instruments that count as supplementary capital include: 100 percent of the outstanding amounts with remaining maturities of more than five years; 80 percent of outstanding amounts with remaining maturities of four to five years; 60 percent of outstanding amounts with remaining maturities of three to four years; 40 percent of outstanding amounts with remaining maturities of two to three years; 20 percent of outstanding amounts with remaining maturities of one to two years; and 0 percent of outstanding amounts with remaining maturities of less than one year. Such instruments with a remaining maturity of less than one year are excluded from Tier 2 capital.

14. Any assets deducted from capital in computing the numerator of the ratio are not included in weighted risk assets in computing the denominator of the ratio.

company goodwill acquired as a result of a merger or acquisition that was consummated on or after March 12, 1988, is deducted immediately.[15]

b. *Other intangible assets.* The Federal Reserve is not proposing, as a matter of general policy, to deduct automatically any other intangible assets from the capital of bank holding companies. The Federal Reserve, however, will continue to monitor closely the level and quality of other intangible assets—including purchased mortgage servicing rights, leaseholds, and core deposit value — and take them into account in assessing the capital adequacy and overall asset quality of banking institutions.

Generally, banking organizations should review all intangible assets at least quarterly and, if necessary, make appropriate reductions in their carrying values. In addition, in order to conform with prudent banking practice, an organization should reassess such values during its annual audit. Banking organizations should use appropriate amortization methods and assign prudent amortization periods for intangible assets.

Examiners will review the carrying value of these assets, together with supporting documentation, as well as the appropriateness of including particular intangible assets in a banking organization's capital calculation. In making such evaluations, examiners will consider a number of factors, including:

(1) The reliability and predictability of any cash flows associated with the asset and the degree of certainty that can be achieved in periodically determining the asset's useful life and value;

(2) The existence of an active and liquid market for the asset; and

(3) The feasibility of selling the asset apart from the banking organization or from the bulk of its assets.

While all intangible assets will be monitored, intangible assets (other than goodwill) in excess of 25 percent of Tier 1 capital (which is defined net of goodwill) will be subject to particularly close scrutiny, both through the inspection process and by other appropriate means.

Whenever necessary—in particular, when assessing applications to expand or to engage in other activities that could entail unusual or higher-than-normal risks—the Board will, on a case-by-case basis, continue to consider the level of an individual organization's tangible capital ratios (after deducting all intangible assets), together with the quality and value of the organization's tangible and intangible assets, in making an overall assessment of capital adequacy.

Consistent with long-standing Board policy, banking organizations experiencing substantial growth, whether internally or by acquisition, are expected to maintain strong capital positions substantially above minimum supervisory levels, without significant reliance on intangible assets.

2. *Investments in certain subsidiaries.*

a. *Unconsolidated banking or finance subsidiaries.* The aggregate amount of investments in banking or finance subsidiaries[16] whose financial statements are not consolidated for accounting or regulatory reporting purposes, regardless of whether the investment is made by the parent bank holding company or its direct or indirect subsidiaries, will be deducted from the consolidated parent banking organization's total capital components.[17] Generally, investments for this purpose are defined as equity and debt capital investments and any other instruments that are deemed to be capital in the particular subsidiary.

Advances (that is, loans, extensions of credit, guarantees, commitments, or any other forms of credit exposure) to the subsidiary that are not deemed to be capital will generally not be deducted from an organization's capital. Rather, such advances generally will be included in the parent banking organization's consolidated assets and be assigned to the 100 percent risk category, unless such obligations are backed by recognized collateral or guarantees, in which case they will be assigned to the risk category appropriate to such collateral or guarantees. These advances may, however, also be deducted from the consolidated parent banking organization's capital if, in the judgment of the Federal Reserve, the risks stemming from such advances are comparable to the risks associated with capital investments or if the advances involve other risk factors that warrant such an adjustment to capital for supervisory purposes. These other factors could include, for example, the absence of collateral support.

Inasmuch as the assets of unconsolidated banking and finance subsidiaries are not fully reflected in a

15. Goodwill acquired by a subsidiary bank in connection with a merger with a troubled or failed depository institution that regulatory authorities have specifically allowed the bank to include in its capital will generally not be deducted from the core capital elements of its parent bank holding company.

16. For this purpose, a banking and finance subsidiary generally is defined as any company engaged in banking or finance in which the parent institution holds directly or indirectly more than 50 percent of the outstanding voting stock, or which is otherwise controlled or capable of being controlled by the parent institution.

17. An exception to this deduction would be made in the case of shares acquired in the regular course of securing or collecting a debt previously contracted in good faith. The requirements for consolidation are spelled out in the instructions to the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C Report).

banking organization's consolidated total assets, such assets may be viewed as the equivalent of off-balance sheet exposures since the operations of an unconsolidated subsidiary could expose the parent organization and its affiliates to considerable risk. For this reason, it is generally appropriate to view the capital resources invested in these unconsolidated entities as primarily supporting the risks inherent in these off-balance sheet assets, and not generally available to support risks or absorb losses elsewhere in the organization.

b. *Other subsidiaries and investments.* The deduction of investments, regardless of whether they are made by the parent bank holding company or by its direct or indirect subsidiaries, from a consolidated banking organization's capital will also be applied in the case of any subsidiaries, that, while consolidated for accounting purposes, are not consolidated for certain specified supervisory or regulatory purposes, such as to facilitate functional regulation. For this purpose, aggregate capital investments (that is, the sum of any equity or debt instruments that are deemed to be capital) in these subsidiaries will be deducted from the consolidated parent banking organization's total capital components.[18]

Advances (that is, loans, extensions of credit, guarantees, commitments, or any other forms of credit exposure) to such subsidiaries that are not deemed to be capital will generally not be deducted from capital. Rather, such advances will normally be included in the parent banking organization's consolidated assets and assigned to the 100 percent risk category, unless such obligations are backed by recognized collateral or guarantees, in which case they will be assigned to the risk category appropriate to such collateral or guarantees. These advances may, however, be deducted from the consolidated parent banking organization's capital if, in the judgment of the Federal Reserve, the risks stemming from such advances are comparable to the risks associated with capital investments or if such advances involve other risk factors that warrant such an adjustment to capital for supervisory purposes. These other factors could include, for example, the absence of collateral support.[19]

In general, when investments in a consolidated subsidiary are deducted from a consolidated parent banking organization's capital, the subsidiary's assets will also be excluded from the consolidated assets of the parent banking organization in order to assess the latter's capital adequacy.[20]

The Federal Reserve may also deduct from a banking organization's capital, on a case-by-case basis, investments in certain other subsidiaries in order to determine if the consolidated banking organization meets minimum supervisory capital requirements without reliance on the resources invested in such subsidiaries.

The Federal Reserve will not automatically deduct investments in other unconsolidated subsidiaries or investments in joint ventures and associated companies.[21] Nonetheless, the resources invested in these entities, like investments in unconsolidated banking and finance subsidiaries, support assets not consolidated with the rest of the banking organization's activities and, therefore, may not be generally available to support additional leverage or absorb losses elsewhere in the banking organization. Moreover, experience has shown that banking organizations stand behind the losses of affiliated institutions, such as joint ventures and associated companies, in order to protect the reputation of the organization as a whole. In some cases, this has led to losses that have exceeded the investments in such organizations.

For this reason, the Federal Reserve will monitor the level and nature of such investments for individual banking organizations and may, on a case-by-case basis, deduct such investments from total capital components, apply an appropriate risk-weighted capital charge against the organization's proportionate share of the assets of its associated companies, require a line-by-line consolidation of the entity (in the event that the parent's control over the entity makes it the functional equivalent of a subsidiary), or otherwise

18. Investments in unconsolidated subsidiaries will be deducted from both Tier 1 and Tier 2 capital. As a general rule, one-half (50 percent) of the aggregate amount of capital investments will be deducted from the bank holding company's Tier 1 capital and one-half (50 percent) from its Tier 2 capital. However, the Federal Reserve may, on a case-by-case basis, deduct a proportionately greater amount from Tier 1 if the risks associated with the subsidiary so warrant. If the amount deductible from Tier 2 capital exceeds actual Tier 2 capital, the excess would be deducted from Tier 1 capital. Bank holding companies' risk-based capital ratios, net of these deductions, must exceed the minimum standards set forth in Section IV.

19. In assessing the overall capital adequacy of a banking organization, the Federal Reserve may also consider the organization's fully consolidated capital position.

20. If the subsidiary's assets are consolidated with the parent banking organization for financial reporting purposes, this adjustment will involve excluding the subsidiary's assets on a line-by-line basis from the consolidated parent organization's assets. The parent banking organization's capital ratio will then be calculated on a consolidated basis with the exception that the assets of the excluded subsidiary will not be consolidated with the remainder of the parent banking organization.

21. The definition of such entities is contained in the instructions to the Consolidated Financial Statements for Bank Holding Companies. Under regulatory reporting procedures, associated companies and joint ventures generally are defined as companies in which the banking organization owns 20 to 50 percent of the voting stock.

require the organization to operate with a risk-based capital ratio above the minimum.

In considering the appropriateness of such adjustments or actions, the Federal Reserve will generally take into account whether:

(1) The parent banking organization has significant influence over the financial or managerial policies or operations of the subsidiary, joint venture, or associated company;

(2) The banking organization is the largest investor in the affiliated company; or

(3) Other circumstances prevail that appear to closely tie the activities of the affiliated company to the parent banking organization.

3. *Reciprocal holdings of banking organizations' capital instruments.* Reciprocal holdings of banking organizations' capital instruments (that is, instruments that qualify as Tier 1 or Tier 2 capital) will be deducted from an organization's total capital components for the purpose of determining the numerator of the risk-based capital ratio.

Reciprocal holdings are cross-holdings resulting from formal or informal arrangements in which two or more banking organizations swap, exchange, or otherwise agree to hold each other's capital instruments. Generally, deductions will be limited to intentional cross-holdings. At present, the Board does not intend to require banking organizations to deduct non-reciprocal holdings of such capital instruments.[22,23]

III. Procedures for Computing Weighted Risk Assets and Off-Balance Sheet Items

A. Procedures.

Assets and credit equivalent amounts of off-balance sheet items of bank holding companies are assigned to one of several broad risk categories, according to the obligor, or, if relevant, the guarantor or the nature of the collateral. The aggregate dollar value of the amount in each category is then multiplied by the risk weight associated with that category. The resulting weighted values from each of the risk categories are added together, and this sum is the banking organization's total weighted risk assets that comprise the denominator of the risk-based capital ratio. Attachment I provides a sample calculation.

Risk weights for all off-balance sheet items are determined by a two-step process. First, the "credit equivalent amount" of off-balance sheet items is determined, in most cases, by multiplying the off-balance sheet item by a credit conversion factor. Second, the credit equivalent amount is treated like any balance sheet asset and generally is assigned to the appropriate risk category according to the obligor, or, if relevant, the guarantor or the nature of the collateral.

In general, if a particular item qualifies for placement in more than one risk category, it is assigned to the category that has the lowest risk weight. A holding of a U.S. municipal revenue bond that is fully guaranteed by a U.S. bank, for example, would be assigned the 20 percent risk weight appropriate to claims guaranteed by U.S. banks, rather than the 50 percent risk weight appropriate to U.S. municipal revenue bonds.[24]

The terms "claims" and "securities" used in the context of the discussion of risk weights, unless otherwise specified, refer to loans or debt obligations of the entity on whom the claim is held. Assets in the form of stock or equity holdings in commercial or financial firms are assigned to the 100 percent risk category, unless some other treatment is explicitly permitted.

22. Deductions of holdings of capital securities also would not be made in the case of interstate "stake out" investments that comply with the Board's Policy Statement on Nonvoting Equity Investments, 12 C.F.R. 225.143. In addition, holdings of capital instruments issued by other banking organizations but taken in satisfaction of debts previously contracted would be exempt from any deduction from capital.

23. The Board intends to monitor non-reciprocal holdings of other banking organizations' capital instruments and to provide information on such holdings to the Basle Supervisors' Committee as called for under the Basle capital framework.

24. An investment in shares of a fund whose portfolio consists solely of various securities or money market instruments that, if held separately, would be assigned to different risk categories, is generally assigned to the risk category appropriate to the highest risk-weighted security or instrument that the fund is permitted to hold in accordance with its stated investment objectives. However, in no case will indirect holdings through shares in such funds be assigned to the zero percent risk category. For example, if a fund is permitted to hold U.S. Treasuries and commercial paper, shares in that fund would generally be assigned the 100 percent risk weight appropriate to commercial paper, regardless of the actual composition of the fund's investments at any particular time. Shares in a fund that may invest only in U.S. Treasury securities would generally be assigned to the 20 percent risk category. If, in order to maintain a necessary degree of short-term liquidity, a fund is permitted to hold an insignificant amount of its assets in short-term, highly liquid securities of superior credit quality that do not qualify for a preferential risk weight, such securities will generally not be taken into account in determining the risk category into which the banking organization's holding in the overall fund should be assigned. Regardless of the composition of the fund's securities, if the fund engages in any activities that appear speculative in nature (for example, use of futures, forwards, or option contracts for purposes other than to reduce interest rate risk) or has any other characteristics that are inconsistent with the preferential risk weighting assigned to the fund's investments, holdings in the fund will be assigned to the 100 percent risk category. During the examination process, the treatment of shares in such funds that are assigned to a lower risk weight will be subject to examiner review to ensure that they have been assigned an appropriate risk weight.

B. Collateral, Guarantees, and Other Considerations.

1. *Collateral.* The only forms of collateral that are formally recognized by the risk-based capital framework are: cash on deposit in a subsidiary lending institution; securities issued or guaranteed by the central governments of the OECD-based group of countries,[25] U.S. Government agencies, or U.S. Government-sponsored agencies; and securities issued by multilateral lending institutions or regional development banks. Claims fully secured by such collateral are assigned to the 20 percent risk category.

The extent to which qualifying securities are recognized as collateral is determined by their current market value. If a claim is only partially secured, that is, the market value of the pledged securities is less than the face amount of a balance sheet asset or an off-balance sheet item, the portion that is covered by the market value of qualifying collateral is assigned to the 20 percent risk category, and the portion of the claim that is not covered by collateral in the form of cash or a qualifying security is assigned to the risk category appropriate to the obligor or, if relevant, the guarantor. For example, to the extent that a claim on a private sector obligor is collateralized by the current market value of U.S. Government securities, it would be placed in the 20 percent risk category and the balance would be assigned to the 100 percent risk category.

2. *Guarantees.* Guarantees of the OECD and non-OECD central governments, U.S. Government agencies, U.S. Government-sponsored agencies, state and local governments of the OECD-based group of countries, multilateral lending institutions and regional development banks, U.S. depository institutions, and foreign banks are also recognized. If a claim is partially guaranteed, that is, coverage of the guarantee is less than the face amount of a balance sheet asset or an off-balance sheet item, the portion that is not fully covered by the guarantee is assigned to the risk category appropriate to the obligor or, if relevant, to any collateral. The face amount of a claim covered by two types of guarantees that have different risk weights, such as a U.S. Government guarantee and a state guarantee, is to be apportioned between the two risk categories appropriate to the guarantors.

The existence of other forms of collateral or guarantees that the risk-based capital framework does not formally recognize may be taken into consideration in evaluating the risks inherent in an organization's loan portfolio—which, in turn, would affect the overall supervisory assessment of the organization's capital adequacy.

3. *Mortgage-backed securities.* Mortgage-backed securities, including pass-throughs and collateralized mortgage obligations (but not stripped mortgage-backed securities), that are *issued* or *guaranteed by* a U.S. Government agency or U.S. Government-sponsored agency are assigned to the risk weight category appropriate to the issuer or guarantor.

Generally, a privately-issued mortgage-backed security meeting certain criteria set forth in the accompany footnote[26] is treated as essentially an indirect holding of the underlying assets, and is assigned to the same risk category as the underlying assets, but in no case to the zero percent risk category. Privately-issued mortgage-backed securities whose structures do not qualify them to be regarded as indirect holdings of the underlying assets are assigned to the 100 percent risk category. During the inspection process, privately-issued mortgage-backed securities that are assigned to a lower risk weight category will be subject to examiner review to ensure that they meet the appropriate criteria.

While the risk category to which mortgage-backed securities is assigned will generally be based upon the issuer or guarantor or, in the case of privately-issued mortgage-backed securities, the assets underlying the security, any class of a mortgage-backed security that can absorb more than its *pro rata* share of loss without

25. The OECD-based group of countries comprises all full members of the Organization for Economic Cooperation and Development (OECD), as well as countries that have concluded special lending arrangements with the International Monetary Fund (IMF) associated with the Fund's General Arrangements to Borrow. The OECD includes the following countries: Australia, Austria, Belgium, Canada, Denmark, the Federal Republic of Germany, Finland, France, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. Saudi Arabia has concluded special lending arrangements with the IMF associated with the Fund's General Arrangements to Borrow.

26. A privately-issued mortgage-backed security may be treated as an indirect holding of the underlying assets provided that: (1) the underlying assets are held by an independent trustee and the trustee has a first priority, perfected security interest in the underlying assets on behalf of the holders of the security; (2) either the holder of the security has an undivided *pro rata* ownership interest in the underlying mortgage assets or the trust or single purpose entity (or conduit) that issues the security has no liabilities unrelated to the issued securities; (3) the security is structured such that the cash flow from the underlying assets in all cases fully meets the cash flow requirements of the security without undue reliance on any reinvestment income; and (4) there is no material reinvestment risk associated with any funds awaiting distribution to the holders of the security. In addition, if the underlying assets of a mortgage-backed security are composed of more than one type of asset, for example, U.S. Government-sponsored agency securities and privately-issued pass-through securities that qualify for the 50 percent risk weight category, the entire mortgage-backed security is generally assigned to the category appropriate to the highest risk-weighted asset underlying the issue, but in no case to the zero percent risk category. Thus, in this example, the security would receive the 50 percent risk weight appropriate to the privately-issued pass-through securities.

the whole issue being in default (for example, a so-called subordinated class or residual interest), is assigned to the 100 percent risk category. Furthermore, all stripped mortgage-backed securities, including interest-only strips (IOs), principal-only strips (POs), and similar instruments, are also assigned to the 100 percent risk weight category, regardless of the issuer or guarantor.

4. *Maturity.* Maturity is generally not a factor in assigning items to risk categories with the exception of claims on non-OECD banks, commitments, and interest rate and foreign exchange rate contracts. Except for commitments, short-term is defined as one year or less *remaining* maturity and long-term is defined as over one year *remaining* maturity. In the case of commitments, short-term is defined as one year or less *original* maturity and long-term is defined as over one year original maturity.[27]

C. Risk Weights.

Attachment III contains a listing of the risk categories, a summary of the types of assets assigned to each category and the risk weight associated with each category, that is, 0 percent, 20 percent, 50 percent, and 100 percent. A brief explanation of the components of each category follows.

1. *Category 1: zero percent.* This category includes cash (domestic and foreign) owned and held in all offices of subsidiary depository institutions or in transit and gold bullion held in either a subsidiary depository institution's own vaults or in another's vaults on an allocated basis, to the extent it is offset by gold bullion liabilities.[28] The category also includes all direct claims (including securities, loans, and leases) on, and the portions of claims that are directly and unconditionally guaranteed by, the central governments[29] of the OECD countries and U.S. Government agencies,[30] as well as all direct local currency claims on, and the portions of local currency claims that are directly and unconditionally guaranteed by, the central governments of non-OECD countries, to the extent that subsidiary depository institutions have liabilities booked in that currency. A claim is not considered to be unconditionally guaranteed by a central government if the validity of the guarantee is dependent upon some affirmative action by the holder or a third party. Generally, securities guaranteed by the U.S. Government or its agencies that are actively traded in financial markets, such as GNMA securities, are considered to be unconditionally guaranteed.

2. *Category 2: 20 percent.* This category includes cash items in the process of collection, both foreign and domestic; short-term claims (including demand deposits) on, and the portions of short-term claims that are guaranteed by,[31] U.S. depository institutions[32] and foreign banks;[33] and long-term claims on, and the portions of long-term claims that are guaranteed by, U.S. depository institutions and OECD banks.[34]

27. Through year-end 1992, remaining, rather than original, maturity may be used for determining the maturity of commitments.

28. All other holdings of bullion are assigned to the 100 percent risk category.

29. A central government is defined to include departments and ministries, including the central bank, of the central government. The U.S. central bank includes the 12 Federal Reserve Banks, and stock held in these banks as a condition of membership is assigned to the zero percent risk category. The definition of central government does not include state, provincial, or local governments; or commercial enterprises owned by the central government. In addition, it does not include local government entities or commercial enterprises whose obligations are guaranteed by the central government, although any claims on such entities guaranteed by central governments are placed in the same general risk category as other claims guaranteed by central governments. OECD central governments are defined as central governments of the OECD-based group of countries; non-OECD central governments are defined as central governments of countries that do not belong to the OECD-based group of countries.

30. A U.S. Government agency is defined as an instrumentality of the U.S. Government whose obligations are fully and explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. Government. Such agencies include the Government National Mortgage Association (GNMA), the Veterans Administration (VA), the Federal Housing Administration (FHA), the Export-Import Bank (Exim Bank), the Overseas Private Investment Corporation (OPIC), the Commodity Credit Corporation (CCC), and the Small Business Administration (SBA).

31. Claims guaranteed by U.S. depository institutions and foreign banks include risk participations in both bankers acceptances and standby letters of credit, as well as participations in commitments, that are conveyed to U.S. depository institutions or foreign banks.

32. U.S. depository institutions are defined to include branches (foreign and domestic) of federally-insured banks and depository institutions chartered and headquartered in the 50 states of the United States, the District of Columbia, Puerto Rico, and U.S. territories and possessions. The definition encompasses banks, mutual or stock savings banks, savings or building and loan associations, cooperative banks, credit unions, and international banking facilities of domestic banks. U.S.-chartered depository institutions owned by foreigners are also included in the definition. However, branches and agencies of foreign banks located in the U.S., as well as all bank holding companies, are excluded.

33. Foreign banks are distinguished as either OECD banks or non-OECD banks. OECD banks include banks and their branches (foreign and domestic) organized under the laws of countries (other than the U.S.) that belong to the OECD-based group of countries. Non-OECD banks include banks and their branches (foreign and domestic) organized under the laws of countries that do not belong to the OECD-based group of countries. For this purpose, a bank is defined as an institution that engages in the business of banking; is recognized as a bank by the bank supervisory or monetary authorities of the country of its organization or principal banking operations; receives deposits to a substantial extent in the regular course of business; and has the power to accept demand deposits. Claims on, and the portions of claims that are guaranteed by, a non-OECD central bank are treated as claims on, or guaranteed by, a non-OECD bank, except for local currency claims on, and the portions of local currency claims that are guaranteed by, a non-OECD central bank that are funded in local currency liabilities. The latter claims are assigned to the zero percent risk category.

34. Long-term claims on, or guaranteed by, non-OECD banks and all claims on bank holding companies are assigned to the 100 percent

This category also includes the portions of claims that are conditionally guaranteed by OECD central governments and U.S. Government agencies, as well as the portions of local currency claims that are conditionally guaranteed by non-OECD central governments, to the extent that subsidiary depository institutions have liabilities booked in that currency. In addition, this category also includes claims on, and the portions of claims that are guaranteed by, U.S. Government-sponsored agencies[35] and claims on, and the portions of claims guaranteed by, the International Bank for Reconstruction and Development (World Bank), the Interamerican Development Bank, the Asian Development Bank, the African Development Bank, the European Investment Bank, and other multilateral lending institutions or regional development banks in which the U.S. Government is a shareholder or contributing member. General obligation claims on, or portions of claims guaranteed by the full faith and credit of, states or other political subdivisions of the U.S. or other countries of the OECD-based group are also assigned to this category.[36]

This category also includes the portions of claims (including repurchase agreements) collateralized by cash on deposit in the subsidiary lending institution; by securities issued or guaranteed by OECD central governments, U.S. Government agencies or U.S. Government-sponsored agencies; or by securities issued by multilateral lending institutions or regional development banks in which the U.S. Government is a shareholder or contributing member.

3. *Category 3: 50 percent.* This category includes loans fully secured by first liens[37] on 1–4 family residential properties,[38] either owner-occupied or rented, provided that such loans have been made in accordance with prudent underwriting standards, including a conservative loan-to-value ratio;[39] are performing in accordance with their original terms; and are not 90 days or more past due or carried in nonaccrual status.[40] Also included in this category are privately-issued mortgage-backed securities provided that:

(1) the structure of the security meets the criteria described in Section III (B) (3) above;

(2) if the security is backed by a pool of conventional mortgages, *each* underlying mortgage meets the criteria described above in this section for eligibility for the 50 percent risk weight category at the time the pool is originated; and

(3) if the security is backed by privately-issued mortgage-backed securities, *each* underlying security qualifies for the 50 percent risk category. Privately-issued mortgage-backed securities that do not meet these criteria or that do not qualify for a lower risk weight are generally assigned to the 100 percent risk weight category.

Also assigned to this category are *revenue* (non-general obligation) bonds or similar obligations, including loans and leases, that are obligations of states or other political subdivisions of the U.S. (for example, municipal revenue bonds) or other countries of the OECD-based group, but for which the government entity is committed to repay the debt with revenues from the specific projects financed, rather than from general tax funds.

Credit equivalent amounts of interest rate and foreign exchange rate contracts involving standard risk obligors (that is, obligors whose loans or debt securities would be assigned to the 100 percent risk category) are included in the 50 percent category, unless they are backed by collateral or guarantees that allow them to be placed in a lower risk category.

4. *Category 4: 100 percent.* All assets not included in the categories above are assigned to this category, which comprises standard risk assets. The bulk of the assets typically found in a loan portfolio would be assigned to the 100 percent category.

This category includes long-term claims on, and the portions of long-term claims that are guaranteed by, non-OECD banks, and all claims on non-OECD central governments that entail some degree of transfer

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risk category, as are holdings of bank-issued securities that qualify as capital of the issuing banks.

35. For this purpose, U.S. Government-sponsored agencies are defined as agencies originally established or chartered by the Federal government to serve public purposes specified by the U.S. Congress but whose obligations are *not explicitly* guaranteed by the full faith and credit of the U.S. Government. These agencies include the Federal Home Loan Mortgage Corporation (FHLMC), the Federal National Mortgage Association (FNMA), the Farm Credit System, the Federal Home Loan Bank System, and the Student Loan Marketing Association (SLMA). Claims on U.S. Government-sponsored agencies include capital stock in a Federal Home Loan Bank that is held as a condition of membership in that Bank.

36. Claims on, or guaranteed by, states or other political subdivisions of countries that do not belong to the OECD-based group of countries are placed in the 100 percent risk category.

37. If a banking organization holds the first and junior lien(s) on a residential property and no other party holds an intervening lien, the transaction is treated as a single loan secured by a first lien for the purpose of determining the loan-to-value ratio.

38. The types of properties that qualify as 1–4 family residences are listed in the instructions to the FR Y-9C Report.

39. The loan-to-value ratio is based upon the most current appraised value of the property. All the appraisals must be made in a manner consistent with the Federal banking agencies' real estate appraisal guidelines and with the banking organization's own appraisal guidelines.

40. Residential property loans that do not meet all the specified criteria or that are made for the purpose of speculative property development are placed in the 100 percent risk category.

risk.[41] This category also includes all claims on foreign and domestic private sector obligors not included in the categories above (including loans to nondepository financial institutions and bank holding companies); claims on commercial firms owned by the public sector; customer liabilities to the bank on acceptances outstanding involving standard risk claims;[42] investments in fixed assets, premises, and other real estate owned; common and preferred stock of corporations, including stock acquired for debts previously contracted; commercial and consumer loans (except those assigned to lower risk categories due to recognized guarantees or collateral and loans for residential property that qualify for a lower risk weight); mortgage-backed securities that do not meet criteria for assignment to a lower risk weight (including any classes of mortgage-backed securities that can absorb more than their *pro rata* share of loss without the whole issue being in default); and all stripped mortgage-backed and similar securities.

Also included in this category are industrial development bonds and similar obligations issued under the auspices of states or political subdivisions of the OECD-based group of countries for the benefit of a private party or enterprise where that party or enterprise, not the government entity, is obligated to pay the principal and interest, and all obligations of states or political subdivisions of countries that do not belong to the OECD-based group.

The following assets also are assigned a risk weight of 100 percent if they have not been deducted from capital: investments in unconsolidated companies, joint ventures or associated companies; instruments that qualify as capital issued by other banking organizations; and any intangibles, including grandfathered goodwill.

D. Off-Balance Sheet Items.

The face amount of an off-balance sheet item is incorporated into the risk-based capital ratio by multiplying it by a credit conversion factor. The resultant credit equivalent amount is assigned to the appropriate risk category according to the obligor, or, if relevant, the guarantor or the nature of the collateral.[43] Attachment IV sets forth the conversion factors for various types of off-balance sheet items.

1. *Items with a 100 percent conversion factor.* A 100 percent conversion factor applies to direct credit substitutes, which include guarantees, or equivalent instruments, backing financial claims, such as outstanding securities, loans, and other financial liabilities, or that back off-balance sheet items that require capital under the risk-based capital framework. Direct credit substitutes include, for example, financial standby letters of credit, or other equivalent irrevocable undertakings or surety arrangements, that guarantee repayment of financial obligations such as: commercial paper, tax-exempt securities, commercial or individual loans or debt obligations, or standby or commercial letters of credit. Direct credit substitutes also include the acquisition of risk participations in bankers acceptances and standby letters of credit, since both of these transactions, in effect, constitute a guarantee by the acquiring banking organization that the underlying account party (obligor) will repay its obligation to the originating, or issuing, institution.[44] (Standby letters of credit that are performance-related are discussed below and have a credit conversion factor of 50 percent.)

The full amount of a direct credit substitute is converted at 100 percent and the resulting credit equivalent amount is assigned to the risk category appropriate to the obligor or, if relevant, the guarantor or the nature of the collateral. In the case of a direct credit substitute in which a risk participation[45] has been conveyed, the full amount is still converted at 100 percent. However, the credit equivalent amount that has been conveyed is assigned to whichever risk category is lower: the risk category appropriate to the obligor, after giving effect to any relevant guarantees or collateral, or the risk category appropriate to the institution acquiring the participation. Any remainder is assigned to the risk category appropriate to the obligor, guarantor, or collateral. For example, the portion of a direct credit substitute conveyed as a risk participation to a U.S. domestic depository institution

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41. Such assets include all non-local currency claims on, and the portions of claims that are guaranteed by, non-OECD central governments and those portions of local currency claims on, or guaranteed by, non-OECD central governments that exceed the local currency liabilities held by subsidiary depository institutions.

42. Customer liabilities on acceptances outstanding involving nonstandard risk claims, such as claims on U.S. depository institutions, are assigned to the risk category appropriate to the identity of the obligor or, if relevant, the nature of the collateral or guarantees backing the claims. Portions of acceptances conveyed as risk participations to U.S. depository institutions or foreign banks are assigned to the 20 percent risk category appropriate to short-term claims guaranteed by U.S. depository institutions and foreign banks.

43. The sufficiency of collateral and guarantees for off-balance sheet items is determined by the market value of the collateral or the amount of the guarantee in relation to the face amount of the item, except for interest and foreign exchange rate contracts, for which this determination is made in relation to the credit equivalent amount. Collateral and guarantees are subject to the same provisions noted under Section III (B).

44. Credit equivalent amounts of acquisitions of risk participations are assigned to the risk category appropriate to the account party obligor, or, if relevant, the nature of the collateral or guarantees.

45. That is, a participation in which the originating banking organization remains liable to the beneficiary for the full amount of the direct credit substitute if the party that has acquired the participation fails to pay when the instrument is drawn.

or foreign bank is assigned to the risk category appropriate to claims guaranteed by those institutions, that is, the 20 percent risk category.[46] This approach recognizes that such conveyances replace the originating banking organization's exposure to the obligor with an exposure to the institutions acquiring the risk participations.[47]

In the case of direct credit substitutes that take the form of a syndication, that is, where each banking organization is obligated only for its *pro rata* share of the risk and there is no recourse to the originating banking organization, each banking organization will only include its *pro rata* share of the direct credit substitute in its risk-based capital calculation.

Financial standby letters of credit are distinguished from loan commitments (discussed below) in that standbys are irrevocable obligations of the banking organization to pay a third-party beneficiary when a customer (account party) *fails to repay* an outstanding loan or debt instrument (direct credit substitute). Performance standby letters of credit (performance bonds) are irrevocable obligations of the banking organization to pay a third-party beneficiary when a customer (account party) *fails to perform* some other contractual non-financial obligation.

The distinguishing characteristic of a standby letter of credit for risk-based capital purposes is the combination of irrevocability with the fact that funding is triggered by some failure to repay or perform an obligation. Thus, any commitment (by whatever name) that involves an *irrevocable* obligation to make a payment to the customer or to a third party in the event the customer *fails to repay* an outstanding debt obligation or *fails to perform* a contractual obligation is treated, for risk-based capital purposes, as respectively, a financial guarantee standby letter of credit or a performance standby.

A loan commitment, on the other hand, involves an obligation (with or without a material adverse change or similar clause) of the banking organization to fund its customer *in the normal course* of business should the customer seek to draw down the commitment.

Sale and repurchase agreements and asset sales with recourse (to the extent not included on the balance sheet) and forward agreements also are converted at 100 percent.[48] So-called "loan strips" (that is, short-term advances sold under long-term commitments without direct recourse) are treated for risk-based capital purposes as assets sold with recourse and, accordingly, are also converted at 100 percent.

Forward agreements are legally binding contractual obligations to purchase assets with *certain* drawdown at a specified future date. Such obligations include forward purchases, forward forward deposits placed,[49] and partly-paid shares and securities; they do not include commitments to make residential mortgage loans or forward foreign exchange contracts.

Securities lent by a banking organization are treated in one of two ways, depending upon whether the lender is at risk of loss. If a banking organization, as agent for a customer, lends the customer's securities and does not indemnify the customer against loss, then the transaction is excluded from the risk-based capital calculation. If, alternatively, a banking organization lends its own securities or, acting as agent for a customer, lends the customer's securities and indemnifies the customer against loss, the transaction is converted at 100 percent and assigned to the risk weight category appropriate to the obligor, to any collateral delivered to the lending banking organization, or, if applicable, to the independent custodian acting on the lender's behalf.

2. *Items with a 50 percent conversion factor.* Transaction-related contingencies are converted at 50 percent. Such contingencies include bid bonds, performance bonds, warranties, standby letters of credit related to particular transactions, and performance standby letters of credit, as well as acquisitions of risk participations in performance standby letters of credit. Performance standby letters of credit represent obligations backing the performance of nonfinancial or commercial contracts or undertakings. To the extent permitted by law or regulation, performance standby letters of credit include arrangements backing, among other things, subcontractors' and suppliers' performance, labor and materials contracts, and construction bids.

The unused portion of commitments with an original maturity exceeding one year,[50] including underwriting

46. Risk participations with a remaining maturity of over one year that are conveyed to non-OECD banks are to be assigned to the 100 percent risk category, unless a lower risk category is appropriate to the obligor, guarantor, or collateral.

47. A risk participation in bankers acceptances conveyed to other institutions is also assigned to the risk category appropriate to the institution acquiring the participation or, if relevant, the guarantor or nature of the collateral.

48. In regulatory reports and under GAAP, bank holding companies are permitted to treat some asset sales with recourse as "true" sales. For risk-based capital purposes, however, such assets sold with recourse and reported as "true" sales by bank holding companies are converted at 100 percent and assigned to the risk category appropriate to the underlying obligor, or, if relevant the guarantor or nature of the collateral, provided that the transactions meet the definition of assets sold with recourse, including the sale of 1–4 family residential mortgages, that is contained in the instructions to the commercial bank Consolidated Reports of Condition and Income (Call Report).

49. Forward forward deposits accepted are treated as interest rate contracts.

50. Through year-end 1992, remaining maturity may be used for determining the maturity of off-balance sheet loan commitments; thereafter, original maturity must be used.

commitments, and commercial and consumer credit commitments also are converted at 50 percent.

Original maturity is defined as the length of time between the date the commitment is issued and the earliest date on which:

(1) the banking organization can, at its option, unconditionally (without cause) cancel the commitment;[51] and

(2) the banking organization is scheduled to (and as a normal practice actually does) review the facility to determine whether or not it should be extended. Such reviews must continue to be conducted at least annually for such a facility to qualify as a short-term commitment.

Commitments are defined as any legally binding arrangements that obligate a banking organization to extend credit in the form of loans or leases; to purchase loans, securities, or other assets; or to participate in loans and leases. They also include overdraft facilities, revolving credit, home equity and mortgage lines of credit, and similar transactions. Normally, commitments involve a written contract or agreement and a commitment fee, or some other form of consideration.

Commitments are included in weighted risk assets regardless of whether they contain "material adverse change" clauses or other provisions that are intended to relieve the issuer of its funding obligation under certain conditions. In the case of commitments structured as syndications, where the banking organization is obligated solely for its *pro rata* share, only the banking organization's proportional share of the syndicated commitment is taken into account in calculating the risk-based capital ratio.

Facilities that are unconditionally cancellable (without cause) at any time by the banking organization are not deemed to be commitments, provided the banking organization makes a separate credit decision before each drawing under the facility. Commitments with an original maturity of one year or less are deemed to involve low risk and, therefore, are not assessed a capital charge. Such short-term commitments are defined to include the unused portion of lines of credit on retail credit cards and related plans (as defined in the instructions to the FR Y-9C Report) if the banking organization has the unconditional right to cancel the line of credit at any time, in accordance with applicable law.

Once a commitment has been converted at 50 percent, any portion that has been conveyed to U.S. depository institutions or OECD banks as participations in which the originating banking organization retains the full obligation to the borrower if the participating bank fails to pay when the instrument is drawn, is assigned to the 20 percent risk category. This treatment is analogous to that accorded to conveyances of risk participations in standby letters of credit. The acquisition of a participation in a commitment by a banking organization is converted at 50 percent and assigned to the risk category appropriate to the account party obligor or, if relevant, the nature of the collateral or guarantees.

Revolving underwriting facilities (RUFs), note issuance facilities (NIFs), and other similar arrangements also are converted at 50 percent regardless of maturity. These are facilities under which a borrower can issue on a revolving basis short-term paper in its own name, but for which the underwriting organizations have a legally binding commitment either to purchase any notes the borrower is unable to sell by the rollover date or to advance funds to the borrower.

3. *Items with a 20 percent conversion factor.* Short-term, self-liquidating trade-related contingencies which arise from the movement of goods are converted at 20 percent. Such contingencies generally include commercial letters of credit and other documentary letters of credit collateralized by the underlying shipments.

4. *Items with a zero percent conversion factor.* These include unused portions of commitments with an original maturity of one year or less,[52] or which are unconditionally cancellable at any time, provided a separate credit decision is made before each drawing under the facility. Unused portions of lines of credit on retail credit cards and related plans are deemed to be short-term commitments if the banking organization has the unconditional right to cancel the line of credit at any time, in accordance with applicable law.

E. Interest Rate and Foreign Exchange Rate Contracts.

1. *Scope.* Credit equivalent amounts are computed for each of the following off-balance sheet interest rate and foreign exchange rate instruments:

51. In the case of consumer home equity or mortgage lines of credit secured by liens on 1–4 family residential properties, the bank is deemed able to unconditionally cancel the commitment for the purpose of this criterion if, at its option, it can prohibit additional extensions of credit, reduce the credit line, and terminate the commitment to the full extent permitted by relevant Federal law.

52. Through year-end 1992, remaining maturity may be used for determining term to maturity for off-balance sheet loan commitments; thereafter, original maturity must be used.

I. Interest Rate Contracts

A. Single currency interest rate swaps.
B. Basis swaps.
C. Forward rate agreements.
D. Interest rate options purchased (including caps, collars, and floors purchased).
E. Any other instrument that gives rise to similar credit risks (including when-issued securities and forward forward deposits accepted).

II. Exchange Rate Contracts

A. Cross-currency interest rate swaps.
B. Forward foreign exchange contracts.
C. Currency options purchased.
D. Any other instrument that gives rise to similar credit risks.

Exchange rate contracts with an original maturity of fourteen calendar days or less and instruments traded on exchanges that require daily payment of variation margin are excluded from the risk-based ratio calculation. Over-the-counter options purchased, however, are included and treated in the same way as the other interest rate and exchange rate contracts.

2. *Calculation of credit equivalent amounts.* Credit equivalent amounts are calculated for each individual contract of the types listed above. To calculate the credit equivalent amount of its off-balance sheet interest rate and exchange rate instruments, a banking organization sums these amounts:

(1) the mark-to-market value[53] (positive values only) of each contract (that is, the current exposure); and

(2) an estimate of the potential future credit exposure over the remaining life of each contract.

The potential future credit exposure on a contract, including contracts with negative mark-to-market values, is estimated by multiplying the notional principal amount by one of the following credit conversion factors, as appropriate:

Remaining Maturity	Interest Rate Contracts	Exchange Rate Contracts
One year or less ..	0	1.0%
Over one year.....	0.5%	5.0%

Examples of the calculation of credit equivalent amounts for these instruments are contained in Attachment V.

Because exchange rate contracts involve an exchange of principal upon maturity, and exchange rates are generally more volatile than interest rates, higher conversion factors have been established for foreign exchange contracts than for interest rate contracts.

No potential future credit exposure is calculated for single currency interest rate swaps in which payments are made based upon two floating rate indices, so-called floating/floating or basis swaps; the credit exposure on these contracts is evaluated solely on the basis of their mark-to-market values.

3. *Risk weights.* Once the credit equivalent amount for interest rate and exchange rate instruments has been determined, that amount is assigned to the risk weight category appropriate to the counterparty, or, if relevant, the nature of any collateral or guarantees.[54] However, the maximum weight that will be applied to the credit equivalent amount of such instruments is 50 percent.

4. *Avoidance of double counting.* In certain cases, credit exposures arising from the interest rate and exchange instruments covered by these guidelines may already be reflected, in part, on the balance sheet. To avoid double counting such exposures in the assessment of capital adequacy and, perhaps, assigning inappropriate risk weights, counterparty credit exposures arising from the types of instruments covered by these guidelines may need to be excluded from balance sheet assets in calculating banking organizations' risk-based capital ratios.

5. *Netting.* Netting of swaps and similar contracts is recognized for purposes of calculating the risk-based capital ratio only when accomplished through netting by novation.[55] While the Federal Reserve encourages any reasonable arrangements designed to reduce the risks inherent in these transactions, other types of netting arrangements are not recognized for purposes of calculating the risk-based ratio at this time.

53. Mark-to-market values are measured in dollars, regardless of the currency or currencies specified in the contract, and should reflect changes in both interest rates and counterparty credit quality.

54. For interest and exchange rate contracts, sufficiency of collateral or guarantees is determined by the market value of the collateral or the amount of the guarantee in relation to the credit equivalent amount. Collateral and guarantees are subject to the same provisions noted under Section III (B).

55. Netting by novation, for this purpose, is a written bilateral contract between two counterparties under which any obligation to each other to deliver a given currency on a given date is automatically amalgamated with all other obligations for the same currency and value date, *legally* substituting one single net amount for the previous gross obligations.

IV. Minimum Supervisory Ratios and Standards

The interim and final supervisory standards set forth below specify *minimum* supervisory ratios based primarily on broad credit risk considerations. As noted above, the risk-based ratio does not take explicit account of the quality of individual asset portfolios or the range of other types of risks to which banking organizations may be exposed, such as interest rate, liquidity, market or operational risks. For this reason, banking organizations are generally expected to operate with capital positions well above the minimum ratios. This is particularly true for institutions that are undertaking significant expansion or that are exposed to high or unusual levels of risk.

Upon adoption of the risk-based framework, any organization that does not meet the interim or final supervisory ratios, or whose capital is otherwise considered inadequate, is expected to develop and implement a plan acceptable to the Federal Reserve for achieving an adequate level of capital consistent with the provisions of these guidelines or with the special circumstances affecting the individual organization. In addition, such organizations should avoid any actions, including increased risk-taking or unwarranted expansion, that would lower or further erode their capital positions.

A. Minimum Risk-Based Ratio After Transition Period.

As reflected in Attachment VI, by year-end 1992, all bank holding companies[56] should meet a minimum ratio of qualifying total capital to weighted risk assets of 8 percent, of which at least 4.0 percentage points should be in the form of Tier 1 capital. (Section II above contains detailed definitions of capital and related terms used in this section.) The maximum amount of supplementary capital elements that qualifies as Tier 2 capital is limited to 100 percent of Tier 1 capital net of goodwill. In addition, the combined maximum amount of subordinated debt and intermediate-term preferred stock that qualifies as Tier 2 capital is limited to 50 percent of Tier 1 capital net of goodwill. The maximum amount of the allowance for loan and lease losses that qualifies as Tier 2 capital is limited to 1.25 percent of gross weighted risk assets. Allowances for loan and lease losses in excess of this limit may, of course, be maintained, but would not be included in an organization's total capital. The Federal Reserve will continue to require bank holding companies to maintain reserves at levels fully sufficient to cover losses inherent in their loan portfolios.

Qualifying total capital is calculated by adding Tier 1 capital and Tier 2 capital (limited to 100 percent of Tier 1 capital) and then deducting from this sum certain investments in banking or finance subsidiaries that are not consolidated for accounting or supervisory purposes, reciprocal holdings of banking organizations' capital securities, or other items at the direction of the Federal Reserve. The conditions under which these deductions are to be made and the procedures for making the deductions are discussed above in Section II (B).

B. Transition Arrangements.

The transition period for implementing the risk-based capital standard ends on December 31, 1992.[57] Initially, the risk-based capital guidelines do not establish a minimum level of capital. However, by year-end 1990, banking organizations are expected to meet a minimum interim target ratio for qualifying total capital to weighted risk assets of 7.25 percent, at least one-half of which should be in the form of Tier 1 capital. For purposes of meeting the 1990 interim target, the amount of loan loss reserves that may be included in capital is limited to 1.5 percent of weighted risk assets and up to 10 percent of an organization's

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56. As noted in Section I above, bank holding companies with less than $150 million in consolidated assets would generally be exempt from the calculation and analysis of risk-based ratios on a consolidated holding company basis, subject to certain terms and conditions.

57. The Basle capital framework does not establish an initial minimum standard for the risk-based capital ratio before the end of 1990. However, for the purpose of calculating a risk-based capital ratio prior to year-end 1990, no sublimit is placed on the amount of the allowance for loan and lease losses includable in Tier 2. In addition, this framework permits, under temporary transition arrangements, a certain percentage of an organization's Tier 1 capital to be made up of supplementary capital elements. In particular, supplementary elements may constitute 25 percent of an organization's Tier 1 capital (before the deduction of goodwill) up to the end of 1990; from year-end 1990 up to the end of 1992, this allowable percentage of supplementary elements in Tier 1 declines to 10 percent of Tier 1 (before the deduction of goodwill). Beginning on December 31, 1992, supplementary elements may not be included in Tier 1. The amount of subordinated debt and intermediate-term preferred stock temporarily included in Tier 1 under these arrangements will not be subject to the sublimit on the amount of such instruments includable in Tier 2 capital. While the transitional arrangements allow an organization to include supplementary elements in Tier 1 on a temporary basis, the amount of perpetual preferred stock that may be included in a bank holding company's Tier 1—both during and after the transition period —is, as described in Section II (A), based solely upon a specified percentage of the organization's permanent core capital elements (that is, common equity, perpetual preferred stock, and minority interest in the equity of consolidated subsidiaries), not upon total Tier 1 elements that temporarily include Tier 2 items. Once the amount of supplementary items that may temporarily qualify as Tier 1 elements is determined, goodwill must be deducted from the sum of this amount and the amount of the organization's permanent core capital elements for the purpose of calculating Tier 1 (net of goodwill), Tier 2, and total capital.

Tier 1 capital may consist of supplementary capital elements. Thus, the 7.25 percent interim target ratio implies a minimum ratio of Tier 1 capital to weighted risk assets of 3.6 percent (one-half of 7.25) and a minimum ratio of core capital elements to weighted risk assets ratio of 3.25 percent (nine-tenths of the Tier 1 capital ratio).

ORDERS ISSUED UNDER BANK HOLDING COMPANY ACT

Orders Issued Under Section 3 of the Bank Holding Company Act

C. N. Bancorp, Ltd.
Taipei, Taiwan

Williams-Augusta Acquisition Corp.
San Francisco, California

Order Approving Formation of a Bank Holding Company

C. N. Bancorp, Ltd., Taipei, Taiwan ("C. N. Bancorp"), and its wholly owned subsidiary, Williams-Augusta Acquisition Corp., San Francisco, California ("Williams-Augusta"), have applied for the Board's approval under section 3(a)(1) of the Bank Holding Company Act (12 U.S.C. § 1842(a)(1)) ("BHC Act"), to become bank holding companies by acquiring 97 percent of the outstanding voting shares of California National Bank, San Francisco, California ("Bank").

Notice of the applications, affording an opportunity for interested persons to submit comments, has been given in accordance with section 3(b) of the BHC Act (53 *Federal Register* 45,392 (1988)). The time for filing comments has expired, and the Board has considered the applications and all comments received in light of the factors set forth in section 3(c) of the BHC Act.

C. N. Bancorp and Williams-Augusta are nonoperating companies formed to acquire Bank. Bank is among the smaller commercial banking organizations in California, with total deposits of approximately $55.7 million, representing less than 1 percent of the total deposits in commercial banks in the state.[1] Consummation of the transaction would not result in an increase in the concentration of banking resources in California.

Bank operates in the San Francisco and Sacramento banking markets. In the San Francisco market, Bank is the 53rd largest of 95 commercial banks, controlling .09 percent of the total deposits in commercial banks in the market.[2] In the Sacramento market, Bank is the 29th largest of 34 commercial banks, controlling 0.25 percent of the total deposits in commercial banks in the market. Consummation of this proposal would not result in any adverse effects upon competition in any relevant market.

Based upon the facts of record, including commitments made by several of C. N. Bancorp's shareholders, the financial and managerial resources and future prospects of C. N. Bancorp, Williams-Augusta, and Bank are consistent with approval. Considerations relating to convenience and needs of the communities to be served also are consistent with approval of the application.

Based on the foregoing and other facts of record, the Board has determined that consummation of the proposal would be in the public interest and that the applications should be, and hereby are, approved.

The transactions shall not be consummated before the thirtieth day following the effective date of this Order, or later than three months following the effective date of this Order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of San Francisco, pursuant to delegated authority.

By order of the Board of Governors, effective January 30, 1989.

Voting for this action: Chairman Greenspan and Governors Johnson, Seger, Angell, Kelley, and LaWare. Absent and not voting: Governor Heller.

JENNIFER J. JOHNSON
Associate Secretary of the Board

Credit International Bancshares, Ltd.
Washington, D.C.

Order Approving the Formation of a Bank Holding Company

Credit International Bancshares, Ltd., Washington, D.C. ("Bancshares"), has applied for the Board's approval under section 3(a)(1) of the Bank Holding Company Act (the "BHC Act") (12 U.S.C. § 1842(a)(1)), to become a bank holding company by acquiring 100 percent of the voting shares of Credit International Bank, National Association, Washington, D.C. ("Credit International").

1. State market data are as of December 31, 1986.

2. San Francisco and Sacramento market data are as of June 30, 1987.

Notice of the application, affording interested persons an opportunity to submit comments, has been duly published (53 *Federal Register* 35,231 (1988)). The time for filing comments has expired, and the Board has considered the application and all comments received in light of the factors set forth in section 3(c) of the Act.

Bancshares is a nonoperating corporation formed to acquire Credit International. Credit International is a *de novo* bank and will operate in the District of Columbia banking market.[1] The principals of Bancshares are not affiliated with any other depository institutions in this market. Credit International is a proposed *de novo* bank, and consummation of this proposal would not result in any adverse effects upon competition or increase in the concentration of banking resources in any relevant area. Accordingly, the Board concludes that competitive considerations under the BHC Act are consistent with approval.

The financial and managerial resources and future prospects of Bancshares and Credit International are satisfactory. The Board thus concludes that considerations relating to banking factors are consistent with approval. Considerations relating to the convenience and needs of the community to be served also are consistent with approval.

Based on the foregoing and other facts of record, and in reliance on commitments made and conditions agreed to by certain investors in Bancshares, the Board has determined that consummation of this transaction would be in the public interest and that the application should be, and hereby is, approved. This transaction shall not be consummated before the thirtieth calendar day following the effective date of this Order, or later than three months following the effective date of this Order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Richmond, acting pursuant to delegated authority.

By order of the Board of Governors, effective January 4, 1989.

Voting for this action: Chairman Greenspan and Governors Johnson, Seger, Angell, Heller, Kelley, and LaWare.

JAMES MCAFEE
Associate Secretary of the Board

1. The District of Columbia banking market is defined as the Washington, D.C., Ranally Metropolitan Area, which comprises the District of Columbia; all of Fairfax and Prince William Counties; and portions of Fauquier, Loudon, and Stafford Counties; the cities of Alexandria, Arlington, Fairfax, Falls Church, Manassas, and Manassas Park in Virginia; and substantially all of Montgomery, Prince Georges, and Charles Counties, plus small portions of Anne Arundel, Calvert, Carroll, Frederick, and Howard Counties in Maryland.

FirsTier Financial, Inc. Omaha, Nebraska

Order Approving Acquisition of a Bank Holding Company

FirsTier Financial, Inc., Omaha, Nebraska ("FirsTier"), a bank holding company within the meaning of the Bank Holding Company Act of 1956 (12 U.S.C. § 1841 *et seq.*) (the "BHC Act"), has applied for the Board's approval under section 3(a)(3) of the BHC Act (12 U.S.C. § 1842(a)(3)), to acquire 100 percent of the voting shares of Norfolk Banshares, Inc., Norfolk, Nebraska ("Norfolk"), and thereby indirectly to acquire The DeLay First National Bank and Trust Company, Norfolk, Nebraska ("DeLay Bank").

Notice of the application, affording interested persons an opportunity to submit comments, has been given in accordance with section 3 of the BHC Act. (53 *Federal Register* 35,230 (1988)). The time for filing comments has expired, and the Board has considered the application and all comments received in light of the factors set forth in section 3(c) of the BHC Act (12 U.S.C. § 1842(c)).

FirsTier operates two subsidiary banks, FirsTier Bank, N.A., Omaha, Nebraska ("Omaha Bank") and FirsTier Bank, N.A., Lincoln, Nebraska ("Lincoln Bank"). FirsTier is the largest banking organization in Nebraska controlling deposits of $1.7 billion, representing 11.7 percent of deposits in commercial banking organizations in the state.[1] DeLay Bank is the eighth largest banking organization in Nebraska, controlling deposits of $167.9 million, representing 1.2 percent of total deposits in commercial banks in the state. Consummation of the proposal would not have any significant adverse effect upon the concentration of banking resources in Nebraska.

FirsTier and DeLay Bank do not compete directly in any banking market. Accordingly, consummation of the proposal would not eliminate any substantial existing competition between FirsTier and DeLay Bank in any relevant banking market.[2] Consummation also would not have any significant adverse effect on probable future competition in any market.[3]

1. Deposit data are as of December 31, 1987.

2. The relevant market for DeLay Bank is approximated by the following areas in Nebraska: Madison County (except the town of Newman Grove), Pierce County, Stanton County, Wayne County and the towns of Belden and Randolph in Cedar County.

3. In this regard, the Board notes that there are other potential entrants into the market presently served by DeLay Bank in addition to FirsTier. Moreover, the number of potential entrants will increase when Nebraska's regional reciprocal interstate banking statute becomes effective on January 1, 1990.

The financial and managerial resources and future prospects of FirsTier, Norfolk and their subsidiaries are consistent with approval of the application.

In considering the convenience and needs of the communities to be served, the Board has taken into account the records of FirsTier's banks and DeLay Bank under the Community Reinvestment Act (12 U.S.C. § 2901 *et seq.*) ("CRA"). The CRA requires the federal bank supervisory agencies to encourage financial institutions to help meet the credit needs of the local communities in which they are chartered. To accomplish this end, the CRA requires the appropriate federal supervisory authority to "assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of such institution." 12 U.S.C. § 2903. The Board is required to "take such record into account in its evaluation" of applications under section 3 of the BHC Act.

The Board has received comments regarding the CRA performance of FirsTier's banks and DeLay Bank from the Nebraskans for Fair Banking Coalition, a coalition of community based organizations (collectively, the "Protestants").[4] The Protestants allege, *inter alia*, that FirsTier's two subsidiary banks and DeLay Bank have failed to meet local credit needs with respect to low- and moderate-income neighborhoods, small business loans and agricultural loans.[5] In an attempt to clarify and resolve the concerns raised by the Protestants, the parties met privately on two occasions. These meetings, however, did not produce a resolution of the differences between FirsTier and the Protestants.[6]

In implementing the CRA, the Board and the other federal banking agencies have issued regulations specifying the factors to be taken into account in determining whether an institution is meeting its responsibilities under the CRA. *See* 12 C.F.R. 228.7. Moreover, the Board's experience over the years in examining bank performance under the CRA has indicated that institutions with the most effective programs to help meet community credit needs share a number of elements. These institutions maintain outreach programs which include procedures to permit effective communication between the bank and various segments of the community and formalized methods for incorporating findings regarding community credit needs into the development and delivery of products and services. They monitor institutional performance at senior management levels and periodically evaluate new opportunities for innovative lending programs to meet specific community credit needs, including those of low-and moderate-income persons. An effective program also includes the use of specifically designed marketing and advertising plans to stimulate public awareness of the bank's services throughout the community, including low- and moderate-income neighborhoods, as well as support of community development projects and programs.

The Board has considered the record of this application, including the Protestants' comments and FirsTier's response, in light of the requirements of the CRA and the implementing regulations of the federal banking agencies. Based upon this record and for the reasons described below, the Board believes that considerations relating to the convenience and needs of the communities to be served are consistent with approval of the application.

In this case, the Board has given careful attention to the most recent CRA examination of FirsTier's subsidiary banks, which was completed by the Comptroller of the Currency in March, 1988. That examination noted a less than satisfactory CRA performance by Omaha Bank. In response to the concerns raised in the examination, FirsTier and Omaha Bank have adopted an extensive plan to enhance Omaha Bank's service to its communities, and have already taken significant steps to implement these initiatives.

As part of this CRA plan, Omaha Bank intends to conduct a market survey focusing on the credit needs of low- and moderate-income and minority communities.[7] Omaha Bank will use the results of the survey to conduct a direct mail advertising campaign in targeted areas. Omaha Bank will also increase its efforts to ascertain the credit needs of the communities it serves by appointing a community liaison officer to initiate contacts with local groups. As part of its outreach program FirsTier will also develop a program discussing credit issues for presentation to neighbor-

4. The Board also received an untimely comment from the Omaha Black Forum, submitted on behalf of several community organizations, that also raised the issue of Omaha Bank's CRA performance.

5. Protestants also allege that Omaha Bank has not met the credit needs of Omaha's minority communities.

6. The Protestants also requested that the Board order a public meeting or hearing to receive testimony on the issues presented by this application. Although section 3(b) of the BHC Act does not require a public meeting or hearing in this instance, the Board may, in any case, order such proceedings. In the Board's view, the parties have had ample opportunity to present their arguments in writing and to respond to one another's submissions. Moreover, FirsTier has had private meetings with the Protestants to discuss these issues. In light of these facts, the Board has determined that a public meeting or hearing would serve no useful purpose in this case. Accordingly, the Protestants' request for a public hearing is hereby denied.

7. There are 33 census tracts in the Omaha area that have a minority population greater than 15 percent. According to 1980 census data, 28 of those tracts are also low- and moderate-income communities. Thus, FirsTier's initiatives in the low- and moderate-income neighborhoods should also have a significant impact in Omaha's minority communities.

hood organizations and will strengthen its advertising to include special interest and community newspapers. FirsTier has also committed to enhance its procedures for monitoring Omaha Bank's CRA performance through the development of a computer-based system to track the distribution of credit applications and extensions of credit according to census tract.

Protestants have expressed concern regarding Omaha Bank's mortgage lending practices and in particular, the number of home purchase loans extended by Omaha Bank in low- and moderate-income and minority neighborhoods. FirsTier responds by noting that the available loan data merely reflects Omaha Bank's policy of referring prospective borrowers to FirsTier's mortgage lending subsidiary, FirsTier Mortgage. Applicant asserts that its lending record in Omaha is more accurately represented by including the loans made by FirsTier Mortgage, and that the mortgage subsidiary was a significant lender under government programs for low income individuals. In any event, the mortgage lending subsidiary was sold by FirsTier in June 1988. As a result, Omaha Bank has reactivated its mortgage lending functions and now offers a full range of government-assisted loans at each branch.

In addition, pursuant to discussions with Protestants, FirsTier has pledged to undertake a series of lending initiatives to augment Omaha Bank's existing efforts directed at low- and moderate-income neighborhoods. The lending initiatives undertaken by Omaha Bank will include, *inter alia*, the offering of $1 million in loans for multi-family housing in conjunction with a program combining public and private sector funds; the availability of below-market rate mortgage loans for individuals unable to qualify for government-sponsored or conventional financing; introduction of a secured credit card to provide open-end credit for persons with limited credit histories; a revolving loan fund for home improvement loans with less restrictive terms than FHA sponsored credit; and, a revolving credit line for the acquisition and rehabilitation of single family homes in targeted areas.[8]

The Board further notes that Lincoln Bank and DeLay Bank have each received satisfactory CRA assessments from the Comptroller of the Currency.[9] The record reflects that Lincoln Bank has placed considerable emphasis on CRA compliance and has been actively involved in providing credit for community development projects. There is also evidence to support Applicant's claim that its subsidiary banks as well as the DeLay Bank are committed to agricultural lending. Although agricultural lending in Nebraska, on the whole, has experienced a decline in recent years, the proportion of the state's aggregate farm loans made by each of these banks has increased over this period.[10]

Accordingly, based upon the foregoing and other facts of record, including FirsTier's commitments regarding its CRA plan and the steps taken to implement that plan, the Board has determined that the application should be, and hereby is, approved. The acquisition of Norfolk shall not be consummated before the thirtieth calendar day following the effective date of this Order, or later than three months after the effective date of the Order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Kansas City, acting pursuant to delegated authority.

By order of the Board of Governors, effective January 26, 1989.

Voting for this action: Chairman Greenspan and Governors Johnson, Seger, and Angell. Absent and not voting: Governors Heller, Kelley, and LaWare.

JENNIFER J. JOHNSON
Associate Secretary of the Board

Orders Issued Under Section 4 of the Bank Holding Company Act

Barnett Banks, Inc.
Jacksonville, Florida

Order Approving Applications to Underwrite and Deal in Certain Securities to a Limited Extent and to Engage in Combined Investment Advisory and Securities Brokerage Activities

8. Protestants also express concern regarding Omaha Bank's record of lending for home improvements in low- and moderate-income areas and its participation in programs that benefit small businesses. The record reflects, however, that Omaha Bank has not excluded low- and moderate-income communities in making home improvement loans and that its record compares favorably with other lenders in the Omaha area. The record further shows that Omaha Bank's has actively supported programs in its community designed to encourage development of small business and low-to moderate-income areas.

9. Protestants allege that a recent decline in DeLay Bank's loan-to-deposit ratio reflects that bank's decreased commitment to the credit needs of its community. The record also demonstrates, however, that despite declines in the loan-to-deposit ratios in the region and state generally, the proportion of loans made in this region by Delay Bank has been increasing.

10. Protestants also allege that Omaha Bank has engaged in lending violations and has not fulfilled certain reporting requirements. These contentions were not documented by Protestants and the Board has not uncovered any violations or discrepancies in these areas.

The Board has also considered Protestant's concerns regarding the lending practices of FirsTier Mortgage. The Board notes that these practices were voluntarily corrected by FirsTier in consultation with the Department of Housing and Urban Development. The Board thus finds that this matter does not warrant denial of the application.

Barnett Banks, Inc., Jacksonville, Florida, a bank holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has applied for the Board's approval under section 4(c)(8) of the BHC Act (12 U.S.C. § 1843(c)(8)) and section 225.23 of the Board's Regulation Y (12 C.F.R. § 225.23), for its subsidiary, Barnett Capital Markets Group, Inc., Jacksonville, Florida ("Capital Markets"), to engage *de novo*, on a limited basis, in underwriting and dealing in:

(1) municipal revenue bonds, including certain industrial development bonds;
(2) 1–4 family mortgage-related securities;
(3) commercial paper; and
(4) consumer - receivable - related securities ("CRRs") (collectively "ineligible securities").

In addition, Applicant proposes to engage in underwriting and dealing in U.S. government and other bank-eligible securities pursuant to § 225.25(b)(16) and to provide investment advisory services pursuant to § 225.25(b)(4) of Regulation Y (12 C.F.R. § 225.25(b)(16) and (b)(4)).

Applicant has also applied to provide investment advice and combined investment advisory and brokerage services ("full-service brokerage") to institutional and retail customers through Barnett Brokerage Service, Inc., West Palm Beach, Florida ("Barnett Brokerage"). Barnett Brokerage is currently authorized to provide securities brokerage services pursuant to section 225.25(b)(15) of Regulation Y (12 C.F.R. § 225.25(b)(15)).

Applicant, with consolidated assets of $24.9 billion, is the largest banking organization in Florida. It operates thirty-three subsidiary banks and engages directly and through subsidiaries in a broad range of permissible nonbanking activities.[1]

Notice of the application, affording interested persons an opportunity to submit comments on the proposal, has been published (53 *Federal Register* 51,163 (1988)). The time for filing comments has expired, and the Board has considered the applications and all comments received in light of the public interest factors set forth in section 4(c)(8) of the BHC Act.

I. Underwriting and Dealing in Bank-Ineligible Securities

The Board has previously determined that the conduct of the proposed ineligible securities underwriting and dealing activities is consistent with section 20 of the Glass–Steagall Act, provided the underwriting subsidiary derives no more than 5 percent of its total gross revenue from underwriting and dealing in the approved securities over any two-year period.[2] The Board further found that, subject to the prudential framework of limitations established in those cases to address the potential for conflicts of interests, unsound banking practices or other adverse effects, the proposed underwriting and dealing activities were so closely related to banking as to be a proper incident thereto within the meaning of section 4(c)(8) of the BHC Act. Applicant has committed to conduct its ineligible underwriting and dealing activities subject to the 5 percent revenue test and the prudential limitations established by the Board in its *Citicorp/Morgan/Bankers Trust* and *Chemical* Orders.[3]

Consummation of the proposal would provide added convenience to Applicant's customers. In addition, the Board expects that the *de novo* entry of Applicant into the market for these services would increase the level of competition among providers of these services. Accordingly, the Board has determined that the performance of the proposed activities by Applicant can reasonably be expected to produce public benefits which would outweigh adverse effects under the proper incident to banking standard of section 4(c)(8) of the BHC Act.[4]

Based on the above, the Board has determined to approve the proposed underwriting activities subject to all of the terms and conditions established in the *Citicorp/Morgan/Bankers Trust* and *Chemical* Orders, except the market share limitation.[5]

1. All data are as of September 30, 1988.

2. *Citicorp, J.P. Morgan & Co. Incorporated and Bankers Trust New York Corporation*, 73 FEDERAL RESERVE BULLETIN 473 (1987) ("*Citicorp/Morgan/Bankers Trust*"), *aff'd sub nom., Securities Industry Association v. Board of Governors of the Federal Reserve System*, 839 F.2d 47 (2d Cir. 1988), *cert. denied*, 108 S. Ct. 2830 (1988) ("*SIA v. Board*"); and *Chemical New York Corporation, The Chase Manhattan Corporation, Bankers Trust New York Corporation, Citicorp, Manufacturers Hanover Corporation and Security Pacific Corporation*, 73 FEDERAL RESERVE BULLETIN 731 (1987) ("*Chemical*").

3. In light of the decision in *SIA v. Board*, the Board has determined not to require Applicant to comply with a market share limitation.

4. Capital Markets may also provide services that are necessary incidents to these approved activities. Any activity conducted as a necessary incident to the ineligible securities activity must be treated as part of the ineligible securities activity unless Capital Markets has received specific approval under section 4(c)(8) of the BHC Act to conduct the activity independently. Until such approval is obtained, any revenues from the incidental activity must be counted as ineligible revenue subject to the 5 percent gross revenue limit set forth in *Citicorp/Morgan/Bankers Trust*. This 5 percent gross revenue limit should be calculated in accordance with the method stated in *J.P. Morgan & Co. Incorporated, et al.*, 75 FEDERAL RESERVE BULLETIN 192 (Order dated January 18, 1989).

5. The industrial development bonds approved in those applications and for Applicant in this case are only those tax-exempt bonds in which the governmental issuer, or the governmental unit on behalf of which the bonds are issued, is the owner for federal income tax purposes of the financed facility (such as airports, mass commuting facilities, and water pollution control facilities). Without further

II. Full-Service Brokerage Activities

The Board has previously determined that the combined offering of investment advice and securities execution services to institutional and retail customers from the same bank holding company subsidiary is closely related and a proper incident to banking under section 4(c)(8) of the BHC Act, and does not violate the Glass–Steagall Act. *National Westminister Bank PLC, et al.*, 72 FEDERAL RESERVE BULLETIN 584 (1986);[6] *Bank of New England Corporation*, 74 FEDERAL RESERVE BULLETIN 700 (1988) ("BNEC"). Barnett Brokerage proposes to conduct its brokerage and advisory activities within the same framework approved by the Board in BNEC.[7]

Barnett Brokerage will provide investment advice and full-service brokerage with respect to ineligible securities which Capital Markets underwrites and deals in, with appropriate disclosure, to institutional customers only. *See Bankers Trust New York Company*, 74 FEDERAL RESERVE BULLETIN 695 (1988).[8]

Based upon the foregoing and other considerations reflected in the record, and in reliance on the commitments offered by Applicant regarding the conduct of Barnett Brokerage's activities, the Board has determined that the public benefits associated with consummation of this proposal can reasonably be expected to outweigh possible adverse effects, and that the balance of the public interests factors that the Board is required to consider under section 4(c)(8) of the BHC Act is favorable.

III. Conclusion

Accordingly, Applicant's proposed activities are hereby approved. The Board's determination is subject to all of the conditions set forth in the Board's Regulation Y, including those in sections 225.4(d) and 225.23(b), and to the Board's authority to require modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to assure compliance with, and to prevent evasion of, the provisions of the BHC Act and the Board's regulations and orders issued thereunder.

These transactions shall not be consummated later than three months after the effective date of this Order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Atlanta, pursuant to delegated authority.

By order of the Board of Governors, effective January 30, 1989.

Voting for this action: Chairman Greenspan and Governors Johnson, Seger, Angell, Kelley, and LaWare. Absent and not voting: Governor Heller.

JENNIFER J. JOHNSON
Associate Secretary of the Board

approval from the Board, Capital Markets may underwrite or deal in only these types of industrial development bonds.

The Board's approval of the proposed underwriting and dealing activities extends only to Capital Markets. The activities may not be conducted by Applicant in any other subsidiary without prior Board review. Pursuant to Regulation Y, no corporate reorganization of Capital Markets, such as the establishment of subsidiaries of Capital Markets to conduct the activities, may be consummated without prior Board approval.

6. *Aff'd sub nom. Security Industry Ass'n v. Board of Governors*, 821 F.2d 810 (D.C. Cir. 1987), *cert. den.*, 108 S. Ct. 697 (1988).

7. Barnett Brokerage will provide such services, in certain instances, from offices located on the premises of affiliated banks.

8. Barnett Brokerage will also provide investment advice and full-service brokerage with regard to bank-eligible securities to both institutional and retail customers with the appropriate disclosures.

J.P. Morgan & Co. Incorporated
New York, New York

The Chase Manhattan Corporation
New York, New York

Bankers Trust New York Corporation
New York, New York

Citicorp
New York, New York

Security Pacific Corporation
Los Angeles, California

Order Conditionally Approving Applications to Engage, to a Limited Extent, in Underwriting and Dealing in Certain Securities

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I. Introduction and Description of Applications.

J.P. Morgan & Co. Incorporated, The Chase Manhattan Corporation, Bankers Trust New York Corporation, and Citicorp, all of New York, New York, and Security Pacific Corporation, Los Angeles, California, bank holding companies within the meaning of the Bank Holding Company Act ("BHC Act" or "Act"), have each applied for the Board's approval under section 4(c)(8) of the BHC Act for their wholly owned subsidiaries, J.P. Morgan Securities, Inc. ("JPMS"), Chase Manhattan Capital Markets, Inc. ("CMCM"), BT Securities Corporation ("BTSC"), Citicorp Securities Markets, Inc., and Security Pacific Securities, Inc., respectively, to underwrite and deal in, on a limited basis, the following securities:

(1) debt securities, including without limitation, sovereign debt securities, corporate debt, debt securities convertible into equity securities, and securities issued by a trust or other vehicle secured by or representing interests in debt obligations; and
(2) equity securities, including without limitation, common stock, preferred stock, American Depositary Receipts, and other direct and indirect equity ownership interests in corporations and other entities.[1]

Section 16 of the Banking Act of 1933 (the "Glass–Steagall Act") prohibits a member bank from underwriting or dealing in these securities (hereinafter "ineligible securities"). 12 U.S.C. §§ 24 Seventh and 335. As discussed below, however, insofar as the Glass–Steagall Act is concerned, an affiliate of a member bank may underwrite and deal in ineligible securities so long as it is not engaged principally or substantially in that activity. 12 U.S.C. § 377.

Applicants have previously received Board approval under section 4(c)(8) of the BHC Act for the above-mentioned subsidiaries (collectively the "underwriting subsidiaries") to underwrite and deal in U.S. government and agency securities and state and municipal securities that state member banks are specifically authorized to underwrite and deal in under section 16 of the Glass–Steagall Act (hereinafter "eligible securities"). The Board has also authorized these subsidiaries to underwrite and deal in commercial paper, 1–4 family mortgage-backed securities, municipal revenue bonds and consumer-receivable-related securities — securities that member banks may not underwrite or deal in under section 16 of the Glass–Steagall Act.[2] In order to ensure that the subsidiaries

1. Applicants have not proposed to underwrite or deal in securities issued by open-end investment companies and, accordingly, may not do so without further application under section 4(c)(8) of the BHC Act. Applicants have proposed to underwrite and deal in securities issued by closed-end investment companies.

The Chase Manhattan Corporation has applied to underwrite and deal in debt securities and preferred stock only.

2. *Citicorp, J.P. Morgan & Co. Incorporated and Bankers Trust New York Corporation*, 73 FEDERAL RESERVE BULLETIN 473 (1987) ("*Citicorp/Morgan/Bankers Trust*"), *aff'd. sub nom., Securities Industry Association v. Board of Governors of the Federal Reserve System*, 839 F.2d 47 (2d Cir. 1988), *cert. denied*, 108 S. Ct. 2830 (1988); *The Chase Manhattan Corporation*, 73 FEDERAL RESERVE BULLETIN 607 (1987); *Citicorp*, 73 FEDERAL RESERVE BULLETIN 618 (1987); *Security Pacific Corporation*, 73 FEDERAL RESERVE BULLETIN 622 (1987); *Chemical New York Corporation, The Chase Manhattan Corporation, Bankers Trust New York Corporation, Citicorp, Manufacturers Hanover Corporation, Security Pacific Corporation*, 73 FEDERAL RESERVE BULLETIN 731 (1987); and *J.P. Morgan & Co. Incorporated*, 73 FEDERAL RESERVE BULLETIN 875 (1987).

JPMS, BTSC and CMCM also engage in securities brokerage and investment advisory activities for institutional customers. *J.P. Morgan & Co. Incorporated*, 73 FEDERAL RESERVE BULLETIN 810 (1987);

would not be engaged principally or substantially in underwriting or dealing in these ineligible securities in violation of section 20 of the Glass–Steagall Act, the Board's approval is subject to the requirement that the gross revenues from these ineligible securities activities may not exceed 5 percent of the subsidiary's total gross revenues on average over any two year period. The subsidiaries are also subject to a framework of structural and operating limitations established to avoid the potential for conflicts of interest, unsound banking practices, unfair competition, loss of public confidence in affiliate banks and other adverse effects from the conduct of the ineligible securities underwriting and dealing activity.

Applicants propose to conduct the new debt and equity securities underwriting and dealing activities within the framework established in the Board's previous Orders. Accordingly, Applicants propose to limit the gross revenues their underwriting subsidiaries would receive from the proposed debt and equity securities activities and the previously approved ineligible securities activities in the aggregate to no more than 5 percent of the total gross revenues of the underwriting subsidiary on average over any two year period.

Notice of the applications for the proposed new activities, affording interested persons an opportunity to submit comments on the proposals, has been published (53 *Federal Register* 45,978 - 45,983, 46,503–4, 47,763 (1988)).

The Board received comments in opposition to approval of the applications from the Securities Industry Association ("SIA"), a trade association of the investment banking industry, and the Investment Company Institute ("ICI"), a trade association of the mutual fund industry. The SIA contends that the proposed activities would result in a violation of section 20 of the Glass–Steagall Act and do not meet the "closely related" and "proper incident" to banking standards of section 4(c)(8) of the BHC Act. The ICI makes similar contentions to the extent that the applications request authority to underwrite and deal in investment company securities. The Board also received a number of comments in favor of the proposals.

On January 4, 1989, several weeks after the close of the comment period on these applications, the Government Representatives Committee ("Committee") of the SIA submitted a comment reiterating many of the concerns raised by the SIA and urging that the applications be rejected as contrary to law, premature, and incomplete. The Committee also requested additional time within which to provide additional comments and a hearing on the applications.

The Board is of the view that an adequate opportunity to comment on the proposals has been provided to all interested parties and that further delay is not appropriate or consistent with the Board's rules.[3] All but one of the applications were submitted to the Board on October 24 and 25, 1988, and were accepted for processing on November 7 and 10, 1988. On October 26, 1988, the SIA urged the Board to reject or not to accept the applications without the necessary legislative safeguards.[4] The Board announced a period of public comment on the applications beginning on November 8, 1988, running through December 18, 1988, with respect to the last of the proposals. The SIA, the ICI and other interested persons submitted timely comments through this date, and did not request an extension of the comment period or state that insufficient opportunity to comment had been provided.

The normal processing period for these applications under the Board's rules has elapsed, and the Board has completed its investigation and analysis required under these rules. The Board also notes that the issues relating to the expansion of the powers of banking organizations to underwrite and deal in securities have been extensively explored over the last several years in connection with legislative proposals to repeal the Glass–Steagall Act, in which the SIA has fully participated.[5] As discussed below, the Board believes the record on these applications is fully sufficient to permit it to make the determinations required under the BHC Act, including the concerns raised by the Committee regarding the potential for conflicts of interest, risk, unfair competition and other adverse effects from the proposals. For these reasons, the Board has decided not to grant the Committee's request for an additional period of time to comment on the applications.[6]

The Board has carefully considered the submissions of the Applicants and the comments from the public

Bankers Trust New York Corporation, 74 FEDERAL RESERVE BULLETIN 695 (1988); and *The Chase Manhattan Corporation*, 74 FEDERAL RESERVE BULLETIN 704 (1988). These approvals are limited to brokerage activities and do not permit the affiliates to sell securities as agent for an issuer in the private placement of securities.

3. 12 C.F.R. 225.23(e)(2).

4. American Banker, Oct. 27, 1988, at 1.

5. *Hearings on S.1886, S.1891 and S.1905 Before the Senate Comm. on Banking, Housing and Urban Affairs*, 100th Cong., 1st Sess. 407–484 (1987)("*Senate Banking Committee Hearings*"), *Reform of the Nation's Banking and Financial Systems, Hearings Before the Subcomm. on Financial Institutions Supervision, Regulation and Insurance of the House Comm. on Banking, Finance and Urban Affairs*, 100th Cong., 1st Sess. 120, 198 (1988) ("*House Banking Committee Hearings*").

6. Although the SIA Committee's comments have been considered by the Board, it is not clear from the record that the Committee has standing in this matter as a representative of the securities industry. The Board expresses no opinion on this issue.

for and against the proposals as well as the other facts of record. Based upon this review, the Board has concluded that, subject to the limitations set out in this Order, the proposals are consistent with the applicable provisions of the Glass–Steagall Act and the standards the Board is required to apply to nonbanking proposals under section 4(c)(8) of the BHC Act.

As the Board has recognized in the past, underwriting and dealing in securities is a natural extension of activities currently conducted by banks, involving manageable risks and potential conflicts of interest when conducted in an organizational structure that insulates these activities from banking activities supported by the federal safety net of deposit insurance and access to Federal Reserve lending. In the Board's view, bank holding companies, with their existing expertise in securities underwriting, dealing, brokerage and investment advisory activities and their broad financial skills, are particularly well equipped to provide the proposed new services.[7] Moreover, the conduct of these activities within the prudential framework established in this Order may reasonably be expected to yield significant public benefits in the form of increased competition and convenience, lower costs and a strengthened and more competitive banking and financial system.

As discussed below, the Board places a very great emphasis in reaching its decision that the proposed activities meet the standards of the BHC Act upon the establishment by Applicants of adequate policies and procedures, accounting, audit and computer systems, and internal risk management controls. See pp. 209. Accordingly, the Board has decided, as a condition of approval, to require that before the proposed activities may be commenced, Applicants must have in place at the underwriting subsidiaries and their affiliates policies and procedures to ensure compliance with the operating conditions of this Order, including the necessary managerial and operational infrastructure. Because of their current eligible debt securities underwriting and investment activities, banking organizations should be able to satisfy this requirement for immediate participation in the market for debt securities as an underwriter and dealer. In the case of equity securities, however, which banks may not underwrite or purchase for their own account under current banking laws, the Board believes it appropriate to review in one year whether Applicants may commence underwriting and dealing in these securities based on a determination by the Board that they have established the managerial and operational infrastructure and other policies and procedures necessary to comply with the requirements of this Order.

II. Glass–Steagall Act.

A. Compliance with Section 20.

Section 20 of the Glass–Steagall Act prohibits the affiliation of a member bank with a company that is "engaged principally" in underwriting or dealing in securities.[8] Because each Applicant is affiliated with a member bank, Board approval of these applications would not be possible if, as a result, the underwriting subsidiaries would be "engaged principally" in underwriting or dealing in securities within the meaning of section 20.

In its earlier decisions authorizing the underwriting subsidiaries to underwrite and deal in a limited range of ineligible securities (*i.e.*, municipal revenue bonds, commercial paper and certain asset-backed securities), the Board concluded that no violation of section 20 of the Glass–Steagall Act would result if the underwriting and dealing activities in these securities were conducted within the 5–10 percent revenue limitation established in those Orders. In reaching this conclusion, the Board found that

> (1) the prohibition in section 20 against being engaged principally in underwriting securities does not include U.S. government and other securities that a member bank is expressly authorized to underwrite and deal in under section 16 of the Glass–Steagall Act; and
> (2) a company that derives no more than 5 to 10 percent of its total gross revenues from underwriting and dealing in ineligible securities would not be "engaged principally" in underwriting or dealing in securities within the meaning of section 20.[9] These conclusions were upheld by the

7. *Citicorp/Morgan/Bankers Trust*, 73 FEDERAL RESERVE BULLETIN at 487–89; Senate Banking Committee Hearings, at 86, 87 and 89, (Statement of Alan Greenspan, Chairman, Board of Governors of the Federal Reserve System), *reprinted in* 74 FEDERAL RESERVE BULLETIN 91, 93 (1988).

See also House Banking Committee Hearings, at 227, 229 and 233, (Statement of Alan Greenspan, Chairman, Board of Governors of the Federal Reserve System), *reprinted in* 74 FEDERAL RESERVE BULLETIN 20, 21 (1988).

8. Section 20 (12 U.S.C. § 377) provides that . . . no member bank shall be affiliated . . . with any . . . organization engaged principally in the issue, flotation, underwriting, public sale, or distribution at wholesale or retail or through syndicate participation of stocks, bonds, debentures, notes, or other securities. . . .

9. *Citicorp/Morgan/Bankers Trust*, 73 FEDERAL RESERVE BULLETIN at 485; *Bankers Trust New York Corporation*, 73 FEDERAL RESERVE BULLETIN 138 (1987).

The Board's decision regarding the Glass–Steagall Act was also conditioned upon compliance by the underwriting subsidiaries with a market share limitation. This condition, however, was overturned by the court of appeals as not appropriate under the "engaged principally" standard in section 20 of the Glass–Steagall Act. *Securities Industry Ass'n v. Board of Governors*, 839 F.2d at 67–68.

> United States Court of Appeals for the Second Circuit.[10] Although the proposals approved in these earlier decisions involved limited kinds of ineligible securities, neither the Board's decisions nor the court of appeals' opinions were restricted to those types of securities. Indeed, it is clear that the reasoning of these decisions in concluding that a bank affiliate does not violate section 20 if its ineligible securities underwriting and dealing activity is not substantial relative to its total activity applies to any type of ineligible securities.

Because the proposed debt and equity securities underwriting and dealing activities would be conducted by each underwriting subsidiary within the overall 5 percent revenue limitation established in the Board's prior Orders and for the reasons stated in those Orders, the Board concludes that, upon consummation of these proposals, the underwriting subsidiaries would not be "engaged principally" in underwriting or dealing in securities within the meaning of section 20 of the Glass–Steagall Act.

As the Board stated in the prior decisions, it will consider whether this 5 percent limitation should be increased to up to 10 percent after consideration of a year of experience of the underwriting subsidiaries in the approved ineligible securities activities.[11]

B. SIA's Contentions.

The Securities Industry Association asserts that the Board should reconsider its reliance on a revenue test in applying the "engaged principally" standard in section 20. The SIA notes that the market share test, which was established in the earlier Orders because of concern with the potential for manipulation of the revenue test, was disapproved by the court of appeals. To address this potential, the SIA asserts that the Board should interpret the "engaged principally" limitation in section 20 on the basis of the capital the affiliate devotes to ineligible activities as well as the amount of revenues it obtains from such activities.

The Board believes, however, that the interpretation urged by the SIA is not appropriate and that the revenue limitation established in the prior Orders is a reasonable method, permitted by the Glass–Steagall Act, of ensuring that the ineligible securities activities of the underwriting subsidiaries are not substantial within the meaning of section 20.[12] In overturning the market share limitation, the court of appeals implicitly ruled that the revenue test alone is a reasonable gauge of substantial ineligible securities activity. Moreover, the amount of capital needed to support a specific level of underwriting and dealing activity can vary widely depending on the type of security involved. Thus, the amount of capital an underwriting subsidiary needs to support a particular securities activity is not always an accurate indicator of the scope or extent of the subsidiary's involvement in that activity.[13] Finally, the Board expects that any concerns with manipulation will be effectively addressed through the inspection process that the Board is establishing to supervise the underwriting subsidiaries' compliance with the requirements of this Order.

C. Calculation of the 5 Percent Revenue Limitation.

The Board notes that there has been some uncertainty on the part of the underwriting subsidiaries over the appropriate method to calculate the 5 percent revenue limitation established in the prior Orders, particularly during the first two years of operation. In its prior Orders, the Board stated that the 5 percent revenue limitation would be calculated on average over any two year period.[14] Compliance with this standard was to be determined quarterly on the basis of the FOCUS and revenue reports required by the Orders to be filed by the underwriting subsidiaries with the Reserve Banks.

To determine compliance with this limitation during the first two-year period in which the underwriting subsidiaries engage in ineligible securities underwriting and dealing activities, revenues from these ineligible securities activities for each quarter during this two-year period, when added to the revenues from ineligible securities activities for each previous quarter

10. *Securities Industry Ass'n v. Board of Governors*, 839 F.2d at 62, 67. *See also Securities Industry Ass'n v. Board of Governors*, 847 F.2d 890, 895 (1988), in which the U.S. Court of Appeals for the District of Columbia Circuit upheld the Board's determination that the underwriting subsidiary's ineligible securities activities would not violate section 20 if conducted within the 5–10 percent revenue limitation established in the Board's Orders.

11. *See Citicorp/Morgan/Bankers Trust*, 73 FEDERAL RESERVE BULLETIN at 485; *First Chicago Corporation*, 74 FEDERAL RESERVE BULLETIN 706, 707 (1988).

12. In view of the Second Circuit's decision in *Securities Industry Ass'n v. Board of Governors*, *supra*, the Board has determined not to condition its approval on compliance with a market share limitation.

13. For the same reason, the Board does not believe section 20 should be applied, as the SIA urges, to limit the amount of capital the holding company may invest in the underwriting subsidiary to 5 percent of the capital of its affiliate banks. Indeed, the court of appeals decision that the market share limitation was not appropriate was based on the position that the determination whether the underwriting subsidiary is engaged principally in ineligible securities underwriting activity must be made on a comparative basis relative to the subsidiary's own activities rather than relative to the activities or market share of others.

14. *Citicorp/Morgan/Bankers Trust*, 73 FEDERAL RESERVE BULLETIN at 485.

during the period, may not exceed 5 percent of the subsidiary's total gross revenues for that quarter and all previous quarters during the two-year period.[15] For each quarter after the first two years of operation, revenues from ineligible securities underwriting and dealing activities for that quarter, when added to the gross revenues from ineligible securities activities for the previous seven quarters, may not exceed 5 percent of total gross revenues of the subsidiary for that quarter and the previous seven quarters.[16] The Board notes that the underwriting subsidiaries have or will have in place the capability to monitor closely and on a timely basis revenues from eligible and ineligible securities activity and thus to avoid inadvertent violations of the revenue limitation.

III. Bank Holding Company Act.

Applicants maintain that the proposed activity is permissible for a bank holding company under section 4(c)(8) of the BHC Act. That section authorizes the Board to approve the acquisition and retention by a bank holding company of shares of a company engaged in activities that are "so closely related to banking . . . as to be a proper incident thereto." 12 U.S.C. § 1843(c)(8). This standard requires that two separate tests be met for an activity to be permissible for a bank holding company. First, the Board must determine that the activity is, as a general matter, "closely related to banking." Second, the Board must find in a particular case that the performance of the activity by the applicant bank holding company may reasonably be expected to produce public benefits that outweigh possible adverse effects.

The Board has not previously determined that underwriting and dealing in the proposed debt and equity securities is permissible under section 4(c)(8) of the Bank Holding Company Act.

A. Closely Related to Banking Analysis.

1. In General.

Based on guidelines established in the *National Courier* decision, a particular activity may be found to meet the "closely related to banking" test if it is demonstrated that:

> (1) banks generally have in fact provided the proposed activity;
> (2) banks generally provide services that are operationally or functionally so similar to the proposed activity so as to equip them particularly well to provide the proposed activity; or
> (3) banks generally provide services that are so integrally related to the proposed activity as to require their provision in a specialized form.[17]

These applications are before the Board in a financial environment in which the business of banking itself is undergoing fundamental changes. Traditionally, banks served a unique role as financial intermediaries. Because of their cumulative knowledge about the financial condition of borrowers, banks were able to make more informed credit decisions than most other market participants. However, recent dramatic developments in the facilities for storing, analyzing, and transmitting data through increasingly improving computer and telecommunications technology has enabled potential investors to obtain needed financial information with less reliance on intermediaries such as banks.

In short, the traditional core function of a bank of financing the most creditworthy businesses has been reduced, as these businesses, which formed the foundation of the banks' commercial lending base, have looked increasingly to the capital markets to finance their operations.

In response to this technological revolution, banks have sought to continue to service their traditional customer base, within the boundaries of current statutory restrictions, by providing certain types of investment banking or functionally similar services, such as providing loan guarantees and other similar off-balance sheet financial support, privately placing securities, securitizing loan assets, syndicating and selling bank loans, and engaging in interest rate and currency swaps.

These activities are a natural extension of the fundamental business of commercial banking of financial intermediation, representing the same basic function conducted in a different manner.

The movement of banks into securities underwriting and related activities is reflected in the active participation by foreign offices of U.S. banks and bank

15. Gross revenues for the period would be calculated under generally accepted accounting principles.

16. The SIA contends that the total amount of revenues that may be derived from ineligible securities activity should be set for each year in advance, based on revenues during the previous two years. The method of measurement adopted by the Board is substantially similar and, in any event, is a reasonable method to determine compliance with the engaged principally standard of section 20 of the Glass–Steagall Act.

17. *National Courier Association v. Board of Governors of the Federal Reserve System*, 516 F.2d 1229, 1237 (D.C. Cir. 1975). The National Courier guidelines are not the exclusive basis for a closely related determination. *Id.* at 1237. The Board may consider any other basis that may demonstrate that the activity has a close relationship to banking. 49 *Federal Register* 806 (1984).

holding companies in securities markets overseas —as underwriters and dealers in debt and equity securities —where they are not under the regulatory constraints of the Glass–Steagall Act.[18] U.S. banks maintain securities affiliates in London, Tokyo and other international financial centers and were among the leading underwriters of Eurosecurities in 1986 and 1987.[19] In recognition of these fundamental changes in the structure of the financial markets, the Board has urged Congress to repeal the Glass–Steagall Act limitations and authorize bank holding companies, subject to appropriate safeguards, to engage in securities underwriting and dealing activities.

2. Close Functional and Operational Similarity.

With respect to the applications now pending before the Board, the Board finds that underwriting and dealing in debt and equity securities is closely related to banking for purposes of section 4(c)(8) because banks provide services that are so operationally and functionally similar to the proposed activities that banking organizations are particularly well equipped to provide them. On the same basis, the Board concluded, in *Citicorp/Morgan/Bankers Trust*, that underwriting and dealing in certain kinds of ineligible securities (*i.e.*, municipal revenue bonds, 1–4 family mortgage-related and consumer-receivable-related securities and commercial paper) is closely related to banking. The record in that proceeding showed that banks underwrite and deal in a wide variety of eligible debt securities, as expressly permitted by section 16 of the Glass–Steagall Act, and provide other services that require the same skills, techniques and functions needed to underwrite and deal in the limited kinds of ineligible securities proposed in those cases.

The applications now before the Board seek to expand the range of securities that may be underwritten or dealt in; the basic skills and expertise needed to perform these functions are, however, the same or very similar to those that banks have developed in underwriting and dealing in eligible debt securities and in conducting other functions that are an integral part of the traditional role of banks as financial intermediaries.

Whether eligible or ineligible securities are being underwritten, the underwriter performs the same basic functions. First, the underwriter identifies the issuer's financing needs and advises the issuer concerning the terms, amount and timing of the securities to be issued. The underwriter then sets a price at which it believes the securities can be sold to investors at a profit to the underwriter.[20] This function involves both an analysis of factors affecting the price of securities of the particular issuer as well as factors affecting the general level of prices in the market and the demand for that type of security. The underwriter distributes the securities to investors and also generally deals in the issuer's securities, that is, maintains a secondary market in the issuer's securities by purchasing and selling them for the underwriter's own account.

In the Board's judgment, the functions involved in underwriting debt and equity securities in general are very similar to those involved in the underwriting of eligible debt securities as well as in other credit, advisory and financial intermediation services performed by banks.

—Origination and Structuring Function.

With respect to the underwriter's function of originating and structuring the new issue of securities, banks now perform these operations as a part of their ordinary banking activities and their eligible debt securities underwriting activities. Banks have developed special expertise in advising businesses about structuring securities underwritings as a result of their conventional functions of commercial lending, providing corporate financial advice generally, and in placing debt and equity securities with investors in private transactions.

18. Pursuant to the Board's Regulation K, 12 C.F.R. 211.5(d)(13), a bank holding company subsidiary may underwrite and deal in any type of debt and equity securities outside the U.S., subject to limitations on the size of positions.

19. *See Senate Banking Committee Hearings* at 91, *reprinted in* 74 FEDERAL RESERVE BULLETIN at 94; *House Banking Committee Hearings* at 236–37, *reprinted in* 74 FEDERAL RESERVE BULLETIN at 22–23; *United States Access to Japanese Financial Markets, Hearing Before the Senate Comm. on the Budget*, 100th Cong., 1st Sess. 11, 30–31 (1987) (Statement of E. Gerald Corrigan, President, Federal Reserve Bank of New York), *reprinted in* 73 FEDERAL RESERVE BULLETIN 569, 574 (1987). *See also Investment Dealers Digest*, Jan. 11, 1988, p. 38; *Annual Financing Report*, Euromoney, March 1988, at 34, 39.

In the corporate debt market, for example, U.S. banks' foreign subsidiaries served lead roles in underwritings approaching $17 billion in 1986, or about 10 percent of the volume of such debt managed by the 50 firms most active in the Eurosecurities market that year. House *Banking Committee Hearings* at 236–37, *reprinted in* 74 FEDERAL RESERVE BULLETIN at 94.

20. In a firm commmitment underwriting, the issuer sells the entire issue of securities to an underwriter or underwriting syndicate at a pre-determined public offering price, net of underwriting discounts and commissions. The underwriter or underwriting syndicate then reoffers, either directly or through a selling group, the securities to the public at the public offering price. The underwriter or underwriting syndicate, thus, assumes the risk that the securities cannot be resold at a price in excess of their net purchase price. In "best efforts" underwriting, instead of buying the new securities from the issuer and reselling them, the underwriter sells the securities as the agent of the issuer in return for an agent's commission.

—Risk Assessment Function.

In the case of underwriting debt securities, the underwriter's pricing and risk assessment function requires an analysis of the creditworthiness of the particular issuer. As part of the proposed debt securities underwriting activity, the underwriting subsidiaries would be required to evaluate the creditworthiness of corporate as well as governmental issuers. Banking organizations have the required expertise to carry out this function as a result of the traditional banking activities of extending credit to corporate and governmental borrowers, managing their own assets and liabilities, purchasing debt securities for their own account,[21] and performing investment advisory and trust activities. Moreover, in regularly issuing letters of credit and other credit enhancements for issues of debt securities, banks engage in activities that require credit evaluation and analysis functions that are the same as, or substantially similar to, those of an underwriter.[22]

The Board also believes that banks have unique expertise in performing this credit analysis function because of the role of banks in underwriting and dealing in money market instruments, establishing pools of assets for securitization and evaluating the underlying risks of the constituent elements in a pool, advising issuers and assisting them in the private placement of their debt securities, and generally assessing credit and interest rate risk. Indeed, banks are among the largest firms that act as agent in the private placement of corporate securities.[23]

These traditional banking functions also provide banking organizations with special expertise to perform the underwriter's function of assessing the market price risk in a securities issue. In general, the price volatility of debt securities is closely linked to fluctuations in interest rates. Because of their traditional lending activities, investment advisory and trust services, economic forecasting and liability management roles, and investment functions, banks are particularly well-equipped to make these kinds of assessments.

21. Section 16 of the Glass–Steagall provides that member banks may purchase for their own account "investment securities," which include marketable debt obligations of any person or corporation, as defined by the Comptroller of the Currency. 12 U.S.C. §§ 24 and 335.

22. Applicants also propose to underwrite securities issued by foreign governments and securities representing interests in pools of debt obligations. The current eligible debt securities underwriting and lending activities of banks provide banking organizations with the expertise to analyze the credit-worthiness of such issuers.

23. The Board previously recognized the substantial involvement of commercial banks in private placements. Federal Reserve Board Staff Study, *Commercial Bank Private Placement Activities* (1977). *See also* Comptroller of the Currency, Federal Deposit Insurance Corporation, Federal Reserve Board, *Commercial Bank Private Placement Activities* (1978). In 1987, seven commercial banks privately placed $15.9 billion of debt securities. *Investment Dealers Digest*, March 21, 1988, at 19.

In underwriting equity securities, the underwriter must evaluate the price risk of the securities of a particular issuer by assessing the market's perception of the firm's future prospects, which typically involves analysis of the firm's earnings, dividends, performance and growth potential. Moreover, the underwriter must take into account the fact that equity securities typically exhibit greater price volatility than debt securities. Nevertheless, the functions currently performed by banks provide banking organizations with special expertise to carry out these operations. In particular, banks make just these kinds of assessments of the market value of equity securities in connection with the private placement of issues of equity securities,[24] engaging through direct subsidiaries in underwriting equity securities overseas, buying and selling equity securities as a fiduciary on behalf of customers,[25] and providing investment advice with regard to the purchase and sale of equity securities. Banks also routinely evaluate and monitor general price trends in the equity markets in connection with these conventional activities.

—Distribution Function.

Banks currently establish distribution networks for the securities being underwritten and contact potential purchasers of the securities when they underwrite eligible securities. Banks also perform very similar operations when they arrange syndications of loans[26] and privately place debt and equity securities.

—Dealer Functions.

Acting as dealer in debt and equity securities fundamentally involves judging anticipated movements in the market price of the securities held in inventory. Banks perform these functions currently when acting as dealers in eligible securities as well as in their investment and advisory activities.[27] As explained above, banking organizations are particularly well equipped to evaluate the credit and market risks associated with pricing securities being underwritten and, accordingly, have the special expertise to make analogous judgments in conducting a dealer operation.

24. One bank, Morgan Guaranty Trust Company, privately placed $1.2 billion of equity securities in 1987 and $347 million of equity securities in the first half of 1988. *IDD Information Services*, October 21, 1988.

25. The record indicates that banks managed as fiduciaries over $400 billion in equity securities in 1986.

26. In 1987, banks arranged loan syndications of over $100 billion. *See, e.g., Annual Financing Report, supra* at 20.

27. Fourteen of the 46 primary dealers in U.S. government securities are banks.

Finally, the Board notes that the entire securities underwriting activity is one aspect of serving as a financial intermediary, because in essence underwriters serve to channel funds of investors to businesses in need of capital. Thus, underwriting ineligible corporate securities, as noted above, has a very close functional and operational similarity to the established role of banks in lending funds of bank depositors to businesses for working capital and other purposes.

3. SIA Contention.

The SIA contends that underwriting and dealing in equity securities and non-investment grade debt securities does not meet the closely related to banking standard because banks are not permitted to purchase such securities for their own account, unlike commercial paper and the other kinds of ineligible securities involved in the prior Orders. The Board believes that the SIA's view misconstrues the requirements of section 4(c)(8) of the BHC Act. In that section, Congress did not confine bank holding companies to activities that are permissible for banks. Rather, the Board was authorized to permit a bank holding company to conduct activities — including those that banks may not conduct — if the activities are closely related to banking. Moreover, direct experience in the activity is not a prerequisite for a favorable Board finding under the closely related to banking standard of the Act; experience in services that are functionally or operationally similar to the proposed service may satisfy the statutory standard. As noted, Applicants' proposals fully satisfy this requirement.[28]

B. Proper Incident to Banking Analysis.

In order to approve an application to engage in a nonbanking activity under section 4(c)(8) of the BHC Act, the Board must also find that a proposed activity is a "proper incident" to banking by considering whether the performance of the activity by the applicant bank holding company may reasonably be expected to produce public benefits, such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest, or unsound banking practices. 12 U.S.C. § 1843(c)(8). Based upon the facts of record and for the reasons and subject to the limitations set out below, the Board finds that underwriting and dealing in debt and equity securities may reasonably be expected to result in substantial public benefits that outweigh possible adverse effects.

1. Public Benefits.

In *Citicorp/Morgan/Bankers Trust*, the Board concluded that Applicants' ineligible securities underwriting and dealing activities could be expected to result in significant benefits to the public in the form of increased competition in the municipal revenue bond, commercial paper, mortgage-backed and consumer-receivable-related securities markets, greater convenience to customers and gains in efficiency in the provision of these services. The Board believes that the proposed expansion in the range of securities that may be underwritten and dealt in by the underwriting subsidiaries to include debt and equity securities may also be expected to result in substantial public benefits in the form of increased competition, greater convenience, gains in efficiency, and the maintenance of the overall competitiveness of U.S. banking organizations domestically and internationally.

—Increased Competition.

The Board has previously recognized that the *de novo* expansion by a bank holding company into nonbank-

28. Although Applicants may not commence equity securities underwriting and dealing activities without a further determination by the Board, the Board notes that, if the determination is made, an underwriting subsidiary could be in a position to acquire, or could be contractually bound to acquire, voting shares of an issuer in connection with a firm commitment underwriting. Such an acquisition pursuant to a *bona fide* firm commitment underwriting is not, in the Board's view, the type of ownership or control prohibited by section 4(a) of the Act, provided the shares are disposed of as quickly as possible thereafter. *See* 12 C.F.R. 225.124(d); 12 U.S.C. § 1841(a)(5)(B). In such cases, the shares are acquired only for purposes of immediate resale or distribution and not for investment or to control the issuer. Accordingly, the Board will view such an acquisition of voting shares by an underwriting subsidiary in good faith pursuant to a firm commitment underwriting as permissible under the Act as an integral part of underwriting activity so long as those shares are disposed within 30 days of their acquisition and during that time the shares are not voted. A dealer does not acquire shares from the issuer for immediate distribution pursuant to an underwriting agreement and may hold the shares for an indefinite period. Accordingly, an underwriting subsidiary may not acquire or retain voting shares of a company in an amount that, together with the voting shares of the company held by any affiliate of the underwriting subsidiary, would exceed 5 percent of the outstanding shares of any class of voting shares of the company. *See* 12 U.S.C. § 1843c(6), permitting a holding company to acquire up to 5 percent of the voting shares of a nonbank company.

The Board has previously indicated that ownership of more than 25 percent of the equity of a company in the form of nonvoting securities could constitute control of the company. See letter dated November 5, 1984, F.R.R.S. ¶4–305.1; letters dated May 21, 1986 (Bank of New York Corporation) and November 25, 1986 (Sumitomo Bank, Ltd.). To address this potential, the Board requires that an underwriting subsidiary that acquires in a *bona fide* firm commitment underwriting more than 25 percent of the equity capital of a company, in the form of voting shares, nonvoting common or preferred shares or subordinated debt or any combination thereof, would be required to dispose of that position as quickly as possible and no later than 30 days after acquisition and to comply with the Board's rulings regarding nonvoting equity investments in its dealing activities.

ing activities may be expected to result in benefits to These proposals each represent a *de novo* entry into new markets rather than the acquisition of existing firms, and thus in the normal course can be expected to increase competition.

In light of the moderately concentrated structure of the domestic corporate debt and equity securities markets, the potential for increased competition from the bank holding company entry proposed in these cases is significant.[30] In this regard, the Board notes that market concentration levels tend to be lower in those securities markets in which banks have been permitted to compete.

The introduction of new competitors into these markets may be expected to reduce concentration levels and, correspondingly, to lower customer and financing costs and increase the types and availability of investment banking services. Smaller infrequent issuers such as small businesses, which currently have relatively few choices among underwriters, would particularly benefit through increased access to the securities markets and consequent reductions in borrowing costs. This access would be similar to that currently available to municipalities whose general obligation bonds are underwritten by local banks.

The increased competition from bank holding company entry may also foster innovation in these markets and lead to improved methods to meet customers' financing needs.

In this regard, the Board notes that a survey by the Senate Committee on Banking, Housing, and Urban Affairs in connection with the proposed Proxmire Financial Modernization Act of 1988,[31] indicated that 77 percent of the chief financial officers of the Fortune 500 corporations favor expanded securities powers for commercial banks as likely to result in public benefits.[32] The report also indicated that the entry by commercial banks into the investment banking business is supported by the National Association of Manufacturers and by the National Association of Home Builders because the added competition would result in improved service and lower costs.

State and local governments, including the National Governors Association, the National Conference of State Legislators, National League of Cities, National Association of Counties, U.S. Conference of Mayors, and the Government Finance Officers Association, favor permitting banks to underwrite a broader range of securities.

30. S. Rep. No. 305, 100th Cong., 2d Sess. 14 (1988). See also H.R. Rep. No. 324, 100th Cong., 1st Sess. 19, 28 (1987).

31. S. 1886, 100th Cong., 2d Sess. (1988).

32. S. Rep. No. 305, at 14–15.

—Greater Convenience and Increased Efficiency.

The Board also finds that these proposals should result in public benefits in the form of greater convenience to customers and increased efficiency in the provision of the proposed services. Bank holding companies would be able to offer their commercial customers an additional service and means of financing that may be more economical for the borrower.

Increased efficiency may be realized through possible economies of scale and scope from coordinated provision of commercial and investment banking services within the framework of safeguards against unfair competition and other adverse effects established in this Order.

The entry of new firms would also increase the number of dealers in corporate securities, which should enhance liquidity in the markets for these securities. This enhanced liquidity would increase market efficiency and benefit investors, issuers and other market participants.

—Maintenance of Domestic and International Competitiveness.

Approval of the proposed activities would, in addition, enable Applicants to further diversify their activities and generate new sources of revenue at a manageable level of risk and thus may serve to strengthen the overall banking organization. Indeed, there is economic evidence that, given Applicants' existing eligible securities dealing activities, the broadened range of securities available for acquisition within the constraints of the 5–10 percent revenue limitation will tend to lessen overall risk by providing the potential for diversification gains within the dealer function.[33] Moreover, the ability of banking organizations to deploy their capital over a wider range of activities will allow them to compete more efficiently and better serve their customers and the public.

As noted, the expansion of bank powers in this area will provide banking organizations with the ability to respond to the developments in computer and communications technology that are altering so significantly the financial services industry both domestically and internationally.

These proposals will allow banks to act to maintain their role as financial intermediaries as well as to strengthen their basic competitiveness and share of credit markets. As bank customers increasingly turn to the capital markets for their financing needs, authorization for bank holding companies to underwrite and

33. *See* H.R. Rep. No. 324, at 33.

deal in corporate debt and equity securities will assist them in retaining their customer base and maintaining their service to their communities.

A potentially important benefit that may be expected from authorization for U.S. banking organizations to engage in the proposed activities would be the improvement in their overall competitiveness as the world's capital markets become increasingly integrated and as their foreign bank competitors solidify and expand their activities in these areas. In particular, it will enable them to compete more effectively with banks located in the European Economic Community, where it is proposed that effective in 1993 banks in those countries would have a common banking license available to them that would encourage further the combination of commercial banking with securities underwriting and dealing activities.

In sum, the Board believes that the expansion of bank holding company securities powers within the prudential framework established in this Order would permit banking organizations to strengthen their overall competitive position and to continue to serve an important role in the economy, both domestically and abroad. This will in turn enhance the stability and soundness of the banking system in the United States.

2. Adverse Effects.

In *Citicorp/Morgan/Bankers Trust*, the Board considered in detail the potential for adverse effects, such as unsound banking practices, conflicts of interest, unfair competition, undue concentration of resources, and loss of public confidence in bank and thrift affiliates where bank holding companies underwrite and deal in certain types of ineligible securities. In those Orders, the Board established a structural framework and a number of limitations to minimize the potential for these adverse effects by separating the underwriting subsidiaries legally and operationally to the maximum extent feasible from their federally insured bank and thrift affiliates and the support of the federal safety net. These limitations supplement existing provisions in federal banking statutes regulating the relationships between banks and their affiliates as well as the various statutory protections Congress has provided over the years to regulate the conduct of securities activities in general.

The Board concluded that, within this framework and subject to these limitations, consummation of the earlier proposals would not be likely to result in the potential for significant conflicts of interest, risk or other adverse effects. As discussed below, the Board believes that the conduct of the proposed debt and equity securities activities within this basic framework, with certain modifications discussed below, would also not be likely to result in potential adverse effects significant enough to outweigh the expected public benefits and thus to warrant denial of the applications.

—Elements of Basic Prudential Framework Governing the Securities Underwriting and Dealing Activities of Bank Holding Companies.

To minimize the potential for securities underwriting and dealing risk to be passed to federally insured bank or thrift affiliates, the structural framework established in the earlier Orders requires that the new activities be conducted in a corporation over which the affiliated banks or thrifts have no ownership, financial, management or operational control. Thus, the new activities would be conducted through a company that is controlled by the parent holding company and not by the affiliated bank or thrift institution, that does not have any officer, director, or employee in common with the bank or thrift affiliate, and that has separate offices from any affiliate bank or thrift. The underwriting subsidiaries are required to maintain capitalization in accordance with industry norms. This capitalization must be provided by the holding company from its funds and not from the resources of its bank or thrift subsidiaries or, indeed, from the resources of the parent holding company needed to support these bank or thrift subsidiaries.

The Orders also established operating limitations to regulate transactions by an affiliate bank or thrift with, or for the benefit of, an underwriting subsidiary in order to prevent the transfer of risk to federally insured affiliates, conflicts of interest and other adverse effects. In general, these limitations:

—preclude the holding company and any affiliate from purchasing ineligible securities from the underwriting subsidiary during the underwriting and for 60 days thereafter or while the underwriting subsidiary is making a market in the security;

—prevent a bank or thrift from lending to issuers to enhance the creditworthiness of securities underwritten by the underwriting subsidiary, or to pay off the principal and interest on such securities;

—prohibit a bank or thrift from knowingly lending to customers secured by or for the purpose of purchasing securities underwritten by the underwriting subsidiary during the underwriting or in which it makes a market;

—require disclosure by the underwriting subsidiary to ensure that the public will not confuse the underwriting subsidiary with its federally insured affiliates and will know that the instruments purchased from the underwriting affiliate are not federally insured

deposits or guaranteed or otherwise backed by a bank or thrift affiliate (unless such is the case);
—prohibit an affiliated bank and thrift from acting as agent for, or engaging in marketing activities on behalf of, the underwriting subsidiary;
—limit self-dealing transactions between the underwriting subsidiary and its bank and thrift affiliates acting in a fiduciary capacity; and
—prohibit the transfer of confidential customer information between the bank or thrift and underwriting subsidiary without customer consent.[34]

Bank loans to and purchases of assets from, or for the benefit of, the underwriting subsidiary are subject to sections 23A and 23B of the Federal Reserve Act, which generally limit the amount of these transactions to 10 percent of the bank's capital and require that they be conducted on non-preferential terms and conditions.[35]

The structure established in the Orders fully utilizes the concept of functional regulation, which the Board has supported as an effective means to supervise the expansion of bank powers. As a nonbank company, the underwriting subsidiary would be required to register as a broker-dealer under the Securities Exchange Act of 1934 and would operate within the legal and regulatory framework Congress has established to govern their activities. The underwriting subsidiaries would be subject to the net capital rules established by the Securities and Exchange Commission and would be supervised and examined by that agency and self-regulatory bodies operating under its purview.

As subsidiaries of bank holding companies, the underwriting subsidiaries would also be subject to the requirements of the BHC Act and to regulation and inspection by the Board. As discussed below, the Board intends to exercise this authority with respect to the underwriting subsidiaries in coordination with the SEC and self-regulatory bodies operating under its supervision consistent with the proper implementation of the Board's responsibilities under the BHC Act. Accordingly, inspections of the underwriting subsidiaries will focus on compliance with the requirements of this Order and applicable federal banking laws and policies, particularly with respect to transactions of the underwriting subsidiaries involving their affiliates or that affect such affiliates.

In addition to the structural separation and operating conditions required under the earlier decisions, the Board considered that the risk to affiliate banks and thrifts would be further minimized by the fact that the underwriting subsidiaries are required by law to remain engaged fundamentally in activities that have been conducted safely and soundly in banking organizations for many years. Under the engaged principally limitation, the underwriting subsidiaries would remain predominantly underwriters and dealers in U.S. government and other eligible securities, and the previously authorized ineligible securities underwriting activities would not be substantial in the context of their overall operations.

The Board also considered the record of experience of Applicants in underwriting and dealing in U.S. government and other eligible securities as well as their analogous credit intermediation and investment advisory activities.

—Potential for Added Risk and Other Adverse Effects From the Proposed Expanded Activities.

In these applications, Applicants seek approval for their underwriting subsidiaries to engage in nearly the full range of investment banking activities, subject to the revenue limitation required under the engaged principally standard in section 20 of the Glass–Steagall Act.

Although the functions involved in underwriting and dealing in the proposed new securities are substantially the same as for eligible securities and the previously approved ineligible securities, the proposed equity and debt securities have different characteristics that present a greater potential for price risk, that is, the risk that securities purchased by the underwriting subsidiary as principal in its underwriting or dealing capacity may not be resold at a profit.

The proposed debt securities are also subject to a greater potential for credit risk than the previously approved ineligible debt securities, that is, the risk that the issuer will be unable to pay interest and principal according to the terms of the debt offering. The Board's previous Orders limited the kinds of securities that could be underwritten or dealt in to investment

34. The specific terms of the operating limitations established by the Board in *Citicorp/Morgan/Bankers Trust*, as well as the additional limitations established in this Order, are set out in the Conclusion to this Order.

The term "underwriting subsidiary" as used in these limitations means one that is affiliated with the Applicant or the bank or thrift concerned.

35. In general, section 23A prohibits a member bank from extending credit to, or purchasing assets from, an affiliate in excess of 10 percent of the bank's capital (an aggregate cap of 20 percent of capital is established for bank loans to all affiliates). Bank loans to an affiliate are also required to be collateralized in varying amounts depending on the type of collateral provided. 12 U.S.C. § 371c.

Section 23B requires that covered transactions by a bank with an affiliate, or a person with whom the affiliate has certain business relationships, must be on terms, including credit standards, that are substantially the same (or at least as favorable to the bank) as those prevailing at the time for comparable transactions with or involving non-affiliates. 12 U.S.C. § 371c-1. In addition to loans and purchases of assets, section 23B treats as a covered transaction the sale of assets, the payment of money, or the furnishing of services under contract, lease or otherwise by a bank to an affiliate.

grade securities, *i.e.*, those that are permissible for banks to invest in on the basis of the high credit rating attached to the issue.

Finally, as discussed below, authorization for the underwriting subsidiaries to underwrite and deal in equity and non-investment grade debt securities increases the potential for conflicts of interest, loss of impartiality in the credit-granting process, and risk on the part of affiliate banks and thrifts that participate in a financing package for an issuer arranged by the underwriting subsidiary.

—Adequacy of Basic Framework With Certain Modifications to Control the Potential for Risk and Other Adverse Effects From the Proposed Expanded Activities.

While the Board recognizes the added potential for risk, conflicts of interest and other adverse effects associated with the proposed broadening of powers, the Board concludes, for the reasons set out in this and its earlier Orders, that this potential is effectively contained within the basic framework established in the prior Orders with certain modifications.[36] The modifications are designed specifically to take account of the potential for adverse effects from the broadened underwriting and dealing powers and will increase the effectiveness of the structural and operational separation of the underwriting subsidiaries from Applicants' federally insured subsidiaries.[37] These modifications strengthen two of the operating conditions in the earlier Orders by preventing affiliate banks and thrifts from funding the operations of the underwriting subsidiary and the parent holding company from doing so in a manner that will weaken its capital and financial position below levels needed for the support of its bank and thrift subsidiaries.

In addition to the strengthened operating limitations, the Board believes that the potential for adverse effects from the expanded powers is mitigated by the extensive experience of each Applicant in the evaluation and management of financial risk and conflicts of interest in the conduct of their corporate lending, fiduciary, investment and business advisory, securities underwriting and dealing, and other banking activities.

For example, each Applicant conducts substantial government securities dealing and currency trading operations, which exhibit a risk profile potentially greater than that of their overall commercial banking functions. Applicants have demonstrated the ability to control this risk through techniques such as hedging, thorough credit evaluation, and the adoption of position limits and other sound risk management policies and procedures.

The Board expects the underwriting subsidiaries to implement effective risk reduction techniques, including the adoption of position limits and other standard underwriting operating policies and procedures for risk management. In this regard, the Board notes that underwriters effectively address the greater price risk in the proposed debt and equity securities through higher underwriting spreads, syndications, hedging, and careful preliminary analysis of the market acceptability of a proposed issue.

In addition, the operation of the SEC net capital rules for broker-dealers will serve to limit the potential risk of the new activities to the underwriting subsidiaries and their affiliates. Under these rules, the gains and losses in the portfolio of the affiliate are recognized immediately and losses that cause declines in capital below required levels must be immediately offset with additional capital, or the broker-dealer must cease operations. Moreover, under the rules, the larger the position taken by an underwriting subsidiary in potentially less liquid securities, such as less than investment grade securities, the more capital the underwriting subsidiary would be required to maintain.

In the event the security is not readily marketable, substantially more capital is required. Thus, the net capital rules operate as a restriction on the assumption of excessive, potentially illiquid positions in the proposed securities by placing an immediate and ongoing higher capital charge on these positions[38] as well as serving to cushion any losses that might be incurred by the subsidiary as a result of the underwriting or dealing activities.

The Board also notes that market pressures require underwriters to operate with substantial levels of excess net regulatory capital.[39] The condition in the Board's earlier Orders that the underwriting subsidiaries maintain levels of capital on an ongoing basis commensurate with industry norms would thus require the subsidiaries to maintain capital well above SEC

36. The Board hereby adopts and incorporates by reference the reasoning and analysis regarding this finding contained in its prior Orders.

37. Many of the adverse effects that the SIA asserts these proposals would produce were expressly considered in the prior Orders and were found not likely to occur in light of the prudential limitations imposed in the Orders and by federal law. The SIA did not challenge these determinations in subsequent judicial review proceedings. In protesting these applications, the SIA has failed to show how the expansion of the ineligible securities activities would increase the likelihood of these adverse effects.

38. Haberman, *Capital Requirements of Commercial and Investment Banks: Contrasts in Regulation*, Federal Reserve Bank of New York Quarterly Review (Autumn 1987).

39. For example, net capital among 16 diversified securities firms in 1986 averaged 7.3 times higher than minimum SEC requirements. Firms with large amounts of underwriting and dealing activity tend to maintain more excess capital than retail brokerage firms. *Id.* at p. 6.

minimum levels and at levels at least as high as securities firms of similar size and risk profile. This condition will tend to further mitigate the potential for risk as well as strengthen the operational and structural separation of the underwriting subsidiary from its affiliates.

Finally, the Board continues to believe that the revenue limitation required by the Glass–Steagall Act will operate to control risk by curtailing the amount of ineligible activity that may be undertaken by the underwriting subsidiaries relative to their overall eligible securities activities. Indeed, as noted, the broadened range of securities in which the underwriting subsidiaries may deal, within the constraints of the engaged principally test of the Glass–Steagall Act, provides the potential for diversification gains and overall risk reduction in their dealing operations. The control provisions of the BHC Act, which, as explained above, limit the size of the position the underwriting subsidiary may hold in the equity securities of an issuer, will also operate to limit the risk exposure of the underwriting subsidiaries in their dealing operations.

—Capital Adequacy Considerations.

In its evaluation of proposals under section 4(c)(8) of the Act, the Board considers the financial resources of the applicant and the company to be acquired and the effect of the proposal on those resources. 12 C.F.R. 225.24. The Board has previously stated that it expects banking organizations contemplating major expansion proposals to maintain strong capital levels substantially above the minimum levels specified in the Board's Capital Adequacy Guidelines.[40] This policy is designed to ensure that the holding company's resources and ability to serve as a source of strength to its subsidiary banks will not be prejudiced by the proposal.[41] To ensure compliance with this policy, the Board carefully analyzes the effect of expansion proposals on the preservation or achievement by a bank holding company of strong capital levels and has required that there be no significant diminution of financial strength below those required levels for the purpose of effecting major expansion proposals.[42]

In line with these principles, the Board will not accept an impairment in an Applicant's financial strength to provide capital or liquidity support for the proposed new activities. Accordingly, the Board will require, as a condition of its approval of these applications, that each Applicant provide the Board with an acceptable plan to raise additional capital to fund Applicant's equity and debt investment in the underwriting subsidiary or demonstrate that it is strongly capitalized and will remain so after making the capital adjustments authorized or required by this Order. An Applicant may not commence the new activities until it has submitted a plan that the Board determines satisfies this capital requirement and has raised the additional capital required under the plan.

In authorizing the formation of the underwriting subsidiaries, the Board required that each Applicant deduct from its consolidated primary capital its investment in the underwriting subsidiary, and exclude from its total consolidated assets the assets of the underwriting subsidiary.[43] This requirement was designed to ensure that the holding company maintains a strong capital position to support its subsidiary banks and that the resources needed for that support would not be put at risk to fund the expanded securities activities. The Board continues to believe that this deduction is appropriate. In accordance with the new Risk-Based Capital Guidelines, Applicants must deduct 50 percent of the amount of the investment in the underwriting subsidiary from Tier 1 capital and 50 percent from Tier 2 capital.

There is no limitation in the Board's prior Orders on the amount of funds that a holding company and its nonbank affiliates may lend to the securities affiliate. In view of the proposed expansion of the underwriting subsidiaries' activities in terms of risk exposure and the investment that may be required to support these activities, the Board believes it is important to ensure that the holding company will not impair its financial resources through its funding of the underwriting subsidiary. Under the Board's source of strength policy, a holding company " . . . should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks in a manner consistent with the provisions of this policy statement." F.R.R.S. ¶ 4–878.

Accordingly, in determining compliance with the Board's Capital Adequacy Guidelines, Applicants should also deduct from their consolidated primary capital any loans they extend directly or indirectly to the underwriting subsidiary that are not fully secured

40. Capital Adequacy Guidelines, 50 *Federal Register* 16,057 (1985), 71 FEDERAL RESERVE BULLETIN 445 (1985).

41. *Citicorp/Morgan/Bankers Trust*, 73 FEDERAL RESERVE BULLETIN at 501.

42. Thus, the Board has required that expansion proposals be supported by the issuance of new equity capital or that declines in capital to effect expansion be promptly restored. *See, e.g., Citicorp*, 72 FEDERAL RESERVE BULLETIN 724 (1986); *Security Pacific Corporation*, 72 FEDERAL RESERVE BULLETIN 800 (1986); *The Bank of New York Company, Inc.*, 74 FEDERAL RESERVE BULLETIN 257, 264–265 (1988).

43. This deduction would include any debt or equity investment by the holding company that is treated as capital in the underwriting subsidiary, including subordinated debt.

by U.S. government or other marketable securities in the same manner and to the same extent as would be applicable in the case of member bank loans or extensions of credit to the underwriting subsidiary under section 23A(c) of the Federal Reserve Act.[44] In the case of the Risk-Based Capital Guidelines, the deductions should be taken equally from Tier 1 and Tier 2 capital as described above.

To ensure compliance with these conditions and the continued financial responsibility of the holding company, the Board further requires, as a condition of its approval of the new activities, that any funds supplied to the underwriting subsidiaries by the holding company or its nonbank subsidiaries, whether in the form of capital, secured or unsecured loans, or other transfer of assets, be subject to prior notice and approval by the Board.[45] In reviewing such an application, the Board will apply the capital policies described above. The Board may pre-approve requests for specific quantitative levels of funding by the holding company for the underwriting subsidiary in accordance with the particular holding company's capitalization and resources and the requirements outlined in this Order.

These strengthened capital and prior notice requirements will also tend to ensure that the underwriting subsidiaries maintain adequate levels of capital to support their operations on a stand-alone basis in accordance with industry norms — one of the important objectives the Board wishes to achieve through the conditions established in this Order so as to insulate affiliated banks and thrifts from the potential risks of ineligible securities underwriting and dealing activities. The limitation on the ability of the underwriting subsidiary to draw on demand and without limit upon the resources of the parent holding company should help to ensure that the market will evaluate the financial standing of the underwriting subsidiary based upon its own resources.[46]

Finally, the Board brings to Applicants' attention their ongoing responsibility under the Board's regulations to continue to act as a source of financial strength to their subsidiary banks. 12 C.F.R. 225.4(a). Under this rule, Applicants are expected to manage their investments in, and operation of, their subsidiaries, including their underwriting subsidiaries, in such a way as not to compromise or prejudice their ability to continue to act as a source of strength to their subsidiary banks and thrifts, including to the extent necessary, the sale or other disposition of these underwriting subsidiaries to support Applicants' subsidiary thrifts and banks.

—Funding of Underwriting Subsidiaries by Bank and Thrift Affiliates.

In addition to the expanded capital requirements, the Board believes that the broadening in the scope of permissible securities activities for the underwriting subsidiaries requires a prohibition on lending by a bank or thrift affiliate to the underwriting subsidiary as well as a prohibition on the purchase and sale of financial assets between these institutions for their own account, subject to a limited exception for clearing U.S. government and agency securities and the purchase and sale of U.S. Treasury securities. These transactions were permitted in the earlier Orders, subject to the lending and collateral requirements of sections 23A and 23B of the Federal Reserve Act, in view of the limited range of securities activities authorized.

The Board believes these prohibitions are necessary to limit the transfer of risk of the securities activities to the federal safety net and would serve more effectively to insulate federally insured banks and thrifts from the underwriting subsidiaries. These limitations would also promote corporate separateness by ensuring that the activities and operations of the underwriting subsidiaries are conducted on a stand alone basis and are not financed by affiliated federally insured depository institutions. Under the provisions of sections 23A and 23B, affiliated banks and thrifts would be able to lend substantial amounts of their resources to or in support of the underwriting subsidiaries. Moreover, the Board's experience indicates that the restrictions of sections 23A and 23B are not completely effective to insulate the risk of the underwriting subsidiaries from the affiliated banks and thrifts and, given the complexity of these provisions, are subject to avoidance by creative interpretation, particularly in times of stress.

The Board will, however, grant an exception to this lending prohibition to permit extensions of credit necessary to clear U.S. government or agency securities or securities on which the principal and interest are fully guaranteed by the United States or its agencies, provided that the extension of credit is fully secured by such securities, is on market terms, and is

44. 12 U.S.C. § 371c(c). For example, if 100 percent of the amount of an advance from the holding company is secured by U.S. government securities, no deduction from the holding company's capital is required. If marketable equity securities are used to secure the advance, the market value of these securities must be equal to 130 percent of the amount of the loan in order to avoid a deduction for capital adequacy purposes.

45. The Board will review after one year's experience whether to modify this condition to eliminate the prior approval requirement in the case of extensions of credit secured by U.S. government and other marketable securities that would not be subject to the capital deduction for regulatory purposes under the rule discussed above.

46. In light of these conditions with respect to the capital adequacy of Applicants, the Board does not believe it appropriate from a safety and soundness point of view to adopt the restrictions on Applicants' investments in the underwriting subsidiaries proposed by the SIA. Nor, as noted, are such limitations required by the Glass–Steagall Act.

to be repaid on the same calendar day.[47] If the intra-day clearing cannot be completed because of a *bona fide* fail or operational problem incident to the clearing process, the bank or thrift may continue an intra-day extension of credit overnight provided the overdraft is fully secured by such securities, is on market terms and is repaid as early as possible on the next day.

For these same reasons relating to the funding of the underwriting subsidiaries and their separation from affiliate banks and thrifts, the Board believes that federally insured banks and thrifts should not for their own account purchase financial assets from or sell such assets to an affiliated underwriting subsidiary. This limitation is not intended to limit the ability of the underwriting subsidiary to act as agent for an affiliate bank or thrift in the purchase or sale of assets. Such agency transactions would, however, be subject to the provisions of section 23B of the Federal Reserve Act requiring that they be on non-preferential terms and conditions. In view of the breadth and liquidity of the market for U.S. Treasury securities, the prohibition on the purchase and sale of financial assets will not apply to the outright purchase and sale for the underwriting subsidiary's own account of U.S. Treasury securities at market terms. This exception would not be available in the case of repurchase or reverse repurchase agreements between the bank and the underwriting subsidiary involving these types of securities.

—Supervision of Affiliate Bank or Thrift Lending Undertaken in Connection with the Proposed Securities Underwriting Activities.

Approval for the underwriting subsidiary to underwrite and deal in debt and equity securities would allow broader participation by the bank holding company organization in leveraged buy-out ("LBO") and other types of highly leveraged corporate transactions than is currently permitted. This broader participation poses an increased potential for conflicts of interest and risk to affiliate banks or thrifts that provide bridge or other financing in connection with LBO and similar types of leveraged financing transactions underwritten or arranged by the underwriting subsidiary.

The Board is concerned that the fees that the underwriting subsidiary would ordinarily receive for its services in these transactions and the fees the affiliate bank typically receives in connection with related lending may motivate the bank to be less than objective in assessing the credit risk involved based on the judgment that the up-front gain for the consolidated holding company organization may be worth the risk to the bank. The underwriting subsidiary also could be motivated to sell an issuer's securities to the public in order to limit the risk to its affiliate bank that has extended credit to the issuer as part of such a financing package. These concerns are increased where the bank provides short-term bridge financing, which could entail greater than normal risks because these loans are typically subordinated to other debt, may not be collateralized and depend on the successful marketing of longer term securities or the sale of assets for repayment.

In the prior Orders, the Board did not prohibit bank lending in connection with financing arranged by the underwriting subsidiary or limit the ability of the underwriting subsidiary to market securities for the purpose of repaying affiliate bank lending to the issuer because of the narrow range of ineligible securities at issue in those cases. In view of the proposed expansion in the securities that may be underwritten or dealt in by the underwriting subsidiaries, the Board has considered whether to prohibit lending by a bank or thrift undertaken in connection with financing transactions underwritten or arranged by an underwriting subsidiary because of the increased potential for conflicts of interest and other adverse effects. On the present record and for the following reasons, the Board does not believe an absolute prohibition is required.

Section 23B of the Federal Reserve Act would cover bank lending under these circumstances and would require that the bank's participation in the transaction be on terms and under circumstances, including credit standards, that are substantially the same, or at least as favorable to the bank, as those prevailing at the time for comparable transactions with or involving non-affiliated companies.[48] A blanket prohibition would also cover a number of types of acquisition financing that are unobjectionable from a credit risk point of view, and, moreover, would limit the competitiveness of banking organizations in this area and the anticipated public benefits.

Even without approval of the proposed expanded underwriting activities, under the current regulatory framework, banks privately place as agents the securities typically used to finance LBO and similar highly leveraged transactions. Thus, the motivation for a

47. The term fully secured contemplates a perfected security interest in specific, identified securities with a market value that is sufficient to provide a margin of protection in a volatile market or in the event the securities need to be liquidated quickly.

48. Section 23B applies not only to bank loans to and asset purchases from an affiliate, but also to transactions between the bank and third parties in which the affiliate acts as agent or broker or receives a fee for its services or to bank transactions with a third party in which the affiliate has an interest or is a participant. 12 U.S.C. § 371c-1(a)(2).

bank to make a loan that may not be justified by sound credit standards in an attempt to gain the up-front advisory or other fees for arranging the transaction is present to a limited extent and is addressed by the bank through internal controls as well as by the bank examination process.

The Board believes that sound risk management policies and procedures and the bank examination and supervisory process provide an effective mechanism to control the potential for conflicts of interest and risk from lending or other participation by an affiliate bank or thrift in connection with an underwriting or similar financing transaction arranged by an underwriting subsidiary, while maintaining the potential for increased competition and the other public benefits anticipated from the activity. Accordingly, the Board requires, as a condition of this Order, that bank holding companies ensure that policies and procedures are adopted to govern their participation, and that of their subsidiaries, in such transactions.

These policies must require establishment by bank and thrift affiliates of appropriate limits to control concentrations of credit and overall exposure to individual underwriting clients of the underwriting subsidiary as well as limits on aggregate exposure to all such borrowers; approval for all such lending at the highest level of management; and maintenance of detailed and clearly identified credit and collateral documentation so that examiners may determine that a thorough, objective and independent analysis of the credit has been undertaken. In addition, documentation must be maintained to show that the participation by a bank or thrift affiliate in the transaction has been undertaken under circumstances and on terms and conditions (including pricing, minimum borrower cash flow-to-debt service or collateral requirements, or repayment terms) that are not preferential and that fully reflect the risks associated with the loan, as required by section 23B of the Federal Reserve Act. Moreover, adequate internal systems, controls and reporting procedures must be adopted to ensure that the amount and condition of these loans are properly monitored on an ongoing basis and reported to senior management and the board of directors periodically and on a timely basis. The procedures should also ensure that fees incurred in connection with loans to customers of the underwriting subsidiaries are properly accounted for in accordance with generally accepted accounting principles.

In order to guard against concentration of the holding company's resources to any single enterprise, each Applicant should also monitor and establish appropriate limits on its overall exposure on a consolidated holding company basis to any single underwriting client of the underwriting subsidiary, in the form of extensions of credit, the ownership of securities, or otherwise.

In connection with inspections of the underwriting subsidiaries, the Federal Reserve Banks will verify that these policies and procedures are in place at affiliate banks and thrifts and at the holding company and will closely review loan documentation to ensure that an independent and thorough credit evaluation has been undertaken with respect to the participation of an affiliate bank or thrift in a highly leveraged corporate financing package arranged by the underwriting subsidiary. As discussed below, the Board will also maintain close supervision of the activities of the underwriting affiliate in conjunction with the appropriate securities regulatory authorities, with the focus upon observance by the underwriting subsidiary and its bank and nonbank affiliates of the structural and operating limitations established in this Order.

—Additional Modifications to Operating Limitations.

There are a number of conditions established in the earlier Orders that the Board has modified to reflect the proposed expansion in the range of securities available to the underwriting subsidiary. The limitation in the prior Orders against bank credit to issuers for the purpose of paying principal and interest on securities underwritten by the underwriting subsidiary is expanded to include credit extensions to issuers for the payment of dividends on such securities.

The customer disclosure statement required by the Board's earlier Orders is expanded along the lines of the securities proposals considered in the last Congress. Accordingly, the underwriting subsidiary should also prominently disclose in writing to its customers that securities sold, offered, or recommended by the underwriting subsidiary are not deposits, are not insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, are not guaranteed by an affiliated bank or insured thrift institution and are not otherwise an obligation of such a bank or an insured thrift institution (unless such is in fact the case). This disclosure shall be made at the inception of the customer relationship and in connection with each purchase or sale of securities. The Board believes this is particularly important where the subsidiary may be dealing with non-institutional customers.

In addition, the prohibition in the earlier Orders on extending credit during the course of an underwriting to purchase a security underwritten by the underwriting subsidiaries is extended to include a period of time 30 days after the conclusion of the underwriting. The limitation on the transfer of confidential customer information between a bank or thrift affiliate and the

underwriting subsidiary is revised to make clear that the transfer of information cannot be made without the consent of the customer.

The Board is also adopting two other provisions derived from the legislation under consideration by the last Congress in connection with expanded securities powers to prevent possible evasion of the operations limitations and unfair competition. First, bank holding companies may not enter into agreements to engage in reciprocal transactions with other bank holding companies for the purpose of evading the operating limitations established in this Order or other limitations under federal banking law on transactions between banks and their affiliates.

Second, a bank or thrift affiliate may not, directly or indirectly, extend or deny credit or services (including clearing services), or vary the terms or conditions thereof, with the intent to treat unaffiliated securities firms less favorably than an affiliated underwriting subsidiary unless the extension or denial is based on objective criteria and is consistent with sound business practices. In addition, the bank or thrift may not extend or deny credit or services or vary the terms or conditions thereof with the intent of creating a competitive advantage for an affiliated underwriting subsidiary.

Finally, the approval granted to Applicants in the instant Order to underwrite debt securities without limitation necessarily supersedes the conditions contained in the earlier Orders requiring that ineligible debt securities underwritten or dealt in by the underwriting subsidiaries making these applications be rated as investment quality.

—Ongoing Supervision of Underwriting Subsidiaries and Their Affiliates.

In reaching its conclusions regarding the potential for risk, conflicts of interest and other adverse effects from the proposed securities activities, the Board has placed considerable reliance on the structural and operating limitations established in this and its previous Orders and in federal banking and securities statutes. The Board recognizes that the effectiveness of these measures to achieve their objective of minimizing adverse effects and insulating affiliate banks and thrifts and the federal safety net from the risk of the new activities depends on careful adherence to these limitations by the underwriting subsidiaries and their bank and nonbank affiliates.

Accordingly, the Board has directed that the appropriate Reserve Banks undertake at least annual inspections of the underwriting subsidiaries to determine that effective procedures are in place at these subsidiaries and their bank and nonbank affiliates to ensure compliance with the limitations and conditions established in these Orders and federal banking law. The Board will review the results of these inspections annually.

In addition, the Board has decided to condition further its approval of these applications on a requirement that, before the new activities may be commenced, the Reserve Banks determine that the underwriting subsidiaries and their bank and nonbank affiliates have put in place the operational and managerial infrastructure necessary to ensure compliance with the operating limitations of this Order, including computer, audit and accounting systems, internal risk management controls and other policies and procedures consistent with sound practices. The underwriting subsidiaries may not commence the new activities until notified by the Board that the required determination has been made.

As noted, banks currently do not underwrite and deal in any type of equity securities in the United States and banks are generally forbidden from purchasing equity securities for their own account. Although the Board is of the view that underwriting and dealing in these securities involves the same basic functions as underwriting debt securities, the Board has decided to review in one year whether Applicants may commence underwriting and dealing in equity securities based on a determination by the Board that they have established the necessary managerial and operational infrastructure and other policies and procedures to comply with the requirements of this Order. Because of their current eligible debt securities underwriting and investment activities, the Board does not believe it necessary to delay for this period of time its decision with respect to Applicants' proposals to underwrite and deal in ineligible debt securities.[49] This aspect of the Board's Order may be implemented upon satisfaction of the inspection, capital and other prerequisites of the Order.

—Separate Name and Logo.

The SIA has suggested that the Board place restrictions on the ability of the securities affiliate to use a name or logo similar to that of any banking affiliate, to share premises, or to engage in joint advertising. These restrictions are intended to minimize the likelihood that the public would link the economic fortunes of the underwriting subsidiary with those of a bank, possibly causing a run on the bank. In the Board's

49. For this purpose, debt securities shall include those that are convertible into equity securities if, on the date the convertible securities are issued, the conversion price is greater than 115 percent of the market price of the equity security into which the debt security is convertible. Preferred stock is an equity security for purposes of this Order.

view, the operating limitations contained in this Order adequately address the concerns raised by the SIA. With these precautions in place, the Board believes the additional restrictions on the use of a company name or logo would lead to only small gains in the separation of the underwriting subsidiary from its federally insured affiliates, at the cost of losing the advantage of the efficiency and convenience to customers that can be achieved through coordinated marketing. In addition, the Board believes the requirement of a separate name would be artificial, particularly because securities laws would, in any event, require the affiliate to inform those using its services of its association with a bank.

—Absence of Potential for Undue Concentration of Resources.

The Board believes that it is not appropriate to exercise its discretion under section 4(c)(8), as suggested by the SIA, to impose the market share limitation on the ineligible securities activities that the court of appeals determined was not appropriate under the Glass-Steagall Act. Like the activities previously approved, the new activities would be expanded *de novo* and, thus, would not eliminate any existing competition. In addition, there is no compelling evidence in the record that in the areas where banking institutions currently compete with securities firms, such as underwriting Eurobonds and the private placement of securities, banking institutions have achieved a dominant position.

Finally, the limitations in section 4(a) of the BHC Act on the holding of voting shares by the underwriting subsidiary discussed below will prevent Applicants from obtaining control over other financial or nonfinancial businesses as a result of underwriting and dealing in the securities of these businesses.

—Reservation of Authority to Modify Operating Limitations Based Upon Experience.

Because these proposals represent the first major entry of banking organizations into the field of underwriting and dealing in corporate debt and equity securities, the Board believes it appropriate to proceed cautiously and has established an extensive framework of prudential limitations to address conflicts of interest, unsound banking practices, and other adverse effects. After the underwriting subsidiaries have established a record of experience in the proposed activities, the Board may review the continued appropriateness of particular limitations.

Similarly, the Board may from time to time, based upon the supervisory process and experience with the activities, establish additional limitations on the conduct of the activities to ensure that the subsidiaries' activities are consistent with safety and soundness, conflict of interest and other considerations relevant under the BHC Act.

C. Shares of Investment Companies.

Applicants' proposals are broad enough to include underwriting and dealing in shares of closed-end investment companies and unit investment trusts (but not open-end investment companies, *i.e.*, mutual funds). Underwriting or dealing activities involving investment company securities under this Order must be conducted in accordance with the limitations contained in the existing provisions of Regulation Y authorizing bank holding companies to provide advisory activities to investment companies. In particular, Regulation Y provides that a bank holding company and its subsidiaries may not purchase for their own account, or engage directly or indirectly in the sale or distribution of, the securities of any investment company that the holding company advises or sponsors. 12 C.F.R. 225.125(g)(1), (h).

IV. Legislation Regarding Bank Holding Company Securities Powers.

The Board notes that the 100th Congress had under active consideration legislation that would have established a comprehensive framework for the conduct of securities underwriting activities by bank holding companies substantially the same as that established in this Order. While this legislation was passed by the U.S. Senate and favorably reported by committees of the U.S. House of Representatives,[50] no legislation was enacted into law. In the absence of such legislation, the Board is required, as provided in existing law, to act on these applications within mandated time periods and in accordance with the applications processing schedule prescribed by Regulation Y. As noted above, the applications comply with existing law under the framework established by the Board in this and its earlier Orders, a framework that has been upheld by the federal courts as consistent with the requirements of the Glass-Steagall Act.

The Board calls to Applicants' attention, however, that subsequent Congressional action may override the Board's Order approving the activities described

50. S.1886, 100th Cong., 2d Sess., 134 Cong. Rec. S3437 (daily ed. March 30, 1988); H.R. 5094, 100th Cong., 2d Sess., 134 Cong. Rec. H6453 (daily ed. August 4, 1988), 134 Cong. Rec. H8470 (Sept. 27, 1988). See also S. Rep. No. 305, 100th Cong., 2d Sess. (1988); H.R. Rep. No. 822 (Part 1), 100 Cong., 2d Sess. (1988); H.R. Rep. No. 822 (Part 2), 100th Cong., 2d Sess. (1988).

herein without providing so-called grandfather rights to continue these activities. The Board retains jurisdiction over the applications to act to carry out the requirements of any legislation adopted by Congress that would affect Applicants' conduct of underwriting and dealing activities under this Order and the Bank Holding Company Act.

V. Request for Hearing.

As noted, several weeks after the close of the comment period for these applications, the Government Representatives Committee of the SIA submitted a request that the Board conduct a public hearing with respect to the proposals. Under Regulation Y and the Board's Rules of Procedure, the Board is only required to consider a comment or request for a hearing if it is received before the latest date prescribed in the published notice of the application.[51] The Committee has offered no reason for its failure to follow the Board's rules and the requirements in the published notices in these cases. Accordingly, the Board concludes that the Committee's request for a hearing is untimely and should, therefore, be denied. In addition, the Board has reviewed the issues raised by the SIA Committee and concludes that no hearing with respect to these applications is required or appropriate.

Section 4(c)(8) of the BHC Act requires that the Board provide "due notice and opportunity for hearing" before approving an application under that section. Under this standard, a formal, trial-type hearing is required "only if there are disputed issues of material fact that cannot be resolved in some other manner."[52] A mere request or conclusory assertion that material facts are disputed is insufficient to justify a formal hearing. In order to become entitled to a hearing, the burden is on the protestant to make some minimal showing that material facts are in dispute and that an inquiry in depth is appropriate.[53] In the Board's view, the SIA Committee has failed to demonstrate that any facts material to the Board's decision on these applications is in dispute or that a hearing would be appropriate.[54]

The SIA Committee disputes Applicants' arguments that the skills needed to conduct the proposed ineligible securities activities are similar to the skills employed in underwriting and dealing in eligible debt securities. In support of its position, the Committee cites a September 1988 report by the General Accounting Office with respect to the securities activities of U.S. banks in London ("GAO Report").[55] Nothing in the SIA Committee's allegation or in the GAO Report disputes any fact material to the Board's decision. The GAO Report concluded that the London securities subsidiaries of certain U.S. banks suffered losses or were marginally profitable during 1986 and 1987, due at least in part to management and internal control problems relating to the specific banks involved. The GAO Report did not specifically address, however, the more generic issue the Board must consider under section 4(c)(8): whether the activities proposed for the bank holding company have a close functional and operational similarity to services that banks have traditionally offered. Moreover, the Board has conditioned its approval of the expanded underwriting and dealing activities on each Applicant having in place adequate managerial and operational procedures to assure that the expanded activities will be conducted in compliance with the prudential requirements established in this and the Board's prior Orders.

The SIA Committee also disputes Applicants' assertion that the proposed expansion of securities activities would not produce significant adverse effects, such as potential conflicts of interest. Specifically, the SIA Committee claims that the expansion of activities will result in the tying of underwriting services by the underwriting subsidiaries with credit extended by the affiliate banks. In support of this claim, the SIA Committee cites a SIA study of activities involving certain types of eligible security underwritten directly by banks. The study purports to show a high correlation between the number of underwritings in which the bank served as a member of the managing underwriter group and underwritings in which the bank supplied a credit facility to support the securities being underwritten.[56] This study concerns the direct activities of banks, which are not subject to the safeguards established in the Board's decisions under section 4(c)(8). In particular, the limitations in this Order prohibit the provision of credit, directly or indirectly, by an Applicant or any of its subsidiaries to enhance the creditworthiness or marketability of securities being underwritten by the underwriting subsidiary.

51. 12 C.F.R. 225.23(g); 262.3(e). The comments submitted by the SIA itself, which were received before the comment period on all of the applications closed, did not request a hearing.

52. 12 C.F.R. 225.23(g).

53. *Connecticut Bankers Ass'n v. Board of Governors*, 627 F.2d 245, 251 (D.C. Cir. 1980).

54. The SIA Committee's request failed to state why in its view a written presentation would not suffice in lieu of a hearing, as required by the Board's Rules, 12 C.F.R. 262.3(e).

55. United States General Accounting Office, *International Finance: U.S. Commercial Banks' Securities Activities in London* (Sept. 1988).

56. Legislative Proposals to Restructure Our Financial System: Hearings on S.1886, S.1891, and S.1905 Before the Senate Comm. on Banking, Housing, and Urban Affairs, 100th Cong., 1st Sess. 476–80 (1987).

The SIA Committee offers no other factual support for its assertion that approval of these proposals would result in the tying of securities underwriting services. The Board notes that the explicit tying of services performed by the underwriting subsidiaries with those of an affiliate bank is expressly forbidden by the 1970 Amendments to the Bank Holding Company Act.[57]

The Committee also suggests that the Board should prohibit the provision by a bank of credit facilities in anticipation of or in connection with securities activities undertaken by the underwriting subsidiary. The Board has carefully evaluated the potential for risk, conflicts of interest, and other adverse effects in such transactions and has concluded that the absolute prohibition urged by the Committee is not warranted. For the reasons earlier stated, the Board believes that the potential for adverse effects in such transactions can be effectively addressed through careful attention by the underwriting subsidiary and its affiliate banks and thrifts to the requirements of this Order, including the requirement of section 23B of the Federal Reserve Act that these transactions be conducted on non-preferential terms and under non-preferential circumstances, and the holding company and bank examination and supervisory process.

The SIA Committee also challenges Applicants' argument that the expanded securities activities would not result in significant losses to Applicants, stating that the corporate debt and equity securities markets are much more volatile than the markets for non-corporate fixed income securities and that U.S. banks suffered losses in 1986 and 1987 as a result of their underwriting operations in London. These contentions, in the Board's judgment, do not present any disputed issues of fact. The Board recognizes that corporate securities generally exhibit greater price volatility, but has concluded, as explained above, that the underwriting subsidiaries will be able to manage the greater potential for risk, especially in light of the expanded operating limitations being required as a condition of approval for the proposed activities. In addition, the losses experienced by some U.S. banks in their London underwriting operations have been attributed, at least in part, to specific managerial and internal control deficiencies. As noted above, before they may commence any of the new activities, Applicants must have in place adequate internal controls, including exposure limits at affiliate banks and thrifts and for the holding company on a consolidated basis, computer and accounting systems, and experienced staff.[58]

As the GAO Report indicates, the losses experienced in London underwriting operations, during a period of unique uncertainty and turmoil in the wake of major deregulation of these markets accounted for only a minor percentage of the capital of the banks and did not threaten their overall operations. Further, in this case, the limitations in the Order will separate the risk of loss of the proposed underwriting and dealing activities from affiliate banks and thrifts and from the financial resources of the holding company that are needed to maintain strong capitalization at its subsidiary banks and thrifts. The requirement that the holding company may not make any debt or equity investment in the underwriting subsidiary without the Board's prior approval and a demonstration that the investment will not diminish the holding company's ability to maintain a strong capital position will ensure that the underwriting subsidiary will not be funded directly or indirectly by affiliate banks or thrifts. Under this condition, the funds invested in the underwriting subsidiary must be above and beyond these needed by the holding company to support its subsidiary banks. The Board has also imposed explicit requirements to ensure that both the parent holding companies and their underwriting subsidiaries maintain amounts of capital that are commensurate with the risk involved with the expanded activities.

Finally, the Board notes that the London securities operations of U.S. banks are not subject to the regulated framework applicable to the domestic underwriting subsidiaries pursuant to section 4(c)(8). These activities are conducted under a separate Congressionally-established statutory framework and are subject to regular annual inspection and examination by the Board and the Reserve Banks, as well as to supervision and regulation by local authorities. The Board currently has under consideration whether certain of the prudential limitations established in this Order should also be applied to the foreign securities affiliates of U.S. banking organizations.

The SIA Committee also disputes the claim that the functions of the underwriting subsidiaries can be adequately insulated from the affiliate bank under the limitations in the Board's earlier decisions. Again this allegation raises no dispute of material fact, but rather evidences a disagreement with the conclusion that the Board has reached on the basis of the facts of record. The Board has addressed these concerns by strengthening the basic framework established in the earlier Orders to prohibit indirect extensions of credit to the underwriting subsidiaries by affiliate banks and, as

57. 12 U.S.C. §§ 1971, 1972(1); 12 C.F.R. 225.4(d).

58. The foreign securities affiliates of U.S. banking organizations have instituted additional controls and procedures to govern these operations and have increased their capitalization in response to Board and local regulatory requirements.

noted, the diversion to these subsidiaries of the parent companies' resources needed to support affiliate banks. Within this framework, the Board has concluded that the potential for adverse effects is not significant enough to warrant denial of the applications under the relevant statutory criteria.

The SIA Committee's assertion that, after approval of these proposals, significant securities activities would continue to be conducted directly by banks is not relevant to the standards the Board must apply in evaluating these applications and does not warrant a hearing. Such activities are beyond the scope of the current applications to engage in securities activities through nonbank subsidiaries of a holding company. The Board notes, moreover, that expansion of the scope of permissible ineligible securities activities for the underwriting subsidiaries, subject to the revenue limit required under the Glass–Steagall Act, may operate to encourage Applicants to transfer securities operations from affiliate banks to the underwriting subsidiary.

The SIA Committee also advances other policy arguments that, in the Board's judgment, are not sufficient to warrant denial of the applications or a public hearing. As explained above, the Board believes the record now before the Board supports approval of the applications, subject to the broad framework of operating conditions established herein. In this regard, the Board notes that a number of the modifications to the operating limitations suggested by the SIA and the Committee have been adopted by the Board in this Order.

The Board also notes that the expanded securities activities will be conducted *de novo*. Thus, application of the closely related to banking and public benefits tests of section 4(c)(8) to these applications necessarily involves inquiry into future conduct. Formal adjudicatory hearings are of limited efficacy in making such assessments. In this regard, the Board has reserved the right to adjust the operating limitations or establish additional limitations based upon the experience of the underwriting subsidiary. The Board also has authority under the BHC Act and the Financial Institutions Supervisory Act of 1966 to ensure that the underwriting subsidiaries and their affiliates comply with the requirements of this Order and applicable federal law.

Finally, the Board does not believe that approval of the applications will interfere with the role of Congress, which has been considering a comprehensive revision of the laws governing the financial services industry. The Board's action does not effectively repeal any restrictions in the Glass–Steagall Act, but merely expands the type of ineligible securities activities that may be conducted within the existing limitations of section 20 of that Act, as interpreted by the Board and the federal courts. As noted, the Board has retained jurisdiction over the applications so that they may be modified to the extent that Congress may adopt legislation that would affect the scope of authority established under this Order pursuant to existing law.

VI. Conclusion.

For the reasons and subject to the conditions set forth in this Order, the Board concludes that Applicants' proposals for their respective underwriting subsidiaries to underwrite and deal in debt and equity securities are consistent with the applicable provisions of the Glass–Steagall Act and are so closely related to banking as to be a proper incident thereto within the meaning of section 4(c)(8) of the BHC Act; provided that the underwriting subsidiaries may commence equity securities underwriting and dealing activities only after a review by the Board in one year to determine whether Applicants may initiate these activities based on a finding by the Board that they have established the managerial and operational infrastructure required by this Order.

The Board's approval of these proposals extends only to activities conducted within the conditions of this Order and subject to the gross revenue limitation discussed above. Underwriting and dealing in the approved securities in any manner other than as approved in this Order is not within the scope of the Board's approval and is not authorized for the underwriting subsidiaries.[59] As more fully set forth in the

59. In *Citicorp/Morgan/Bankers Trust*, the Board noted that the underwriting subsidiaries could provide a service that is a necessary incident to the approved underwriting and dealing activities, subject to the revenue limitation for ineligible securities activities established to ensure compliance with section 20 of the Glass–Steagall Act. Applicants were also advised not to engage in any incidental, servicing or other functions without prior written notice to and review by Board staff to ensure compliance with the Act and the Board's Orders. The Board continues to believe such notice is necessary.

Applicants have indicated that the underwriting subsidiaries would be expected to offer best efforts underwriting and private placements involving the proposed ineligible debt and equity securities as a necessary incident to the approved debt and equity securities underwriting activities. In the Board's view, these activities may be conducted as a necessary incident to the approved activities insofar as the BHC Act is concerned. *See National Courier Ass'n.*, 516 F.2d at 1240. With respect to the Glass–Steagall Act, however, any activity conducted as a necessary incident to an ineligible securities activity must be treated as part of the ineligible securities activity unless the underwriting subsidiary has received specific approval under section 4(c)(8) of the Act to conduct the activity independently. Until such approval is obtained, any revenues from the incidental activity must be counted as ineligible revenue subject to the 5 percent revenue limit set forth in the Order.

Nothing in this Order enlarges or restricts the authority of U.S. banking organizations to engage in activities outside of the United States under Regulation K (12 C.F.R. 211).

Order, the Board's approval is subject to the following conditions:

A. Capital Adequacy Conditions

1(a). In determining compliance with the Board's Capital Adequacy Guidelines, each Applicant shall deduct from its consolidated primary capital any investment it makes in the underwriting subsidiary that is treated as capital in the underwriting subsidiary. In accordance with the risk-based component of the Board's Capital Guidelines, Applicant shall deduct 50 percent of the amount of any investment in the underwriting subsidiary from Tier 1 capital and 50 percent from Tier 2 capital. In calculating primary capital and risk-based capital ratios, Applicant should also exclude the underwriting subsidiary's assets from the holding company's consolidated assets.

(b). Applicant shall also deduct from its regulatory capital any credit it or a nonbank subsidiary extends directly or indirectly to the underwriting subsidiary unless the extension of credit is fully secured by U.S. Treasury securities or other marketable securities and is collateralized in the same manner and to the same extent as would be required under section 23A(c) of the Federal Reserve Act if the extension of credit were made by a member bank.[60] In the case of the risk-based component of the Board's Capital Guidelines, the deductions for unsecured or not fully-secured or inadequately collateralized loans shall be taken 50 percent from Tier 1 and 50 percent from Tier 2 as described above.

Notwithstanding these adjustments, Applicant should continue to maintain adequate capital on a fully consolidated basis.

2. No Applicant nor any of its nonbank subsidiaries shall, directly or indirectly, provide any funds to, or for the benefit of, an underwriting subsidiary, whether in the form of capital, secured or unsecured extensions of credit, or transfer of assets, without prior notice to and approval by the Board.

3. Before commencing the new activities, each Applicant must submit to the Board acceptable plans to raise additional capital as required by this Order or demonstrate that it is strongly capitalized and will remain so after making the capital adjustments authorized or required by this Order. An Applicant may not commence the proposed activities until it has received a Board determination that the capital plan satisfies the requirements of this Order and has raised the additional capital required under the plan.

4. The underwriting subsidiary shall maintain at all times capital adequate to support its activity and cover reasonably expected expenses and losses in accordance with industry norms.

B. Credit Extensions to Customers of the Underwriting Subsidiary[61]

5. No Applicant or subsidiary shall directly or indirectly extend credit, issue or enter into a stand-by letter of credit, asset purchase agreement, indemnity, guarantee, insurance or other facility that might be viewed as enhancing the creditworthiness or marketability of an ineligible securities issue underwritten or distributed by the underwriting subsidiary.

6. No Applicant or subsidiary (other than the underwriting subsidiary) shall knowingly extend credit to a customer directly or indirectly secured by, or for the purpose of purchasing, any ineligible security that an affiliated underwriting subsidiary underwrites during the period of the underwriting or for 30 days thereafter, or to purchase from the underwriting subsidiary any ineligible security in which the underwriting subsidiary makes a market. This limitation extends to all customers of Applicant and its subsidiaries, including broker-dealers and unaffiliated banks, but does not include lending to a broker-dealer for the purchase of securities where an affiliated bank is the clearing bank for such broker-dealer.

7. No Applicant or any of its subsidiaries may, directly or indirectly, extend credit to issuers of ineligible securities underwritten by an affiliated underwriting subsidiary for the purpose of the payment of principal, interest or dividends on such securities. To assure compliance with the foregoing, any credit lines extended to an issuer by any bank holding company or any subsidiary shall provide for substantially different timing, terms, conditions and maturities from the ineligible securities being underwritten. It would be clear, for example, that a credit has substantially different terms and timing if it is for a documented special purpose (other than the payment of principal, interest or dividends) or there is substantial participation by other lenders.

8. Each Applicant shall adopt appropriate procedures, including maintenance of necessary documentary records, to assure that any extension of credit by it or any of its subsidiaries to issuers of ineligible securities underwritten or dealt in by an underwriting subsidiary are on an arm's length basis for purposes other than payment of principal, interest, or dividends on the

60. An extension of credit means any loan, guarantee, or other form of credit exposure, including those described in Condition 5.

61. Unless otherwise stated, these conditions shall apply to a subsidiary of a bank or thrift institution to the same extent as they apply to the bank or thrift institution.

issuer's ineligible securities being underwritten or dealt in by the underwriting subsidiary. An extension of credit is considered to be on an arm's length basis if the terms and conditions are substantially the same as those prevailing at the time for comparable transactions with issuers whose securities are not underwritten or dealt in by the underwriting subsidiary.

9. In any transaction involving an underwriting subsidiary, Applicants' thrift subsidiaries shall observe the limitations of sections 23A and 23B of the Federal Reserve Act as if the thrifts were banks.

10. The requirements relating to credit extensions to issuers noted in paragraphs 5 - 9 above shall also apply to extensions of credit to parties that are major users of projects that are financed by industrial revenue bonds.

11. Applicants shall cause their subsidiary banks and thrifts to adopt policies and procedures, including appropriate limits on exposure, to govern their participation in financing transactions underwritten or arranged by an underwriting subsidiary as set forth in this Order. The Reserve Banks shall ensure that these policies and procedures are in place at Applicants' subsidiary banks and thrifts and Applicants shall assure that loan documentation is available for review by Reserve Banks to ensure that an independent and thorough credit evaluation has been undertaken in connection with bank or thrift participation in such financing packages and that such lending complies with the requirements of this Order and section 23B of the Federal Reserve Act.

12. Applicants should also establish appropriate policies, procedures, and limitations regarding exposure of the holding company on a consolidated basis to any single customer whose securities are underwritten or dealt in by the underwriting subsidiary.

C. Limitations to Maintain Separateness of an Underwriting Affiliate's Activity

13. There will be no officer, director, or employee interlocks between an underwriting subsidiary and any of the holding company's bank or thrift subsidiaries. The underwriting subsidiary will have separate offices from any affiliated bank or thrift.[62]

D. Disclosure by the Underwriting Subsidiary

14. An underwriting subsidiary will provide each of its customers with a special disclosure statement describing the difference between the underwriting subsidiary and its bank and thrift affiliates and pointing out that an affiliated bank or thrift could be a lender to an issuer and referring the customer to the disclosure documents for details. In addition, the statement shall state that securities sold, offered, or recommended by the underwriting subsidiary are not deposits, are not insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, are not guaranteed by an affiliated bank or thrift, and are not otherwise an obligation or responsibility of such a bank or thrift (unless such is the case). The underwriting subsidiary should also disclose any material lending relationship between the issuer and a bank or lending affiliate of the underwriting subsidiary as required under the securities laws and in every case whether the proceeds of the issue will be used to repay outstanding indebtedness to affiliates.

E. Marketing Activities on Behalf of an Underwriting Subsidiary

15. No underwriting subsidiary nor any affiliated bank or thrift institution will engage in advertising or enter into an agreement stating or suggesting that an affiliated bank or thrift is responsible in any way for the underwriting subsidiary's obligations as required under section 23B of the Federal Reserve Act.

16. No bank or thrift affiliate of the underwriting subsidiary will act as agent for, or engage in marketing activities on behalf of, the underwriting subsidiary.[63] In this regard, prospectuses and sales literature relating to securities being underwritten or dealt in by an underwriting subsidiary may not be distributed by a bank or thrift affiliate; nor should any such literature be made available to the public at any offices of any such affiliate, unless specifically requested by a customer.

F. Investment Advice by Bank/Thrift Affiliates

17. An affiliated bank or thrift institution may not express an opinion on the value or the advisability of the purchase or the sale of ineligible securities underwritten or dealt in by an affiliated underwriting subsidiary unless the bank or thrift notifies the customer that the underwriting subsidiary is underwriting, making a market, distributing or dealing in the security.

18. No Applicant nor any of its bank, thrift, or trust or investment advisory subsidiaries shall purchase, as a trustee or in any other fiduciary capacity, for accounts over which they have investment discretion ineligible

62. An underwriting subidiary may have offices in the same building as a bank or thrift affiliate if the underwriting subsidiary's offices are clearly distinguished from those of the bank or thrift affiliate.

63. This condition does not prevent a bank or thrift from informing its customers of the available services of the underwriting subsidiary.

securities (a) underwritten by the underwriting subsidiary as lead underwriter or syndicate member during the period of any underwriting or selling syndicate, and for a period of 60 days after the termination thereof, and (b) from the underwriting subsidiary if it makes a market in that security, unless, in either case, such purchase is specifically authorized under the instrument creating the fiduciary relationship, by court order, or by the law of the jurisdiction under which the trust is administered.

G. Extensions of Credit and Purchases and Sales of Assets

19. No Applicant nor any of its subsidiaries, other than the underwriting subsidiary, shall purchase, as principal, ineligible securities that are underwritten by the underwriting subsidiary during the period of the underwriting and for 60 days after the close of the underwriting period, or shall purchase from the underwriting subsidiary any ineligible security in which the underwriting subsidiary makes a market.

20. An underwriting subsidiary may not underwrite or deal in any ineligible securities issued by its affiliates or representing interests in, or secured by, obligations originated or sponsored by its affiliates (except for grantor trusts or special purpose corporations created to facilitate underwriting of securities backed by residential mortgages originated by a non-affiliated lender).

21(a). Applicants shall assure that no bank or thrift subsidiary shall, directly or indirectly, extend credit in any manner to an affiliated underwriting subsidiary or a subsidiary thereof; or issue a guarantee, acceptance, or letter of credit, including an endorsement or standby letter of credit, for the benefit of the underwriting subsidiary or a subsidiary thereof.

(b). This prohibition shall not apply to an extension of credit by a bank or thrift to an underwriting subsidiary that is incidental to the provision of clearing services by the bank or thrift to the underwriting subsidiary with respect to securities of the United States or its agencies, or securities on which the principal and interest are fully guaranteed by the United States or its agencies, if the extension of credit is fully secured by such securities, is on market terms, and is repaid on the same calendar day. If the intra-day clearing of such securities cannot be completed because of a *bona fide* fail or operational problem incidental to the clearing process that is beyond the control of the bank or thrift and the underwriting subsidiary, the bank or thrift may continue the intraday extension of credit overnight provided the extension of credit is fully secured as to principal and interest as described above, is on market terms, and is repaid as early as possible on the next business day.

22. No bank or thrift shall, directly or indirectly, for its own account, purchase financial assets of an affiliated underwriting subsidiary or a subsidiary thereof or sell such assets to the underwriting subsidiary or subsidiary thereof. This limitation shall not apply to the purchase and sale of U.S. Treasury securities that are not subject to repurchase or reverse repurchase agreements between the underwriting subsidiary and its bank or thrift affiliates.[64]

H. Limitations on Transfers of Information

23. No bank or thrift shall disclose to an underwriting subsidiary, nor shall an underwriting subsidiary disclose to an affiliated bank or thrift, any nonpublic customer information (including an evaluation of the creditworthiness of an issuer or other customer of that bank or thrift, or underwriting subsidiary) without the consent of that customer.

I. Reports

24. Applicants shall submit quarterly to the appropriate Federal Reserve Bank FOCUS reports filed with the NASD or other self-regulatory organizations, and detailed information breaking down the underwriting subsidiaries' business with respect to eligible and ineligible securities, in order to permit monitoring of the underwriting subsidiaries' compliance with the provisions of this Order.[65]

J. Transfer of Activities and Formation of Subsidiaries of an Underwriting Subsidiary to Engage in Underwriting and Dealing

25. The Board's approval of the proposed underwriting and dealing activities extends only to the subsidiaries described above for which approval has been sought in the instant applications. The activities may not be conducted by Applicants in any other subsidiary without prior Board review. Pursuant to Regulation Y, no corporate reorganization of an underwriting subsidiary, such as the establishment of subsidiaries of the underwriting subsidiary to conduct the activities, may be consummated without prior Board approval.

64. The limitation in the Board's *Citicorp/Morgan/Bankers Trust* Order regarding purchases and sales of assets between bank (or thrift affiliates) and an underwriting subsidiary is superseded by this provision and the provisions of section 23B of the Federal Reserve Act.

65. The Board will make available in the future a form on which this information should be submitted.

K. Limitations on Reciprocal Arrangements and Discriminatory Treatment

26. No Applicant nor any of its subsidiaries may, directly or indirectly enter into any reciprocal arrangement. A reciprocal arrangement means any agreement, understanding, or other arrangement under which one bank holding company (or subsidiary thereof) agrees to engage in a transaction with, or on behalf of, another bank holding company (or subsidiary thereof), in exchange for the agreement of the second bank holding company (or any subsidiary thereof) to engage in a transaction with, or on behalf of, the first bank holding company (or any subsidiary thereof) for the purpose of evading any requirement of this Order or any prohibition on transactions between, or for the benefit of, affiliates of banks established pursuant to federal banking law or regulation.
27. No bank or thrift affiliate of an underwriting subsidiary shall, directly or indirectly:
(a) acting alone or with others, extend or deny credit or services (including clearing services), or vary the terms or conditions thereof, if the effect of such action would be to treat an unaffiliated securities firm less favorably than its affiliated underwriting subsidiary, unless the bank or thrift demonstrates that the extension or denial is based on objective criteria and is consistent with sound business practices; or
(b) extend or deny credit or services or vary the terms or conditions thereof with the intent of creating a competitive advantage for an underwriting subsidiary of an affiliated bank holding company.

L. Requirement for Supervisory Review Before Commencement of Activities.

28. An Applicant may not commence the proposed debt and equity securities underwriting and dealing activities until the Board has determined that the Applicant has established policies and procedures to ensure compliance with the requirements of this Order, including computer, audit and accounting systems, internal risk management controls and the necessary operational and managerial infrastructure. In this regard, the Board will review in one year whether Applicants may commence underwriting and dealing in equity securities based on a determination by the Board that they have established the managerial and operational infrastructure and other policies and procedures necessary to comply with the requirements of this Order.

The Board's approval determination is subject to all of the conditions set forth in the Board's Regulation Y, including those in sections 225.4(d) and 225.23(b), and to the Board's authority to require modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to assure compliance with, and to prevent evasion of, the provisions of the BHC Act and the Board's regulations and orders issued thereunder.

By order of the Board of Governors, effective January 18, 1989.

Voting for this action: Chairman Greenspan and Governors Johnson, Seger, Angell, Heller, Kelley, and LaWare.

WILLIAM W. WILES
Secretary of the Board

The Honkong and Shanghai Banking Corporation Hong Kong

Kellett, N.V. Curacao, Netherlands Antilles

HSBC Holdings, B.V. Amsterdam, The Netherlands

Marine Midland Banks, Inc. Buffalo, New York

Order Approving an Application to Engage in Trading in Foreign Exchange and Foreign Exchange Related Products

The Hongkong and Shanghai Banking Corporation, Hong Kong; Kellett, N.V., Curacao, Netherlands Antilles; and HSBC Holding B.V., Amsterdam, The Netherlands, foreign banks and bank holding companies under the Bank Holding Company Act (the "BHC Act"), and Marine Midland Banks, Inc., Buffalo, New York ("Marine Midland") (collectively "Applicants"), have applied under section 4(c)(8) of the BHC Act (12 U.S.C. § 1843(c)(8)) and section 225.23 of the Board's Regulation Y (12 C.F.R. § 225.23), for approval for their subsidiary primary dealer, Carroll McEntee & McGinley, Inc., New York, New York ("CM&M" or "Company"),[1] to engage in foreign exchange spot, forward, options, futures, and options on futures transactions for its own account.

Notice of the application, affording interested persons an opportunity to submit comments on the proposal, has been duly published (52 *Federal Register*

1. CM&M is a wholly owned subsidiary of CM&M Group, Inc., which is 49 percent owned by Marine Midland and 51 percent owned by Hongkong and Shanghai, and was established with Board approval. 72 FEDERAL RESERVE BULLETIN 345 (1986).

47,759 (1987)). The time for filing comments has expired, and the Board has considered the application and all comments received in light of the public interest factors set forth in section 4(c)(8) of the BHC Act.

Hongkong and Shanghai, a bank organized under the laws of Hong Kong, is the 33rd largest banking organization in the world with total consolidated assets of approximately $107.4 billion.[2] Hongkong and Shanghai, directly and indirectly, engages in a broad range of financial and commercial services worldwide. Marine Midland is the 29th largest commercial banking organization in the United States with total consolidated assets of $26.9 billion.[3]

The Board has permitted bank holding companies under section 4(c)(8) of the BHC Act to engage in foreign exchange forward, futures, options, and options on futures transactions for the account of others or for hedging purposes.[4] The Board has also previously determined that trading in foreign exchange spot contracts for a company's own account is a permissible nonbanking activity. *The Long-Term Credit Bank of Japan, Ltd.*, 74 FEDERAL RESERVE BULLETIN 573 (1988).[5] However, the Board has not previously approved foreign exchange forward, options, and options on futures transactions for a company's own account for other than hedging purposes under section 4(c)(8) of the BHC Act.

In order to approve an application submitted pursuant to section 4(c)(8) of the BHC Act, the Board is required to determine that the proposed activity is "so closely related to banking as to be a proper incident thereto." 12 U.S.C. § 1843(c)(8). In considering whether a proposed new activity would be a proper incident to banking, the Board is required to determine that the performance of the proposed activity can reasonably be expected to produce benefits to the public that outweigh possible adverse effects. *Id.*

A. Closely Related to Banking Analysis

Based on guidelines established in the *National Courier* case, a particular activity may be found to meet the "closely related to banking" test if it is demonstrated that banks generally have in fact provided the proposed activity; that banks generally provide services that are operationally or functionally so similar to the proposed activity as to equip them particularly well to provide the proposed activity; or that banks generally provide services that are so integrally related to the proposed activity as to require their provision in a specialized form.[6]

In this case, the record shows that banks do conduct the proposed activities. Banks have traditionally engaged in foreign exchange trading, including, more recently, trading in the options and futures markets. Banks historically have been the dominant participants in the spot (immediate delivery) and forward (delayed delivery) foreign exchange markets. Their activity extends, moreover, to buying and selling commodity exchange-traded futures contracts to hedge the risk associated with their foreign exchange holdings and the rate fluctuation risk involved in spot, forward, and option contracts with customers. Banks also have been significant participants in the currency options markets. The Comptroller of the Currency has determined that national banks may trade financial options for their own account if they may trade in the underlying instrument.[7] The Comptroller has authorized the trading of foreign exchange options through an operations subsidiary of a national bank, finding the activity incidental to the purchase and sale of foreign exchange.[8] Accordingly, the Board concludes that the proposed activities of trading in the foreign exchange spot, forward, options, futures, and options on futures markets is closely related to banking for purposes of section 4(c)(8) of the BHC Act.

B. Balance of Public Benefits and Adverse Effects

In order to approve this application, the Board is required to determine that the performance of the proposed activities by Applicants, "can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices." 12 U.S.C. § 1843(c)(8).

2. Data are as of December 31, 1987.
3. Data are as of June 30, 1988.
4. *See, e.g., Southern Bancorporation*, 69 FEDERAL RESERVE BULLETIN 224 (1983); *Citicorp/Citicorp Futures Corporation*, 70 FEDERAL RESERVE BULLETIN 591 (1984) (options and options on futures) ("*Citicorp*"); 12 C.F.R. 225.25(b)(18) (futures commission merchants).
5. *See also European-American Bancorp.*, 63 FEDERAL RESERVE BULLETIN 595 (1977) and *Standard and Chartered Group, Ltd.*, 38 *Federal Register* 27,552 (1973) (involving trading foreign exchange for the companies' own accounts).
6. *Nat'l Courier Ass'n v. Board of Governors*, 516 F.2d 1229, 1237 (D.C. Cir. 1975). The Board may also consider any other factor that demonstrates a reasonable or close connection or relationship of the activity to banking. 49 *Federal Register* 794, 806 (1984); *Securities Industry Ass'n v. Board of Governors*, 104 S. Ct. 3003, 3005–06 n.5 (1984).
7. OCC Interpretive Letter No. 260 (June 27, 1983), *reprinted in* Fed. Banking L. Rep. (CCH) ¶ 85,424, at 77,549.
8. OCC Release 83-36 (May 14, 1983), *reprinted in* [Current] Fed. Banking L. Rep. (CCH) ¶ 99,554, at 86,799.

Consummation of the proposal may reasonably be expected to result in public benefits that outweigh possible adverse effects. In particular, consummation of the proposal will permit CM&M, which is a primary dealer in U.S. government securities, to gather information about the impact of foreign exchange fluctuations on the market for U.S. government securities, thereby permitting CM&M to compete more effectively with other primary dealers who are not restricted in their foreign exchange activities. The proposal will also transfer from an insured depository institution to a non-bank subsidiary a portion of an activity subject to market uncertainties.

As a primary dealer, CM&M has broad experience trading and monitoring futures and options positions, and its affiliated bank, Marine Midland Bank, N.A., has extensive experience in foreign exchange transactions, including futures and options. The resulting familiarity with the operations and controls associated with these derivative products should serve to ensure prudent operations, since CM&M already has the operational, accounting and control systems in place to properly monitor positions resulting from trading these contracts.

In this regard, the board of directors of Marine Midland has adopted, and periodically reviews and revises, written policies, position limits, internal review procedures and financial controls for each of its bank and non-bank affiliates engaged in these activities. Management reviews such activities on a regular basis and the internal audit department reviews contract positions regularly to ensure conformity with established policies and position limits.

The proposed activities would similarly be monitored in connection with the overall risk management and monitoring of CM&M's primary business activities. Applicants have indicated that the proposed foreign exchange activities would bear a reasonable relationship to the size of CM&M's government securities portfolio, that revenues to be generated from these activities are expected to represent only a small percentage of CM&M's gross revenues, and that the trading of foreign exchange products will comprise only a small portion of CM&M's total trading volume. Moreover, as a primary dealer, CM&M is subject to regular review and reporting requirements under the Federal Reserve Bank of New York.

Accordingly, the Board finds that these controls and limitations should minimize any potential financial risks involved in the proposed activity.

The Board has previously reviewed two applications that involved trading by a bank holding company in foreign exchange. The issue of trading for a holding company's own account in commodities generally was raised by an application to engage through an FCM subsidiary in pit arbitrage activities on several commodities exchanges. Pit arbitrage involves the actions of floor traders on commodities exchanges in taking advantage of temporary price differentials between futures contracts.[9] The Board determined that this type of speculative trading in commodities for a holding company's own account would involve significant financial risks and would represent an unsound banking practice.

Applicants will not engage in pit arbitrage activities. Floor traders who will execute CM&M's transactions will not have any discretion to engage in transactions other than those directed by CM&M's staff.

CM&M's staff will have limited trading authority based upon established position limits as determined by senior management. Accordingly, the activity proposed by Applicants should not involve the type and degree of financial risks associated with pit arbitrage activities previously disapproved by the Board.

The Board also denied an application to act as a specialist in options on French francs traded on the Philadelphia Stock Exchange.[10] CM&M will not engage in market-making or specialist activities, and, as noted above, will trade in foreign currency only within specified and regularly monitored limits.

CM&M does not propose to advise third parties regarding foreign exchange matters, and will not execute any foreign exchange transactions for customers. Accordingly, the Board believes that CM&M's proposed operations do not involve significant conflict of interest issues.

Based upon the foregoing and other considerations reflected in the record, and subject to the commitments made by Applicants, the Board has determined that the public benefits associated with this proposal can reasonably be expected to outweigh possible adverse effects, and that the balance of the public interest factors that the Board is required to consider under section 4(c)(8) of the BHC Act is favorable. Accordingly, the application is hereby approved. This determination is further subject to all of the conditions set forth in the Board's Regulation Y, including those in sections 225.4(d) and 225.23(b), and to the Board's authority to require modification or termination of the activities of the holding company or any of its subsidiaries as the Board finds necessary to assure compliance with the provisions and purposes of the BHC Act

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9. Futures market spread positions are taken by floor traders at their own discretion in anticipation of favorable price movements that will subsequently enable traders to close out positions at a profit. *See Citicorp/Citicorp Futures Corporation*, 68 FEDERAL RESERVE BULLETIN 776, 777 (1982).

10. *Compagnie Financiere de Suez/Banque Indosuez*, 72 FEDERAL RESERVE BULLETIN 141 (1986).

and the Board's regulations and orders issued thereunder, or to prevent evasion thereof.

This transaction shall not be consummated later than three months after the effective date of this Order, unless such period is extended for good cause by the Board, or by the Federal Reserve Bank of New York, pursuant to delegated authority.

By order of the Board of Governors, effective January 24, 1989.

Voting for this action: Chairman Greenspan and Governors Johnson, Seger, Heller, Kelley, and LaWare. Absent and not voting: Governor Angell.

WILLIAM W. WILES

APPLICATIONS APPROVED UNDER BANK HOLDING COMPANY ACT

By Federal Reserve Banks

Recent applications have been approved by the Federal Reserve Banks as listed below. Copies are available upon request to the Reserve Banks.

Section 3

Applicant	Bank(s)	Reserve Bank	Effective date
Abess Properties, Ltd., Miami, Florida	City National Bancshares, Inc., Miami, Florida	Atlanta	January 3, 1989
Advance Banc Shares, Inc., Fairfield, Illinois	Wayne County Bank and Trust Company, Fairfield, Illinois	St. Louis	January 6, 1989
American Community Bank Group, Inc., Minnetonka, Minnesota	American State Bank of Bloomington, Bloomington, Minnesota National City Bank of Ridgedale, Minnetonka, Minnesota	Minneapolis	December 29, 1988
Athens Bancorp, Inc., Athens, Illinois	Athens State Bank, Athens, Illinois	Chicago	January 13, 1988
Bank of Maryland Corp., Towson, Maryland	Bank of Maryland - Carroll County, Westminster, Maryland	Richmond	January 24, 1989
Barnett Banks, Inc., Jacksonville, Florida	FMB Financial Holdings, Inc., Fayetteville, Georgia	Atlanta	December 27, 1988
Baxter County Bancshares, Inc., Mountain Home, Arkansas	Peoples Bank Corporation, Mountain Home, Arkansas	St. Louis	January 12, 1989
Bluestem Financial Corp., Fairbury, Illinois	National Bank of Fairbury, Fairbury, Illinois	Chicago	January 5, 1989
Bradley County Financial Corp., Cleveland, Tennessee	Bank of Cleveland, Cleveland, Tennessee	Atlanta	December 29, 1988
B/W Bancshares, Inc., Lexington, Kentucky	The First National Bank of Georgetown, Georgetown, Kentucky	Cleveland	January 11, 1989
Canaan National Bancorp, Inc., Canaan, Connecticut	The Canaan National Bank, Canaan, Connecticut	Boston	January 11, 1989
Citizens National Bancshares, Inc., Springfield, Missouri	Citizens National Bank of Springfield, Springfield, Missouri	St. Louis	January 20, 1989

Section 3—Continued

Applicant	Bank(s)	Reserve Bank	Effective date
Cleveland Bancshares, Inc., Cleveland, Minnesota	Peoples State Bank of Cleveland, Cleveland, Minnesota	Minneapolis	December 27, 1988
Collins Bankcorp, Inc., Collins, Wisconsin	Collins State Bank, Collins, Wisconsin	Chicago	January 12, 1989
Conway BanCorp, Inc., Conway Springs, Kansas	The State Bank of Conway Springs, Conway Springs, Kansas	Kansas City	December 21, 1988
Cordova Bancshares, Inc., Memphis, Tennessee	Cordova Bank & Trust Co., Cordova, Tennessee	St. Louis	December 29, 1988
Equimark Corporation, Pittsburgh, Pennsylvania Equimanagement, Inc., Pittsburgh, Pennsylvania	Treasure Valley Bancorp, Fruitland, Idaho	Cleveland	January 25, 1989
Fairfield County Bancorp, Inc., Stamford, Connecticut	Greenwich Trust Company, Greenwich, Connecticut	New York	January 20, 1989
Farmers & Merchants Bancshares, Inc., Crescent, Oklahoma	Farmers and Merchants Bank of Piedmont, Piedmont, Oklahoma	Kansas City	January 13, 1989
FBT Bancshares, Inc., Fayetteville, Georgia	First Bank & Trust Company, Fayetteville, Georgia	Atlanta	January 20, 1989
Finacorp, Inc., Naples, Florida	First National Bank of Naples, Naples, Florida	Atlanta	January 17, 1989
First Banc Securities, Inc., Morgantown, West Virginia	First Bank, National Association, Uniontown, Pennsylvania	Richmond	December 22, 1988
First Bankers Trustshares, Inc., Quincy, Illinois	First Midwest Bank/M.C., National Association, Quincy, Illinois	St. Louis	January 6, 1989
First Cherokee Bancshares, Inc., Woodstock, Georgia	First National Bank of Cherokee, Woodstock, Georgia	Atlanta	December 27, 1988
First Colonial Bankshares Corporation, Chicago, Illinois	DuPage County Bank of Glendale Heights, Glendale Heights, Illinois	Chicago	December 29, 1988
First Commercial Bancshares, Inc., Jasper, Alabama	Sterling Bank, Montgomery, Alabama	Atlanta	January 11, 1989
First National Bancorp, Gainesville, Georgia	The Peoples Bank of Forsyth County, Cumming, Georgia	Atlanta	December 30, 1988
First Oak Brook Bancshares, Inc., Oak Brook, Illinois	Liberty Bancorp, Inc., Broadview, Illinois	Chicago	January 12, 1989
Friendship Bancorp, Friendship, Indiana	The Friendship State Bank, Friendship, Indiana	Chicago	January 19, 1989
FSB of Victor, Inc., Victor, Iowa	Farmers Savings Bank, Victor, Iowa	Chicago	January 5, 1989
Golden Triangle Bancshares, Inc., Carrollton, Kentucky	Citizens Bank, New Liberty, Kentucky	St. Louis	January 19, 1989

Section 3—Continued

Applicant	Bank(s)	Reserve Bank	Effective date
Greenville Financial Corporation, Greenville, South Carolina	Greenville National Bank, Greenville, South Carolina	Richmond	January 12, 1989
Gwinnett Bancorp, Inc., Duluth, Georgia	Gwinnett National Bank, Duluth, Georgia	Atlanta	January 18, 1989
Harrogate Corporation, Harrogate, Tennessee	Commercial Bank Group, Inc., Middlesboro, Kentucky	Atlanta	January 11, 1989
Hub Financial Corporation, Lubbock, Texas	City Bank, Lubbock, Texas	Dallas	December 30, 1988
Indecorp, Inc., Chicago, Illinois	DREXEL HOLDING COMPANY, Oak Park, Illinois	Chicago	December 23, 1988
Kersey Bancorp, Inc., Kersey, Colorado	Platteville State Bank, Platteville, Colorado	Kansas City	January 4, 1989
Lakeland Bancshares, Inc., Lyle, Minnesota	Bank of Lyle, Lyle, Minnesota	Minneapolis	January 25, 1989
Lakeside Bank Holding Company, New Town, North Dakota	McKenzie County National Bank, Watford City, North Dakota	Minneapolis	January 13, 1989
Markesan Bancshares, Inc., Markesan, Wisconsin	Markesan State Bank, Markesan, Wisconsin	Chicago	January 25, 1989
Minnesota State Bancshares, Inc., St. Paul, Minnesota	Minnesota State Bancorporation, Inc., St. Paul, Minnesota	Minneapolis	January 5, 1989
Moore Financial Group, Incorporated, Boise, Idaho	Community Bank of Renton, Renton, Washington	San Francisco	December 30, 1988
Napa Valley Bancorp, Napa, California	Suisun Valley Bank, Fairfield, California	San Francisco	January 23, 1989
NEB Corporation, Fond du Lac, Wisconsin	Mount Calvary State Bank, Mount Calvary, Wisconsin	Chicago	January 12, 1989
O.A.K. Financial Corporation, Byron Center, Michigan	Byron Center State Bank, Byron Center, Michigan	Chicago	January 19, 1989
Old National Bancorp, Evansville, Indiana	First Service Bancshares, Inc., Greenville, Kentucky	St. Louis	December 21, 1988
Omega Financial Corporation, State College, Pennsylvania	Mifflinburg Bancorp, Inc., Mifflinburg, Pennsylvania	Philadelphia	January 9, 1989
PTB Corporation, Salem, Oregon	Pioneer Trust Bank, N.A., Salem, Oregon	San Francisco	December 22, 1988
Scott Bancshares, Inc., Bethany, Illinois	The Hight State Bank, Dalton City, Illinois	Chicago	January 24, 1989
Security National Corporation, Maitland, Florida	Security National Bank of Brevard, Melbourne, Florida	Atlanta	December 30, 1988
Sequoyah County Bankshares, Inc., Sallisaw, Oklahoma	National Bank of Sallisaw, Sallisaw, Oklahoma	Kansas City	January 4, 1989
SouthTrust Corporation, Birmingham, Alabama	SouthTrust Bank of Charleston, N.A., Charleston, South Carolina	Atlanta	January 20, 1989

Section 3—Continued

Applicant	Bank(s)	Reserve Bank	Effective date
SouthTrust Corporation, Birmingham, Alabama	SouthTrust Bank of Sarasota County, Sarasota, Florida	Atlanta	January 20, 1989
State National Bancshares, Inc., Heavener, Oklahoma	State National Bank, Heavener, Oklahoma	Kansas City	December 30, 1988
The Continental Bank & Trust Company, Salt Lake City, Utah	The Tracy Collins Bank & Trust Company, Salt Lake City, Utah	San Francisco	December 23, 1988
Union Planters Corporation, Memphis, Tennessee	United Southern Corporation, Clarksdale, Mississippi	St. Louis	January 13, 1989
United Missouri Bancshares, Inc., Kansas City, Missouri	Monroe City Bank, Monroe City, Missouri	Kansas City	January 24, 1989
W-CV Bancorp., Inc., Westby, Wisconsin	Westby-Coon Valley State Bank, Westby, Wisconsin	Chicago	January 6, 1989
Whiting Bankshares, Inc., Whiting, Kansas	The State Bank of Lancaster, Lancaster, Kansas	Kansas City	December 23, 1988

Section 4

Applicant	Nonbanking Activity/Company	Reserve Bank	Effective date
BayBanks, Inc., Boston, Massachusetts	The New York Switch Corporation, Hackensack, New Jersey	Boston	January 24, 1989
First Bancorp, Inc., Huron, South Dakota	Custer County Insurance Agency, Custer, South Dakota	Minneapolis	January 6, 1989
First National Bancshares of Winfield, Inc., Winfield, Kansas	Oxford Insurance Agency, Inc., Oxford, Kansas	Kansas City	December 30, 1988
Fleet/Norstar Financial Group, Inc., Providence, Rhode Island	Cary Grant & Company, Inc., Chicago, Illinois	Boston	January 11, 1989
Moore Financial Group, Incorporated, Boise, Idaho	The Tracy Collins Bank & Trust Company, Salt Lake City, Utah	San Francisco	December 30, 1988
NBD Bancorp, Inc., Detroit, Michigan	Serve Corps Mortgage Corp., Downers Grove, Illinois	Chicago	December 23, 1988
Norwest Corporation, Minneapolis, Minnesota	Charter Finance Company, Cape Girardeau, Missouri Mid South Finance Company of Illinois, McClure, Illinois	Minneapolis	January 12, 1989

Section 4—Continued

Applicant	Nonbanking Activity/Company	Reserve Bank	Effective date
The Hongkong and Shanghai Banking Corporation, Hong Kong Kellett N.V., Curacao, Netherlands Antilles HSBC Holdings B.V., Amsterdam, Netherlands Marine Midland Banks, Inc., Buffalo, New York	Kidde Credit Corporation, Hagerstown, Maryland	New York	January 6, 1989
The Tokai Bank, Limited Naka-ku, Nagoya, Japan	Master Lease Corporation, Bala Cynwyd, Pennsylvania	San Francisco	December 29, 1988

Sections 3 and 4

Applicant	Nonbanking Activity/Company	Reserve Bank	Effective date
Comerica Incorporated, Detroit, Michigan AFC Acquisition Corporation, Detroit, Michigan	Alliance Financial Corporation, Dearborn, Michigan	Chicago	January 24, 1989
Comerica Incorporated, Detroit, Michigan	Alliance Data Services, Inc., Dearborn, Michigan	Chicago	January 24, 1989

APPLICATIONS APPROVED UNDER BANK MERGER ACT

By Federal Reserve Banks

Recent applications have been approved by the Federal Reserve Banks as listed below. Copies are available upon request to the Reserve Banks.

Applicant	Bank(s)	Reserve Bank	Effective date
First Bank of Johnston City, Johnston City, Illinois	First Bank of Carbondale, Carbondale, Illinois	St. Louis	December 22, 1988
Texas Bank, Weatherford, Texas	Texas Bank of Denton, Denton, Texas	Dallas	January 9, 1989
The First Western Bank Custer, Custer, South Dakota	Rushmore State Bank, Rapid City, South Dakota	Minneapolis	January 20, 1989

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Pending Cases Involving The Board of Governors

This list of pending cases does not include suits against the Federal Reserve Banks in which the Board of Governors is not named a party.

American Land Title Association v. Board of Governors, No. 88–1872 (D.C. Cir., filed December 16, 1988).

MCorp v. Board of Governors, No. CA3–88–2693-F (N.D. Tex., filed October 28, 1988).

White v. Board of Governors, No. CU-S-88–623-RDF (D. Nev., filed July 29, 1988).

VanDyke v. Board of Governors, No. 88–5280 (8th Cir., filed July 13, 1988).

Whitney v. United States, et al., No. CA3–88–1596-H (N.D. Tex., filed July 7, 1988).

Baugh v. Board of Governors, No. C88–3037 (N.D. Iowa, filed April 8, 1988).

Bonilla v. Board of Governors, No. 88–1464 (7th Cir., filed March 11, 1988).

Cohen v. Board of Governors, No. 88–1061 (D.N.J., filed March 7, 1988).

Stoddard v. Board of Governors, No. 88–1148 (D.C. Cir., filed February 25, 1988).

Independent Insurance Agents of America, Inc. v. Board of Governors, No. 87–1686 (D.C. Cir., filed November 19, 1987).

National Association of Casualty and Surety Agents, et al., v. Board of Governors, Nos. 87–1644, 87–1801, 88–1001 88–1206, 88–1245, 88–1270 (D.C. Cir., filed Nov. 4, Dec. 21, 1987, Jan. 4, March 18, March 30, April 7, 1988).

Teichgraeber v. Board of Governors, No. 87–2505–0 (D. Kan., filed Oct. 16, 1987).

Northeast Bancorp v. Board of Governors, No. 87–1365 (D.C. Cir., filed July 31, 1987).

National Association of Casualty & Insurance Agents v. Board of Governors, Nos. 87–1354, 87–1355 (D.C. Cir., filed July 29, 1987).

The Chase Manhattan Corporation v. Board of Governors, No. 87–1333 (D.C. Cir., filed July 20, 1987).

Lewis v. Board of Governors, Nos. 87–3455, 87–3545 (11th Cir., filed June 25, Aug. 3, 1987).

CBC, Inc. v. Board of Governors, No. 86–1001 (10th Cir., filed Jan. 2, 1986).

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1.10 RESERVES, MONEY STOCK, LIQUID ASSETS, AND DEBT MEASURES

Monetary and credit aggregates	Annual rates of change, seasonally adjusted in percent[1]								
	1988				1988				
	Q1	Q2	Q3	Q4	Aug.	Sept.	Oct.r	Nov.r	Dec.
Reserves of depository institutions[2]									
1 Total	3.5	5.8	4.3	-.7	-2.9	-1.9	-.8	2.0	-1.5
2 Required	2.9	7.2	4.0	-1.4	-1.9	-2.3	-2.6	.8	.0
3 Nonborrowed	1.5	-6.5	2.5	5.3	1.1	6.4	10.3	-9.5	22.0
4 Monetary base[3]	8.3	7.6	6.6	4.8	2.5	5.5	5.7	3.3	5.9
Concepts of money, liquid assets, and debt[4]									
5 M1	3.8	6.2r	5.2	1.3	.2r	-.2r	1.8	.3	6.2
6 M2	6.8	7.7	3.6	3.0	2.3	.0r	1.3	6.9	4.9
7 M3	7.1	7.6r	5.7	4.4	3.8	1.7	4.7	6.8	4.4
8 L	6.8r	9.0r	7.2	n.a.	5.4	1.8	5.1	9.1	n.a.
9 Debt	8.2	8.7	8.6	8.4	9.2r	8.9r	7.6	8.8	n.a.
Nontransaction components									
10 In M2[5]	7.8	8.2	3.1	3.6	3.1	1.4	1.2	9.2	4.4
11 In M3 only[6]	8.1r	7.4	13.7	9.5	9.3r	4.1	17.3	6.3	2.5
Time and savings deposits									
Commercial banks									
12 Savings[7]	6.3	11.0	8.9r	2.9	7.0r	-2.2r	-2.3	18.6	-6.9
13 Small-denomination time[8]	13.6r	11.8	10.2	19.9	12.7r	19.8r	23.6	16.9	19.5
14 Large-denomination time[9,10]	3.3r	6.7	21.4r	14.1	20.9r	18.2r	16.8	3.3	11.5
Thrift institutions									
15 Savings[7]	-2.4	6.5r	5.8	-4.0	5.4	-2.1r	-9.1	-3.1	-4.2
16 Small-denomination time	21.2r	14.0	4.5	7.5	6.2r	10.1	8.7	6.4	2.2
17 Large-denomination time[9]	13.6r	9.1r	4.6r	10.3	-.4r	24.5r	13.7	3.2	-4.3
Debt components[4]									
18 Federal	8.0	8.2	7.2	7.9	10.3	12.3	5.4	6.8	n.a.
19 Nonfederal	8.2	8.9	9.0r	8.6	8.8r	7.8r	8.3	9.4	n.a.
20 Total loans and securities at commercial banks[11]	5.3	11.0	7.3	4.4	7.2	-.7	7.1	6.0	.1

1. Unless otherwise noted, rates of change are calculated from average amounts outstanding in preceding month or quarter.

2. Figures incorporate adjustments for discontinuities associated with the implementation of the Monetary Control Act and other regulatory changes to reserve requirements. To adjust for discontinuities due to changes in reserve requirements on reservable nondeposit liabilities, the sum of such required reserves is subtracted from the actual series. Similarly, in adjusting for discontinuities in the monetary base, required clearing balances and adjustments to compensate for float also are subtracted from the actual series.

3. The monetary base not adjusted for discontinuities consists of total reserves plus required clearing balances and adjustments to compensate for float at Federal Reserve Banks plus the currency component of the money stock less the amount of vault cash holdings of thrift institutions that is included in the currency component of the money stock plus, for institutions not having required reserve balances, the excess of current vault cash over the amount applied to satisfy current reserve requirements. After the introduction of contemporaneous reserve requirements (CRR), currency and vault cash figures are measured over the weekly computation period ending Monday.

Before CRR, all components of the monetary base other than excess reserves are seasonally adjusted as a whole, rather than by component, and excess reserves are added on a not seasonally adjusted basis. After CRR, the seasonally adjusted series consists of seasonally adjusted total reserves, which include excess reserves on a not seasonally adjusted basis, plus the seasonally adjusted currency component of the money stock plus the remaining items seasonally adjusted as a whole.

4. Composition of the money stock measures and debt is as follows:

M1: (1) currency outside the Treasury, Federal Reserve Banks, and the vaults of depository institutions; (2) travelers checks of nonbank issuers; (3) demand deposits at all commercial banks other than those due to depository institutions, the U.S. government, and foreign banks and official institutions less cash items in the process of collection and Federal Reserve float; and (4) other checkable deposits (OCD) consisting of negotiable order of withdrawal (NOW) and automatic transfer service (ATS) accounts at depository institutions, credit union share draft accounts, and demand deposits at thrift institutions.

M2: M1 plus overnight (and continuing contract) repurchase agreements (RPs) issued by all commercial banks and overnight Eurodollars issued to U.S. residents by foreign branches of U.S. banks worldwide, Money Market Deposit Accounts (MMDAs), savings and small-denomination time deposits (time deposits—including retail RPs—in amounts of less than $100,000), and balances in both taxable and tax-exempt general purpose and broker-dealer money market mutual funds. Excludes individual retirement accounts (IRA) and Keogh balances at depository institutions and money market funds. Also excludes all balances held by U.S. commercial banks, money market funds (general purpose and broker-dealer), foreign governments and commercial banks, and the U.S. government.

M3: M2 plus large-denomination time deposits and term RP liabilities (in amounts of $100,000 or more) issued by commercial banks and thrift institutions, term Eurodollars held by U.S. residents at foreign branches of U.S. banks worldwide and at all banking offices in the United Kingdom and Canada, and balances in both taxable and tax-exempt, institution-only money market mutual funds. Excludes amounts held by depository institutions, the U.S. government, money market funds, and foreign banks and official institutions. Also subtracted is the estimated amount of overnight RPs and Eurodollars held by institution-only money market mutual funds.

L: M3 plus the nonbank public holdings of U.S. savings bonds, short-term Treasury securities, commercial paper and bankers acceptances, net of money market mutual fund holdings of these assets.

Debt: Debt of domestic nonfinancial sectors consists of outstanding credit market debt of the U.S. government, state and local governments, and private nonfinancial sectors. Private debt consists of corporate bonds, mortgages, consumer credit (including bank loans), other bank loans, commercial paper, bankers acceptances, and other debt instruments. The source of data on domestic nonfinancial debt is the Federal Reserve Board's flow of funds accounts. Debt data are based on monthly averages. Growth rates for debt reflect adjustments for discontinuities over time in the levels of debt presented in other tables.

5. Sum of overnight RPs and Eurodollars, money market fund balances (general purpose and broker-dealer), MMDAs, and savings and small time deposits less the estimated amount of demand deposits and vault cash held by thrift institutions to service their time and savings deposit liabilities.

6. Sum of large time deposits, term RPs, and Eurodollars of U.S. residents, money market fund balances (institution-only), less a consolidation adjustment that represents the estimated amount of overnight RPs and Eurodollars held by institution-only money market mutual funds.

7. Excludes MMDAs.

8. Small-denomination time deposits—including retail RPs—are those issued in amounts of less than $100,000. All IRA and Keogh accounts at commercial banks and thrifts are subtracted from small time deposits.

9. Large-denomination time deposits are those issued in amounts of $100,000 or more, excluding those booked at international banking facilities.

10. Large-denomination time deposits at commercial banks less those held by money market mutual funds, depository institutions, and foreign banks and official institutions.

11. Changes calculated from figures shown in table 1.23.

1.11 RESERVES OF DEPOSITORY INSTITUTIONS AND RESERVE BANK CREDIT

Millions of dollars

Factors	Monthly averages of daily figures			Weekly averages of daily figures for week ending						
	1988			1988						
	Oct.	Nov.	Dec.	Nov. 16	Nov. 23	Nov. 30	Dec. 7	Dec. 14	Dec. 21	Dec. 28
SUPPLYING RESERVE FUNDS										
1 **Reserve Bank credit**	**255,178**	**258,858**	**263,823**	**259,508**	**258,005**	**259,428**	**261,879**	**262,357**	**263,885**	**264,494**
2 U.S. government securities[1]	225,724	229,131	234,567	228,920	229,119	231,005	234,192	233,266	234,972	234,552
3 Bought outright	225,210	228,390	233,606	228,482	229,119	229,259	234,192	232,906	234,480	232,881
4 Held under repurchase agreements	514	741	961	438	0	1,746	0	360	492	1,671
5 Federal agency obligations	7,482	7,332	7,565	7,229	7,102	7,730	7,102	7,414	7,117	7,918
6 Bought outright	7,160	7,106	7,041	7,102	7,102	7,102	7,102	7,066	7,018	7,010
7 Held under repurchase agreements	322	226	524	127	0	628	0	348	99	908
8 Acceptances	0	0	0	0	0	0	0	0	0	0
9 Loans	2,337	2,883	1,749	3,500	2,757	2,367	2,016	2,012	1,332	1,362
10 Float	1,219	1,186	1,436	1,169	1,401	495	114	1,342	1,760	1,771
11 Other Federal Reserve assets	18,416	18,327	18,507	18,690	17,626	17,831	18,455	18,323	18,704	18,891
12 Gold stock[2]	11,064	11,061	11,061	11,061	11,060	11,060	11,062	11,062	11,061	11,060
13 Special drawing rights certificate account	5,018	5,018	5,018	5,018	5,018	5,018	5,018	5,018	5,018	5,018
14 Treasury currency outstanding	18,667	18,718	18,769	18,714	18,724	18,734	18,745	18,759	18,773	18,787
ABSORBING RESERVE FUNDS										
15 Currency in circulation	237,156	240,343	244,540	240,626	240,657	242,179	242,451	243,390	244,312	246,598
16 Treasury cash holdings[2]	398	401	399	404	401	399	398	404	398	397
Deposits, other than reserve balances, with Federal Reserve Banks										
17 Treasury	5,954	5,268	5,364	5,209	5,288	5,137	4,306	4,807	6,462	4,500
18 Foreign	240	246	248	233	289	262	284	237	270	183
19 Service-related balances and adjustments	1,848	1,746	2,014	1,887	1,897	1,932	2,147	2,073	1,789	1,849
20 Other	352	380	369	305	328	552	317	310	371	412
21 Other Federal Reserve liabilities and capital	7,617	7,955	8,040	7,751	7,717	8,042	8,074	7,930	8,130	8,120
22 Reserve balances with Federal Reserve Banks[3]	36,361	37,316	37,697	37,886	36,231	35,738	38,725	38,044	37,004	37,299

Factors	End-of-month figures			Wednesday figures						
	1988			1988						
	Oct.	Nov.	Dec.	Nov. 16	Nov. 23	Nov. 30	Dec. 7	Dec. 14	Dec. 21	Dec. 28
SUPPLYING RESERVE FUNDS										
23 **Reserve Bank credit**	**257,722**	**261,971**	**269,748**	**259,803**	**255,616**	**261,971**	**262,932**	**261,481**	**263,705**	**269,055**
24 U.S. government securities[1]	225,638	232,702	238,422	229,178	228,077	232,702	233,451	231,552	235,293	237,268
25 Bought outright	223,041	228,701	233,662	229,178	228,077	228,701	233,451	231,313	234,839	233,562
26 Held under repurchase agreements	2,597	4,001	4,760	0	0	4,001	0	239	454	3,706
27 Federal agency obligations	8,767	8,384	9,067	7,102	7,102	8,384	7,102	7,092	7,052	8,402
28 Bought outright	7,116	7,102	6,966	7,102	7,102	7,102	7,102	7,018	7,017	6,967
29 Held under repurchase agreements	1,651	1,282	2,101	0	0	1,282	0	74	35	1,435
30 Acceptances	0	0	0	0	0	0	0	0	0	0
31 Loans	2,275	2,328	2,170	3,406	1,570	2,328	1,819	2,197	961	1,603
32 Float	1,690	389	1,286	3,057	920	389	2,314	2,058	1,695	2,691
33 Other Federal Reserve assets	19,352	18,168	18,803	17,060	17,947	18,168	18,246	18,582	18,704	19,091
34 Gold stock[2]	11,062	11,059	11,060	11,060	11,061	11,059	11,062	11,061	11,060	11,060
35 Special drawing rights certificate account	5,018	5,018	5,018	5,018	5,018	5,018	5,018	5,018	5,018	5,018
36 Treasury currency outstanding	18,693	18,743	18,799	18,723	18,733	18,743	18,757	18,771	18,785	18,799
ABSORBING RESERVE FUNDS										
37 Currency in circulation	237,094	242,472	247,649	240,480	241,883	242,472	243,041	243,951	245,411	247,745
38 Treasury cash holdings[2]	397	402	395	401	399	402	405	398	398	390
Deposits, other than reserve balances, with Federal Reserve Banks										
39 Treasury	6,151	5,198	8,656	5,384	4,631	5,198	4,185	4,638	10,156	5,822
40 Foreign	301	251	347	182	287	251	251	233	201	216
41 Service-related balances and adjustments	1,662	1,613	1,605	1,648	1,613	1,613	1,612	1,612	1,594	1,594
42 Other	348	398	548	354	259	398	345	300	318	556
43 Other Federal Reserve liabilities and capital	8,463	8,058	7,683	7,467	7,542	8,058	7,681	7,695	7,674	8,070
44 Reserve balances with Federal Reserve Banks[3]	38,079	38,399	37,742	38,688	33,813	38,399	40,249	37,504	32,816	39,539

1. *Includes* securities loaned—fully guaranteed by U.S. government securities pledged with Federal Reserve Banks—and *excludes* any securities sold and scheduled to be bought back under matched sale-purchase transactions.

2. Revised for periods between October 1986 and April 1987. At times during this interval, outstanding gold certificates were inadvertently in excess of the gold stock. Revised data not included in this table are available from the Division of Research and Statistics, Banking Section.

3. Excludes required clearing balances and adjustments to compensate for float.

NOTE. For amounts of currency and coin held as reserves, see table 1.12.

1.12 RESERVES AND BORROWINGS Depository Institutions[1]

Millions of dollars

Reserve classification	Monthly averages[9]									
	1985	1986	1987	1988						
	Dec.	Dec.	Dec.	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1 Reserve balances with Reserve Banks[2]	27,620	37,360	37,673	37,907	37,992	36,911	37,213	36,421	36,997	37,830
2 Total vault cash[3]	22,953	24,079	26,155	25,717	26,479	26,895	26,726	27,196	26,746	27,197
3 Vault[4]	20,522	22,199	24,449	24,084	24,763	25,054	24,940	25,494	25,410	25,906
4 Surplus[5]	2,431	1,879	1,706	1,632	1,715	1,841	1,786	1,702	1,335	1,291
5 Total reserves[6]	48,142	59,560	62,123	61,991	62,756	61,965	62,153	61,915	62,407	63,736
6 Required reserves	47,085	58,191	61,094	61,103	61,749	61,012	61,181	60,853	61,287	62,696
7 Excess reserve balances at Reserve Banks[7]	1,058	1,369	1,029	888	1,007	953	972	1,062	1,119	1,040
8 Total borrowings at Reserve Banks	1,318	827	777	3,083	3,440	3,241	2,839	2,299	2,861	1,716
9 Seasonal borrowings at Reserve Banks	56	38	93	311	376	423	421	332	186	130
10 Extended credit at Reserve Banks[8]	499	303	483	2,554	2,538	2,653	2,059	1,781	2,322	1,244
	Biweekly averages of daily figures for weeks ending									
	1988									
	Aug. 24	Sept. 7	Sept. 21	Oct. 5	Oct. 19	Nov. 2	Nov. 16	Nov. 30	Dec. 14	Dec. 28
11 Reserve balances with Reserve Banks[2]	36,422	37,273	37,625	36,527	36,678	36,078	38,143	35,981	37,106	38,724
12 Total vault cash[3]	27,400	26,351	26,787	26,924	27,612	26,825	26,221	27,259	27,927	27,904
13 Vault[4]	25,513	24,555	25,054	25,063	25,806	25,309	25,022	25,814	26,525	26,653
14 Surplus[5]	1,887	1,797	1,733	1,861	1,806	1,516	1,200	1,446	1,403	1,251
15 Total reserves[6]	61,935	61,827	62,679	61,590	62,484	61,387	63,165	61,795	63,631	65,376
16 Required reserves	60,954	60,705	61,896	60,442	61,509	60,260	61,562	61,160	62,550	64,228
17 Excess reserve balances at Reserve Banks[7]	981	1,123	783	1,148	975	1,128	1,603	635	1,081	1,148
18 Total borrowings at Reserve Banks	3,245	3,093	2,971	2,438	2,204	2,353	3,233	2,562	1,347	2,048
19 Seasonal borrowings at Reserve Banks	431	432	408	433	337	285	180	178	137	94
20 Extended credit at Reserve Banks[8]	2,671	2,482	2,075	1,704	1,681	1,931	2,838	1,863	968	1,208

1. These data also appear in the Board's H.3 (502) release. For address, see inside front cover.
2. Excludes required clearing balances and adjustments to compensate for float.
3. Dates refer to the maintenance periods in which the vault cash can be used to satisfy reserve requirements. Under contemporaneous reserve requirements, maintenance periods end 30 days after the lagged computation periods in which the balances are held.
4. Equal to all vault cash held during the lagged computation period by institutions having required reserve balances at Federal Reserve Banks plus the amount of vault cash equal to required reserves during the maintenance period at institutions having no required reserve balances.
5. Total vault cash at institutions having no required reserve balances less the amount of vault cash equal to their required reserves during the maintenance period.
6. Total reserves not adjusted for discontinuities consist of reserve balances with Federal Reserve Banks, which exclude required clearing balances and adjustments to compensate for float, plus vault cash used to satisfy reserve requirements. Such vault cash consists of all vault cash held during the lagged computation period by institutions having required reserve balances at Federal Reserve Banks plus the amount of vault cash equal to required reserves during the maintenance period at institutions having no required reserve balances.
7. Reserve balances with Federal Reserve Banks plus vault cash used to satisfy reserve requirements less required reserves.
8. Extended credit consists of borrowing at the discount window under the terms and conditions established for the extended credit program to help depository institutions deal with sustained liquidity pressures. Because there is not the same need to repay such borrowing promptly as there is with traditional short-term adjustment credit, the money market impact of extended credit is similar to that of nonborrowed reserves.
9. Data are prorated monthly averages of biweekly averages.

1.13 SELECTED BORROWINGS IN IMMEDIATELY AVAILABLE FUNDS Large Member Banks[1]

Averages of daily figures, in millions of dollars

Maturity and source	1988 week ending Monday								
	Mar. 28	Apr. 4	Apr. 11	Apr. 18	Apr. 25	May 2	May 9	May 16	May 23
Federal funds purchased, repurchase agreements, and other selected borrowing in immediately available funds									
From commercial banks in the United States									
1 For one day or under continuing contract	66,924	75,487	75,392	72,737	67,632	64,874	66,700	63,447	63,088
2 For all other maturities	10,781	10,964	10,407	10,492	10,738	10,683	10,857	11,208	9,894
From other depository institutions, foreign banks and foreign official institutions, and U.S. government agencies									
3 For one day or under continuing contract	36,308	35,383	39,168	36,509	31,334	28,596	32,399	33,207	34,265
4 For all other maturities	6,270	7,084	7,176	7,543	8,080	9,081	8,146	8,205	7,486
Repurchase agreements on U.S. government and federal agency securities in immediately available funds									
Brokers and nonbank dealers in securities									
5 For one day or under continuing contract	13,570	13,685	13,367	13,659	13,648	13,705	15,256	16,394	16,467
6 For all other maturities	13,645	15,050	14,082	14,777	16,544	17,892	17,652	17,513	15,092
All other customers									
7 For one day or under continuing contract	25,634	24,025	25,567	25,461	24,743	25,708	24,271	25,333	25,536
8 For all other maturities	10,562	11,956	9,572	10,279	9,705	9,324	9,238	9,444	9,348
MEMO: Federal funds loans and resale agreements in immediately available funds in maturities of one day or under continuing contract									
9 To commercial banks in the United States	31,377	36,189	33,848	34,565	34,092	34,774	34,480	32,915	31,181
10 To all other specified customers[2]	14,184	12,487	13,170	13,321	13,252	14,708	14,540	13,607	13,154

1. Banks with assets of $1 billion or more as of Dec. 31, 1977.
These data also appear in the Board's H.5 (507) release. For address, see inside front cover.

2. Brokers and nonbank dealers in securities; other depository institutions; foreign banks and official institutions; and United States government agencies.

1.14 FEDERAL RESERVE BANK INTEREST RATES

Percent per year

Current and previous levels

Federal Reserve Bank	Adjustment credit and Seasonal credit[1]			Extended credit[2]						
				First 30 days of borrowing			After 30 days of borrowing[3]			
	On 1/27/89	Effective date	Previous rate	On 1/27/89	Effective date	Previous rate	On 1/27/89	Effective date	Previous rate	Effective date
Boston	6½	8/9/88	6	6½	8/9/88	6	9.65	1/26/89	9.70	1/12/89
New York		8/9/88			8/9/88			1/26/89		1/12/89
Philadelphia		8/9/88			8/9/88			1/26/89		1/12/89
Cleveland		8/9/88			8/9/88			1/26/89		1/12/89
Richmond		8/9/88			8/9/88			1/26/89		1/12/89
Atlanta		8/9/88			8/9/88			1/26/89		1/12/89
Chicago		8/10/88			8/10/88			1/26/89		1/12/89
St. Louis		8/9/88			8/9/88			1/26/89		1/12/89
Minneapolis		8/9/88			8/9/88			1/26/89		1/12/89
Kansas City		8/9/88			8/9/88			1/26/89		1/12/89
Dallas		8/11/88			8/11/88			1/26/89		1/12/89
San Francisco	6½	8/9/88	6	6½	8/9/88	6	9.65	1/26/89	9.70	1/12/89

Range of rates for adjustment credit in recent years[4]

Effective date	Range (or level)—All F.R. Banks	F.R. Bank of N.Y.	Effective date	Range (or level)—All F.R. Banks	F.R. Bank of N.Y.	Effective date	Range (or level)—All F.R. Banks	F.R. Bank of N.Y.
In effect Dec. 31, 1977	6	6	1980—July 28	10–11	10	1984—Apr. 9	8½–9	9
1978—Jan. 9	6–6½	6½	29	10	10	13	9	9
20	6½	6½	Sept. 26	11	11	Nov. 21	8½–9	8½
May 11	6½–7	7	Nov. 17	12	12	26	8½	8½
12	7	7	Dec. 5	12–13	13	Dec. 24	8	8
July 3	7–7¼	7¼						
10	7¼	7¼	1981—May 5	13–14	14	1985—May 20	7½–8	7½
Aug. 21	7¾	7¾	8	14	14	24	7½	7½
Sept. 22	8	8	Nov. 2	13–14	13			
Oct. 16	8–8½	8½	6	13	13	1986—Mar. 7	7–7½	7
20	8½	8½	Dec. 4	12	12	10	7	7
Nov. 1	8½–9½	9½				Apr. 21	6½–7	6½
3	9½	9½	1982—July 20	11½–12	11½	July 11	6	6
			23	11½	11½	Aug. 21	5½–6	5½
1979—July 20	10	10	Aug. 2	11–11½	11	22	5½	5½
Aug. 17	10–10½	10½	3	11	11			
20	10½	10½	16	10½	10½	1987—Sept. 4	5½–6	6
Sept. 19	10½–11	11	27	10–10½	10	11	6	6
21	11	11	30	10	10			
Oct. 8	11–12	12	Oct. 12	9½–10	9½	1988—Aug. 9	6–6½	6½
10	12	12	13	9½	9½	11	6½	6½
			Nov. 22	9–9½	9			
1980—Feb. 15	12–13	13	26	9	9	In effect January 27, 1989	6½	6½
19	13	13	Dec. 14	8½–9	9			
May 29	12–13	13	15	8½–9	8½			
30	12	12	17	8½	8½			
June 13	11–12	11						
16	11	11						

1. Adjustment credit is available on a short-term basis to help depository institutions meet temporary needs for funds that cannot be met through reasonable alternative sources. After May 19, 1986, the highest rate established for loans to depository institutions may be charged on adjustment credit loans of unusual size that result from a major operating problem at the borrower's facility.

Seasonal credit is available to help smaller depository institutions meet regular, seasonal needs for funds that cannot be met through special industry lenders and that arise from a combination of expected patterns of movement in their deposits and loans. A temporary simplified seasonal program was established on Mar. 8, 1985, and the interest rate was a fixed rate ½ percent above the rate on adjustment credit. The program was reestablished on Feb. 18, 1986 and again on Jan. 28, 1987; the rate may be either the same as that for adjustment credit or a fixed rate ½ percent higher.

2. Extended credit is available to depository institutions, when similar assistance is not reasonably available from other sources, when exceptional circumstances or practices involve only a particular institution or when an institution is experiencing difficulties adjusting to changing market conditions over a longer period of time.

3. For extended-credit loans outstanding more than 30 days, a flexible rate somewhat above rates on market sources of funds ordinarily will be charged, but in no case will the rate charged be less than the basic discount rate plus 50 basis points. The flexible rate is reestablished on the first business day of each two-week reserve maintenance period. At the discretion of the Federal Reserve Bank, the time period for which the basic discount rate is applied may be shortened.

4. For earlier data, see the following publications of the Board of Governors: *Banking and Monetary Statistics, 1914–1941*, and *1941–1970*; *Annual Statistical Digest, 1970–1979*.

In 1980 and 1981, the Federal Reserve applied a surcharge to short-term adjustment credit borrowings by institutions with deposits of $500 million or more that had borrowed in successive weeks or in more than four weeks in a calendar quarter. A 3 percent surcharge was in effect from Mar. 17, 1980 through May 7, 1980. There was no surcharge until Nov. 17, 1980, when a 2 percent surcharge was adopted; the surcharge was subsequently raised to 3 percent on Dec. 5, 1980, and to 4 percent on May 5, 1981. The surcharge was reduced to 3 percent effective Sept. 22, 1981, and to 2 percent effective Oct. 12, 1981. As of Oct. 1, 1981 the formula for applying the surcharge was changed from a calendar quarter to a moving 13-week period. The surcharge was eliminated on Nov. 17, 1981.

1.15 RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS[1]

Percent of deposits

Type of deposit, and deposit interval[2]	Depository institution requirements after implementation of the Monetary Control Act	
	Percent of deposits	Effective date
Net transaction accounts[3,4]		
$0 million–$41.5 million	3	12/20/88
More than $41.5 million	12	12/20/88
Nonpersonal time deposits[5]		
By original maturity		
Less than 1½ years	3	10/6/83
1½ years or more	0	10/6/83
Eurocurrency liabilities		
All types	3	11/13/80

1. Reserve requirements in effect on Dec. 31, 1988. Required reserves must be held in the form of deposits with Federal Reserve Banks or vault cash. Nonmembers may maintain reserve balances with a Federal Reserve Bank indirectly on a pass-through basis with certain approved institutions. For previous reserve requirements, see earlier editions of the *Annual Report* and of the FEDERAL RESERVE BULLETIN. Under provisions of the Monetary Control Act, depository institutions include commercial banks, mutual savings banks, savings and loan associations, credit unions, agencies and branches of foreign banks, and Edge corporations.

2. The Garn–St Germain Depository Institutions Act of 1982 (Public Law 97–320) requires that $2 million of reservable liabilities (transaction accounts, nonpersonal time deposits, and Eurocurrency liabilities) of each depository institution be subject to a zero percent reserve requirement. The Board is to adjust the amount of reservable liabilities subject to this zero percent reserve requirement each year for the succeeding calendar year by 80 percent of the percentage increase in the total reservable liabilities of all depository institutions, measured on an annual basis as of June 30. No corresponding adjustment is to be made in the event of a decrease. On Dec. 20, 1988, the exemption was raised from $3.2 million to $3.4 million. In determining the reserve requirements of depository institutions, the exemption shall apply in the following order: (1) net NOW accounts (NOW accounts less allowable deductions); (2) net other transaction accounts; and (3) nonpersonal time deposits or Eurocurrency liabilities starting with those with the highest reserve ratio. With respect to NOW accounts and other transaction accounts, the exemption applies only to such accounts that would be subject to a 3 percent reserve requirement.

3. Transaction accounts include all deposits on which the account holder is permitted to make withdrawals by negotiable or transferable instruments, payment orders of withdrawal, and telephone and preauthorized transfers in excess of three per month for the purpose of making payments to third persons or others. However, MMDAs and similar accounts subject to the rules that permit no more than six preauthorized, automatic, or other transfers per month, of which no more than three can be checks, are not transaction accounts (such accounts are savings deposits subject to time deposit reserve requirements).

4. The Monetary Control Act of 1980 requires that the amount of transaction accounts against which the 3 percent reserve requirement applies be modified annually by 80 percent of the percentage increase in transaction accounts held by all depository institutions, determined as of June 30 each year. Effective Dec. 20, 1988 for institutions reporting quarterly and Dec. 27, 1988 for institutions reporting weekly, the amount was increased from $40.5 million to $41.5 million.

5. In general, nonpersonal time deposits are time deposits, including savings deposits, that are not transaction accounts and in which a beneficial interest is held by a depositor that is not a natural person. Also included are certain transferable time deposits held by natural persons and certain obligations issued to depository institution offices located outside the United States. For details, see section 204.2 of Regulation D.

1.17 FEDERAL RESERVE OPEN MARKET TRANSACTIONS[1]

Millions of dollars

Type of transaction	1985	1986	1987	1988						
				May	June	July	Aug.	Sept.	Oct.	Nov.
U.S. TREASURY SECURITIES										
Outright transactions (*excluding matched transactions*)										
Treasury bills										
1 Gross purchases	22,213r	22,604r	18,983	0	0	515	0	1,280	375	3,599
2 Gross sales	4,118	2,502	6,051r	0	0	0	0	0	0	0
3 Exchange	0	0	0	0	0	0	0	0	0	0
4 Redemptions	3,500	1,000	9,029	0	0	0	0	0	0	0
Others within 1 year										
5 Gross purchases	1,349	190	3,659r	0	0	0	0	0	0	0
6 Gross sales	0	0	300	0	0	0	0	0	0	0
7 Maturity shift	19,762r	18,674r	21,504r	1,646	1,384	1,033	3,932	1,368	1,669	5,264
8 Exchange	-17,718r	-20,180r	-20,388	-4,324	-1,826	-87	-4,296	-1,646	-916	-2,391
9 Redemptions	0	0	70	0	0	0	0	0	0	0
1 to 5 years										
10 Gross purchases	2,185	893	10,231	0	0	0	0	0	0	0
11 Gross sales	0	0	452	0	0	0	0	0	0	0
12 Maturity shift	-17,459	-17,058	-17,975	-1,102	-1,384	-997	-1,821	-1,368	-1,544	-3,088
13 Exchange	13,854r	16,985r	18,938	3,724	1,826	0	3,971	1,646	639	2,091
5 to 10 years										
14 Gross purchases	459r	236	2,441	0	0	0	0	0	0	0
15 Gross sales	100	0	0	0	0	0	0	0	0	0
16 Maturity shift	-1,859r	-1,620	-3,529	-387	0	-36	-2,111	0	-125	-2,145
17 Exchange	2,184	2,050	950	400	0	87	325	0	276	300
Over 10 years										
18 Gross purchases	293	158	1,858	0	0	0	0	0	0	0
19 Gross sales	0	0	0	0	0	0	0	0	0	0
20 Maturity shift	-446r	0	0	-157	0	0	0	0	0	-31
21 Exchange	1,679	1,150	500	200	0	0	0	0	0	0
All maturities										
22 Gross purchases	26,500r	24,081r	37,170r	0	0	515	0	1,280	375	3,599
23 Gross sales	4,218	2,502	6,803r	0	0	0	0	0	0	0
24 Redemptions	3,500	1,000	9,099	0	0	0	0	0	0	0
Matched transactions										
25 Gross sales	866,175	927,999r	950,923	115,287	73,708	81,979	124,875	113,886	98,804	98,618
26 Gross purchases	865,967r	927,247	950,935	115,115	72,966	83,464	123,220	113,384	97,897	100,680
Repurchase agreements[2]										
27 Gross purchases	134,253	170,431	314,621r	15,871	10,520	22,978	0	35,800	4,715	17,867
28 Gross sales	132,351	160,268	324,666	23,478	5,334	28,164	0	30,191	7,727	16,463
29 Net change in U.S. government securities	20,477	29,988r	11,234r	-7,779	4,444	-3,186	-1,655	6,386	-3,544	7,064
FEDERAL AGENCY OBLIGATIONS										
Outright transactions										
30 Gross purchases	0	0	0	0	0	0	0	0	0	0
31 Gross sales	0	0	0	0	0	0	0	0	0	0
32 Redemptions	162	398	276	11	0	67	10	0	75	14
Repurchase agreements[2]										
33 Gross purchases	22,184r	31,142	80,353	4,771	5,083	12,355	0	12,107	2,223	4,763
34 Gross sales	20,879r	30,521r	81,350r	7,566	2,843	14,594	0	8,225	4,454	5,132
35 Net change in federal agency obligations	1,143r	222	-1,274	-2,807	2,239	-2,306	-10	3,882	-2,306	-383
36 **Total net change in System Open Market Account**	**21,621**	**30,212r**	**9,961**	**-10,585**	**6,683**	**-5,492**	**-1,665**	**10,268**	**-5,850**	**6,681**

1. Sales, redemptions, and negative figures reduce holdings of the System Open Market Account; all other figures increase such holdings. Details may not add to totals because of rounding.

2. In July 1984 the Open Market Trading Desk discontinued accepting bankers acceptances in repurchase agreements.

1.18 FEDERAL RESERVE BANKS Condition and Federal Reserve Note Statements[1]

Millions of dollars

Account	Wednesday					End of month		
	1988					1988		
	Nov. 30	Dec. 7	Dec. 14	Dec. 21	Dec. 28	Oct.	Nov.	Dec.
	Consolidated condition statement							
ASSETS								
1 Gold certificate account	11,059	11,062	11,061	11,060	11,060	11,062	11,059	11,060
2 Special drawing rights certificate account	5,018	5,018	5,018	5,018	5,018	5,018	5,018	5,018
3 Coin	404	408	429	424	408	434	404	395
Loans								
4 To depository institutions	2,328	1,819	2,197	961	1,603	2,275	2,328	2,170
5 Other	0	0	0	0	0	0	0	0
6 Acceptances held under repurchase agreements	0	0	0	0	0	0	0	0
Federal agency obligations								
7 Bought outright	7,102	7,102	7,018	7,017	6,967	7,116	7,102	6,966
8 Held under repurchase agreements	1,282	0	74	35	1,435	1,651	1,282	2,101
U.S. Treasury securities								
Bought outright								
9 Bills	111,724	113,006	110,793	114,060	112,782	106,064	111,724	112,782
10 Notes	87,484	90,515	90,590	90,850	90,850	87,484	87,484	90,950
11 Bonds	29,493	29,930	29,930	29,929	29,930	29,493	29,493	29,930
12 Total bought outright[2]	232,701	233,451	231,313	234,839	233,562	223,041	228,701	233,662
13 Held under repurchase agreements	4,001	0	239	454	3,706	2,597	4,001	4,760
14 Total U.S. Treasury securities	232,702	233,451	231,552	235,293	237,268	225,638	232,702	238,422
15 **Total loans and securities**	**243,414**	**242,372**	**240,841**	**243,306**	**247,273**	**236,680**	**243,414**	**249,659**
16 Items in process of collection	6,121	8,979	8,699	9,010	11,136	6,785	6,121	8,739
17 Bank premises	743	745	745	745	746	740	743	750
Other assets								
18 Denominated in foreign currencies[3]	9,565	9,431	9,445	9,448	9,455	10,423	9,565	9,129
19 All other[4]	8,096	8,070	8,392	8,511	8,890	8,189	8,096	8,924
20 **Total assets**	**284,420**	**286,085**	**284,630**	**287,522**	**293,986**	**279,331**	**284,420**	**293,674**
LIABILITIES								
21 Federal Reserve notes	224,535	225,097	226,007	227,448	229,744	219,232	224,535	229,640
Deposits								
22 To depository institutions	40,012	41,861	39,116	34,410	41,133	39,741	40,012	39,347
23 U.S. Treasury—General account	5,198	4,185	4,638	10,156	5,822	6,151	5,198	8,656
24 Foreign—Official accounts	251	251	233	201	216	301	251	347
25 Other	398	345	300	318	556	354	398	548
26 **Total deposits**	**45,859**	**46,642**	**44,287**	**45,085**	**47,727**	**46,547**	**45,859**	**48,898**
27 Deferred credit items	6,020	6,665	6,641	7,315	8,445	5,089	6,020	7,453
28 Other liabilities and accrued dividends[5]	3,221	3,082	3,098	3,032	3,487	3,051	3,221	3,457
29 **Total liabilities**	**279,635**	**281,486**	**280,033**	**282,880**	**289,403**	**273,919**	**279,635**	**289,448**
CAPITAL ACCOUNTS								
30 Capital paid in	2,106	2,107	2,110	2,111	2,113	2,108	2,106	2,113
31 Surplus	2,047	2,047	2,047	2,047	2,047	2,047	2,047	2,113
32 Other capital accounts	632	445	440	484	423	1,257	632	0
33 **Total liabilities and capital accounts**	**284,420**	**286,085**	**284,630**	**287,522**	**293,986**	**279,331**	**284,420**	**293,674**
34 MEMO: Marketable U.S. Treasury securities held in custody for foreign and international accounts	235,131	235,013	234,513	235,598	232,926	231,250	235,131	234,733
	Federal Reserve note statement							
35 Federal Reserve notes outstanding issued to bank	270,577	272,202	273,231	272,580	271,942	267,461	270,577	271,492
36 LESS: Held by bank	46,042	47,105	47,224	45,132	42,198	48,229	46,042	41,852
37 Federal Reserve notes, net	224,535	225,097	226,007	227,448	229,744	219,232	224,535	228,640
Collateral held against notes net:								
38 Gold certificate account	11,059	11,062	11,061	11,060	11,060	11,062	11,059	11,060
39 Special drawing rights certificate account	5,018	5,018	5,018	5,018	5,018	5,018	5,018	5,018
40 Other eligible assets	0	0	0	0	0	0	0	0
41 U.S. Treasury and agency securities	208,458	209,017	209,928	211,370	213,666	203,152	208,458	213,562
42 **Total collateral**	**224,535**	**225,097**	**226,007**	**227,448**	**229,744**	**219,232**	**224,535**	**229,640**

1. Some of these data also appear in the Board's H.4.1 (503) release. For address, see inside front cover.
2. Includes securities loaned—fully guaranteed by U.S. Treasury securities pledged with Federal Reserve Banks—and excludes securities sold and scheduled to be bought back under matched sale-purchase transactions.
3. Valued monthly at market exchange rates.
4. Includes special investment account at the Federal Reserve Bank of Chicago in Treasury bills maturing within 90 days.
5. Includes exchange-translation account reflecting the monthly revaluation at market exchange rates of foreign-exchange commitments.

1.19 FEDERAL RESERVE BANKS Maturity Distribution of Loan and Security Holdings

Millions of dollars

Type and maturity groupings	Wednesday					End of month		
	1988					1988		
	Nov. 30	Dec. 7	Dec. 14	Dec. 21	Dec. 28	Oct. 31	Nov. 30	Dec. 30
1 Loans—Total	2,328	1,819	2,197	961	1,602	2,275	2,328	2,170
2 Within 15 days	2,289	1,753	2,132	945	1,592	2,189	2,289	2,152
3 16 days to 90 days	39	66	65	16	10	86	39	18
4 91 days to 1 year	0	0	0	0	0	0	0	0
5 Acceptances—Total	0	0	0	0	0	0	0	0
6 Within 15 days	0	0	0	0	0	0	0	0
7 16 days to 90 days	0	0	0	0	0	0	0	0
8 91 days to 1 year	0	0	0	0	0	0	0	0
9 U.S. Treasury securities—Total	232,702	233,451	231,552	235,293	237,268	223,041	232,702	238,422
10 Within 15 days[1]	12,583	11,362	7,978	13,156	12,562	5,789	12,583	9,935
11 16 days to 90 days	53,659	52,234	53,691	54,978	54,917	51,917	53,659	58,448
12 91 days to 1 year	74,475	75,051	75,079	72,356	74,986	70,477	74,475	75,236
13 Over 1 year to 5 years	53,501	55,326	55,326	55,326	55,326	54,499	53,501	55,326
14 Over 5 years to 10 years	12,007	12,569	12,569	12,568	12,568	13,851	12,007	12,568
15 Over 10 years	26,477	26,909	26,909	26,909	26,909	26,508	26,477	26,909
16 Federal agency obligations—Total	8,384	7,102	7,092	7,052	8,402	7,116	8,384	9,067
17 Within 15 days[1]	1,557	84	153	283	1,605	228	1,557	2,271
18 16 days to 90 days	675	885	831	661	697	782	675	697
19 91 days to 1 year	1,457	1,438	1,483	1,483	1,492	1,492	1,457	1,492
20 Over 1 year to 5 years	3,413	3,413	3,368	3,368	3,419	3,322	3,413	3,418
21 Over 5 years to 10 years	1,093	1,093	1,068	1,068	1,000	1,103	1,093	1,000
22 Over 10 years	189	189	189	189	189	189	189	189

1. Holdings under repurchase agreements are classified as maturing within 15 days in accordance with maximum maturity of the agreements.

1.20 AGGREGATE RESERVES OF DEPOSITORY INSTITUTIONS AND MONETARY BASE[1]

Billions of dollars, averages of daily figures

Item	1985 Dec.	1986 Dec.	1987 Dec.	1988 Dec.	1988 May	June	July	Aug.	Sept.	Oct.	Nov.[r]	Dec.
	Seasonally adjusted											
ADJUSTED FOR CHANGES IN RESERVE REQUIREMENTS[2]												
1 **Total reserves[3]**	**47.26**	**57.46**	**58.72**	**60.98**	**60.37**	**60.64**	**61.24**	**61.09**	**61.00**	**60.96**	**61.06**	**60.98**
2 Nonborrowed reserves	45.94	56.63	57.94	59.26	57.79	57.55	57.80	57.85	58.16	58.66	58.19	59.26
3 Nonborrowed reserves plus extended credit[4]	46.44	56.93	58.43	60.50	59.89	60.11	60.34	60.50	60.21	60.44	60.52	60.50
4 Required reserves	46.20	56.09	57.69	59.94	59.32	59.75	60.23	60.14	60.02	59.89	59.94	59.94
5 Monetary base[5]	218.26	240.80	257.93	275.82	266.92	268.31	270.63	271.20	272.45	273.73	274.47	275.82
	Not seasonally adjusted											
6 **Total reserves[3]**	**48.27**	**58.70**	**60.02**	**62.42**	**59.45**	**60.68**	**61.47**	**60.59**	**60.65**	**60.54**	**61.15**	**62.42**
7 Nonborrowed reserves	46.95	57.87	59.25	60.71	56.88	57.60	58.03	57.35	57.82	58.24	58.29	60.71
8 Nonborrowed reserves plus extended credit[4]	47.45	58.18	59.73	61.95	58.98	60.15	60.57	60.00	59.87	60.02	60.62	61.95
9 Required reserves	47.21	57.33	58.99	61.38	58.41	59.79	60.46	59.64	59.68	59.48	60.04	61.38
10 Monetary base[5]	221.49	244.55	262.05	279.89	265.73	269.44	272.41	271.73	271.57	272.44	275.48	279.89
NOT ADJUSTED FOR CHANGES IN RESERVE REQUIREMENTS[6]												
11 **Total reserves[3]**	**48.14**	**59.56**	**62.12**	**63.74**	**60.68**	**61.99**	**62.76**	**61.97**	**62.15**	**61.92**	**62.41**	**63.74**
12 Nonborrowed reserves	46.82	58.73	61.35	62.02	58.10	58.91	59.32	58.72	59.31	59.62	59.55	62.02
13 Nonborrowed reserves plus extended credit[4]	47.32[r]	59.04	61.83[r]	63.26	60.21[r]	61.46[r]	61.85[r]	61.38[r]	61.37[r]	61.40[r]	61.87	63.26
14 Required reserves	47.08	58.19	61.09	62.70	59.64	61.10	61.75	61.01	61.18	60.85	61.29	62.70
15 Monetary base[5]	223.53	247.71	266.16	283.18	268.90	272.65	275.59	275.03	274.87	275.78	278.65	283.18

1. Latest monthly and biweekly figures are available from the Board's H.3(502) statistical release. Historical data and estimates of the impact on required reserves of changes in reserve requirements are available from the Monetary and Reserves Projections Section, Division of Monetary Affairs, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

2. Figures incorporate adjustments for discontinuities associated with the implementation of the Monetary Control Act and other regulatory changes to reserve requirements. To adjust for discontinuities due to changes in reserve requirements on reservable nondeposit liabilities, the sum of such required reserves is subtracted from the actual series. Similarly, in adjusting for discontinuities in the monetary base, required clearing balances and adjustments to compensate for float also are subtracted from the actual series.

3. Total reserves not adjusted for discontinuities consist of reserve balances with Federal Reserve Banks, which exclude required clearing balances and adjustments to compensate for float, plus vault cash held during the lagged computation period by institutions having required reserve balances at Federal Reserve Banks plus the amount of vault cash equal to required reserves during the maintenance period at institutions having no required reserve balances.

4. Extended credit consists of borrowing at the discount window under the terms and conditions established for the extended credit program to help depository institutions deal with sustained liquidity pressures. Because there is not the same need to repay such borrowing promptly as there is with traditional short-term adjustment credit, the money market impact of extended credit is similar to that of nonborrowed reserves.

5. The monetary base not adjusted for discontinuities consists of total reserves plus required clearing balances and adjustments to compensate for float at Federal Reserve Banks and the currency component of the money stock plus, for institutions not having required reserve balances, the excess of current vault cash over the amount applied to satisfy current reserve requirements. Currency and vault cash figures are measured over the weekly computation period ending Monday.

The seasonally adjusted monetary base consists of seasonally adjusted total reserves, which include excess reserves on a not seasonally adjusted basis, plus the seasonally adjusted currency component of the money stock and the remaining items seasonally adjusted as a whole.

6. Reflects actual reserve requirements, including those on nondeposit liabilities, with no adjustments to eliminate the effects of discontinuities associated with implementation of the Monetary Control Act or other regulatory changes to reserve requirements.

1.21 MONEY STOCK, LIQUID ASSETS, AND DEBT MEASURES[1]

Billions of dollars, averages of daily figures

Item[2]	1985 Dec.	1986 Dec.	1987 Dec.	1988 Dec.	1988 Sept.	1988 Oct.	1988 Nov.	1988 Dec.
	Seasonally adjusted							
1 M1	620.1	725.4	750.8	787.8	782.4[r]	783.5	783.7	787.8
2 M2	2,562.6	2,807.7	2,901.0	3,067.4	3,034.2	3,037.5	3,054.9[r]	3,067.4
3 M3	3,196.4	3,490.8	3,664.4	3,904.8	3,853.6	3,868.8[r]	3,890.6[r]	3,904.8
4 L	3,825.9	4,134.3	4,329.3	n.a.	4,589.1	4,608.7[r]	4,643.6	n.a.
5 Debt	6,719.9	7,576.8	8,282.2	n.a.	8,821.7[r]	8,877.7[r]	8,942.7	n.a.
M1 components								
6 Currency[3]	167.7	180.4	196.5	211.7	208.5	209.5	210.3	211.7
7 Travelers checks[4]	5.9	6.5	7.1	7.5	7.3	7.4	7.5	7.5
8 Demand deposits[5]	267.2	303.3	288.0	288.1	288.4	288.6	286.9	288.1
9 Other checkable deposits[6]	179.2	235.2	259.3	280.5	278.2	278.0[r]	279.1	280.5
Nontransactions components								
10 In M2[7]	1,942.5	2,082.3	2,150.2	2,279.6	2,251.8	2,254.0[r]	2,271.2[r]	2,279.6
11 In M3 only[8]	633.8	683.1	763.4	837.4	819.4	831.3[r]	835.6[r]	837.4
Savings deposits[9]								
12 Commercial Banks	124.8	155.5	178.2	191.8	190.3	189.9	192.9	191.8
13 Thrift institutions	176.6	215.2	236.0	239.8	243.1	241.3	240.7[r]	239.8
Small-denomination time deposits[10]								
14 Commercial Banks	383.3	364.6	384.6	442.4	420.9[r]	429.2	435.3	442.4
15 Thrift institutions	496.2	488.6	528.5	584.8	576.4	580.6[r]	583.7	584.8
Money market mutual funds								
16 General purpose and broker-dealer	176.5	208.0	221.1	240.8	230.8	231.2	238.0	240.8
17 Institution-only	64.5	84.4	89.6	87.6	83.7	84.6	87.4	87.6
Large-denomination time deposits[11]								
18 Commercial Banks[12]	284.9	288.9	323.5	361.7	352.3	357.3[r]	358.3[r]	361.7
19 Thrift institutions	151.6	150.3	161.2	173.2	171.3	173.3	173.8[r]	173.2
Debt components								
20 Federal debt	1,585.3	1,805.8	1,956.1	n.a.	2,079.6	2,089.0	2,100.9	n.a.
21 Nonfederal debt	5,134.6	5,771.1	6,326.0	n.a.	6,742.1[r]	6,788.8[r]	6,841.9	n.a.
	Not seasonally adjusted							
22 M1	633.5	740.6	765.9	803.2	779.8	781.0[r]	787.1	803.2
23 M2	2,573.9	2,821.4	2,914.7	3,081.1	3,029.4	3,039.0	3,058.7[r]	3,081.1
24 M3	3,211.0	3,507.6	3,681.0	3,921.4	3,852.2	3,869.1[r]	3,898.6[r]	3,921.4
25 L	3,841.4	4,152.3	4,347.4	n.a.	4,584.8	4,610.2[r]	4,654.6	n.a.
26 Debt	6,710.2[r]	7,561.0	8,264.2	n.a.	8,788.4[r]	8,843.7[r]	8,900.6	n.a.
M1 components								
27 Currency[3]	170.2	183.0	199.4	214.8	207.9	209.0	211.3	214.8
28 Travelers checks[4]	5.5	6.0	6.5	6.9	7.9	7.5	7.1	6.9
29 Demand deposits[5]	276.9	314.4	298.5	298.5	287.1	288.5[r]	289.7	298.5
30 Other checkable deposits[6]	180.9	237.3	261.6	282.9	276.9	276.1	279.0	282.9
Nontransactions components								
31 M2[7]	1,940.3	2,080.7	2,148.8	2,278.0	2,249.6	2,258.0[r]	2,271.6[r]	2,278.0
32 M3 only[8]	637.1	686.2	766.3	840.3	822.9[r]	830.1[r]	839.9[r]	840.3
Money market deposit accounts								
33 Commercial Banks	332.8	379.6	358.2	351.8	353.7	352.3	353.4[r]	351.8
34 Thrift institutions	180.8	192.9	167.0	150.2	156.9	154.5[r]	152.5[r]	150.2
Savings deposits[9]								
35 Commercial Banks	123.7	154.2	176.7	190.1	189.8	190.1	192.1[r]	190.1
36 Thrift institutions	174.8	212.9	233.3	237.0	242.3	242.0	239.5[r]	237.0
Small-denomination time deposits[10]								
37 Commercial Banks	384.0	365.3	385.2	443.0	422.8	430.0	436.5	443.0
38 Thrift institutions	497.5	489.7	529.3	585.5	575.6	582.0	584.6[r]	585.5
Money market mutual funds								
39 General purpose and broker-dealer	176.5	208.0	221.1	240.8	230.8	231.2	238.0	240.8
40 Institution-only	64.5	84.4	89.6	87.6	83.7	84.6	87.4	87.6
Large-denomination time deposits[11]								
41 Commercial Banks[12]	285.4	289.1	323.6	361.8	352.4[r]	356.6[r]	358.3[r]	361.8
42 Thrift institutions	151.9	150.7	161.8	173.8	171.7	174.4	174.7[r]	173.8
Debt components								
43 Federal debt	1,583.7	1,803.9	1,954.1	n.a.	2,056.3[r]	2,069.2	2,090.3	n.a.
44 Nonfederal debt	5,126.4	5,757.2[r]	6,310.1	n.a.	6,732.1[r]	6,774.5[r]	6,810.3	n.a.

For notes see following page.

NOTES TO TABLE 1.21

1. Latest monthly and weekly figures are available from the Board's H.6 (508) release. Historical data are available from the Monetary and Reserves Projection section, Division of Monetary Affairs, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

2. Composition of the money stock measures and debt is as follows:

M1: (1) currency outside the Treasury, Federal Reserve Banks, and the vaults of depository institutions; (2) travelers checks of nonbank issuers; (3) demand deposits at all commercial banks other than those due to depository institutions, the U.S. government, and foreign banks and official institutions less cash items in the process of collection and Federal Reserve float; and (4) other checkable deposits (OCD) consisting of negotiable order of withdrawal (NOW) and automatic transfer service (ATS) accounts at depository institutions, credit union share draft accounts, and demand deposits at thrift institutions.

M2: M1 plus overnight (and continuing contract) repurchase agreements (RPs) issued by all commercial banks and overnight Eurodollars issued to U.S. residents by foreign branches of U.S. banks worldwide, MMDAs, savings and small-denomination time deposits (time deposits—including retail RPs—in amounts of less than $100,000), and balances in both taxable and tax-exempt general purpose and broker–dealer money market mutual funds. Excludes individual retirement accounts (IRA) and Keogh balances at depository institutions and money market funds. Also excludes all balances held by U.S. commercial banks, money market funds (general purpose and broker–dealer), foreign governments and commercial banks, and the U.S. government.

M3: M2 plus large-denomination time deposits and term RP liabilities (in amounts of $100,000 or more) issued by commercial banks and thrift institutions, term Eurodollars held by U.S. residents at foreign branches of U.S. banks worldwide and at all banking offices in the United Kingdom and Canada, and balances in both taxable and tax-exempt, institution-only money market mutual funds. Excludes amounts held by depository institutions, the U.S. government, money market funds, and foreign banks and official institutions. Also subtracted is the estimated amount of overnight RPs and Eurodollars held by institution-only money market mutual funds.

L: M3 plus the nonbank public holdings of U.S. savings bonds, short-term Treasury securities, commercial paper and bankers acceptances, net of money market mutual fund holdings of these assets.

Debt: Debt of domestic nonfinancial sectors consists of outstanding credit market debt of the U.S. government, state and local governments, and private nonfinancial sectors. Private debt consists of corporate bonds, mortgages, consumer credit (including bank loans), other bank loans, commercial paper, bankers acceptances, and other debt instruments. The source of data on domestic nonfinancial debt is the Federal Reserve Board's flow of funds accounts. Debt data are based on monthly averages.

3. Currency outside the U.S. Treasury, Federal Reserve Banks, and vaults of depository institutions.

4. Outstanding amount of U.S. dollar-denominated travelers checks of nonbank issuers. Travelers checks issued by depository institutions are included in demand deposits.

5. Demand deposits at commercial banks and foreign-related institutions other than those due to depository institutions, the U.S. government, and foreign banks and official institutions less cash items in the process of collection and Federal Reserve float.

6. Consists of NOW and ATS balances at all depository institutions, credit union share draft balances, and demand deposits at thrift institutions.

7. Sum of overnight RPs and overnight Eurodollars, money market fund balances (general purpose and broker-dealer), MMDAs, and savings and small time deposits.

8. Sum of large time deposits, term RPs, and term Eurodollars of U.S. residents, money market fund balances (institution-only), less the estimated amount of overnight RPs and Eurodollars held by institution-only money market funds.

9. Savings deposits exclude MMDAs.

10. Small-denomination time deposits—including retail RPs—are those issued in amounts of less than $100,000. All individual retirement accounts (IRA) and Keogh accounts at commercial banks and thrifts are subtracted from small time deposits.

11. Large-denomination time deposits are those issued in amounts of $100,000 or more, excluding those booked at international banking facilities.

12. Large-denomination time deposits at commercial banks less those held by money market mutual funds, depository institutions, and foreign banks and official institutions.

1.22 BANK DEBITS AND DEPOSIT TURNOVER[1]

Debits are shown in billions of dollars, turnover as ratio of debits to deposits. Monthly data are at annual rates.

Bank group, or type of customer	1985[2]	1986[2]	1987[2]	1988					
				May	June	July	Aug.	Sept.	Oct.
DEBITS TO	Seasonally adjusted								
Demand deposits[3]									
1 All insured banks	156,091.8r	188,346.0r	217,116.2r	224,052.3	230,198.8	224,512.7	228,898.2	227,617.3	235,980.5
2 Major New York City banks	70,585.8	91,397.3	104,496.3	109,714.7	111,402.1	107,336.7	110,150.0	108,741.8	114,876.4
3 Other banks	85,506.0r	96,948.8	112,619.8r	114,337.6	118,796.6	117,176.0	118,748.2	118,875.5	121,104.1
4 ATS-NOW accounts[4]	1,823.5	2,182.5	2,402.7	2,664.9	2,786.0	2,570.4	2,963.6	2,871.2	2,820.2
5 Savings deposits[5]	384.9	403.5	526.5	574.7	597.1	583.3	609.6	578.6	521.3
DEPOSIT TURNOVER									
Demand deposits[3]									
6 All insured banks	500.3	556.5	612.1	630.9	649.8	622.7	645.8	651.0	659.7
7 Major New York City banks	2,196.9	2,498.2	2,670.6	2,881.3	2,911.0	2,789.6	2,939.3	3,102.4	3,086.1
8 Other banks	305.7	321.2	357.0	360.6	376.0	363.8	374.6	377.9	377.9
9 ATS-NOW accounts[4]	15.8	15.6	13.8	14.2	14.8	13.5	15.6	15.1	14.8
10 Savings deposits[5]	3.2	3.0	3.1	3.1	3.2	2.9	3.2	3.1	2.8
DEBITS TO	Not seasonally adjusted								
Demand deposits[3]									
11 All insured banks	156,052.5r	188,506.7r	217,125.1r	222,685.5	241,133.2	217,350.7	237,459.0	224,089.2	227,485.2
12 Major New York City banks	70,559.2	91,500.1r	104,518.8r	106,335.6	117,287.7	103,561.2	112,654.6	107,115.7	111,019.4
13 Other banks	85,493.2r	97,006.7r	112,606.2r	116,349.9	123,845.5	113,789.6	124,804.4	116,973.5	116,465.8
14 ATS-NOW accounts[4]	1,826.4	2,184.6	2,404.8	2,601.3	2,851.4	2,536.6	2,828.0	2,951.1	2,805.4
15 MMDA[6]	1,223.9	1,609.4	1,954.2	2,341.0	2,557.1	2,399.0	2,530.0	2,409.4	2,325.8
16 Savings deposits[5]	385.3	404.1	526.8	566.4	598.3	566.2	615.9	570.1	540.9
DEPOSIT TURNOVER									
Demand deposits[3]									
17 All insured banks	499.9	556.7	612.3	638.6	679.5	599.9	681.6	642.9	39.8
18 Major New York City banks	2,196.3	2,499.1	2,674.9	2,895.6	3,121.4	2,660.7	3,170.3	3,046.4	3,059.1
19 Other banks	305.6	321.2	356.9	372.9	390.3	351.9	398.9	373.3	364.8
20 ATS-NOW accounts[4]	15.8	15.6	13.8	14.1	15.2	13.4	15.1	15.6	14.9
21 MMDA[6]	4.0	4.5	5.3	6.6	7.2	6.7	7.2	6.9	6.7
22 Savings deposits[5]	3.2	3.0	3.1	3.1	3.2	3.0	3.3	3.1	2.9

1. Historical tables containing revised data for earlier periods may be obtained from the Monetary and Reserves Projections Section, Division of Monetary Affairs, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

These data also appear on the Board's G.6 (406) release. For address, see inside front cover.

2. Annual averages of monthly figures.
3. Represents accounts of individuals, partnerships, and corporations and of states and political subdivisions.
4. Accounts authorized for negotiable orders of withdrawal (NOW) and accounts authorized for automatic transfer to demand deposits (ATS). ATS data are available beginning December 1978.
5. Excludes ATS and NOW accounts, MMDA and special club accounts, such as Christmas and vacation clubs.
6. Money market deposit accounts.

1.23 LOANS AND SECURITIES All Commercial Banks[1]

Billions of dollars; averages of Wednesday figures

Category	1988											
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
	Seasonally adjusted											
1 **Total loans and securities[2]**	**2,244.8**	**2,264.1**	**2,281.3**	**2,304.7**	**2,328.5**	**2,348.4**	**2,360.8**	**2,374.9**	**2,373.6**	**2,387.5**	**2,398.1**	**2,398.4**
2 U.S. government securities	336.4	336.4	340.2	343.8	346.5	350.5	348.0	350.5	352.5	355.1	356.8	360.9
3 Other securities	192.0	193.7	195.7	196.6	196.1	196.5	196.8	196.4	194.2	195.4	194.8	190.9
4 Total loans and leases[2]	1,716.5	1,734.0	1,745.4	1,764.3	1,786.0	1,801.5	1,815.9	1,827.9	1,826.8	1,836.9	1,846.5	1,846.6
5 Commercial and industrial	565.2	569.3	568.6	578.1	586.3	592.4	598.3	599.4	597.1	600.9	599.2	600.0
6 Bankers acceptances held[3]	4.3	4.3	4.7	4.6	4.4	4.4	4.4	4.6	4.5	4.2	4.2	3.9
7 Other commercial and industrial	560.9	564.9	564.0	573.5	582.0	588.1	593.9	594.7	592.7	596.7	595.0	596.1
8 U.S. addressees[4]	552.2	556.3	555.8	565.5	575.1	581.3	587.4	588.4	586.4	590.6	589.5	589.6
9 Non-U.S. addressees[4]	8.7	8.7	8.2	8.1	6.9	6.8	6.5	6.3	6.3	6.1	5.5	6.5
10 Real estate	593.7	599.2	604.9	611.3	618.6	625.0	631.4	638.7	644.7	652.0	659.2	663.2
11 Individual	329.8	333.0	337.0	340.4	342.8	344.4	345.3	347.0	349.1	349.6	350.8	353.6
12 Security	36.5	42.1	41.2	39.5	39.8	39.4	38.6	40.1	36.3	38.4	37.6	36.9
13 Nonbank financial institutions	31.4	31.8	31.2	30.4	30.9	30.6	31.0	30.8	29.9	29.8	29.8	29.8
14 Agricultural	29.6	29.5	29.3	29.4	29.6	29.6[r]	29.6	29.5	29.5[r]	29.7	30.3	30.8
15 State and political subdivisions	51.7[r]	51.0[r]	50.1[r]	49.6[r]	49.4[r]	49.2[r]	48.9[r]	48.3[r]	48.1[r]	48.9[r]	48.2	46.7
16 Foreign banks	7.6	7.4	7.8	8.3	7.9[r]	7.9	8.2	8.1[r]	7.3[r]	7.6	8.1	7.3
17 Foreign official institutions	5.4	5.1	5.1	5.1	5.1	5.0	5.0	5.2[r]	5.2	5.1	5.4	5.6
18 Lease financing receivables	25.1	25.3	25.4	25.7	26.0	26.5	27.2	27.3	27.7	28.1	28.1	28.1
19 All other loans	40.4[r]	40.4[r]	44.8[r]	46.5[r]	49.5[r]	51.4[r]	52.3[r]	53.6[r]	51.9[r]	46.8[r]	50.0	44.7
	Not seasonally adjusted											
20 **Total loans and securities[2]**	**2,257.5**	**2,268.8**	**2,281.6**	**2,305.9**	**2,325.2**	**2,344.6**	**2,350.7**	**2,363.5**	**2,370.3**	**2,382.0**	**2,397.3**	**2,416.4**
21 U.S. government securities	337.9	341.5	342.0	343.4	344.9	347.0	347.1	350.5	352.7	352.8	356.9	360.8
22 Other securities	194.6	194.4	195.3	196.2	196.1	196.0	195.5	196.3	194.3	194.3	194.1	191.5
23 Total loans and leases[2]	1,724.9	1,732.9	1,744.2	1,766.3	1,784.2	1,801.6	1,808.1	1,816.7	1,823.3	1,834.9	1,846.2	1,864.1
24 Commercial and industrial	564.9	568.5	573.8	582.1	588.8	594.0	595.4	594.2	593.7	596.4	598.1	604.5
25 Bankers acceptances held[3]	4.1	4.3	4.7	4.5	4.4	4.5	4.4	4.6	4.5	4.1	4.2	4.0
26 Other commercial and industrial	560.7	564.2	569.1	577.6	584.4	589.5	591.0	589.6	589.1	592.3	593.9	600.5
27 U.S. addressees[4]	552.8	556.0	561.2	569.7	577.3	582.6	584.0	582.9	582.5	586.0	587.7	594.2
28 Non-U.S. addressees[4]	8.0	8.2	7.9	7.9	7.1	6.9	7.0	6.7	6.6	6.2	6.2	6.3
29 Real estate	594.1	598.5	604.1	610.3	618.1	624.8	631.5	638.7	645.5	652.7	659.7	664.2
30 Individual	333.3	332.4	333.9	337.4	339.9	342.3	343.8	347.1	350.7	351.3	352.7	358.2
31 Security	37.3	40.5	40.6	41.2	40.4	40.8	38.2	38.3	35.3	37.1	37.6	38.7
32 Nonbank financial institutions	31.6	30.8	30.3	30.3	30.7	30.6	30.8	30.7	30.2	29.9	30.2	30.9
33 Agricultural	28.9	28.5	28.3	28.6	29.3	29.9	30.3	30.4[r]	30.5[r]	30.6[r]	30.5	30.5
34 State and political subdivisions	53.5[r]	52.2[r]	51.0[r]	50.0[r]	49.3[r]	48.9[r]	48.2[r]	47.7[r]	47.3[r]	48.1[r]	47.3	46.9
35 Foreign banks	7.8	7.6	7.7	7.9	7.7	7.8[r]	8.2	7.9	7.5[r]	7.7[r]	8.1	7.6
36 Foreign official institutions	5.4[r]	5.1	5.1	5.1	5.1	5.0[r]	5.0	5.2	5.2	5.1	5.4	5.6
37 Lease financing receivables	25.2	25.4	25.6	25.9	26.1	26.7	27.2	27.2	27.5	27.6	27.8	28.1
38 All other loans	42.9	43.3[r]	43.9[r]	47.5[r]	48.9[r]	50.9[r]	49.5[r]	49.3[r]	49.7[r]	48.3[r]	49.0	48.9

1. These data also appear in the Board's G.7 (407) release. For address, see inside front cover.
2. Excludes loans to commercial banks in the United States.
3. Includes nonfinancial commercial paper held.
4. United States includes the 50 states and the District of Columbia.

1.24 MAJOR NONDEPOSIT FUNDS OF COMMERCIAL BANKS[1]

Monthly averages, billions of dollars

Source	1988											
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Seasonally adjusted												
1 Total nondeposit funds[2]	196.4	195.0	189.8	204.1	209.9	213.3	215.2	222.4	210.4	210.5	217.8	212.7
2 Net balances due to related foreign offices[3]	8.7	2.7	−6.5	4.5	6.5	8.8	14.0	21.8	8.9	4.3	9.9	6.7
3 Borrowings from other than commercial banks in United States[4]	187.7	192.3	196.3	199.7	203.4	204.4	201.2	200.6	201.5	206.2	207.8	206.1
4 Domestically chartered banks	159.6	164.4	166.7	167.6	170.8	170.6	166.8	166.1	165.6	168.0	168.5	167.1
5 Foreign-related banks	28.1	27.9	29.6	32.1	32.6	33.8	34.4	34.5	35.9	38.2	39.3	38.9
Not seasonally adjusted												
6 Total nondeposit funds[2]	195.9	200.2	199.2	206.4	218.2	215.8	210.6	218.5	206.1	205.4	213.8	207.2
7 Net balances due to related foreign offices[3]	9.1	3.1	−3.1	2.0	9.7	8.7	10.8	18.6	9.1	4.9	10.2	9.1
8 Domestically chartered banks	−16.5	−20.2	−25.3	−22.2	−16.5	−16.3	−14.0	−7.3	−15.7	−20.6	−19.2	−20.7
9 Foreign-related banks	25.6	23.3	22.1	24.2	26.2	25.0	24.8	25.9	24.7	25.5	29.4	29.8
10 Borrowings from other than commercial banks in United States[4]	186.7	197.1	202.4	204.4	208.4	207.1	199.8	199.9	197.1	200.5	203.6	198.0
11 Domestically chartered banks	157.8	168.2	171.5	171.6	175.4	171.9	164.9	165.6	161.8	163.7	167.2	161.1
12 Federal funds and security RP borrowings[5]	155.0	166.2	168.1	166.8	170.8	167.1	159.5	160.6	157.4	159.6	162.6	157.6
13 Other[6]	2.8	2.0	3.4	4.8	4.6	4.8	5.4	5.0	4.4	4.1	4.6	3.5
14 Foreign-related banks[6]	28.9	28.8	30.8	32.8	33.0	35.2	34.9	34.2	35.3	36.8	36.3	36.9
MEMO												
Gross large time deposits[7]												
15 Seasonally adjusted	389.1	394.4	396.1	394.0	396.4	400.5	406.8	413.6	419.7	423.7	424.0	428.2
16 Not seasonally adjusted	390.1	394.7	398.2	393.9	397.1	399.8	404.0	412.9	419.7	423.0	424.1	428.3
U.S. Treasury demand balances at commercial banks[8]												
17 Seasonally adjusted	18.6	22.6	24.9	21.8	24.7	22.0	20.2	15.8	24.5	30.7	22.2	26.8
18 Not seasonally adjusted	24.9	28.2	22.3	21.7	30.4	21.0	22.0	11.9	24.6	27.7	16.3	22.9

1. The nondeposit funds series that is published regularly in this table has been revised starting with this issue. For details see the Announcements section, p. 151–152.
Commercial banks are those in the 50 states and the District of Columbia with national or state charters plus agencies and branches of foreign banks, New York investment companies majority owned by foreign banks, and Edge Act corporations owned by domestically chartered and foreign banks.
These data also appear in the Board's G.10 (411) release. For address, see inside front cover.
2. Includes federal funds, RPs, and other borrowing from nonbanks and net balances due to related foreign offices.
3. Reflects net positions of U.S. chartered banks, Edge Act corporations, and U.S. branches and agencies of foreign banks with related foreign offices plus net positions with own IBFs.
4. Other borrowings are borrowings through any instrument, such as a promissory note or due bill, given for the purpose of borrowing money for the banking business. This includes borrowings from Federal Reserve Banks and from foreign banks, term federal funds, loan RPs, and sales of participations in pooled loans.
5. Based on daily average data reported weekly by approximately 120 large banks and quarterly or annual data reported by other banks.
6. Figures are partly daily averages and partly averages of Wednesday data.
7. Time deposits in denominations of $100,000 or more. Estimated averages of daily data.
8. U.S. Treasury demand deposits and Treasury tax-and-loan notes at commercial banks. Averages of daily data.

1.25 ASSETS AND LIABILITIES OF COMMERCIAL BANKING INSTITUTIONS Last-Wednesday-of-Month Series[1]

Billions of dollars

Account	1988										
	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
ALL COMMERCIAL BANKING INSTITUTIONS[2]											
1 Loans and securities	2,427.7	2,450.0	2,466.8	2,473.2	2,511.7	2,509.0	2,523.3	2,522.7	2,537.9	2,575.6r	2,586.5
2 Investment securities	514.9	517.7	519.7	521.6	518.6	521.6	525.4	525.9	523.6	529.6	529.8
3 U.S. government securities	325.0	325.7	328.8	330.7	328.0	331.6	334.6	336.5	334.4	340.4	343.9
4 Other	190.0	192.0	190.9	191.0	190.6	190.0	190.8	189.4	189.2	189.2	185.9
5 Trading account assets	21.9	20.3	19.6	20.3	22.1	23.9	22.8	21.3	24.9	24.8	19.2
6 Total loans	1,890.9	1,912.0	1,927.5	1,931.3	1,971.0	1,963.5	1,975.1	1,975.5	1,989.4	2,021.2r	2,037.5
7 Interbank loans	161.4	159.5	158.0	152.3	163.7	158.7	154.7	151.2	158.5	167.7	163.9
8 Loans excluding interbank	1,729.5	1,752.4	1,769.5	1,779.1	1,807.3	1,804.8	1,820.4	1,824.3	1,830.9	1,853.5r	1,873.6
9 Commercial and industrial	568.9	576.2	583.4	587.8	598.2	592.4	592.8	593.8	593.8	600.0r	608.7
10 Real estate	599.2	607.3	612.5	619.7	627.5	633.1	641.8	647.8	654.1	661.6	666.6
11 Individual	332.7	334.8	339.1	340.0	343.2	344.1	349.2	351.5	351.9	354.1	360.5
12 All other	228.7	234.1	234.6	231.7	238.4	235.2	236.6	231.2	231.1	237.8	237.9
13 Total cash assets	207.4	211.2	214.3	200.3	221.4	217.0	221.8	215.9	208.5	235.4r	245.9
14 Reserves with Federal Reserve Banks	32.7	32.0	32.2	26.0	34.4	30.7	33.0	31.1	31.6	33.7	34.5
15 Cash in vault	25.1	24.8	25.4	25.4	26.5	25.9	26.5	26.2	26.3	28.7	30.3
16 Cash items in process of collection	66.9	74.1	76.4	71.5	77.2	75.7	79.9	76.4	72.6	89.5	92.1
17 Demand balances at U.S. depository institutions	30.4	32.0	30.3	29.2	31.6	31.3	31.5	29.4	29.2	32.1r	34.2
18 Other cash assets	52.3	48.2	49.9	48.3	51.8	53.5	50.9	52.8	48.8	51.4r	54.8
19 Other assets	180.9	193.1	190.9	186.6	194.3	188.4	187.5	191.8	201.2	201.3r	198.4
20 **Total assets/total liabilities and capital**	**2,816.0**	**2,854.3**	**2,871.9**	**2,860.2**	**2,927.5**	**2,914.4**	**2,932.6**	**2,930.3**	**2,947.6**	**3,012.2r**	**3,030.8**
21 Deposits	1,978.4	2,008.5	2,011.6	2,008.6	2,042.5	2,050.2	2,072.9	2,058.8	2,067.3	2,120.6	2,141.6
22 Transaction deposits	568.6	588.5	595.9	579.1	603.3	598.4	609.5	588.3	586.9	627.1r	641.3
23 Savings deposits	535.7	540.0	536.4	542.2	544.5	545.4	542.2	536.9	538.4	542.2	537.3
24 Time deposits	874.1	879.9	879.3	887.3	894.7	906.4	921.2	933.6	941.9	951.2	963.0
25 Borrowings	450.8	454.9	465.8	458.4	487.4	470.7	452.4	470.8	481.3	476.8r	470.7
26 Other liabilities	202.5	207.7	210.1	207.4	209.7	208.2	218.5	213.1	210.0	222.6	227.3
27 Residual (assets less liabilities)	184.4	183.2	184.4	185.8	187.8	185.3	188.7	187.6	189.0	192.2r	191.2
MEMO											
28 U.S. government securities (including trading account)	342.1	341.2	343.4	346.3	344.7	349.2	351.4	352.7	354.3	359.9	357.9
29 Other securities (including trading account)	194.7	196.8	195.9	195.6	196.0	196.4	196.7	194.4	194.2	194.5	191.1
DOMESTICALLY CHARTERED COMMERCIAL BANKS[3]											
30 Loans and securities	2,246.3	2,266.0	2,282.3	2,286.4	2,314.7	2,319.3	2,330.5	2,329.1	2,342.4	2,376.2	2,379.3
31 Investment securities	488.6	491.7	494.6	495.7	492.8	495.3	499.3	501.0	498.5	504.7	505.5
32 U.S. Treasury securities	313.6	314.5	317.7	318.6	316.3	319.3	322.8	325.0	323.1	329.2	332.9
33 Other	175.0	177.2	177.0	177.1	176.6	176.1	176.5	175.9	175.5	175.6	172.5
34 Trading account assets	21.9	20.3	19.6	20.3	22.1	23.9	22.8	21.3	24.9	24.8	19.2
35 Total loans	1,735.8	1,754.0	1,768.1	1,770.4	1,799.7	1,800.1	1,808.5	1,806.8	1,819.0	1,846.7	1,854.6
36 Interbank loans	132.0	131.2	128.5	124.9	133.1	130.7	125.2	121.8	127.8	136.3	130.7
37 Loans excluding interbank	1,603.8	1,622.9	1,639.6	1,645.6	1,666.6	1,669.4	1,683.3	1,685.0	1,691.2	1,710.4	1,723.9
38 Commercial and industrial	475.8	481.0	487.4	488.8	492.6	490.8	489.7	489.2	490.2	495.4	497.9
39 Real estate	584.5	592.1	597.0	603.6	611.4	617.5	625.4	631.5	636.5	642.7r	647.7
40 Individual	332.4	334.5	338.8	339.7	342.9	343.8	348.9	351.2	351.6	353.7r	360.2
41 All other	211.1	215.3	216.4	213.5	219.7	217.3	219.2	213.2	212.9	218.5r	218.1
42 Total cash assets	186.6	193.9	196.7	183.0	201.6	196.4	202.8	193.4	189.7	215.2	223.7
43 Reserves with Federal Reserve Banks	30.5	30.1	30.7	23.6	32.9	29.5	31.4	29.0	29.8	32.6	33.1
44 Cash in vault	25.1	24.7	25.4	25.4	26.5	25.9	26.5	26.2	26.3	28.7	30.3
45 Cash items in process of collection	66.4	73.5	75.8	71.0	76.5	75.1	79.2	75.7	71.9	88.7	91.2
46 Demand balances at U.S. depository institutions	28.8	30.4	28.7	27.5	29.8	29.4	29.8	27.3	27.2	30.2r	32.2
47 Other cash assets	35.8	35.2	36.0	35.6	35.8	36.5	36.0	35.3	34.4	35.1	37.0
48 Other assets	118.5	123.1	121.3	118.3	125.6	121.6	123.8	127.8	132.9	134.0	135.1
49 **Total assets/liabilities and capital**	**2,551.4**	**2,583.0**	**2,600.3**	**2,587.7**	**2,641.8**	**2,637.4**	**2,657.2**	**2,650.3**	**2,665.0**	**2,725.4**	**2,738.1**
50 Deposits	1,916.1	1,944.5	1,948.1	1,944.7	1,976.9	1,984.4	2,006.4	1,991.0	1,999.1	2,051.1	2,068.9
51 Transaction deposits	560.7	580.0	587.2	570.7	594.5	589.6	600.6	579.1	577.3	617.2	631.5
52 Savings deposits	533.3	537.6	533.9	539.8	541.8	542.9	539.7	534.4	535.8	539.8	534.8
53 Time deposits	822.0	826.9	827.0	834.2	840.6	851.9	866.1	877.5	885.9	894.2	902.5
54 Borrowings	349.9	350.1	358.4	351.7	369.4	358.5	345.7	358.6	363.2	362.5	360.2
55 Other liabilities	104.4	108.6	112.7	108.8	111.0	112.5	119.6	116.4	117.0	123.0r	121.2
56 Residual (assets less liabilities)	181.1	179.9	181.1	182.4	184.5	182.0	185.4	184.3	185.6	188.8r	187.8
MEMO[4]											
57 Real estate loans, revolving	31.7	32.1	33.0	33.7	34.8	35.3	36.3	37.3	37.9	39.1	39.7
58 Real estate loans, other	552.9	560.0	564.0	569.9	576.6	582.2	589.2	594.1	598.5	603.7	608.0

1. Back data are available from the Banking and Monetary Statistics section, Board of Governors of the Federal Reserve System, Washington, D.C., 20551. These data also appear in the Board's weekly H.8 (510) *release*.

Data have been revised because of benchmarking to new Call reports beginning January 1987.

Figures are partly estimated. They include all bank-premises subsidiaries and other significant majority-owned domestic subsidiaries. Loan and securities data for domestically chartered commercial banks are estimates for the last Wednesday of the month based on a sample of weekly reporting banks and quarter-end condition report data. Data for other banking institutions are estimates made for the last Wednesday of the month based on a weekly reporting sample of foreign-related institutions and quarter-end condition reports.

2. Commercial banking institutions include insured domestically chartered commercial banks, branches and agencies of foreign banks, Edge Act and Agreement corporations, and New York State foreign investment corporations.

3. Insured domestically chartered commercial banks include all member banks and insured nonmember banks.

4. Memorandum items for real estate loans; revolving and other, are shown as separate breakdowns for the first time.

1.26 ASSETS AND LIABILITIES OF LARGE WEEKLY REPORTING COMMERCIAL BANKS[1]

Millions of dollars, Wednesday figures

Account	1988								
	Nov. 2	Nov. 9	Nov. 16	Nov. 23	Nov. 30	Dec. 7	Dec. 14	Dec. 21	Dec. 28
1 Cash and balances due from depository institutions	114,418r	103,016r	117,541r	104,534r	118,357r	108,707	112,766	107,318	125,023
2 **Total loans, leases, and securities, net**	**1,151,980r**	**1,140,001**	**1,150,913**	**1,142,918**	**1,157,817r**	**1,150,167**	**1,150,655**	**1,157,722**	**1,154,328**
3 U.S. Treasury and government agency	132,734	132,345	134,711	134,944	135,902r	135,861	133,618	132,983	128,626
4 Trading account	19,278	18,688	21,049	19,971	19,818	19,009	16,908	16,529	14,371
5 Investment account	113,456	113,657	113,663	114,973	116,084r	116,852	116,710	116,454	114,255
6 Mortgage-backed securities[2]	44,825	44,858	44,873	45,459	46,226	46,470	46,486	46,399	46,514
All other maturing in									
7 One year or less	19,623	19,739	20,339	20,625	21,124r	21,583	21,369	21,410	20,458
8 Over one through five years	40,341	40,373	40,013	40,438	40,354r	40,373	40,251	39,804	39,527
9 Over five years	8,667	8,687	8,438	8,451	8,380	8,426	8,603	8,840	7,756
10 Other securities	72,812	72,811	72,859	72,970	73,307r	72,521	72,242	72,240	72,274
11 Trading account	1,336	1,336	1,446	1,643	1,681	1,622	1,549	1,683	1,713
12 Investment account	71,476	71,475	71,412	71,327	71,626r	70,899	70,692	70,557	70,560
13 States and political subdivisions, by maturity	45,794	45,711	45,560	45,479	45,487r	45,019	44,811	44,717	44,653
14 One year or less	5,262	5,263	5,138	5,087	5,106r	4,960	4,937	4,859	4,865
15 Over one year	40,532	40,448	40,422	40,391	40,381	40,059	39,874	39,858	39,788
16 Other bonds, corporate stocks, and securities	25,681	25,764	25,852	25,848	26,139	25,880	25,881	25,840	25,907
17 Other trading account assets	3,986	3,739	3,929	3,843	3,723	3,900	3,415	3,409	3,599
18 Federal funds sold[3]	78,740	68,841	71,955	66,424	76,096	72,375	73,388	75,908	74,386
19 To commercial banks	50,809r	42,385r	48,484r	42,436r	51,082r	45,665	47,158	49,231	49,135
20 To nonbank brokers and dealers in securities	18,313	16,832	14,537r	14,797	15,593	17,182	17,008	17,242	16,692
21 To others	9,617r	9,623r	8,934r	9,191r	9,420r	9,528	9,222	9,435	8,558
22 Other loans and leases, gross	903,788r	902,354	907,531	905,533	909,443	906,201	908,573	913,696	915,687
23 Other loans, gross	880,563r	879,105	884,207	882,192	886,067	882,630	884,922	889,999	891,933
24 Commercial and industrial	300,302r	300,217r	300,150r	299,907r	301,254r	300,704	299,972	301,706	302,359
25 Bankers acceptances and commercial paper	1,871	1,805	1,860	1,876	1,904	1,816	1,828	1,782	1,807
26 All other	298,431r	298,412r	298,290r	298,030r	299,350r	298,888	298,145	299,924	300,552
27 U.S. addressees	296,174r	296,217r	296,030r	295,798r	297,093r	296,659	295,905	297,667	298,192
28 Non-U.S. addressees	2,258	2,194	2,259	2,232	2,256	2,229	2,240	2,257	2,360
29 Real estate loans	293,436	294,502	295,176	295,372r	296,040r	296,242	297,575	298,598	299,344
30 Revolving, home equity	21,067	21,146	21,262	21,350	21,443	21,520	21,606	21,696	21,789
31 All other	272,370	273,355	273,914	274,022r	274,597r	274,722	275,969	276,902	277,556
32 To individuals for personal expenditures	165,281	165,117	165,636	165,811r	165,673r	166,223	167,399	168,013	169,020
33 To depository and financial institutions	48,574	49,158	50,628	48,890	49,307	48,975	48,014	48,313	48,954
34 Commercial banks in the United States	22,776	23,120	24,115	23,059	22,714	23,016	22,138	21,968	22,245
35 Banks in foreign countries	3,746	4,318	4,528	4,432	4,632	4,059	3,922	4,020	3,641
36 Nonbank depository and other financial institutions	22,051	21,720	21,985	21,398	21,961	21,900	21,954	22,325	23,068
37 For purchasing and carrying securities	14,238r	12,938r	13,982r	14,411	15,271	12,780	14,219	14,313	13,930
38 To finance agricultural production	5,558	5,512	5,495	5,489r	5,474r	5,455	5,460	5,485	5,487
39 To states and political subdivisions	29,104	28,849	28,804	28,954	28,871	28,669	28,684	28,694	28,598
40 To foreign governments and official institutions	2,131	2,077	2,132	2,098	2,026	2,164	2,035	2,089	1,954
41 All other	21,938	20,736	22,204	21,260	22,151	21,417	21,564	22,787	22,285
42 Lease financing receivables	23,225	23,249	23,323	23,341	23,376	23,571	23,651	23,697	23,754
43 LESS: Unearned income	4,844	4,879	4,871	4,874	4,847	4,853	4,864	4,872	4,888
44 Loan and lease reserve[4]	35,236	35,210	35,201	35,923	35,806	35,838	35,717	35,642	35,356
45 Other loans and leases, net	863,708r	862,265	867,459	864,736	868,790	865,510	867,992	873,181	875,443
46 All other assets	132,412r	129,652r	130,504r	129,550r	131,067r	132,270	132,855	135,231	132,956
47 **Total assets**	**1,398,810r**	**1,372,668**	**1,398,958**	**1,377,003r**	**1,407,241**	**1,391,144**	**1,396,276**	**1,400,271**	**1,412,308**
48 Demand deposits	235,637r	217,665	241,854	225,530	240,653	230,811	238,689	233,931	247,245
49 Individuals, partnerships, and corporations	185,698r	175,655	190,422	180,647	191,636	182,950	191,684	186,204	195,432
50 States and political subdivisions	6,581	5,275	6,420	5,935	6,456	5,865	6,515	6,976	6,993
51 U.S. government	1,688	1,518	3,247	3,182	2,949	2,878	3,322	1,609	2,705
52 Depository institutions in the United States	23,179	19,587	25,398	19,594	22,067	21,951	20,689	22,518	24,194
53 Banks in foreign countries	5,786	6,637	6,754	7,042	7,239	7,013	6,840	6,453	6,662
54 Foreign governments and official institutions	741	663	888	918	832	878	920	1,054	985
55 Certified and officers' checks	11,963	8,330	8,722	8,213	9,474	9,277	8,719	9,117	10,274
56 Transaction balances other than demand deposits	74,006	73,605	73,698	72,917	73,637	75,258	74,519	75,080	75,412
57 Nontransaction balances	620,455r	623,481	623,274	622,587	622,745	625,000	626,327	625,170	623,960
58 Individuals, partnerships, and corporations	581,072r	583,887	583,645	582,787	583,097	585,622	586,652	586,441	585,180
59 States and political subdivisions	30,007	30,213	30,307	30,349	30,025	30,036	30,207	29,520	29,459
60 U.S. government	855	942	959	943	965	945	952	938	946
61 Depository institutions in the United States	7,668r	7,596	7,535	7,711r	7,829	7,596	7,799	7,567	7,698
62 Foreign governments, official institutions, and banks	853r	843	827	796r	829r	801	717	704	677
63 Liabilities for borrowed money	286,393r	275,150	277,098	272,478	278,942r	272,591	269,508	280,079	278,127
64 Borrowings from Federal Reserve Banks	2,160	2,700	3,000	1,200	1,872	1,515	1,785	571	1,035
65 Treasury tax-and-loan notes	16,174	7,553	3,510	13,425	12,852r	4,614	5,991	25,227	21,048
66 All other liabilities for borrowed money[5]	268,059r	264,897	270,588	257,853	264,218r	266,461	261,731	254,281	256,044
67 Other liabilities and subordinated notes and debentures	90,177r	90,090	90,595	89,968r	97,011r	92,693	91,978	90,903	93,583
68 **Total liabilities**	**1,306,667r**	**1,279,992**	**1,306,520**	**1,283,479r**	**1,312,988**	**1,296,353**	**1,301,020**	**1,305,164**	**1,318,328**
69 Residual (total assets minus total liabilities)[6]	92,142r	92,677	92,439	93,524	94,253	94,791	95,257	95,107	93,980
MEMO									
70 Total loans and leases (gross) and investments adjusted[7]	1,118,474r	1,114,585r	1,118,386r	1,118,220r	1,124,675r	1,122,177	1,121,940	1,127,038	1,123,192
71 Total loans and leases (gross) adjusted[7]	908,943r	905,689r	906,887r	906,462r	911,743r	909,895	912,665	918,406	918,693
72 Time deposits in amounts of $100,000 or more	193,997	194,552	194,051	194,751	194,464	195,830	195,955	195,915	196,032
73 U.S. Treasury securities maturing in one year or less	19,402	18,861	21,072	20,925	19,860r	19,997	20,195	20,001	18,560
74 Loans sold outright to affiliates—total[8]	1,401	1,380	1,303	1,342	1,308	1,380	1,330	1,370	1,380
75 Commercial and industrial	987	965	924	968	929	1,000	956	1,012	1,029
76 Other	414	414	379	374	380	380	374	358	350
77 Nontransaction savings deposits (including MMDAs)	253,371	255,025	254,856	253,029	253,021	253,063	253,440	252,044	250,403

1. Beginning Jan. 6, 1988, the "Large bank" reporting group was revised somewhat, eliminating some former reporters with less than $2 billion of assets and adding some new reporters with assets greater than $3 billion.
2. Includes U.S. government-issued or guaranteed certificates of participation in pools of residential mortgages.
3. Includes securities purchased under agreements to resell.
4. Includes allocated transfer risk reserve.
5. Includes federal funds purchased and securities sold under agreements to repurchase; for information on these liabilities at banks with assets of $1 billion or more on Dec. 31, 1977, see table 1.13.
6. This is not a measure of equity capital for use in capital-adequacy analysis or for other analytic uses.
7. Exclusive of loans and federal funds transactions with domestic commercial banks.
8. Loans sold are those sold outright to a bank's own foreign branches, nonconsolidated nonbank affiliates of the bank, the bank's holding company (if not a bank), and nonconsolidated nonbank subsidiaries of the holding company.

1.28 ASSETS AND LIABILITIES OF LARGE WEEKLY REPORTING COMMERCIAL BANKS IN NEW YORK CITY[1]

Millions of dollars, Wednesday figures

Account	1988								
	Nov. 2	Nov. 9	Nov. 16	Nov. 23	Nov. 30	Dec. 7	Dec. 14	Dec. 21	Dec. 28
1 Cash balances due from depository institutions	27,028	22,061	24,007	20,026	27,884	24,348	24,272	22,154	26,940
2 **Total loans, leases and securities, net[2]**	**219,266**	**214,932**	**217,719**	**213,718**	**221,963**	**216,483**	**217,293**	**218,999**	**221,039**
Securities									
3 U.S. Treasury and government agency[3]	0	0	0	0	0	0	0	0	0
4 Trading account[3]	0	0	0	0	0	0	0	0	0
5 Investment account	15,256	15,180	15,113	15,381	15,623	15,559	15,558	15,702	15,689
6 Mortgage-backed securities[4]	6,125	6,126	6,183	6,465	6,660	6,552	6,717	6,770	6,782
All other maturing in									
7 One year or less	2,432	2,429	2,320	2,323	2,217	2,326	2,176	2,225	2,225
8 Over one through five years	4,740	4,664	4,677	4,672	4,835	4,695	4,612	4,641	4,617
9 Over five years	1,958	1,961	1,934	1,921	1,911	1,986	2,053	2,066	2,066
10 Other securities[3]	0	0	0	0	0	0	0	0	0
11 Trading account[3]	0	0	0	0	0	0	0	0	0
12 Investment account	17,350	17,435	17,403	17,512	17,718	17,694	17,539	17,514	17,468
13 States and political subdivisions, by maturity	12,562	12,557	12,496	12,481	12,482	12,359	12,269	12,263	12,205
14 One year or less	1,155	1,156	1,098	1,090	1,092	979	960	978	969
15 Over one year	11,407	11,401	11,399	11,391	11,390	11,380	11,308	11,284	11,236
16 Other bonds, corporate stocks, and securities	4,788	4,878	4,907	5,031	5,236	5,334	5,270	5,251	5,262
17 Other trading account assets[3]	0	0	0	0	0	0	0	0	0
Loans and leases									
18 Federal funds sold[5]	30,393	26,868	26,548	24,195	29,736	26,803	27,708	27,442	29,229
19 To commercial banks	14,210	10,798	13,642	10,424	14,717	10,946	12,719	12,527	14,683
20 To nonbank brokers and dealers in securities	9,818	9,462	7,151	7,578	8,394	9,563	8,944	8,771	8,970
21 To others	6,366	6,609	5,755	6,193	6,625	6,294	6,045	6,144	5,576
22 Other loans and leases, gross	171,189	170,445	173,614	171,595	173,781	171,331	171,370	173,228	173,521
23 Other loans, gross	165,662	164,906	168,008	165,990	168,182	165,647	165,687	167,551	167,825
24 Commercial and industrial	56,646	56,438	56,622	55,816	56,290	55,368	54,907	55,441	55,398
25 Bankers acceptances and commercial paper	493	422	462	440	483	416	400	363	389
26 All other	56,153	56,016	56,160	55,376	55,807	54,952	54,507	55,078	55,009
27 U.S. addressees	55,769	55,652	55,773	55,001	55,372	54,524	54,109	54,647	54,487
28 Non-U.S. addressees	383	363	387	375	436	427	398	430	522
29 Real estate loans	49,125	49,332	49,436	49,162	49,292	49,360	49,645	50,170	50,600
30 Revolving, home equity	3,189	3,183	3,194	3,211	3,222	3,246	3,248	3,262	3,271
31 All other	45,936	46,149	46,242	45,951	46,069	46,114	46,397	46,908	47,328
32 To individuals for personal expenditures	20,457	20,453	20,578	20,679	20,709	20,740	20,897	20,779	20,923
33 To depository and financial institutions	20,316	21,168	22,568	21,123	21,789	22,169	21,179	21,480	21,851
34 Commercial banks in the United States	11,435	11,826	12,977	11,565	11,748	12,700	12,002	12,030	12,310
35 Banks in foreign countries	2,118	2,672	2,973	2,807	2,964	2,482	2,276	2,317	2,061
36 Nonbank depository and other financial institutions	6,762	6,671	6,618	6,752	7,077	6,987	6,901	7,133	7,479
37 For purchasing and carrying securities	5,496	4,765	5,075	5,976	6,294	4,761	6,216	6,129	5,874
38 To finance agricultural production	227	209	204	207	197	200	164	161	159
39 To states and political subdivisions	6,509	6,444	6,439	6,524	6,397	6,378	6,369	6,377	6,362
40 To foreign governments and official institutions	658	622	667	660	592	709	591	680	517
41 All other	6,228	5,474	6,420	5,842	6,622	5,963	5,717	6,333	6,142
42 Lease financing receivables	5,527	5,539	5,606	5,605	5,600	5,684	5,683	5,677	5,696
43 LESS: Unearned income	1,587	1,613	1,608	1,616	1,611	1,616	1,620	1,630	1,646
44 Loan and lease reserve	13,335	13,383	13,352	13,351	13,284	13,288	13,261	13,258	13,221
45 Other loans and leases, net[6]	156,267	155,449	158,654	156,628	158,886	156,427	156,488	158,341	158,654
46 All other assets[7]	63,616	60,123	63,359	61,660	61,130	62,323	59,462	61,242	58,804
47 **Total assets**	**309,910**	**297,117**	**305,085**	**295,404**	**310,977**	**303,154**	**301,027**	**302,395**	**306,783**
Deposits									
48 Demand deposits	56,273	50,729	58,595	52,540	57,536	55,393	58,192	55,789	59,274
49 Individuals, partnerships, and corporations	38,544	36,031	41,024	37,369	40,412	37,702	42,218	39,407	41,640
50 States and political subdivisions	652	535	760	568	661	625	627	633	593
51 U.S. government	215	269	588	562	596	542	531	176	458
52 Depository institutions in the United States	5,695	4,557	6,452	4,438	5,542	6,050	5,015	5,931	5,848
53 Banks in foreign countries	4,626	5,466	5,548	5,722	5,922	5,798	5,679	5,168	5,481
54 Foreign governments and official institutions	567	522	745	758	666	730	761	913	831
55 Certified and officers' checks	5,975	3,349	3,477	3,123	3,736	3,946	3,361	3,562	4,423
56 Transaction balances other than demand deposits (ATS, NOW, Super NOW, telephone transfers)	8,688	8,634	8,646	8,574	8,608	8,735	8,718	8,909	9,110
57 Nontransaction balances	109,637	110,680	110,439	110,632	110,972	111,317	111,046	111,688	110,517
58 Individuals, partnerships, and corporations	99,412	100,420	100,171	100,190	100,625	101,202	101,024	101,664	100,417
59 States and political subdivisions	8,157	8,202	8,216	8,247	8,140	8,020	7,985	7,997	8,014
60 U.S. government	35	23	26	28	32	30	31	33	33
61 Depository institutions in the United States	1,747	1,751	1,741	1,887	1,894	1,788	1,742	1,737	1,797
62 Foreign governments, official institutions, and banks	285	284	284	280	282	278	265	257	257
63 Liabilities for borrowed money	74,428	66,848	68,566	65,773	68,091	66,294	61,958	65,583	65,301
64 Borrowings from Federal Reserve Banks	0	0	0	0	0	0	0	0	0
65 Treasury tax-and-loan notes	4,184	1,911	1,262	3,807	3,451	886	1,175	6,243	5,392
66 All other liabilities for borrowed money[8]	70,244	64,938	67,303	61,966	64,640	65,408	60,783	59,340	59,909
67 Other liabilities and subordinated notes and debentures	34,225	33,186	31,985	31,256	38,718	33,810	33,038	32,668	35,359
68 **Total liabilities**	**283,252**	**270,078**	**278,230**	**268,774**	**283,926**	**275,549**	**272,953**	**274,636**	**279,562**
69 Residual (total assets minus total liabilities)[9]	26,658	27,039	26,855	26,630	27,051	27,604	28,074	27,759	27,221
MEMO									
70 Total loans and leases (gross) and investments adjusted[2,10]	208,543	207,305	206,060	206,696	210,393	207,741	207,454	209,329	208,913
71 Total loans and leases (gross) adjusted[10]	175,937	174,690	173,543	173,802	177,052	174,488	174,357	176,113	175,756
72 Time deposits in amounts of $100,000 or more	40,996	40,998	41,022	41,310	41,053	41,857	41,244	41,492	41,246
73 U.S. Treasury securities maturing in one year or less	3,998	3,654	4,816	4,163	3,299	3,528	3,354	2,934	2,984

1. These data also appear in the Board's H.4.2 (504) release. For address, see inside front cover.
2. Excludes trading account securities.
3. Not available due to confidentiality.
4. Includes U.S. government-issued or guaranteed certificates of participation in pools of residential mortgages.
5. Includes securities purchased under agreements to resell.
6. Includes allocated transfer risk reserve.
7. Includes trading account securities.
8. Includes federal funds purchased and securities sold under agreements to repurchase.
9. Not a measure of equity capital for use in capital adequacy analysis or for other analytic uses.
10. Exclusive of loans and federal funds transactions with domestic commercial banks.

1.30 LARGE WEEKLY REPORTING U.S. BRANCHES AND AGENCIES OF FOREIGN BANKS[1] Assets and Liabilities

Millions of dollars, Wednesday figures

Account	1988								
	Nov. 2	Nov. 9	Nov. 16	Nov. 23	Nov. 30	Dec. 7	Dec. 14	Dec. 21	Dec. 28
1 Cash and due from depository institutions	11,233	12,579	11,887	11,126	10,817	11,067	11,181	11,086	12,181
2 Total loans and securities	111,505	111,580	112,278	110,162	112,854	111,964	114,403	113,961	118,172
3 U.S. Treasury and government agency securities	7,885	7,751	7,834	7,546	7,651	7,575	7,794	7,980	7,492
4 Other securities	7,288	7,237	7,242	7,202	7,259	7,227	7,163	7,123	7,156
5 Federal funds sold[2]	8,489	9,036	10,864	7,293	10,172	7,780	10,306	7,964	9,290
6 To commercial banks in the United States	5,823	6,729	8,861	5,465	7,878	5,615	8,208	5,969	7,282
7 To others	2,666	2,307	2,003	1,828	2,294	2,165	2,098	1,995	2,008
8 Other loans, gross	87,843	87,556	86,338	88,121	87,772	89,382	89,140	90,894	94,234
9 Commercial and industrial	56,482	55,887	55,486	55,635	56,065	57,292	57,006	58,540	59,713
10 Bankers acceptances and commercial paper	1,555	1,604	1,689	1,736	1,554	1,618	1,485	1,532	1,420
11 All other	54,927	54,283	53,797	53,899	54,511	55,674	55,521	57,008	58,293
12 U.S. addressees	53,223	52,608	52,224	52,279	52,871	53,941	53,829	55,355	56,624
13 Non-U.S. addressees	1,704	1,675	1,573	1,620	1,640	1,733	1,692	1,653	1,669
14 To financial institutions	17,063	17,077	16,135	17,425	16,308	17,289	17,291	17,460	18,666
15 Commercial banks in the United States	12,648	12,773	11,902	13,038	12,018	12,929	12,931	12,927	14,098
16 Banks in foreign countries	1,350	1,174	1,157	1,221	1,220	1,298	1,194	1,307	1,269
17 Nonbank financial institutions	3,065	3,130	3,076	3,166	3,070	3,062	3,166	3,226	3,299
18 To foreign governments and official institutions	621	743	820	801	830	830	906	864	857
19 For purchasing and carrying securities	1,611	1,467	1,449	1,805	1,761	1,535	1,514	1,780	2,317
20 All other	12,066	12,382	12,448	12,455	12,808	12,436	12,423	12,250	12,681
21 Other assets (claims on nonrelated parties)	30,628	31,572	32,296	32,715	33,025	32,537	33,007	33,288	32,511
22 Net due from related institutions	17,526	16,796	14,936	18,101	15,233	17,869	14,524	15,202	13,002
23 Total assets	170,893	172,529	171,399	172,104	171,928	173,439	173,117	173,540	175,865
24 Deposits or credit balances due to other than directly related institutions	43,758	43,029	43,389	43,866r	44,179	44,843	44,601	45,246	46,626
25 Transaction accounts and credit balances[3]	4,549	3,642	4,300	3,888	3,954	3,965	4,010	4,179	4,183
26 Individuals, partnerships, and corporations	2,655	2,350	2,882	2,497	2,451	2,323	2,520	2,581	2,453
27 Other	1,894	1,292	1,418	1,391	1,503	1,642	1,490	1,598	1,730
28 Nontransaction accounts[4]	39,209	39,387	39,089	39,978r	40,225	40,878	40,591	41,067	42,443
29 Individuals, partnerships, and corporations	32,723	32,891	32,634	33,555r	33,713	34,417	34,340	35,061	36,436
30 Other	6,486	6,496	6,455	6,423	6,512	6,461	6,251	6,006	6,007
31 Borrowings from other than directly related institutions	69,132	70,562	68,503	67,721r	68,197	69,676	68,404	70,772	66,140
32 Federal funds purchased[5]	33,914	33,386	31,479	24,603	31,021	31,238	29,087	30,677	27,492
33 From commercial banks in the United States	17,088	17,674	16,307	12,087	16,454	15,670	15,553	14,778	14,188
34 From others	16,826	15,712	15,172	12,516	14,567	15,568	13,534	15,899	13,304
35 Other liabilities for borrowed money	35,218	37,176	37,024	43,118r	37,176	38,438	39,317	40,095	38,648
36 To commercial banks in the United States	23,628	25,763	25,668	28,072	25,744	26,714	27,267	26,577	25,716
37 To others	11,590	11,413	11,356	15,046r	11,432	11,724	12,050	13,518	12,932
38 Other liabilities to nonrelated parties	31,582	32,911	33,837	33,964	34,168	33,981	34,556	34,255	34,088
39 Net due to related institutions	26,420	26,028	25,668	26,552	25,383	24,937	25,556	23,266	29,011
40 Total liabilities	170,893	172,529	171,399	172,104	171,928	173,439	173,117	173,540	175,865
MEMO									
41 Total loans (gross) and securities adjusted[6]	93,034	92,078	91,515	91,659	92,958	93,420	93,264	95,065	96,792
42 Total loans (gross) adjusted[6]	77,861	77,090	76,439	76,911	78,048	78,618	78,307	79,962	82,144

1. Effective Jan. 1, 1986, the reporting panel includes 65 U.S. branches and agencies of foreign banks that include those branches and agencies with assets of $750 million or more on June 30, 1980, plus those branches and agencies that had reached the $750 million asset level on Dec. 31, 1984. These data also appear in the Board's H.4.2 (504) release. For address, see inside front cover.
2. Includes securities purchased under agreements to resell.
3. Includes credit balances, demand deposits, and other checkable deposits.
4. Includes savings deposits, money market deposit accounts, and time deposits.
5. Includes securities sold under agreements to repurchase.
6. Exclusive of loans to and federal funds sold to commercial banks in the United States.

1.31 GROSS DEMAND DEPOSITS Individuals, Partnerships, and Corporations[1]

Billions of dollars, estimated daily-average balances, not seasonally adjusted

Type of holder	Commercial banks									
	1983 Dec.	1984 Dec.	1985 Dec.	1986 Dec.	1987			1988		
					June	Sept.	Dec.	Mar.	June	Sept.
1 **All holders—Individuals, partnerships, and corporations**	**293.5**	**302.7**	**321.0**	**363.6**	**340.2**	**339.0**	**343.5**	**328.6**	**346.5**	**337.8**
2 Financial business	32.8	31.7	32.3	41.4	36.6	36.5	36.3	33.9	37.2	34.8
3 Nonfinancial business	161.1	166.3	178.5	202.0	187.2	188.2	191.9	184.1	194.3	190.3
4 Consumer	78.5	81.5	85.5	91.1	90.1	88.7	90.0	86.9	89.8	87.8
5 Foreign	3.3	3.6	3.5	3.3	3.2	3.2	3.4	3.5	3.4	3.2
6 Other	17.8	19.7	21.2	25.8	23.1	22.4	21.9	20.3	21.9	21.7
	Weekly reporting banks									
	1983 Dec.	1984 Dec.	1985 Dec.	1986 Dec.	1987			1988		
					June	Sept.	Dec.	Mar.	June	Sept.
7 **All holders—Individuals, partnerships, and corporations**	**146.2**	**157.1**	**168.6**	**195.1**	**179.3**	**179.1**	**183.8**	**181.8**	**191.5**	**185.3**
8 Financial business	24.2	25.3	25.9	32.5	29.3	29.3	28.6	27.0	30.0	27.2
9 Nonfinancial business	79.8	87.1	94.5	106.4	94.8	96.0	100.0	98.2	103.1	101.5
10 Consumer	29.7	30.5	33.2	37.5	37.5	37.2	39.1	41.7	42.3	41.8
11 Foreign	3.1	3.4	3.1	3.3	3.1	3.1	3.3	3.4	3.4	3.1
12 Other	9.3	10.9	12.0	15.4	14.6	13.5	12.7	11.4	12.8	11.7

1. Figures include cash items in process of collection. Estimates of gross deposits are based on reports supplied by a sample of commercial banks. Types of depositors in each category are described in the June 1971 BULLETIN, p. 466. Figures may not add to totals because of rounding.

2. Beginning in March 1984, these data reflect a change in the panel of weekly reporting banks, and are not comparable to earlier data. Estimates in billions of dollars for December 1983 based on the new weekly reporting panel are: financial business, 24.4; nonfinancial business, 80.9; consumer, 30.1; foreign, 3.1; other 9.5.

3. Beginning March 1985, financial business deposits and, by implication, total gross demand deposits have been redefined to exclude demand deposits due to thrift institutions. Historical data have not been revised. The estimated volume of such deposits for December 1984 is $5.0 billion at all insured commercial banks and $3.0 billion at weekly reporting banks.

4. Historical data back to March 1985 have been revised to account for corrections of bank reporting errors. Historical data before March 1985 have not been revised, and may contain reporting errors. Data for all commercial banks for March 1985 were revised as follows (in billions of dollars): all holders, −.3; financial business, −.8; nonfinancial business, −.4; consumer, .9; foreign, .1; other, −.1. Data for weekly reporting banks for March 1985 were revised as follows (in billions of dollars): all holders, −.1; financial business, −.7; nonfinancial business, −.5; consumer, 1.1; foreign, .1; other, −.2.

5. Beginning March 1988, these data reflect a change in the panel of weekly reporting banks, and are not comparable to earlier data. Estimates in billions of dollars for December 1987 based on the new weekly reporting panel are: financial business, 29.4; nonfinancial business, 105.1; consumer, 41.1; foreign, 3.4; other, 13.1.

1.32 COMMERCIAL PAPER AND BANKERS DOLLAR ACCEPTANCES OUTSTANDING

Millions of dollars, end of period

Instrument	1983 Dec.	1984 Dec.	1985 Dec.	1986 Dec.	1987 Dec.	1988 June	1988 July	1988 Aug.	1988 Sept.	1988 Oct.	1988 Nov.
	Commercial paper (seasonally adjusted unless noted otherwise)										
1 **All issuers**	**187,658**	**237,586**	**298,779**	**329,991**	**357,129**	**417,788**	**423,599**	**426,685**	**421,224**	**424,160ʳ**	**440,670**
Financial companies[1]											
Dealer-placed paper[2]											
2 Total	44,455	56,485	78,443	101,072	101,958	142,322	148,125	148,224	151,491	148,944	154,811
3 Bank-related (not seasonally adjusted)	2,441	2,035	1,602	2,265	1,428	1,448	1,340	983	901	840	995
Directly placed paper[3]											
4 Total	97,042	110,543	135,320	151,820	173,939	184,658	185,063	187,305	179,690	183,064ʳ	192,221
5 Bank-related (not seasonally adjusted)	35,566	42,105	44,778	40,860	43,173	45,294	44,975	47,818	43,887	42,204ʳ	43,729
6 Nonfinancial companies[4]	46,161	70,558	85,016	77,099	81,232	90,808	90,411	91,156	90,043	92,152	93,638
	Bankers dollar acceptances (not seasonally adjusted)[5]										
7 **Total**	**78,309**	**78,364**	**68,413**	**64,974**	**70,565**	**64,359**	**63,240**	**64,036**	**63,452**	**62,253**	**65,961**
Holder											
8 Accepting banks	9,355	9,811	11,197	13,423	10,943	9,734	9,655	9,661	9,334	9,083	9,483
9 Own bills	8,125	8,621	9,471	11,707	9,464	8,861	8,702	8,664	8,400	8,026	8,768
10 Bills bought	1,230	1,191	1,726	1,716	1,479	873	953	888	934	1,057	715
Federal Reserve Banks											
11 Own account	418	0	0	0	0	0	0	0	0	0	0
12 Foreign correspondents	729	671	937	1,317	965	1,273	1,114	9,915	963	1,166	1,393
13 Others	67,807	67,881	56,279	50,234	58,658	53,351	52,471	53,493	53,154	52,004	55,086
Basis											
14 Imports into United States	15,649	17,845	15,147	14,670	16,483	14,244	14,001	14,608	14,622	14,064	14,959
15 Exports from United States	16,880	16,305	13,204	12,960	15,227	14,606	14,676	14,345	13,946	14,067	14,578
16 All other	45,781	44,214	40,062	37,344	38,855	35,510	34,564	35,083	34,884	34,122	36,424

1. Institutions engaged primarily in activities such as, but not limited to, commercial savings, and mortgage banking; sales, personal, and mortgage financing; factoring, finance leasing, and other business lending; insurance underwriting; and other investment activities.
2. Includes all financial company paper sold by dealers in the open market.
3. As reported by financial companies that place their paper directly with investors.
4. Includes public utilities and firms engaged primarily in such activities as communications, construction, manufacturing, mining, wholesale and retail trade, transportation, and services.
5. Beginning January 1988, the number of respondents in the bankers acceptance survey were reduced from 155 to 111 institutions—those with $100 million or more in total acceptances. The new reporting group accounts for over 90 percent of total acceptances activity.

1.33 PRIME RATE CHARGED BY BANKS on Short-Term Business Loans

Percent per year

Date of change	Rate	Period	Average rate	Period	Average rate	Period	Average rate
1986—Mar. 7	9.00	1986	8.33	1987—Jan.	7.50	1988—Jan.	8.75
Apr. 21	8.50	1987	8.21	Feb.	7.50	Feb.	8.51
July 11	8.00	1988	9.32	Mar.	7.50	Mar.	8.50
Aug. 26	7.50			Apr.	7.75	Apr.	8.50
		1986—Jan.	9.50	May	8.14	May	8.84
1987—Apr. 1	7.75	Feb.	9.50	June	8.25	June	9.00
May 1	8.00	Mar.	9.10	July	8.25	July	9.29
15	8.25	Apr.	8.83	Aug.	8.25	Aug.	9.84
Sept. 4	8.75	May	8.50	Sept.	8.70	Sept.	10.00
Oct. 7	9.25	June	8.50	Oct.	9.07	Oct.	10.00
22	9.00	July	8.16	Nov.	8.78	Nov.	10.05
Nov. 5	8.75	Aug.	7.90	Dec.	8.75	Dec.	10.50
		Sept.	7.50				
1988—Feb. 2	8.50	Oct.	7.50				
May 11	9.00	Nov.	7.50				
July 14	9.50	Dec.	7.50				
Aug. 11	10.00						
Nov. 28	10.50						

NOTE. These data also appear in the Board's H.15 (519) and G.13 (415) releases. For address, see inside front cover.

1.35 INTEREST RATES Money and Capital Markets

Averages, percent per year; weekly, monthly and annual figures are averages of business day data unless otherwise noted.

Instrument	1986	1987	1988	1988				1988, week ending				
				Sept.	Oct.	Nov.	Dec.	Dec. 2	Dec. 9	Dec. 16	Dec. 23	Dec. 30
MONEY MARKET RATES												
1 Federal funds[1,2]	6.80	6.66	7.57	8.19	8.30	8.35	8.76	8.44	8.59	8.51	8.87	8.86
2 Discount window borrowing[1,2,3]	6.32	5.66	6.20	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Commercial paper[4,5]												
3 1-month	6.61	6.74	7.58	8.09	8.12	8.38	9.31	8.82	9.27	9.32	9.39	9.30
4 3-month	6.49	6.82	7.66	8.17	8.24	8.66	9.11	9.12	9.10	9.14	9.13	9.07
5 6-month	6.39	6.85	7.68	8.23	8.24	8.55	8.97	8.96	8.93	9.02	8.99	8.97
Finance paper, directly placed[4,5]												
6 1-month	6.57	6.61	7.44	7.96	8.05	8.29	9.00	8.53	8.97	9.08	9.06	9.00
7 3-month	6.38	6.54	7.38	7.95	8.06	8.20	8.50	8.26	8.41	8.53	8.62	8.55
8 6-month	6.31	6.37	7.14	7.71	7.80	7.94	8.24	8.07	8.18	8.22	8.34	8.29
Bankers acceptances[5,6]												
9 3-month	6.38	6.75	7.56	8.06	8.15	8.55	8.96	8.94	8.93	9.02	8.98	8.90
10 6-month	6.28	6.78	7.60	8.15	8.13	8.46	8.83	8.80	8.77	8.89	8.87	8.83
Certificates of deposit, secondary market[7]												
11 1-month	6.61	6.75	7.59	8.12	8.15	8.43	9.37	8.99	9.34	9.42	9.40	9.36
12 3-month	6.51	6.87	7.73	8.23	8.36	8.78	9.25	9.22	9.24	9.32	9.29	9.20
13 6-month	6.50	7.01	7.91	8.50	8.48	8.81	9.28	9.24	9.24	9.32	9.31	9.26
14 Eurodollar deposits, 3-month[8]	6.70	7.07	7.85	8.31	8.51	8.91	9.30	9.29	9.20	9.31	9.41	9.31
U.S. Treasury bills[5]												
Secondary market[9]												
15 3-month	5.97	5.78	6.67	7.23	7.34	7.76	8.07	7.94	7.96	8.09	8.11	8.16
16 6-month	6.02	6.03	6.91	7.43	7.50	7.86	8.22	8.09	8.19	8.27	8.20	8.28
17 1-year	6.07	6.33	7.13	7.60	7.54	7.87	8.32	8.10	8.23	8.42	8.32	8.38
Auction average[10]												
18 3-month	5.98	5.82	6.68	7.23	7.34	7.68	8.09	8.05	8.04	7.98	8.14	8.22
19 6-month	6.03	6.05	6.92	7.43	7.50	7.76	8.24	8.13	8.25	8.21	8.29	8.33
20 1-year	6.18	6.33	7.17	7.60	7.57	7.92	8.49	n.a.	n.a.	n.a.	8.49	n.a.
CAPITAL MARKET RATES												
U.S. Treasury notes and bonds[11]												
Constant maturities[12]												
21 1-year	6.45	6.77	7.65	8.09	8.11	8.48	8.99	8.75	8.89	9.10	9.00	9.07
22 2-year	6.86	7.42	8.10	8.46	8.35	8.67	9.09	8.96	8.99	9.16	9.09	9.18
23 3-year	7.06	7.68	8.26	8.57	8.43	8.72	9.11	8.98	9.01	9.17	9.12	9.20
24 5-year	7.30	7.94	8.47	8.69	8.51	8.79	9.09	9.00	8.99	9.16	9.10	9.18
25 7-year	7.54	8.23	8.71	8.87	8.69	8.89	9.13	9.08	9.04	9.19	9.12	9.22
26 10-year	7.67	8.39	8.85	8.98	8.80	8.96	9.11	9.11	9.03	9.16	9.08	9.17
27 20-year	7.84	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
28 30-year	7.78	8.59	8.96	9.06	8.89	9.02	9.01	9.11	9.00	9.02	8.97	9.00
Composite[13]												
29 Over 10 years (long-term)	8.14	8.64	8.98	9.06	8.89	9.07	9.13	9.21	9.10	9.15	9.10	9.13
State and local notes and bonds												
Moody's series[14]												
30 Aaa	6.95	7.14	7.36	7.39	7.25	7.35	7.35	7.41	7.34	7.36	7.34	7.30
31 Baa	7.76	8.17	7.83	7.84	7.72	7.78	7.76	7.81	7.75	7.77	7.77	7.70
32 *Bond Buyer* series[15]	7.32	7.63	7.68	7.66	7.47	7.46	7.61	7.66	7.68	7.66	7.57	7.50
Corporate bonds												
Seasoned issues[16]												
33 All industries	9.71	9.91	n.a.	10.28	9.90	9.91	10.03	10.03	10.00	10.03	10.05	10.06
34 Aaa	9.02	9.38	n.a.	9.82	9.51	9.45	9.57	9.55	9.52	9.57	9.59	9.60
35 Aa	9.47	9.68	n.a.	10.06	9.71	9.72	9.81	9.82	9.79	9.81	9.81	9.84
36 A	9.95	9.99	n.a.	10.34	9.99	9.99	10.11	10.12	10.10	10.11	10.11	10.14
37 Baa	10.39	10.58	n.a.	10.90	10.41	10.48	10.65	10.61	10.61	10.65	10.68	10.67
38 A-rated, recently offered utility bonds[17]	9.61	9.95	n.a.	10.26	10.11	10.12	10.08	10.20	10.15	10.02	10.15	9.98
MEMO: Dividend/price ratio[18]												
39 Preferred stocks	8.76	8.37	n.a.	9.25	9.23	9.29	9.38	9.36	9.41	9.36	9.40	9.34
40 Common stocks	3.48	3.08	n.a.	3.69	3.61	3.70	3.68	3.70	3.63	3.70	3.68	3.70

1. Weekly, monthly and annual figures are averages of all calendar days, where the rate for a weekend or holiday is taken to be the rate prevailing on the preceding business day. The daily rate is the average of the rates on a given day weighted by the volume of transactions at these rates.
2. Weekly figures are averages for statement week ending Wednesday.
3. Rate for the Federal Reserve Bank of New York.
4. Unweighted average of offering rates quoted by at least five dealers (in the case of commercial paper), or finance companies (in the case of finance paper). Before November 1979, maturities for data shown are 30–59 days, 90–119 days, and 120–179 days for commercial paper; and 30–59 days, 90–119 days, and 150–179 days for finance paper.
5. Yields are quoted on a bank-discount basis, rather than in an investment yield basis (which would give a higher figure).
6. Dealer closing offered rates for top-rated banks. Most representative rate (which may be, but need not be, the average of the rates quoted by the dealers).
7. Unweighted average of offered rates quoted by at least five dealers early in the day.
8. Calendar week average. For indication purposes only.
9. Unweighted average of closing bid rates quoted by at least five dealers.
10. Rates are recorded in the week in which bills are issued. Beginning with the Treasury bill auction held on Apr. 18, 1983, bidders were required to state the percentage yield (on a bank discount basis) that they would accept to two decimal places. Thus, average issuing rates in bill auctions will be reported using two rather than three decimal places.
11. Yields are based on closing bid prices quoted by at least five dealers.
12. Yields adjusted to constant maturities by the U.S. Treasury. That is, yields are read from a yield curve at fixed maturities. Based on only recently issued, actively traded securities.
13. Averages (to maturity or call) for all outstanding bonds neither due nor callable in less than 10 years, including one very low yielding "flower" bond.
14. General obligations based on Thursday figures; Moody's Investors Service.
15. General obligations only, with 20 years to maturity, issued by 20 state and local governmental units of mixed quality. Based on figures for Thursday.
16. Daily figures from Moody's Investors Service. Based on yields to maturity on selected long-term bonds.
17. Compilation of the Federal Reserve. This series is an estimate of the yield on recently-offered, A-rated utility bonds with a 30-year maturity and 5 years of call protection. Weekly data are based on Friday quotations.
18. Standard and Poor's corporate series. Preferred stock ratio based on a sample of ten issues: four public utilities, four industrials, one financial, and one transportation. Common stock ratios on the 500 stocks in the price index.

NOTE. These data also appear in the Board's H.15 (519) and G.13 (415) releases. For address, see inside front cover.

1.36 STOCK MARKET Selected Statistics

Indicator	1986	1987	1988[r]	1988 Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
	Prices and trading (averages of daily figures)											
Common stock prices												
1 New York Stock Exchange (Dec. 31, 1965 = 50)	136.00	161.70	149.91	148.46	144.99	152.72	152.12	149.25	151.47	156.36	152.67	155.35
2 Industrial	155.85	195.31	180.83	181.01	176.02	184.92	184.09	179.72	182.18	188.58	182.25	187.75
3 Transportation	119.87	140.39	134.01	133.40	127.63	136.02	136.49	132.52	136.27	141.83	137.51	144.06
4 Utility	71.36	74.29	72.22	69.35	68.66	72.25	71.49	70.67	71.83	74.19	79.28	74.81
5 Finance	147.19	146.48	127.41	121.66	120.35	129.04	129.99	130.77	133.15	136.09	130.05	128.83
6 Standard & Poor's Corporation (1941–43 = 10)[1]	236.34	286.83	n.a.	262.61	256.12	270.68	269.05	263.73	267.97	277.40	271.02	281.28
7 American Stock Exchange (Aug. 31, 1973 = 50)[2]	264.38	316.61	294.90	300.43	296.30	306.13	307.48	297.76	297.86	302.83	292.25	298.59
Volume of trading (thousands of shares)												
8 New York Stock Exchange	141,385	188,647	161,450	162,518	153,906	195,772	166,916	144,668	145,702	162,631	134,427	135,473
9 American Stock Exchange	11,846	13,832	9,955	10,706	8,931	11,348	9,938	9,307	8,198	9,051	8,497	11,227
	Customer financing (end-of-period balances, in millions of dollars)											
10 **Margin credit at broker-dealers**[3]	**36,840**	**31,990**	**32,740**	**33,270**	**33,070**	**32,300**	**31,770**	**31,930**	**32,770**	**33,410**	**33,640**	**32,740**
Free credit balances at brokers[4]												
11 Margin-account[5]	4,880	4,750	5,660	4,395	4,380	4,580	4,485	4,655	4,725	5,065	4,920	5,660
12 Cash-account	19,000	15,640	16,595	13,965	14,150	14,460	14,340	14,045	14,175	14,880	15,185	16,595
	Margin requirements (percent of market value and effective date)[6]											
	Mar. 11, 1968		June 8, 1968		May 6, 1970		Dec. 6, 1971		Nov. 24, 1972		Jan. 3, 1974	
13 Margin stocks	70		80		65		55		65		50	
14 Convertible bonds	50		60		50		50		50		50	
15 Short sales	70		80		65		55		65		50	

1. Effective July 1976, includes a new financial group, banks and insurance companies. With this change the index includes 400 industrial stocks (formerly 425), 20 transportation (formerly 15 rail), 40 public utility (formerly 60), and 40 financial.

2. Beginning July 5, 1983, the American Stock Exchange rebased its index effectively cutting previous readings in half.

3. Beginning July 1983, under the revised Regulation T, margin credit at broker-dealers includes credit extended against stocks, convertible bonds, stocks acquired through exercise of subscription rights, corporate bonds, and government securities. Separate reporting of data for margin stocks, convertible bonds, and subscription issues was discontinued in April 1984.

4. Free credit balances are in accounts with no unfulfilled commitments to the brokers and are subject to withdrawal by customers on demand.

5. New series beginning June 1984.

6. These regulations, adopted by the Board of Governors pursuant to the Securities Exchange Act of 1934, limit the amount of credit to purchase and carry "margin securities" (as defined in the regulations) when such credit is collateralized by securities. Margin requirements on securities other than options are the difference between the market value (100 percent) and the maximum loan value of collateral as prescribed by the Board. Regulation T was adopted effective Oct. 15, 1934; Regulation U, effective May 1, 1936; Regulation G, effective Mar. 11, 1968; and Regulation X, effective Nov. 1, 1971.

On Jan. 1, 1977, the Board of Governors for the first time established in Regulation T the initial margin required for writing options on securities, setting it at 30 percent of the current market-value of the stock underlying the option. On Sept. 30, 1985, the Board changed the required initial margin, allowing it to be the same as the option maintenance margin required by the appropriate exchange or self-regulatory organization; such maintenance margin rules must be approved by the Securities and Exchange Commission. Effective Jan. 31, 1986, the SEC approved new maintenance margin rules, permitting margins to be the price of the option plus 15 percent of the market value of the stock underlying the option.

1.37 SELECTED FINANCIAL INSTITUTIONS Selected Assets and Liabilities

Millions of dollars, end of period

Account	1986	1987	1988									
			Jan.	Feb.	Mar.	Apr.	May	June^r	July^r	Aug.^r	Sept.^r	Oct.
	FSLIC-insured institutions											
1 **Assets**	**1,163,851**	**1,250,855**	**1,254,885**	**1,257,466**	**1,261,581**	**1,274,483^r**	**1,285,339^r**	**1,290,134**	**1,299,557**	**1,311,789**	**1,324,196**	**1,333,233**
2 Mortgages	697,451	721,593	722,944	723,856	725,625	728,984	733,547^r	736,898	743,139	751,475	754,658	761,043
3 Mortgage-backed securities	158,193	201,828	201,732	197,811	197,889	202,767^r	205,053^r	207,744	208,533	210,598	211,223	212,001
4 Contra-assets to mortgage assets[1]	41,799	42,344	41,291	40,836	41,268	39,358^r	39,764^r	40,178	40,235	39,036	38,395	38,196
5 Commercial loans	23,683	23,163	23,538	23,340	24,004	24,243	24,201	24,762	24,962	25,096	24,893	25,265
6 Consumer loans	51,622	57,902	58,342	58,687	58,390	59,121	60,250	61,151	61,568	62,414	61,789	61,317
7 Contra-assets to nonmortgage loans[2]	3,041	3,467	3,580	3,524	3,628	3,513	3,395	3,505	3,378	3,144	3,052	2,921
8 Cash and investment securities	164,844	169,717	169,953	174,106	176,386	177,955^r	179,506^r	177,536	178,442	175,995	183,080	184,727
9 Other[3]	112,898	122,462	123,247	124,025	124,184	124,284^r	125,939^r	125,815	126,526	128,392	130,000	129,998
10 **Liabilities and net worth**	**1,163,851**	**1,250,855**	**1,254,885**	**1,257,466**	**1,261,581**	**1,274,483^r**	**1,285,339^r**	**1,290,134**	**1,299,557**	**1,311,789**	**1,324,196**	**1,333,233**
11 Savings capital	890,664	932,616	939,080	946,790	958,471	962,304^r	963,761	966,756	968,218	968,297	973,732	976,168
12 Borrowed money	196,929	249,917	246,088	239,452	237,563	244,990	250,697^r	257,119	262,733	266,724	273,642	278,288
13 FHLBB	100,025	116,363	114,053	112,725	112,389	113,029	114,994	117,281	118,207	120,671	123,430	124,362
14 Other	96,904	133,554	132,035	126,727	125,174	131,961	135,703^r	139,838	144,526	146,053	150,212	153,926
15 Other	23,975	21,941	23,873	25,818	22,555	24,618^r	27,161^r	24,562	27,105	28,898	25,991	27,547
16 Net worth	52,282	46,382	45,845	45,406	42,892	42,570^r	43,720^r	41,697	41,502	47,871	50,830	51,230
	FSLIC-insured federal savings banks											
17 **Assets**	**210,562**	**284,272**	**284,303**	**295,951**	**307,756**	**311,434**	**323,028^r**	**329,736**	**333,610**	**357,860**	**367,974**	**369,698**
18 Mortgages	113,638	164,013	163,915	171,592	178,260	180,586	184,575^r	188,454	190,897	201,999	205,549	207,200
19 Mortgage-backed securities	29,766	45,826	46,171	46,687	47,979	49,075	51,290	52,648	53,049	55,710	56,408	56,770
20 Contra-assets to mortgage assets[1]	....	9,100	8,909	9,175	9,460	9,346	9,735^r	10,089	10,136	10,917	11,019	10,875
21 Commercial loans	....	6,504	6,496	6,971	7,378	7,531	7,639	7,904	7,919	8,570	8,719	8,910
22 Consumer loans	13,180	17,696	17,649	18,795	19,141	19,616	20,426	21,142	21,444	22,520	22,411	22,409
23 Contra-assets to nonmortgage loans[2]	....	678	698	737	800	724	707	738	699	772	783	789
24 Finance leases plus interest	....	591	604	584	611	615	652	708	735	791	806	805
25 Cash and investment	....	35,347	34,645	35,718	38,224	38,273	39,889^r	40,286	40,825	45,084	48,985	48,703
26 Other	19,034	24,070	24,430	25,517	26,424	25,822	26,758^r	27,230	27,318	32,516	34,428	34,054
27 **Liabilities and net worth**	**210,562**	**284,272**	**284,303**	**295,951**	**307,756**	**311,434**	**323,028^r**	**329,736**	**333,610**	**357,860**	**367,974**	**369,698**
28 Savings capital	157,872	203,196	204,329	214,169	224,169	226,544	232,656	236,759	239,591	256,224	261,865	262,926
29 Borrowed money	37,329	60,716	59,206	59,704	61,552	62,566	66,816	69,356	70,015	75,807	80,688	80,782
30 FHLBB	19,897	29,617	28,280	29,169	30,456	30,075	31,682	32,177	31,941	35,357	37,245	37,510
31 Other	17,432	31,099	30,926	30,535	31,096	32,491	35,134	37,179	38,074	40,450	43,443	43,272
32 Other	4,263	5,324	5,838	6,602	6,089	6,390	7,118^r	6,639	7,061	8,061	7,376	7,680
33 Net worth	11,098	15,036	14,930	15,477	15,946	16,087	16,589^r	16,886	16,847	17,665	17,913	18,217
	Savings banks											
34 **Assets**	**236,866**	**259,643**	**258,628**	**259,224**	**262,100**	**262,269**	**264,507**	**249,927**	**252,875**	**253,453**	**255,510**	**257,127**
Loans												
35 Mortgage	118,323	138,494	137,858	139,108	140,835	139,691	143,235	138,148	139,844	141,316	143,626	145,398
36 Other	35,167	33,871	35,095	35,752	36,476	37,471	35,927	32,399	32,941	32,799	32,879	33,234
Securities												
37 U.S. government	14,209	13,510	12,776	12,269	12,225	13,203	12,490	11,597	11,563	11,353	11,182	10,896
38 Mortgage-backed securities	25,836	32,772	32,241	32,423	32,272	31,072	31,861	29,735	30,064	30,006	29,190	29,893
39 State and local government	2,185	2,003	1,994	2,053	2,033	2,013	1,933	1,849	1,840	1,901	1,878	1,872
40 Corporate and other	20,459	18,772	18,780	18,271	18,336	18,549	18,298	17,492	17,527	17,301	17,234	16,886
41 Cash	6,894	5,864	4,841	5,002	4,881	5,237	5,383	4,831	5,186	4,950	5,463	4,825
42 Other assets	13,793	14,357	15,043	14,346	15,042	15,033	15,380	13,876	13,910	13,827	14,058	14,123
43 **Liabilities**	**236,866**	**259,643**	**258,628**	**259,224**	**262,100**	**262,269**	**264,507**	**249,927**	**252,875**	**253,453**	**255,510**	**257,127**
44 Deposits	192,194	201,497	199,545	200,391	203,407	203,273	205,692	194,018	195,537	195,907	197,665	197,925
45 Regular[4]	186,345	196,037	194,322	195,336	198,273	197,801	200,098	188,571	189,993	190,716	192,228	192,663
46 Ordinary savings	37,717	41,959	41,047	41,234	41,867	41,741	42,403	40,179	40,124	39,738	39,618	39,375
47 Time	100,809	112,429	112,781	113,751	115,529	115,887	117,297	110,738	112,272	114,255	116,387	117,712
48 Other	5,849	5,460	5,223	5,055	5,134	5,472	5,594	5,447	5,544	5,191	5,427	5,262
49 Other liabilities	25,274	35,720	36,836	35,787	35,737	35,827	35,836	34,038	34,686	34,776	35,001	35,997
50 General reserve accounts	18,105	20,633	20,514	20,894	21,024	21,109	21,179	19,875	20,069	20,018	20,151	20,324

1.37—Continued

Account	1986	1987	1988 Jan.	Feb.	Mar.	Apr.	May	June[r]	July[r]	Aug.[r]	Sept.[r]	Oct.
	Credit unions[5]											
51 **Total assets/liabilities and capital**	**147,726**				**169,111**	**169,175**	**172,456**	**172,345**	**173,276**			
52 Federal	95,483				109,797	109,913	112,595	112,573	113,068			
53 State	52,243				59,314	59,262	59,855	59,772	60,208			
54 Loans outstanding	86,137	n.a.	n.a.	n.a.	101,965	103,271	105,704	105,800	107,065	n.a.	n.a.	n.a.
55 Federal	55,304				65,732	66,431	68,213	68,658	69,626			
56 State	30,833				36,233	36,840	37,491	37,142	37,439			
57 Savings	134,327				156,045	155,105	157,764	158,186	159,314			
58 Federal	87,954				101,847	101,048	103,129	103,347	104,256			
59 State	46,373				54,198	54,057	54,635	54,839	55,058			
	Life insurance companies											
60 **Assets**	**937,551**	**1,044,459**	**1,042,350**	**1,052,645**	**1,065,549**	**1,075,541**	**1,094,827**	**1,105,546**	**1,113,547**	**1,121,337**	**1,131,179**	
Securities												
61 Government	84,640	84,426	91,682	92,497	92,408	93,946	86,711	87,160	88,218	88,362	87,588	
62 United States[6]	59,033	57,078	64,922	65,534	65,218	66,749	58,988	59,351	60,244	60,407	59,874	
63 State and local	11,659	10,681	11,749	11,859	12,033	11,976	11,016	11,114	11,102	11,190	11,054	
64 Foreign[7]	13,948	16,667	15,011	15,104	15,157	15,221	16,707	16,695	16,872	16,765	16,660	
65 Business	492,807	569,199	563,019	571,070	580,392	587,846	606,445	614,052	618,742	624,917	630,086	n.a.
66 Bonds	401,943	472,684	469,207	476,448	484,403	490,285	503,728	509,105	514,926	520,796	525,336	
67 Stocks	90,864	96,515	93,812	94,622	95,989	97,561	102,717	104,947	103,816	104,121	104,750	
68 Mortgages	193,842	203,545	212,637	213,182	214,815	215,383	219,012	220,870	221,990	233,438	225,627	
69 Real estate	31,615	34,172	34,178	34,503	34,845	34,964	35,484	35,545	35,737	35,920	35,892	
70 Policy loans	54,055	53,626	53,265	52,720	52,604	52,568	53,013	53,107	53,142	53,194	53,149	
71 Other assets	80,592	89,586	87,569	88,673	90,499	90,834	94,162	94,812	95,718	95,505	98,837	

1. Contra-assets are credit-balance accounts that must be subtracted from the corresponding gross asset categories to yield net asset levels. Contra-assets to mortgage loans, contracts, and pass-through securities include loans in process, unearned discounts and deferred loan fees, valuation allowances for mortgages "held for sale," and specific reserves and other valuation allowances.
2. Contra-assets are credit-balance accounts that must be subtracted from the corresponding gross asset categories to yield net asset levels. Contra-assets to nonmortgage loans include loans in process, unearned discounts and deferred loan fees, and specific reserves and valuation allowances.
3. Holding of stock in Federal Home Loan Bank and Finance leases plus interest are included in "Other" (line 9).
4. Excludes checking, club, and school accounts.
5. Data include all federally insured credit unions, both federal and state chartered, serving natural persons.
6. Direct and guaranteed obligations. Excludes federal agency issues not guaranteed, which are shown in the table under "Business" securities.
7. Issues of foreign governments and their subdivisions and bonds of the International Bank for Reconstruction and Development.

NOTE. *FSLIC-insured institutions:* Estimates by the FHLBB for all institutions insured by the FSLIC and based on the FHLBB thrift Financial Report.

FSLIC-insured federal savings banks: Estimates by the FHLBB for federal savings banks insured by the FSLIC and based on the FHLBB thrift Financial Report.

Savings banks: Estimates by the National Council of Savings Institutions for all savings banks in the United States and for FDIC-insured savings banks that have converted to federal savings banks.

Credit unions: Estimates by the National Credit Union Administration for federally chartered and federally insured state-chartered credit unions serving natural persons.

Life insurance companies: Estimates of the American Council of Life Insurance for all life insurance companies in the United States. Annual figures are annual-statement asset values, with bonds carried on an amortized basis and stocks at year-end market value. Adjustments for interest due and accrued and for differences between market and book values are not made on each item separately but are included, in total, in "other assets."

1.38 FEDERAL FISCAL AND FINANCING OPERATIONS

Millions of dollars

Type of account or operation	Fiscal year 1986	Fiscal year 1987	Fiscal year 1988	Calendar year 1988 July	Aug.	Sept.	Oct.	Nov.	Dec.
U.S. budget[1]									
1 Receipts, total	769,091	854,143	908,953	60,690	69,479	97,803	63,646	64,408	93,795
2 On-budget	568,862	640,741	667,462	40,980	51,015	75,586	45,847	47,023	74,682
3 Off-budget	200,228	213,402	241,491	19,710	18,464	22,217	17,799	17,385	19,114
4 Outlays, total	990,258	1,003,830r	1,064,044r	83,634	92,561	87,588	90,655r	93,426	105,363
5 On-budget	806,760	809,998r	861,352r	66,818	74,756	70,071	73,514r	75,427	91,732
6 Off-budget	183,498	193,832	202,691	16,816	17,805	17,518	17,141	17,999	13,632
7 Surplus, or deficit (−), total	−221,167	−149,687r	−155,090r	9,134	−22,944	−23,082	−27,009r	−29,018	−11,568
8 On-budget	−237,898	−169,257r	−193,890r	−25,838	−23,741	5,515	−27,667r	−28,403	−17,050
9 Off-budget	16,731	19,570	38,800	2,894	659	4,699	658	−614	5,482
Source of financing (total)									
10 Borrowing from the public	236,187	150,070	162,062r	3,665	23,370	14,665	10,716	31,520	12,036
11 Operating cash (decrease, or increase (−))	−14,324	−5,052	−7,963	15,696	10,954	−31,444	13,748	9,218	−12,268
12 Other[2]	−696	4,669r	991r	3,583	−11,242	6,564	2,545r	−11,720	11,800
MEMO									
13 Treasury operating balance (level, end of period)	31,384	36,436	44,398	23,908	12,954	44,398	30,650	21,432	33,700
14 Federal Reserve Banks	7,514	9,120	13,024	3,910	4,390	13,024	6,151	5,198	8,657
15 Tax and loan accounts	23,870	27,316	31,375	19,998	8,564	31,375	24,499	16,234	25,044

1. In accordance with the Balanced Budget and Emergency Deficit Control Act of 1985, all former off-budget entries are now presented on-budget. The Federal Financing Bank (FFB) activities are now shown as separate accounts under the agencies that use the FFB to finance their programs. The act has also moved two social security trust funds (Federal old-age survivors insurance and Federal disability insurance trust funds) off-budget.

2. Includes SDRs; reserve position on the U.S. quota in the IMF; loans to international monetary fund; other cash and monetary assets; accrued interest payable to the public; allocations of special drawing rights; deposit funds; miscellaneous liability (including checks outstanding) and asset accounts; seigniorage; increment on gold; net gain/loss for U.S. currency valuation adjustment; net gain/loss for IMF valuation adjustment; and profit on the sale of gold.

SOURCE. *Monthly Treasury Statement of Receipts and Outlays of the U.S. Government* and the *Budget of the U.S. Government.*

1.39 U.S. BUDGET RECEIPTS AND OUTLAYS[1]

Millions of dollars

Source or type	Fiscal year 1987	Fiscal year 1988	Calendar year						
			1987		1988		1988		
			H1	H2	H1	H2	Oct.	Nov.	Dec.
RECEIPTS									
1 **All sources**	**854,143**	**908,954**	**447,282**	**421,712**	**476,115**	**449,821**	**63,646**	**64,408**	**93,795**
2 Individual income taxes, net	392,557	401,181	205,157	192,575	207,659	200,299	31,287	29,822	39,673
3 Withheld	322,463	341,435	156,760	170,203	169,300	179,600	28,824	30,092	37,578
4 Presidential Election Campaign Fund	33	33	30	4	28	4	0	0	0
5 Nonwithheld	142,957	132,199	112,421	31,223	101,614	29,880	3,430	1,367	3,034
6 Refunds	72,896	72,487	64,052	8,853	63,283	9,187	967	1,638	939
Corporation income taxes									
7 Gross receipts	102,859	109,683	52,396	52,821	58,002	56,409	3,789	2,662	23,100
8 Refunds	18,933	15,487	10,881	7,119	8,706	7,384	1,995	1,219	940
9 Social insurance taxes and contributions, net	303,318	334,335	163,519	143,755	181,058	157,603	23,848	25,075	24,698
10 Employment taxes and contributions[2]	273,028	305,093	146,696	130,388	164,412	144,983	22,400	22,051	24,100
11 Self-employment taxes and contributions[3]	13,987	17,691	12,020	1,889	14,839	3,032	0	326	0
12 Unemployment insurance	25,575	24,584	14,514	10,977	14,363	10,359	1,101	2,641	189
13 Other net receipts[4]	4,715	4,659	2,310	2,390	2,284	2,262	347	382	410
14 Excise taxes	32,457	35,540	15,845	17,680	16,440	19,434	3,134	3,247	3,155
15 Customs deposits	15,085	16,198	7,129	7,993	7,851	8,535	1,381	1,403	1,391
16 Estate and gift taxes	7,493	7,594	3,818	3,610	3,863	4,054	662	753	673
17 Miscellaneous receipts[5]	19,307	19,909	10,299	10,399	9,950	10,873	1,540	2,666	2,046
OUTLAYS									
18 **All types**	**1,004,586[r]**	**1,064,054[r]**	**503,267**	**532,839**	**513,210**	**553,227**	**90,655[r]**	**93,426**	**105,363**
19 National defense	281,999	290,349	142,886	146,995	143,080	150,496	25,938	24,702	28,934
20 International affairs	11,649	10,469	4,374	4,487	7,150	2,636	2,176	−2,055	805
21 General science, space, and technology	9,216	10,876	4,324	5,469	5,361	5,852	1,136	1,116	1,007
22 Energy	4,115	2,342	2,335	1,468	555	1,966	366	539	406
23 Natural resources and environment	13,363	14,538	6,175	7,590	6,776	8,330	1,451	1,465	1,480
24 Agriculture	26,606	17,210	11,824	14,640	7,872	7,725	3,025	3,243	1,712
25 Commerce and housing credit	6,156	19,064	4,893	3,852	5,951	20,274	477	2,764	7,217
26 Transportation	26,221	27,196	12,113	14,096	12,700	14,922	2,504	2,570	2,249
27 Community and regional development	5,051	5,577	3,108	2,075	2,765	2,690	648	588	536
28 Education, training, employment, and social services	29,724	30,856	14,182	15,592	15,451	16,152	2,644	3,054	2,849
29 Health	39,968	44,482	20,318	20,750	22,643	23,360	3,994	3,962	4,102
30 Social security and medicare	282,472	297,828	142,864	158,469	135,322	149,017	23,951	25,310	25,374
31 Income security	123,255	130,174	62,248	61,201	65,555	64,978	8,855	11,054	12,355
32 Veterans benefits and services	26,782	29,248	12,264	14,956	13,241	15,797	1,857	2,713	3,539
33 Administration of justice	7,548	9,205	3,626	4,291	4,761	4,778	865	803	765
34 General government	7,564	9,506	3,344	3,560	4,337	5,137	934	819	1,600
35 General-purpose fiscal assistance	0	0	337	1,175	448	0	0	0	0
36 Net interest[6]	138,570	151,711	70,110	71,933	76,098	78,317	13,014	13,622	12,972
37 Undistributed offsetting receipts[7]	−36,455	−36,576	−19,102	−17,684	−17,766	−18,771	−2,751	−2,844	−2,537

1. Functional details do not add to total outlays for calendar year data because revisions to monthly totals have not been distributed among functions. Fiscal year total for outlays does not correspond to calendar year data because revisions from the *Budget* have not been fully distributed across months.
2. Old-age, disability, and hospital insurance, and railroad retirement accounts.
3. Old-age, disability, and hospital insurance.
4. Federal employee retirement contributions and civil service retirement and disability fund.
5. Deposits of earnings by Federal Reserve Banks and other miscellaneous receipts.
6. Net interest function includes interest received by trust funds.
7. Consists of rents and royalties on the outer continental shelf and U.S. government contributions for employee retirement.

SOURCES. U.S. Department of the Treasury, *Monthly Treasury Statement of Receipts and Outlays of the U.S. Government*, and the U.S. Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 1988*.

1.40 FEDERAL DEBT SUBJECT TO STATUTORY LIMITATION

Billions of dollars

Item	1986		1987				1988		
	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30
1 **Federal debt outstanding**	**2,129.5**	**2,218.9**	**2,250.7**	**2,313.1**	**2,354.3**	**2,435.2**	**2,493.2**	**2,555.1**	**2,614.6**
2 Public debt securities	2,125.3	2,214.8	2,246.7	2,309.3	2,350.3	2,431.7	2,487.6	2,547.7	2,602.3
3 Held by public	1,742.4	1,811.7	1,839.3	1,871.1	1,893.1	1,954.1	1,996.7	2,013.4	2,051.7
4 Held by agencies	382.9	403.1	407.5	438.1	457.2	477.6	490.8	534.2	550.4
5 Agency securities	4.2	4.0	4.0	3.8	4.0	3.5	5.6	7.4	12.4
6 Held by public	3.2	3.0	2.9	2.8	3.0	2.7	5.1	7.0	12.2
7 Held by agencies	1.1	1.1	1.1	1.0	1.0	.8	.6	.5	.2
8 **Debt subject to statutory limit**	**2,111.0**	**2,200.5**	**2,232.4**	**2,295.0**	**2,336.0**	**2,417.4**	**2,472.6**	**2,532.2**	**2,586.9**
9 Public debt securities	2,109.7	2,199.3	2,231.1	2,293.7	2,334.7	2,416.3	2,472.1	2,532.1	2,586.7
10 Other debt[1]	1.3	1.3	1.3	1.3	1.3	1.1	.5	.1	.1
11 MEMO: Statutory debt limit	2,111.0	2,300.0	2,300.0	2,320.0	2,800.0	2,800.0	2,800.0	2,800.0	2,800.0

1. Includes guaranteed debt of Treasury and other federal agencies, specified participation certificates, notes to international lending organizations, and District of Columbia stadium bonds.

SOURCES. *Treasury Bulletin* and *Monthly Statement of the Public Debt of the United States.*

1.41 GROSS PUBLIC DEBT OF U.S. TREASURY Types and Ownership

Billions of dollars, end of period

Type and holder	1984	1985	1986	1987	1987	1988		
					Q4	Q1	Q2	Q3
1 **Total gross public debt**	**1,663.0**	**1,945.9**	**2,214.8**	**2,431.7**	**2,431.7**	**2,487.6**	**2,547.7**	**2,602.3**
By type								
2 Interest-bearing debt	1,660.6	1,943.4	2,212.0	2,428.9	2,428.9	2,484.9	2,545.0	2,599.9
3 Marketable	1,247.4	1,437.7	1,619.0	1,724.7	1,724.7	1,758.7	1,769.9	1,802.9
4 Bills	374.4	399.9	426.7	389.5	389.5	392.6	382.3	398.5
5 Notes	705.1	812.5	927.5	1,037.9	1,037.9	1,059.9	1,072.7	1,089.6
6 Bonds	167.9	211.1	249.8	282.5	282.5	291.3	299.9	299.9
7 Nonmarketable[1]	413.2	505.7	593.1	704.2	704.2	726.2	775.1	797.0
8 State and local government series	44.4	87.5	110.5	139.3	139.3	142.9	146.9	147.6
9 Foreign issues[2]	9.1	7.5	4.7	4.0	4.0	6.1	5.7	6.3
10 Government	9.1	7.5	4.7	4.0	4.0	6.1	5.7	6.3
11 Public	.0	.0	.0	.0	.0	.0	.0	n.a.
12 Savings bonds and notes	73.1	78.1	90.6	99.2	99.2	102.3	104.5	106.2
13 Government account series[3]	286.2	332.2	386.9	461.3	461.3	474.4	517.5	536.5
14 Non-interest-bearing debt	2.3	2.5	2.8	2.8	2.8	2.6	2.7	2.5
By holder[4]								
15 U.S. government agencies and trust funds	289.6	348.9	403.1	477.6	477.6	490.8	534.2	550.4
16 Federal Reserve Banks	160.9	181.3	211.3	222.6	222.6	217.5	227.6	229.2
17 Private investors	1,212.5	1,417.2	1,602.0	1,745.2	1,745.2	1,778.2	1,784.9	1,819.0
18 Commercial banks	186.0[r]	198.2[r]	203.5[r]	201.2[r]	201.2[r]	201.0[r]	202.5[r]	203.0
19 Money market funds	25.9	25.1	28.0	14.3	14.3[r]	14.9[r]	13.1[r]	10.8
20 Insurance companies	64.5[r]	78.5[r]	105.6[r]	120.6	120.6	125.5	132.2	135.0
21 Other companies	50.1	59.0	68.8	84.6	84.6	83.0	86.5	86.0
22 State and local Treasurys	173.0	226.7[r]	262.8[r]	282.6	282.6	285.8	n.a.	n.a.
Individuals								
23 Savings bonds	74.5	79.8	92.3	101.1	101.1	104.0	106.2	107.8
24 Other securities	69.3	75.0	70.5	72.3	72.3	69.8	71.7	72.0
25 Foreign and international[5]	192.9	212.5	251.6	287.3[r]	287.3	321.0[r]	333.8[r]	334.3
26 Other miscellaneous investors[6]	376.3[r]	462.4[r]	518.9[r]	581.2	581.2	573.2	n.a.	n.a.

1. Includes (not shown separately): Securities issued to the Rural Electrification Administration; depository bonds, retirement plan bonds, and individual retirement bonds.
2. Nonmarketable dollar-denominated and foreign currency-denominated series held by foreigners.
3. Held almost entirely by U.S. Treasury agencies and trust funds.
4. Data for Federal Reserve Banks and U.S. Treasury agencies and trust funds are actual holdings; data for other groups are Treasury estimates.
5. Consists of investments of foreign and international accounts. Excludes non-interest-bearing notes issued to the International Monetary Fund.
6. Includes savings and loan associations, nonprofit institutions, credit unions, mutual savings banks, corporate pension trust funds, dealers and brokers, certain U.S. Treasury deposit accounts, and federally-sponsored agencies.

SOURCES. Data by type of security, U.S. Treasury Department, *Monthly Statement of the Public Debt of the United States;* data by holder, *Treasury Bulletin.*

1.42 U.S. GOVERNMENT SECURITIES DEALERS Transactions[1]

Par value; averages of daily figures, in millions of dollars

	Item	1986	1987	1988	1988			1988					
					Oct.	Nov.	Dec.	Nov. 23	Nov. 30	Dec. 7	Dec. 14	Dec. 21	Dec. 28
	Immediate delivery[2]												
1	**U.S. Treasury securities**	**95,444**	**110,050**	**101,635**	**109,769**	**114,837**	**90,053**	**108,877**	**99,378**	**118,700**	**101,918**	**86,096**	**61,988**
	By maturity												
2	Bills	34,247	37,924	29,393	29,616	32,559	28,590	30,341	30,850	30,816	29,287	32,412	24,594
3	Other within 1 year	2,115	3,271	3,427	3,286	3,537	2,936	2,587	3,568	3,348	2,807	3,341	2,364
4	1–5 years	24,667	27,918	27,780	28,673	32,826	23,404	33,669	26,235	33,112	23,713	19,453	17,402
5	5–10 years	20,455	24,014	24,941	30,401	27,077	21,498	22,744	24,067	31,324	28,603	18,459	10,818
6	Over 10 years	13,961	16,923	16,093	17,793	18,838	13,625	19,535	14,658	20,100	17,507	12,431	6,810
	By type of customer												
7	U.S. government securities dealers	3,669	2,936	2,762	3,225	3,123	2,818	3,430	2,103	2,736	2,891	2,613	3,378
8	U.S. government securities brokers	49,558	61,539	59,849	65,612	67,171	51,839	62,572	57,329	71,067	61,061	48,605	32,530
9	All others[3]	42,217	45,575	39,023	40,933	44,543	35,395	42,875	39,945	44,897	37,966	34,878	26,080
10	Federal agency securities	16,747	18,084	15,900	17,651	17,535	14,779	15,758	13,977	15,820	19,310	12,559	11,910
11	Certificates of deposit	4,355	4,112	3,369	3,636	3,536	2,763	3,940	3,816	3,104	2,941	3,228	1,959
12	Bankers acceptances	3,272	2,965	2,316	2,177	2,563	1,906	2,056	2,497	2,160	2,071	1,846	1,438
13	Commercial paper	16,660	17,135	22,927	28,748	26,590	28,154	25,959	26,914	27,742	27,230	29,696	26,165
	Futures contracts[4]												
14	Treasury bills	3,311	3,233	2,627	2,777	2,461	2,643	2,737	1,907	3,288	3,461	2,717	1,112
15	Treasury coupons	7,175	8,963	9,698	10,681	11,018	9,511	9,575	11,389	13,675	11,635	9,119	4,833
16	Federal agency securities	16	5	1	0	0	0	0	0	0	0	0	0
	Forward transactions[5]												
17	U.S. Treasury securities	1,876	2,029	2,093	1,769	3,113	1,745	2,899	1,571	1,299	2,907	1,306	1,915
18	Federal agency securities	7,830	9,290	8,008	8,024	8,189	9,214	7,328	5,348	9,212	14,653	10,803	3,654

1. Transactions are market purchases and sales of securities as reported to the Federal Reserve Bank of New York by the U.S. government securities dealers on its published list of primary dealers.

Averages for transactions are based on the number of trading days in the period. The figures exclude allotments of, and exchanges for, new U.S. Treasury securities, redemptions of called or matured securities, purchases or sales of securities under repurchase agreement, reverse repurchase (resale), or similar contracts.

2. Data for immediate transactions do not include forward transactions.

3. Includes, among others, all other dealers and brokers in commodities and securities, nondealer departments of commercial banks, foreign banking agencies, and the Federal Reserve System.

4. Futures contracts are standardized agreements arranged on an organized exchange in which parties commit to purchase or sell securities for delivery at a future date.

5. Forward transactions are agreements arranged in the over-the-counter market in which securities are purchased (sold) for delivery after 5 business days from the date of the transaction for Treasury securities (Treasury bills, notes, and bonds) or after 30 days for mortgage-backed agency issues.

1.43 U.S. GOVERNMENT SECURITIES DEALERS Positions and Financing[1]

Averages of daily figures, in millions of dollars

Item	1986	1987	1988	1988			1988				
				Oct.	Nov.	Dec.	Nov. 30	Dec. 7	Dec. 14	Dec. 21	Dec. 28
	Positions										
Net immediate[2]											
1 **U.S. Treasury securities**	**12,912**	**−6,216**	**−22,742**	**−25,794r**	**−24,048**	**−32,841**	**−25,129r**	**−28,723**	**−32,190**	**−32,858**	**−36,144**
2 Bills	12,761	4,317	2,250	3,691r	329	−1,483	−1,289r	−862	−1,602	898	−3,257
3 Other within 1 year	3,705r	1,557	−2,233	−5,534	−3,587	−1,946	−2,731	−2,198	−2,076	−1,556	−1,752
4 1–5 years	9,146	649	−3,015	855	−1,334	−9,968	−5,154r	−6,699	−9,180	−11,904	−12,010
5 5–10 years	−9,505	−6,564	−9,662	−11,191	−7,697	−7,066	−4,196r	−5,445	−6,200	−8,199	−7,812
6 Over 10 years	−3,197	−6,174	−10,082	−13,615	−11,759	−12,377	−11,759r	−13,518	−13,132	−12,097	−11,313
7 Federal agency securities	32,984	31,911r	28,231	30,169	32,172	27,290	28,918r	27,870	30,524	27,651	24,247
8 Certificates of deposit	10,485	8,188	7,301	8,262	8,445	8,776	8,124r	8,686	8,658	8,737	8,816
9 Bankers acceptances	5,526	3,660r	2,487	2,247	2,579	2,137	2,317	2,306	2,049	2,005	2,157
10 Commercial paper	8,089	7,496	6,152	6,770	5,957	9,371	5,352	6,909	7,741	10,833	11,426
Futures positions											
11 Treasury bills	−18,059	−3,373	−2,211	−4,388	−1,878	999	1,057r	710	985	1,740	806
12 Treasury coupons	3,473	5,988	6,224	6,532	5,875	6,604	6,657r	7,210	6,695	6,938	5,361
13 Federal agency securities	−153	−95	0	0	0	0	0	0	0	0	0
Forward positions											
14 U.S. Treasury securities	−2,144	−1,211	338	−968r	−770	−535	452	−949	−139	−1,003	−352
15 Federal agency securities	−11,840	−18,817	−16,349	−17,557r	−16,959	−12,854	−15,081	−14,146	−15,048	−12,110	−10,844
	Financing[3]										
Reverse repurchase agreements[4]											
16 Overnight and continuing	98,913r	126,709r	135,154	149,432r	143,423	133,638	161,256	151,461	151,229	144,363	140,953
17 Term	108,607r	148,288r	176,150	193,381r	205,634	186,130	186,814	196,234	203,600	209,967	209,170
Repurchase agreements[5]											
18 Overnight and continuing	141,823r	170,763r	171,261	189,498r	173,173	165,869	197,605	183,533	186,450	182,091	177,749
19 Term	102,397r	121,270r	136,179	145,288	165,035	134,524	137,132	145,008	145,132	151,035	150,729

1. Data for dealer positions and sources of financing are obtained from reports submitted to the Federal Reserve Bank of New York by the U.S. Treasury securities dealers on its published list of primary dealers.

Data for positions are averages of daily figures, in terms of par value, based on the number of trading days in the period. Positions are net amounts and are shown on a commitment basis. Data for financing are in terms of actual amounts borrowed or lent and are based on Wednesday figures.

2. Immediate positions are net amounts (in terms of par values) of securities owned by nonbank dealer firms and dealer departments of commercial banks on a commitment, that is, trade-date basis, including any such securities that have been sold under agreements to repurchase (RPs). The maturities of some repurchase agreements are sufficiently long, however, to suggest that the securities involved are not available for trading purposes. Immediate positions include reverses to maturity, which are securities that were sold after having been obtained under reverse repurchase agreements that mature on the same day as the securities. Data for immediate positions do not include forward positions.

3. Figures cover financing involving U.S. Treasury and federal agency securities, negotiable CDs, bankers acceptances, and commercial paper.

4. Includes all reverse repurchase agreements, including those that have been arranged to make delivery on short sales and those for which the securities obtained have been used as collateral on borrowings, that is, matched agreements.

5. Includes both repurchase agreements undertaken to finance positions and "matched book" repurchase agreements.

NOTE. Data on positions for the period May 1 to Sept. 30, 1986, are partially estimated.

1.44 FEDERAL AND FEDERALLY SPONSORED CREDIT AGENCIES Debt Outstanding

Millions of dollars, end of period

Agency	1984	1985	1986	1987	1988				
					July	Aug.	Sept.	Oct.	Nov.
1 **Federal and federally sponsored agencies**	**271,220**	**293,905**	**307,361**	**341,386**	**356,009**	**360,004**	**363,894**	**364,491**	n.a.
2 Federal agencies	35,145	36,390	36,958	37,981	36,465	35,694	35,448	35,070	n.a.
3 Defense Department[1]	142	71	33	13	11	11	11	8	8
4 Export-Import Bank[2,3]	15,882	15,678	14,211	11,978	11,232	11,232	10,964r	10,964	10,964
5 Federal Housing Administration[4]	133	115	138	183	116	115	120	118	139
6 Government National Mortgage Association participation certificates[5]	2,165	2,165	2,165	1,615	830	0	0	0	0
7 Postal Service[6]	1,337	1,940	3,104	6,103	5,842	5,842	5,842	5,842	5,842
8 Tennessee Valley Authority	15,435	16,347	17,222	18,089	18,434	18,494	18,511	18,138	18,256
9 United States Railway Association[6]	51	74	85	0	0	0	0	0	0
10 Federally sponsored agencies[7]	237,012	257,515	270,553	303,405	319,544r	324,310r	328,446r	329,421r	n.a.
11 Federal Home Loan Banks	65,085	74,447	88,752	115,725	119,409	121,266	126,011	127,113	130,630
12 Federal Home Loan Mortgage Corporation	10,270	11,926	13,589	17,645	17,844	19,652	18,368	17,384	n.a.
13 Federal National Mortgage Association	83,720	93,896	93,563	97,057	104,751	105,730	105,986	105,698	53,420
14 Farm Credit Banks[8]	72,192	68,851	62,478	55,275	54,538	53,582	53,764	53,923	105,337
15 Student Loan Marketing Association[9]	5,745	8,395	12,171	16,503	19,652r	19,880r	20,117r	21,112	21,403
16 Financing Corporation[10]	n.a.	n.a.	n.a.	1,200	2,900	3,750	3,750	3,750	4,450
17 Farm Credit Financial Assistance Corporation[11]	n.a.	n.a.	n.a.	n.a.	450	450	450	450	690
MEMO									
18 **Federal Financing Bank debt[12]**	**145,217**	**153,373**	**157,510**	**152,417**	**149,937**	**149,809**	**146,151**	**145,529**	**143,321**
Lending to federal and federally sponsored agencies									
19 Export-Import Bank[3]	15,852	15,670	14,205	11,972	11,226	11,226	10,958	10,958	10,958
20 Postal Service[6]	1,087	1,690	2,854	5,853	5,592	5,592	5,592	5,592	5,592
21 Student Loan Marketing Association	5,000	5,000	4,970	4,940	4,940	4,940	4,910	4,910	4,910
22 Tennessee Valley Authority	13,710	14,622	15,797	16,709	17,054	17,114	17,131	16,758	16,876
23 United States Railway Association[6]	51	74	85	0	0	0	0	0	0
Other Lending[13]									
24 Farmers Home Administration	58,971	64,234	65,374	59,674	59,674	59,464	58,496	58,496	58,496
25 Rural Electrification Administration	20,693	20,654	21,680	21,191	19,206	19,225	19,205	19,222	19,220
26 Other	29,853	31,429	32,545	32,078	32,245	32,248	29,859	29,593	27,269

1. Consists of mortgages assumed by the Defense Department between 1957 and 1963 under family housing and homeowners assistance programs.
2. Includes participation certificates reclassified as debt beginning Oct. 1, 1976.
3. Off-budget Aug. 17, 1974, through Sept. 30, 1976; on-budget thereafter.
4. Consists of debentures issued in payment of Federal Housing Administration insurance claims. Once issued, these securities may be sold privately on the securities market.
5. Certificates of participation issued before fiscal 1969 by the Government National Mortgage Association acting as trustee for the Farmers Home Administration; Department of Health, Education, and Welfare; Department of Housing and Urban Development; Small Business Administration; and the Veterans Administration.
6. Off-budget.
7. Includes outstanding noncontingent liabilities: notes, bonds, and debentures. Some data are estimated.
8. Excludes borrowing by the Farm Credit Financial Assistance Corporation, shown in line 17.
9. Before late 1981, the Association obtained financing through the Federal Financing Bank (FFB). Borrowing excludes that obtained from the FFB, which is shown on line 21.
10. The Financing Corporation, established in August 1987 to recapitalize the Federal Savings and Loan Insurance Corporation, undertook its first borrowing in October 1987.
11. The Farm Credit Financial Assistance Corporation (established in January 1988 to provide assistance to the Farm Credit System) undertook its first borrowing in July 1988.
12. The FFB, which began operations in 1974, is authorized to purchase or sell obligations issued, sold, or guaranteed by other federal agencies. Since FFB incurs debt solely for the purpose of lending to other agencies, its debt is not included in the main portion of the table in order to avoid double counting.
13. Includes FFB purchases of agency assets and guaranteed loans; the latter contain loans guaranteed by numerous agencies with the guarantees of any particular agency being generally small. The Farmers Home Administration item consists exclusively of agency assets, while the Rural Electrification Administration entry contains both agency assets and guaranteed loans.

1.45 NEW SECURITY ISSUES Tax-Exempt State and Local Governments

Millions of dollars

Type of issue or issuer, or use	1985	1986	1987	1988							
				May	June	July	Aug.	Sept.	Oct.	Nov.[r]	Dec.
1 **All issues, new and refunding**[1]	**214,189**	**147,011**	**102,407**	**7,846**	**13,912**	**9,746**	**6,966**	**9,669**	**10,455**	**8,551**	**10,711**
Type of issue											
2 General obligation	52,622	46,346	30,589	3,085	4,237	1,959	2,472	2,370	2,058	2,368	2,451
3 Revenue	161,567	100,664	71,818	4,761	9,675	7,788	4,494	7,299	8,387	6,183	8,260
Type of issuer											
4 State	13,004	14,474	10,102	913	1,349	140	576	1,206	734	525	1,001
5 Special district and statutory authority[2]	134,363	89,997	65,460	4,625	8,629	6,752	3,749	6,407	7,283	5,550	7,277
6 Municipalities, counties, and townships	78,754	42,541	26,845	2,308	3,934	2,854	2,641	2,056	2,438	2,476	2,433
7 **Issues for new capital, total**	**156,050**	**83,492**[r]	**56,789**	**5,190**[r]	**8,935**[r]	**8,386**[r]	**5,317**[r]	**7,076**[r]	**6,965**[r]	**5,830**	**8,441**
Use of proceeds											
8 Education	16,658	12,307	9,524	1,316	1,320	1,699	694	1,351	512	827	2,308
9 Transportation	12,070	7,246	3,677	452	858	1,446	265	732	559	237	649
10 Utilities and conservation	26,852	14,594	7,912	580	635	225	613	694	1,238	1,055	513
11 Social welfare	63,181	11,353	11,106	694	2,060	1,222	1,242	2,358	2,478	1,991	2,020
12 Industrial aid	12,892	6,190	7,474	248	434	128	460	280	393	294	964
13 Other purposes	24,398	31,802	18,020	1,900	3,628	3,666	2,043	1,661	1,785	1,426	1,987

1. Par amounts of long-term issues based on date of sale.
2. Includes school districts beginning 1986.

SOURCES. Securities Data/Bond Buyer Municipal Data Base beginning 1986. Public Securities Association for earlier data.

1.46 NEW SECURITY ISSUES U.S. Corporations

Millions of dollars

Type of issue or issuer, or use	1985	1986	1987	1988							
				Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.
1 **All issues**[1]	**239,015**	**423,726**	**392,156**	**21,227**	**23,413**	**30,043**	**18,037**	**19,305**	**23,933**	**21,532**[r]	**22,233**
2 **Bonds**[2]	**203,500**	**355,293**	**325,648**	**18,515**	**19,382**	**25,748**	**12,899**	**15,970**	**20,928**	**18,745**[r]	**18,833**
Type of offering											
3 Public, domestic	119,559	231,936	209,279	16,202	17,496	22,753	10,905	14,631	18,241[r]	17,250[r]	16,200
4 Private placement, domestic[3]	46,200	80,760	92,070	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
5. Sold abroad	37,781	42,596	24,299	2,313	1,886	2,995	1,994	1,339	2,687[r]	1,512[r]	2,833
Industry group											
6 Manufacturing	63,973	91,548	61,666	4,513	4,206	5,305	2,204	3,476	3,749	3,552[r]	2,534
7 Commercial and miscellaneous	17,066	40,124	49,327	771	1,446	2,281	1,531	2,227	1,035	765	2,875
8 Transportation	6,020	9,971	11,974	890	184	580	100	0	150	705	45
9 Public utility	13,649	31,426	23,004	1,170	1,929	1,707	540	298	856	1,346[r]	668
10 Communication	10,832	16,659	7,340	411	69	925	577	29	1,064	0	289
11 Real estate and financial	91,958	165,564	172,343	10,760	11,546	14,949	7,948	9,939	14,073	12,376[r]	12,422
12 **Stocks**[3]	**35,515**	**68,433**	**66,508**	**2,712**	**4,031**	**4,295**	**5,138**	**3,335**	**3,005**	**2,787**[r]	**3,400**
Type											
13 Preferred	6,505	11,514	10,123	241	285	501	407	498	385	865	478
14 Common	29,010	50,316	43,225	2,471	3,746	3,794	4,731	2,837	2,620	1,922[r]	2,922
15 Private placement[3]	n.a.	6,603	13,157	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Industry group											
16 Manufacturing	5,700	15,027	13,880	318	1,080	1,676	296	538	244	288	397
17 Commercial and miscellaneous	9,149	10,617	12,888	276	157	522	2,073	347	525	222	51
18 Transportation	1,544	2,427	2,439	150	15	51	0	72	5	25	20
19 Public utility	1,966	4,020	4,322	238	59	207	20	135	215	282	70
20 Communication	978	1,825	1,458	109	78	13	20	3	23	0	20
21 Real estate and financial	16,178	34,517	31,521	1,621	2,642	1,826	2,729	2,240	1,993	1,970[r]	2,842

1. Figures which represent gross proceeds of issues maturing in more than one year, are principal amount or number of units multiplied by offering price. Excludes secondary offerings, employee stock plans, investment companies other than closed-end, intracorporate transactions, equities sold abroad, and Yankee bonds. Stock data include ownership securities issued by limited partnerships.
2. Monthly data include only public offerings.
3. Data are not available on a monthly basis. Before 1987, annual totals include underwritten issues only.

SOURCES. IDD Information Services, Inc., U.S. Securities and Exchange Commission and the Board of Governors of the Federal Reserve System.

1.47 OPEN-END INVESTMENT COMPANIES Net Sales and Asset Position

Millions of dollars

Item	1986	1987	1988							
			Apr.	May	June	July	Aug.	Sept.	Oct.r	Nov.
INVESTMENT COMPANIES[1]										
1 **Sales of own shares[2]**	**411,751**	**381,260**	**23,162**	**19,579**	**22,503**	**20,728**	**20,595**	**19,872**	**20,494**	**20,341**
2 Redemptions of own shares[3]	239,394	314,252	25,000	21,412	23,168	20,561	22,836	21,330	19,362	20,618
3 Net sales	172,357	67,008	−1,828	−1,833	−665	167	−2,242	−1,458	1,132	−277
4 **Assets[4]**	**424,156**	**453,842**	**473,321**	**468,735**	**481,120**	**477,076**	**465,822**	**474,662**	**481,571**	**470,660**
5 Cash position[5]	30,716	38,006	45,307	45,003	43,229	44,015	45,229	46,706	45,976	43,822
6 Other	393,440	415,836	428,014	423,732	437,891	433,061	420,595	427,956	435,595	426,778

1. Data on sales and redemptions exclude money market mutual funds but include limited maturity municipal bond funds. Data on asset positions exclude both money market mutual funds and limited maturity municipal bond funds.
2. Includes reinvestment of investment income dividends. Excludes reinvestment of capital gains distributions and share issue of conversions from one fund to another in the same group.
3. Excludes share redemption resulting from conversions from one fund to another in the same group.
4. Market value at end of period, less current liabilities.
5. Also includes all U.S. government securities and other short-term debt securities.

NOTE. Investment Company Institute data based on reports of members, which comprise substantially all open-end investment companies registered with the Securities and Exchange Commission. Data reflect newly formed companies after their initial offering of securities.

1.48 CORPORATE PROFITS AND THEIR DISTRIBUTION

Billions of dollars; quarterly data are at seasonally adjusted annual rates.

Account	1985r	1986r	1987	1986	1987				1988		
				Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
1 Corporate profits with inventory valuation and capital consumption adjustment	282.3	298.9	310.4	293.9	298.3	305.2	322.0	316.1	316.2	326.5	330.0
2 Profits before tax	224.3	236.4	276.7	252.1	261.8	273.7	289.4	281.9	286.2	305.9	313.9
3 Profits tax liability	96.4	106.6	133.8	114.3	126.3	132.6	140.0	136.2	136.9	143.2	144.8
4 Profits after tax	127.8	129.8	142.9	137.9	135.5	141.1	149.5	145.7	149.4	162.7	169.1
5 Dividends	83.3	88.2	95.5	89.8	91.7	94.0	97.0	99.3	101.3	103.1	105.7
6 Undistributed profits	44.6	41.6	47.4	48.1	43.8	47.0	52.4	46.4	48.1	59.6	63.4
7 Inventory valuation	−1.7	8.3	−18.0	−8.1	−14.4	−20.0	−19.5	−18.2	−19.4	−27.4	−29.3
8 Capital consumption adjustment	59.7	54.2	51.7	49.8	50.8	51.5	52.1	52.4	49.4	48.0	45.4

SOURCE. *Survey of Current Business* (Department of Commerce).

1.50 TOTAL NONFARM BUSINESS EXPENDITURES on New Plant and Equipment ▲

Billions of dollars; quarterly data are at seasonally adjusted annual rates.

Industry	1986	1987	1988[1]	1987			1988				1989
				Q2	Q3	Q4	Q1	Q2	Q3r	Q4r	Q1
1 **Total nonfarm business**	**379.47**	**389.67**	**430.95**	**380.66**	**394.54**	**406.82**	**412.02**	**426.94**	**436.01**	**445.73**	**466.76**
Manufacturing											
2 Durable goods industries	69.14	71.01	78.06	69.05	71.96	72.28	75.70	76.87	79.48	78.97	84.25
3 Nondurable goods industries	73.56	74.88	85.50	72.66	76.24	79.92	82.90	84.82	89.43	90.00	93.56
Nonmanufacturing											
4 Mining	11.22	11.39	12.62	11.02	11.81	12.32	12.59	13.26	12.47	11.97	11.62
Transportation											
5 Railroad	6.66	5.92	7.05	5.84	6.07	6.12	6.92	7.01	6.84	8.07	9.26
6 Air	6.26	6.53	7.61	6.02	6.15	6.94	6.43	6.66	8.06	6.84	10.07
7 Other	5.89	6.40	6.91	6.26	6.97	6.28	7.08	7.05	7.26	7.20	7.58
Public utilities											
8 Electric	33.91	31.63	32.20	31.47	31.57	32.28	30.31	30.95	32.20	33.54	32.69
9 Gas and other	12.47	13.25	14.27	12.47	13.73	14.11	14.30	14.48	14.50	15.25	16.66
10 Commercial and other[2]	160.38	168.65	186.74	165.86	170.05	176.56	175.79	185.83	185.76	193.87	201.07

▲Trade and services are no longer being reported separately. They are included in Commercial and other, line 10.
1. Anticipated by business.
2. "Other" consists of construction; wholesale and retail trade; finance and insurance; personal and business services; and communication.

SOURCE. *Survey of Current Business* (Department of Commerce).

1.51 DOMESTIC FINANCE COMPANIES Assets and Liabilities[1]

Billions of dollars, end of period

Account	1983	1984	1985	1986			1987			
				Q2	Q3	Q4	Q1	Q2	Q3	Q4
ASSETS										
Accounts receivable, gross										
1 Consumer	83.3	89.9	111.9	123.4	135.3	134.7	131.1	134.7	141.6	141.1
2 Business	113.4	137.8	157.5	166.8	159.7	173.4	181.4	188.1	188.3	207.6
3 Real estate	20.5	23.8	28.0	29.8	31.0	32.6	34.7	36.5	38.0	39.5
4 Total	217.3	251.5	297.4	320.0	326.0	340.6	347.2	359.3	367.9	388.2
Less:										
5 Reserves for unearned income	30.3	33.8	39.2	40.7	42.4	41.5	40.4	41.2	42.5	45.3
6 Reserves for losses	3.7	4.2	4.9	5.1	5.4	5.8	5.9	6.2	6.5	6.8
7 Accounts receivable, net	183.2	213.5	253.3	274.2	278.2	293.3	300.9	311.9	318.9	336.1
8 All other	34.4	35.7	45.3	49.5	60.0	58.6	59.0	57.7	64.5	58.2
9 **Total assets**	**217.6**	**249.2**	**298.6**	**323.7**	**338.2**	**351.9**	**359.9**	**369.6**	**383.4**	**394.3**
LIABILITIES										
10 Bank loans	18.3	20.0	18.0	16.3	16.8	18.6	17.2	17.3	15.9	16.4
11 Commercial paper	60.5	73.1	99.2	108.4	112.8	117.8	119.1	120.4	124.2	128.4
Debt										
12 Other short-term	11.1	12.9	12.7	15.8	16.4	17.5	21.8	24.8	26.9	28.0
13 Long-term	67.7	77.2	94.4	106.9	111.7	117.5	118.7	121.8	128.2	137.1
14 *All other liabilities*	31.2	34.5	41.5	40.9	45.0	44.1	46.5	49.1	48.6	52.8
15 Capital, surplus, and undivided profits	28.9	31.5	32.8	35.4	35.6	36.4	36.6	36.3	39.5	31.5
16 **Total liabilities and capital**	**217.6**	**249.2**	**298.6**	**323.7**	**338.2**	**351.9**	**359.9**	**369.6**	**383.4**	**394.3**

1. NOTE. Components may not add to totals because of rounding.

1.52 DOMESTIC FINANCE COMPANIES Business Credit Outstanding and Net Change[1]

Millions of dollars, seasonally adjusted

Type	1985	1986	1987	1988					
				June	July	Aug.	Sept.	Oct.	Nov.
1 **Total**	**156,297**	**171,966**	**205,869**	**222,133**	**223,706**	**223,958**	**230,474**	**231,807**	**234,059**
Retail financing of installment sales									
2 Automotive (commercial vehicles)	20,660	25,952	35,674	37,519	37,682	37,519	37,120	37,359	36,984
3 Business, industrial, and farm equipment	22,483	22,950	24,987	27,548	27,428	27,603	27,569	27,841	28,160
Wholesale financing									
4 Automotive	23,988	23,419	31,059	28,731	28,449	27,721	32,732	32,523	32,523
5 Equipment	4,568	5,423	5,693	5,557	5,654	5,803	5,949	5,888	6,045
6 All other	6,809	7,079	8,408	8,481	8,458	8,531	8,738	8,867	9,025
Leasing									
7 Automotive	16,275	19,783	21,943	24,076	24,400	24,370	23,861	24,186	24,623
8 Equipment	34,768	37,833	43,002	52,365	52,803	53,671	55,400	55,786	56,294
9 Loans on commercial accounts receivable and factored commercial accounts receivable	15,765	15,959	18,024	18,595	19,095	19,132	19,386	19,239	19,616
10 All other business credit	10,981	13,568	17,079	19,260	19,736	19,609	19,719	20,117	20,790
	Net change (during period)								
11 **Total**	**19,607**	**15,669**	**3,040**	**1,829**	**1,573**	**252**	**6,515**	**1,333**	**2,252**
Retail financing of installment sales									
12 Automotive (commercial vehicles)	5,067	5,292	1,220	300	163	-163	-399	239	-375
13 Business, industrial, and farm equipment	-363	467	223	467	-120	175	-35	272	319
Wholesale financing									
14 Automotive	5,423	-569	158	471	-282	-728	5,011	-208	0
15 Equipment	-867	855	-101	320	97	149	146	-60	157
16 All other	1,069	270	257	67	-23	73	207	129	158
Leasing									
17 Automotive	3,896	3,508	-70	386	324	-30	-509	325	436
18 Equipment	2,685	3,065	1,038	239	438	867	1,729	386	508
19 Loans on commercial accounts receivable and factored commercial accounts receivable	2,161	194	-477	-105	500	37	255	-148	377
20 All other business credit	536	2,587	792	-318	476	-127	110	398	673

1. These data also appear in the Board's G.20 (422) release. For address, see inside front cover.

1.53 MORTGAGE MARKETS

Millions of dollars; exceptions noted.

Item	1986	1987	1988	1988 June	July	Aug.	Sept.	Oct.	Nov.	Dec.
	Terms and yields in primary and secondary markets									
PRIMARY MARKETS										
Conventional mortgages on new homes										
Terms[1]										
1 Purchase price (thousands of dollars)	118.1	137.0	150.0	152.0	152.9	154.2	148.3	153.8	155.3	149.7
2 Amount of loan (thousands of dollars)	86.2	100.5	110.5	110.2	111.9	114.9	109.8	114.0	115.6	110.7
3 Loan/price ratio (percent)	75.2	75.2	75.6	73.8	75.2	76.7	75.4	75.8	76.1	75.7
4 Maturity (years)	26.6	27.8	28.0	27.5	28.4	28.5	27.6	28.4	28.4	28.3
5 Fees and charges (percent of loan amount)[2]	2.48	2.26	2.19	2.16	2.24	2.35	2.14	1.98	2.28	2.08
6 Contract rate (percent per year)	9.82	8.94	8.81	8.90	8.80	8.68	8.90	8.77	9.05	9.03
Yield (percent per year)										
7 FHLBB series[3]	10.26r	9.31	9.18	9.26	9.17	9.06	9.26	9.10	9.43	9.37
8 HUD series[4]	10.07	10.17	n.a.	10.35	10.47	10.55	10.39	10.21	10.37	n.a.
SECONDARY MARKETS										
Yield (percent per year)										
9 FHA mortgages (HUD series)[5]	9.91	10.16	n.a.	10.65	10.66	10.74	10.58	10.23	10.63	n.a.
10 GNMA securities[6]	9.30	9.43r	9.83	9.88	9.91	10.09	9.93	9.77	9.85	10.07
	Activity in secondary markets									
FEDERAL NATIONAL MORTGAGE ASSOCIATION										
Mortgage holdings (end of period)										
11 Total	98,048	95,030		102,368	102,540	102,540	102,453	102,493	102,696	
12 FHA/VA-insured	29,683	21,660		19,765	19,677	19,586	19,526	19,464	19,467	
13 Conventional	68,365	73,370		82,603	82,864	82,954	82,927	83,032	83,228	
Mortgage transactions (during period)										
14 Purchases	30,826	20,531		2,372	1,960	1,638	1,111	1,488	1,596	
Mortgage commitments[7]										
15 Contracted (during period)	32,987	25,415		2,179	1,108	1,041	1,439	1,740	1,289	
16 Outstanding (end of period)	3,386	4,886	n.a.	5,365	4,277	3,135	3,257	3,165	2,740	n.a.
FEDERAL HOME LOAN MORTGAGE CORPORATION										
Mortgage holdings (end of period)[8]										
17 Total	13,517	12,802		15,576	15,133	15,142	15,442	15,669	n.a.	
18 FHA/VA	746	686		627	619	611	606	601	n.a.	
19 Conventional	12,771	12,116		14,949	14,514	14,531	14,836	15,068	n.a.	
Mortgage transactions (during period)										
20 Purchases	103,474	76,845		4,117	3,879	3,858	4,192	4,037	n.a.	
21 Sales	100,236	75,082	39,616	3,649	4,115	3,719	3,728	3,674	4,331	5,246
Mortgage commitments[9]										
22 Contracted (during period)	110,855	71,467	n.a.	6,447	5,328	3,480	6,209	4,406	n.a.	n.a.

1. Weighted averages based on sample surveys of mortgages originated by major institutional lender groups; compiled by the Federal Home Loan Bank Board in cooperation with the Federal Deposit Insurance Corporation.
2. Includes all fees, commissions, discounts, and "points" paid (by the borrower or the seller) to obtain a loan.
3. Average effective interest rates on loans closed, assuming prepayment at the end of 10 years.
4. Average contract rates on new commitments for conventional first mortgages; from Department of Housing and Urban Development.
5. Average gross yields on 30-year, minimum-downpayment, Federal Housing Administration-insured first mortgages for immediate delivery in the private secondary market. Based on transactions on first day of subsequent month. Large monthly movements in average yields may reflect market adjustments to changes in maximum permissable contract rates.
6. Average net yields to investors on Government National Mortgage Association guaranteed, mortgage-backed, fully modified pass-through securities, assuming prepayment in 12 years on pools of 30-year FHA/VA mortgages carrying the prevailing ceiling rate. Monthly figures are averages of Friday figures from the *Wall Street Journal*.
7. Includes some multifamily and nonprofit hospital loan commitments in addition to 1- to 4-family loan commitments accepted in FNMA's free market auction system, and through the FNMA-GNMA tandem plans.
8. Includes participation as well as whole loans.
9. Includes conventional and government-underwritten loans. FHLMC's mortgage commitments and mortgage transactions include activity under mortgage/securities swap programs, while the corresponding data for FNMA exclude swap activity.

1.54 MORTGAGE DEBT OUTSTANDING[1]

Millions of dollars, end of period

Type of holder, and type of property	1985	1986	1987	1987		1988		
				Q3	Q4	Q1	Q2	Q3
1 **All holders**	**2,289,843**	**2,597,175**	**2,943,144**	**2,864,736**	**2,943,144**	**2,988,100**	**3,067,566r**	**3,151,956r**
2 1- to 4-family	1,488,009	1,698,524	1,925,197	1,870,635	1,925,197	1,955,770	2,015,646r	2,079,706r
3 Multifamily	214,470	247,831	273,830	268,911	273,830	277,622	282,511r	286,918r
4 Commercial	481,514	555,039	655,249	635,230	655,249	666,521	681,478r	697,919r
5 Farm	105,850	95,781	88,868	89,960	88,868	88,187	87,931r	87,413r
6 Selected financial institutions	1,390,394	1,507,289	1,700,820	1,648,328	1,700,820	1,723,737	1,773,444r	1,827,383r
7 Commercial banks[2]	429,196	502,534	591,151	567,000	591,151	604,403	628,132	653,288r
8 1- to 4-family	213,434	235,814	275,761	263,762	275,761	280,439	291,767	304,029r
9 Multifamily	23,373	31,173	33,296	32,114	33,296	33,640	34,672	35,936
10 Commercial	181,032	222,799	267,663	256,981	267,663	275,535	286,366	297,880
11 Farm	11,357	12,748	14,431	14,143	14,431	14,789	15,327	15,443r
12 Savings institutions[3]	760,499	777,312	856,945	838,737	856,945	863,110	881,924r	905,372r
13 1- to 4-family	554,301	558,412	598,886	583,432	598,886	603,532	622,863r	644,676r
14 Multifamily	89,739	97,059	106,359	104,609	106,359	107,687	109,108r	109,800r
15 Commercial	115,771	121,236	150,943	149,938	150,943	151,136	149,201r	150,144r
16 Farm	688	605	....	....	....	....	....	....
17 Life insurance companies	171,797	193,842	212,375	204,263	212,375	214,815	220,870	225,245r
18 1- to 4-family	12,381	12,827	13,226	12,742	13,226	13,653	14,172	14,892r
19 Multifamily	19,894	20,952	22,524	21,968	22,524	22,723	23,021	23,100r
20 Commercial	127,670	149,111	166,722	159,464	166,722	168,774	174,086	178,012r
21 Farm	11,852	10,952	9,903	10,089	9,903	9,665	9,591	9,241r
22 Finance companies[4]	28,902	33,601	40,349	38,328	40,349	41,409	42,518	43,478
23 Federal and related agencies	166,928	203,800	192,721	191,520	192,721	196,909	199,474	197,885r
24 Government National Mortgage Association	1,473	889	444	458	444	434	42	43
25 1- to 4-family	539	47	25	25	25	25	24	24
26 Multifamily	934	842	419	433	419	409	18	19
27 Farmers Home Administration[5]	733	48,421	43,051	42,978	43,051	43,076	42,767	41,836
28 1- to 4-family	183	21,625	18,169	18,111	18,169	18,185	18,248	18,268
29 Multifamily	113	7,608	8,044	7,903	8,044	8,115	8,213	8,349
30 Commercial	159	8,446	6,603	6,592	6,603	6,640	6,288	5,300
31 Farm	278	10,742	10,235	10,372	10,235	10,136	10,018	9,919
32 Federal Housing and Veterans Administration	4,920	5,047	5,574	5,330	5,574	5,660	5,673	5,545
33 1- to 4-family	2,254	2,386	2,557	2,452	2,557	2,608	2,564	2,445
34 Multifamily	2,666	2,661	3,017	2,878	3,017	3,052	3,109	3,100
35 Federal National Mortgage Association	98,282	97,895	96,649	94,884	96,649	99,787	102,368	102,453
36 1- to 4-family	91,966	90,718	89,666	87,901	89,666	92,828	95,404	95,417
37 Multifamily	6,316	7,177	6,983	6,983	6,983	6,959	6,964	7,036
38 Federal Land Banks	47,498	39,984	34,131	34,930	34,131	33,566	33,048	32,566r
39 1- to 4-family	2,798	2,353	2,008	2,055	2,008	1,975	1,945	1,917r
40 Farm	44,700	37,631	32,123	32,875	32,123	31,591	31,103	30,649r
41 Federal Home Loan Mortgage Corporation	14,022	11,564	12,872	12,940	12,872	14,386	15,576	15,442
42 1- to 4-family	11,881	10,010	11,430	11,570	11,430	12,749	13,631	13,589
43 Multifamily	2,141	1,554	1,442	1,370	1,442	1,637	1,945	1,853
44 Mortgage pools or trusts[6]	439,058	565,428	718,297	692,944	718,297	736,344	754,045	782,093
45 Government National Mortgage Association	212,145	262,697	317,555	308,339	317,555	322,976	322,616	332,926
46 1- to 4-family	207,198	256,920	309,806	300,815	309,806	315,095	314,728	324,469
47 Multifamily	4,947	5,777	7,749	7,524	7,749	7,881	7,888	8,457
48 Federal Home Loan Mortgage Corporation	100,387	171,372	212,634	208,872	212,634	214,724	216,155	220,683
49 1- to 4-family	99,515	166,667	205,977	202,308	205,977	208,138	209,702	214,063
50 Multifamily	872	4,705	6,657	6,564	6,657	6,586	6,453	6,620
51 Federal National Mortgage Association	54,987	97,174	139,960	130,540	139,960	145,242	157,438	167,170
52 1- to 4-family	54,036	95,791	137,988	128,770	137,988	142,330	153,253	162,228
53 Multifamily	951	1,383	1,972	1,770	1,972	2,912	4,185	4,942
54 Farmers Home Administration[5]	47,523	348	245	333	245	172	106	106
55 1- to 4-family	22,186	142	121	144	121	65	23	27
56 Multifamily	6,675	....	....	....	....	....	....	....
57 Commercial	8,190	132	63	124	63	58	41	38
58 Farm	10,472	74	61	65	61	49	42	41
59 Individuals and others[7]	293,463	320,658	331,306	331,944	331,306	331,110	340,603	344,595r
60 1- to 4-family	162,419	177,374	171,325	173,360	171,325	169,509	177,074	178,976r
61 Multifamily	55,849	66,940	75,368	74,795	75,368	76,021	76,935	77,706r
62 Commercial	48,692	53,315	63,255	62,131	63,255	64,378	65,496	66,545r
63 Farm	26,503	23,029	21,358	21,658	21,358	21,202	21,098	21,368r

1. Based on data from various institutional and governmental sources, with some quarters estimated in part by the Federal Reserve. Multifamily debt refers to loans on structures of five or more units.
2. Includes loans held by nondeposit trust companies but not bank trust departments.
3. Includes savings banks and savings and loan associations. Beginning 1987:1, data reported by FSLIC-insured institutions include loans in process and other contra assets (credit balance accounts that must be subtracted from the corresponding gross asset categories to yield net asset levels).
4. Assumed to be entirely 1- to 4-family loans.
5. FmHA-guaranteed securities sold to the Federal Financing Bank were reallocated from FmHA mortgage pools to FmHA mortgage holdings in 1986:4, because of accounting changes by the Farmers Home Administration.
6. Outstanding principal balances of mortgage pools backing securities insured or guaranteed by the agency indicated.
7. Other holders include mortgage companies, real estate investment trusts, state and local credit agencies, state and local retirement funds, noninsured pension funds, credit unions, and other U.S. agencies.

1.55 CONSUMER INSTALLMENT CREDIT[1] Total Outstanding, and Net Change, seasonally adjusted

Millions of dollars

Holder, and type of credit	1986	1987	1988 Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.[r]	Nov.
	Amounts outstanding (end of period)										
1 **Total**	**571,833**	**613,022**	**629,485**	**633,336**	**636,318**	**644,372**	**647,993**	**653,317**	**653,319**	**657,226**	**661,705**
By major holder											
2 Commercial banks	262,139	281,564	290,831	293,166	295,546	300,275	303,189	307,119	308,960	312,968	316,349
3 Finance companies[2]	133,698	140,072	144,053	144,516	144,454	144,748	143,812	143,962	142,723	142,480	142,226
4 Credit unions	76,191	81,065	82,595	83,204	83,881	84,912	85,468	85,881	85,553	86,024	86,698
5 Retailers[3]	39,660	42,782	43,271	43,295	43,162	43,450	43,634	43,712	43,956	44,250	44,644
6 Savings institutions	56,881	63,949	65,078	65,387	65,509	67,274	68,182	68,909	68,462	67,845	68,140
7 Gasoline companies	3,264	3,590	3,657	3,769	3,765	3,713	3,707	3,735	3,665	3,658	3,648
By major type of credit											
8 Automobile	246,109	267,180	276,762	278,567	279,418	282,254	283,359	285,560	284,782	286,107	287,499
9 Commercial banks	100,907	108,438	113,593	114,868	115,951	117,322	118,650	120,380	121,450	122,995	124,276
10 Credit unions	38,413	43,474	44,795	45,293	45,831	46,565	47,043	47,444	47,436	47,870	48,420
11 Finance companies	92,350	98,026	100,669	100,564	99,708	99,900	98,896	98,711	96,939	96,400	95,825
12 Savings institutions	14,439	17,242	17,705	17,841	17,928	18,465	18,770	19,026	18,958	18,842	18,979
13 Revolving	136,381	159,307	165,643	167,356	169,154	172,809	174,927	177,568	178,675	181,277	184,340
14 Commercial banks	86,757	98,808	103,152	104,250	105,742	108,309	109,645	111,623	112,341	114,404	116,633
15 Retailers	34,320	36,959	37,408	37,414	37,259	37,526	37,671	37,708	37,914	38,169	38,481
16 Gasoline companies	3,264	3,590	3,657	3,769	3,765	3,713	3,707	3,735	3,665	3,658	3,648
17 Savings institutions	8,366	13,279	14,059	14,309	14,518	15,098	15,492	15,850	15,938	15,984	16,244
18 Credit unions	3,674	6,671	7,368	7,614	7,870	8,162	8,413	8,652	8,816	9,063	9,334
19 Mobile home	26,883	25,957	25,732	25,764	25,703	25,852	25,882	25,915	25,746	25,776	25,849
20 Commercial banks	8,926	9,101	8,993	9,047	8,966	8,933	8,913	8,893	8,833	9,048	9,098
21 Finance companies	8,822	7,771	7,640	7,575	7,578	7,513	7,436	7,387	7,341	7,243	7,224
22 Savings institutions	9,135	9,085	9,099	9,142	9,159	9,406	9,533	9,634	9,572	9,485	9,527
23 Other	162,460	160,578	161,348	161,649	162,043	163,456	163,825	164,274	164,116	164,066	164,016
24 Commercial banks	65,549	65,217	65,094	65,001	64,887	65,710	65,981	66,222	66,335	66,522	66,343
25 Finance companies	32,526	34,275	35,744	36,376	37,168	37,335	37,480	37,863	38,443	38,837	39,177
26 Credit unions	34,104	30,920	30,432	30,297	30,180	30,184	30,012	29,785	29,302	29,091	28,944
27 Retailers	5,340	5,823	5,863	5,880	5,903	5,923	5,964	6,004	6,041	6,081	6,163
28 Savings institutions	24,941	24,343	24,216	24,095	23,904	24,305	24,388	24,399	23,995	23,534	23,390
	Net change (during period)										
29 **Total**	**54,078**	**41,189**	**5,191**	**3,851**	**2,982**	**8,054**	**3,621**	**5,324**	**2**	**3,907**	**4,479**
By major holder											
30 Commercial banks	20,495	19,425	3,487	2,335	2,380	4,729	2,914	3,930	1,841	4,008	3,381
31 Finance companies[2]	22,670	6,374	1,107	463	-62	294	-936	150	-1,239	-243	-254
32 Credit unions	4,268	4,874	698	609	677	1,031	556	413	-328	471	674
33 Retailers[3]	466	3,122	191	24	-133	288	184	78	244	294	394
34 Savings institutions	7,223	7,068	-318	309	122	1,765	908	727	-447	-617	295
35 Gasoline companies	-1,044	326	26	112	-4	-52	-6	28	-70	-7	-10
By major type of credit											
36 Automobile	36,473	21,071	3,629	1,805	851	2,836	1,105	2,201	-778	1,325	1,392
37 Commercial banks	8,178	7,531	2,572	1,275	1,083	1,371	1,328	1,730	1,070	1,545	1,281
38 Credit unions	2,388	5,061	544	498	538	734	478	401	-8	434	550
39 Finance companies	22,823	5,676	546	-105	-856	192	-1,004	-185	-1,772	-539	-575
40 Savings institutions	3,084	2,803	-33	136	87	537	305	256	-68	-116	137
41 Revolving	14,368	22,926	2,181	1,713	1,798	3,655	2,118	2,641	1,107	2,602	3,063
42 Commercial banks	11,150	12,051	1,615	1,098	1,492	2,567	1,336	1,978	718	2,063	2,229
43 Retailers	47	2,639	177	6	-155	267	145	37	206	255	312
44 Gasoline companies	-1,044	326	26	112	-4	-52	-6	28	-70	-7	-10
45 Savings institutions	2,078	4,913	114	250	209	580	394	358	88	46	260
46 Credit unions	2,137	2,997	251	246	256	292	251	239	164	247	271
47 Mobile home	49	-926	-125	32	-61	149	30	33	-169	30	73
48 Commercial banks	-627	175	-42	54	-81	-33	-20	-20	-60	215	50
49 Finance companies	-472	-1,051	-39	-65	3	-65	-77	-49	-46	-98	-19
50 Savings institutions	1,148	-50	-44	43	17	247	127	101	-62	-87	42
51 Other	3,188	-1,882	-494	301	394	1,413	369	449	-158	-50	-50
52 Commercial banks	1,794	-332	-656	-93	-114	823	271	241	113	187	-179
53 Finance companies	319	1,749	600	632	792	167	145	383	580	394	340
54 Credit unions	-257	-3,184	-97	-135	-117	4	-172	-227	-483	-211	-147
55 Retailers	419	483	14	17	23	20	41	40	37	40	82
56 Savings institutions	913	-598	-354	-121	-191	401	83	11	-404	-461	-144

1. The Board's series cover most short- and intermediate-term credit extended to individuals that is scheduled to be repaid (or has the option of repayment) in two or more installments.

These data also appear in the Board's G.19 (421) release. For address, see inside front cover.

2. More detail for finance companies is available in the G. 20 statistical release.

3. Excludes 30-day charge credit held by travel and entertainment companies.

1.56 TERMS OF CONSUMER INSTALLMENT CREDIT[1]

Percent unless noted otherwise

Item	1985	1986	1987	1988						
				May	June	July	Aug.	Sept.	Oct.	Nov.
INTEREST RATES										
Commercial banks[2]										
1 48-month new car[3]	12.91	11.33	10.45	10.55	n.a.	n.a.	10.93	n.a.	n.a.	11.22
2 24-month personal	15.94	14.83	14.23	14.40	n.a.	n.a.	14.81	n.a.	n.a.	15.06
3 120-month mobile home[3]	14.96	13.99	13.38	13.49	n.a.	n.a.	13.62	n.a.	n.a.	13.61
4 Credit card	18.70	18.26	17.92	17.78	n.a.	n.a.	17.79	n.a.	n.a.	17.77
Auto finance companies										
5 New car	11.98	9.44	10.73	12.29	12.32	12.44	12.64	12.93	13.10	13.20
6 Used car	17.59	15.95	14.60	14.81	14.83	14.99	15.16	15.46	15.67	15.75
OTHER TERMS[4]										
Maturity (months)										
7 New car	51.5	50.0	53.5	56.2	56.3	56.4	56.5	56.3	56.3	56.2
8 Used car	41.4	42.6	45.2	46.9	46.9	46.8	46.8	46.5	46.3	46.2
Loan-to-value ratio										
9 New car	91	91	93	94	94	94	94	94	94	94
10 Used car	94	97	98	99	99	99	98	98	99	98
Amount financed (dollars)										
11 New car	9,915	10,665	11,203	11,624	11,626	11,663	11,593	11,530	11,845	11,975
12 Used car	6,089	6,555	7,420	7,778	7,899	7,947	7,918	7,903	7,944	7,991

1. These data also appear in the Board's G.19 (421) release. For address, see inside front cover.
2. Data for midmonth of quarter only.
3. Before 1983 the maturity for new car loans was 36 months, and for mobile home loans was 84 months.
4. At auto finance companies.

1.57 FUNDS RAISED IN U.S. CREDIT MARKETS

Billions of dollars; quarterly data are at seasonally adjusted annual rates.

Transaction category, sector	1983	1984	1985	1986	1987	1987				1988		
						Q1	Q2	Q3	Q4	Q1	Q2	Q3
	Nonfinancial sectors											
1 **Total net borrowing by domestic nonfinancial sectors**	**546.8**	**750.8**	**846.3**	**830.6**	**680.6**	**552.0**	**751.7**	**652.1**	**766.8**	**731.8**	**704.0**	**760.4**
By sector and instrument												
2 U.S. government	186.6	198.8	223.6	215.0	143.8	161.6	145.2	101.8	166.7	226.3	87.6	195.5
3 Treasury securities	186.7	199.0	223.7	214.7	142.3	157.7	147.1	102.7	161.8	226.8	79.8	174.6
4 Agency issues and mortgages	-.1	-.2	-.1	.4	1.5	3.9	-1.9	-.9	5.0	-.5	7.7	20.9
5 Private domestic nonfinancial sectors	360.2	552.0	622.7	615.6	536.8	390.3	606.4	550.3	600.1	505.6	616.5	564.9
6 Debt capital instruments	257.6	319.3	452.3	460.7	446.1	473.3	466.7	428.1	416.1	363.3	452.2	457.1
7 Tax-exempt obligations	53.7	50.4	136.4	30.8	34.5	38.7	33.1	32.7	33.5	24.8	32.6	44.4
8 Corporate bonds	16.0	46.1	73.8	121.3	99.9	128.9	88.5	100.7	81.6	101.3	118.4	90.8
9 Mortgages	187.9	222.8	242.2	308.6	311.6	305.7	345.1	294.7	301.1	237.1	301.2	322.0
10 Home mortgages	120.4	136.7	156.8	210.9	221.7	224.2	243.5	212.1	206.9	177.9	228.0	210.1
11 Multifamily residential	14.1	25.2	29.8	33.5	24.3	27.4	30.9	23.1	15.9	21.4	14.0	33.5
12 Commercial	51.0	62.2	62.2	73.6	72.0	66.5	77.2	64.1	80.2	43.2	60.8	72.7
13 Farm	2.4	-1.2	-6.6	-9.5	-6.4	-12.4	-6.6	-4.7	-1.9	-5.4	-1.6	5.7
14 Other debt instruments	102.6	232.7	170.3	154.9	90.7	-83.0	139.7	122.2	184.0	142.3	164.2	107.8
15 Consumer credit	49.0	81.6	82.5	54.4	40.7	-.3	52.4	61.4	49.4	34.8	59.5	43.3
16 Bank loans n.e.c.	23.2	67.1	38.6	69.3	8.8	-107.8	36.6	21.0	85.3	40.4	74.2	2.6
17 Open market paper	-.8	21.7	14.6	-9.3	2.3	-.5	4.7	1.0	3.9	-3.8	4.0	11.1
18 Other	31.3	62.2	34.6	40.5	38.9	25.5	46.1	38.7	45.5	70.9	26.6	50.7
19 By borrowing sector	360.2	552.0	622.7	615.6	536.8	390.3	606.4	550.3	600.1	505.6	616.5	564.9
20 State and local governments	34.0	27.4	91.8	44.3	34.4	37.0	31.4	34.8	34.6	22.3	31.1	41.3
21 Households	186.1	231.5	283.6	286.1	261.5	197.3	302.7	281.2	264.9	220.0	288.0	250.9
22 Nonfinancial business	140.1	293.1	247.3	285.1	240.8	156.0	272.4	234.2	300.7	263.3	297.3	272.7
23 Farm	3.9	-.4	-14.5	-16.3	-11.2	-23.5	-12.7	-9.4	.8	-12.5	-3.6	1.3
24 Nonfarm noncorporate	81.9	123.2	129.3	127.6	115.8	108.4	125.7	105.4	123.8	91.0	87.1	120.3
25 Corporate	54.4	170.3	132.4	173.8	136.3	71.2	159.4	138.3	176.1	184.9	213.9	151.1
26 Foreign net borrowing in United States	17.3	8.4	1.2	9.6	4.3	-8.7	-.1	12.3	13.9	-1.0	4.9	9.7
27 Bonds	3.1	3.8	3.8	3.0	6.8	3.0	-4.1	6.7	21.6	16.8	-2.9	7.4
28 Bank loans n.e.c.	3.6	-6.6	-2.8	-1.0	-3.6	-1.2	-3.5	-3.7	-6.1	.7	-3.5	.3
29 Open market paper	6.5	6.2	6.2	11.5	2.1	-4.2	-6.4	21.6	-2.5	1.5	6.4	10.7
30 U.S. government loans	4.1	5.0	-5.9	-3.9	-1.0	-6.4	13.9	-12.3	.8	-19.9	4.9	-8.8
31 **Total domestic plus foreign**	**564.1**	**759.2**	**847.5**	**840.2**	**685.0**	**543.3**	**751.6**	**664.3**	**780.7**	**730.9**	**709.0**	**770.1**
	Financial sectors											
32 **Total net borrowing by financial sectors**	**99.2**	**148.7**	**198.3**	**297.2**	**303.1**	**340.0**	**316.7**	**306.4**	**249.2**	**218.9**	**250.1**	**249.1**
By instrument												
33 U.S. government related	67.8	74.9	101.5	178.1	185.8	193.5	196.8	185.5	167.5	137.4	84.7	140.2
34 Sponsored credit agency securities	1.4	30.4	20.6	15.2	30.2	-4.4	21.5	32.0	71.6	56.8	9.4	42.8
35 Mortgage pool securities	66.4	44.4	79.9	163.3	156.4	200.7	175.4	153.5	95.9	80.5	75.3	97.4
36 Loans from U.S. government	.....	.....	1.1	-.4	-.7	-2.9	-.1	.....	.....	.....	.....	.....
37 Private financial sectors	31.4	73.8	96.7	119.1	117.2	146.5	119.9	120.8	81.7	81.6	165.4	108.9
38 Corporate bonds	17.3	33.0	47.9	70.9	67.1	103.2	45.6	77.7	41.8	74.7	67.9	65.9
39 Mortgages	*	.4	.1	.1	.3	.4	.1	.2	.4	.2	*	*
40 Bank loans n.e.c.	-.1	.7	2.6	4.0	-3.3	-9.5	.6	6.3	-10.7	-26.8	8.7	-4.9
41 Open market paper	21.3	24.1	32.0	24.2	28.8	41.5	54.0	14.3	5.4	28.0	78.7	21.3
42 Loans from Federal Home Loan Banks	-7.0	15.7	14.2	19.8	24.4	11.0	19.6	22.2	44.9	5.4	10.1	26.6
By sector												
43 **Total**	**99.2**	**148.7**	**198.3**	**297.2**	**303.1**	**340.0**	**316.7**	**306.4**	**249.2**	**218.9**	**250.1**	**249.1**
44 Sponsored credit agencies	1.4	30.4	21.7	14.9	29.5	-7.2	21.4	32.0	71.6	56.8	9.4	42.8
45 Mortgage pools	66.4	44.4	79.9	163.3	156.4	200.7	175.4	153.5	95.9	80.5	75.3	97.4
46 Private financial sectors	31.4	73.8	96.7	119.1	117.2	146.5	119.9	120.8	81.7	81.6	165.4	108.9
47 Commercial banks	5.0	7.3	-4.9	-3.6	7.1	6.4	20.0	-13.1	15.0	-22.4	6.2	-12.9
48 Bank affiliates	12.1	15.6	14.5	4.6	2.9	25.6	-2.7	11.3	-22.6	-5.0	7.6	5.2
49 Savings and loan associations	-2.1	22.7	22.3	29.8	36.0	28.0	22.2	41.9	51.9	9.1	18.2	52.9
50 Finance companies	13.0	18.2	52.7	48.4	30.6	18.1	39.9	36.3	28.2	54.5	100.4	40.6
51 REITs	-.2	.8	.5	1.0	1.5	1.7	-.5	1.7	3.2	2.4	1.8	1.9
52 CMO Issuers	3.6	9.3	11.5	39.0	39.1	66.8	41.0	42.7	6.0	43.1	31.2	21.3

1.57—Continued

Transaction category, sector	1983	1984	1985	1986	1987	1987				1988		
						Q1	Q2	Q3	Q4	Q1	Q2	Q3
	All sectors											
53 **Total net borrowing**	**663.4**	**907.9**	**1,045.7**	**1,137.4**	**988.0**	**883.3**	**1,068.3**	**970.7**	**1,029.9**	**949.8**	**959.1**	**1,019.2**
54 U.S. government securities	254.4	273.8	324.2	393.5	330.4	358.0	342.2	287.3	334.2	363.6	172.3	335.7
55 State and local obligations	53.7	50.4	136.4	30.8	34.5	38.7	33.1	32.7	33.5	24.8	32.6	44.4
56 Corporate and foreign bonds	36.4	83.0	125.4	195.2	173.8	235.2	130.0	185.1	145.0	192.8	183.5	164.1
57 Mortgages	187.8	223.1	242.2	308.6	311.9	306.0	345.2	294.9	301.4	237.4	301.2	322.0
58 Consumer credit	49.0	81.6	82.5	54.4	40.7	-.3	52.4	61.4	49.4	34.8	59.5	43.3
59 Bank loans n.e.c.	26.7	61.1	38.3	72.3	1.9	-118.5	33.8	23.6	68.5	14.2	79.4	-2.0
60 Open market paper	26.9	52.0	52.8	26.4	33.2	36.8	52.3	36.9	6.7	25.7	89.1	43.1
61 Other loans	28.4	82.9	44.0	56.1	61.6	27.3	79.4	48.7	91.2	56.4	41.7	68.6
62 MEMO: U.S. government, cash balance	-7.1	6.3	14.4	*	-7.9	-34.9	77.7	-19.6	-54.7	60.9	3.3	6.4
Totals net of changes in U.S. government cash balances												
63 Net borrowing by domestic nonfinancial	553.9	744.5	831.9	830.6	688.5	586.9	674.0	671.7	821.5	670.9	700.8	754.0
64 Net borrowing by U.S. government	193.7	192.5	209.3	215.0	151.7	196.6	67.6	121.4	221.4	165.4	84.3	189.1
	External corporate equity funds raised in United States											
65 **Total net share issues**	**58.1**	**-36.0**	**20.1**	**93.9**	**13.3**	**170.1**	**13.9**	**-47.1**	**-83.6**	**-73.7**	**-141.0**	**-70.3**
66 Mutual funds	27.2	29.3	84.4	161.8	72.3	205.4	79.1	13.8	-9.1	5.0	-8.1	6.0
67 All other	30.8	-65.3	-64.3	-68.0	-59.0	-35.3	-65.2	-60.9	-74.6	-78.7	-132.9	-76.3
68 *Nonfinancial corporations*	23.5	-74.5	-81.5	-80.7	-76.5	-57.0	-83.0	-78.0	-88.0	-95.0	-140.0	-92.0
69 Financial corporations	3.6	8.2	13.5	11.5	19.9	19.1	16.5	18.4	25.5	17.0	13.8	13.6
70 Foreign shares purchased in United States	3.7	.9	3.7	1.3	-2.4	2.7	1.2	-1.3	-12.0	-.7	-6.7	2.1

1.58 DIRECT AND INDIRECT SOURCES OF FUNDS TO CREDIT MARKETS

Billions of dollars, except as noted; quarterly data are at seasonally adjusted annual rates.

Transaction category, or sector	1983	1984	1985	1986	1987	1987				1988		
						Q1	Q2	Q3	Q4	Q1	Q2	Q3
1 **Total funds advanced in credit markets to domestic nonfinancial sectors**	**546.8**	**750.8**	**846.3**	**830.6**	**680.6**	**552.0**	**751.7**	**652.1**	**766.8**	**731.8**	**704.0**	**760.4**
By public agencies and foreign												
2 Total net advances	117.8	157.6	193.1	304.2	256.3	270.9	279.3	211.1	264.0	281.7	162.5	196.6
3 U.S. government securities	29.0	38.9	37.9	69.4	68.2	59.0	55.3	35.1	123.3	148.6	38.2	17.3
4 Residential mortgages	76.1	56.5	94.6	160.3	153.2	194.8	169.4	146.0	102.7	100.7	89.7	97.5
5 FHLB advances to savings and loans	-7.0	15.7	14.2	19.8	24.4	11.0	19.6	22.2	44.9	5.4	10.1	26.6
6 Other loans and securities	19.7	46.6	46.3	54.6	10.5	6.1	35.1	7.8	-6.8	27.0	24.5	55.3
Total advanced, by sector												
7 U.S. government	9.7	17.1	16.8	9.7	-11.5	-8.5	-12.3	-24.1	-.9	-8.9	-10.1	1.5
8 Sponsored credit agencies	69.8	74.3	95.5	177.3	180.6	204.9	177.0	187.0	153.6	123.3	86.3	119.9
9 Monetary authorities	14.7	8.4	18.4	19.4	24.7	9.4	29.8	29.0	30.4	-5.5	4.1	17.1
10 Foreign	23.7	57.9	62.3	97.8	62.5	65.1	84.8	19.1	81.0	172.9	82.2	58.2
Agency and foreign borrowing not in line 1												
11 Sponsored credit agencies and mortgage pools	67.8	74.9	101.5	178.1	185.8	193.5	196.8	185.5	167.5	137.4	84.7	140.2
12 Foreign	17.3	8.4	1.2	9.6	4.3	-8.7	-.1	12.3	13.9	-1.0	4.9	9.7
Private domestic funds advanced												
13 Total net advances	514.2	676.4	756.0	714.1	614.5	465.9	669.1	638.7	684.2	586.5	631.2	713.7
14 U.S. government securities	225.4	234.9	286.2	324.1	262.2	299.0	286.9	252.2	210.9	215.0	134.1	318.4
15 State and local obligations	53.7	50.4	136.4	30.8	34.5	38.7	33.1	32.7	33.5	24.8	32.6	44.4
16 Corporate and foreign bonds	14.5	35.1	40.8	84.1	86.5	100.4	58.8	83.7	102.9	115.7	88.1	68.6
17 Residential mortgages	58.3	105.3	91.8	84.1	92.8	56.7	105.0	89.3	120.0	98.7	152.4	146.1
18 Other mortgages and loans	155.1	266.3	214.9	210.8	162.9	-18.0	204.8	203.0	261.7	137.7	234.1	162.8
19 LESS: Federal Home Loan Bank advances	-7.0	15.7	14.2	19.8	24.4	11.0	19.6	22.2	44.9	5.4	10.1	26.6
Private financial intermediation												
20 Credit market funds advanced by private financial institutions	394.7	581.0	569.8	746.3	564.9	521.5	549.7	639.7	548.5	674.9	615.7	606.4
21 Commercial banking	144.3	168.9	186.3	194.8	136.3	-56.2	198.0	150.9	252.6	56.0	213.3	132.3
22 Savings institutions	135.6	150.2	83.0	105.5	140.4	89.9	132.0	188.7	151.0	87.9	120.7	166.4
23 Insurance and pension funds	100.1	121.8	148.9	181.9	210.8	266.3	178.0	246.2	152.8	282.4	235.3	217.6
24 Other finance	14.7	140.1	151.6	264.3	77.3	221.6	41.7	54.0	-7.9	248.6	46.5	90.1
25 Sources of funds	394.7	581.0	569.8	746.5	564.9	521.5	549.7	639.7	548.5	674.9	615.7	606.4
26 Private domestic deposits and RPs	210.4	321.9	210.6	264.7	146.2	-17.1	141.1	193.9	266.8	287.7	127.3	206.1
27 Credit market borrowing	31.4	73.8	96.7	119.1	117.2	146.5	119.9	120.8	81.7	81.6	165.4	108.9
28 Other sources	152.9	185.3	262.5	362.7	301.4	392.1	288.6	325.0	200.0	305.6	323.0	291.3
29 Foreign funds	14.6	8.8	19.7	12.9	43.7	14.9	35.1	99.5	25.2	-80.1	106.6	-39.2
30 Treasury balances	-5.3	4.0	10.3	1.7	-5.8	-36.9	43.6	6.1	-36.1	53.3	-17.5	-1.9
31 Insurance and pension reserves	115.0	124.0	131.9	144.3	175.0	195.1	191.1	194.8	118.9	247.6	207.8	173.7
32 Other, net	28.7	48.5	100.7	203.8	88.6	219.0	18.9	24.6	91.9	84.8	26.1	158.6
Private domestic nonfinancial investors												
33 Direct lending in credit markets	150.9	169.2	282.9	86.7	166.8	90.9	239.3	119.8	217.3	-6.9	180.9	216.2
34 U.S. government securities	91.0	115.4	175.7	50.1	103.2	52.1	170.1	70.9	119.6	117.6	23.8	160.0
35 State and local obligations	38.8	26.5	39.6	-13.6	46.1	27.8	58.1	42.4	56.0	1.5	29.7	39.1
36 Corporate and foreign bonds	-8.3	-.8	2.4	32.6	5.1	9.3	-58.6	28.3	41.5	-40.6	52.7	-25.9
37 Open market paper	12.4	4.0	45.6	-3.0	7.9	-1.9	64.2	-23.3	-7.5	-65.6	77.7	40.5
38 Other	17.0	24.2	19.6	20.7	4.6	3.6	5.6	1.6	7.7	-19.7	-3.0	2.5
39 Deposits and currency	227.8	325.4	220.9	285.0	162.4	-46.6	149.2	229.3	317.6	282.7	134.9	256.7
40 Currency	14.3	8.6	12.4	14.4	19.0	9.4	12.5	17.3	36.8	8.2	11.9	17.5
41 Checkable deposits	28.8	28.0	40.9	93.2	-2.4	-98.7	40.3	34.5	14.4	4.2	21.5	-.6
42 Small time and savings accounts	215.4	150.7	138.4	120.6	75.9	31.3	69.3	79.9	123.1	195.1	125.5	102.1
43 Money market fund shares	-39.0	49.0	8.9	41.5	28.2	14.4	2.4	32.7	63.3	59.1	-34.8	13.0
44 Large time deposits	-8.3	84.3	7.7	-11.5	27.6	13.7	4.8	.2	91.6	12.0	-7.6	92.0
45 Security RPs	13.5	10.0	14.6	20.8	16.9	22.1	24.3	46.6	-25.6	17.3	22.7	-.4
46 Deposits in foreign countries	3.1	-5.1	-2.1	5.9	-2.8	-38.9	-4.4	18.1	13.9	-13.3	-4.3	33.1
47 **Total of credit market instruments, deposits, and currency**	**378.7**	**494.6**	**503.7**	**371.8**	**329.2**	**44.3**	**388.5**	**349.1**	**534.9**	**275.8**	**315.8**	**472.9**
48 Public holdings as percent of total	20.9	20.8	22.8	36.2	37.4	49.9	37.2	31.8	33.8	38.5	22.9	25.5
49 Private financial intermediation (in percent)	76.8	85.9	75.4	104.5	91.9	112.0	82.2	100.2	80.2	115.1	97.6	85.0
50 Total foreign funds	38.2	66.7	82.0	110.7	106.2	80.0	119.9	118.7	106.2	92.8	188.9	19.0
MEMO: Corporate equities not included above												
51 **Total net issues**	**58.1**	**-36.0**	**20.1**	**93.9**	**13.3**	**170.1**	**13.9**	**-47.1**	**-83.6**	**-73.7**	**-141.0**	**-70.3**
52 Mutual fund shares	27.2	29.3	84.4	161.8	72.3	205.4	79.1	13.8	-9.1	5.0	-8.1	6.0
53 Other equities	30.8	-65.3	-64.3	-68.0	-59.0	-35.3	-65.2	-60.9	-74.6	-78.7	-132.9	-76.3
54 Acquisitions by financial institutions	50.4	15.8	45.6	48.5	22.6	29.2	72.6	5.2	-16.5	-33.0	-10.1	-9.4
55 Other net purchases	7.7	-51.8	-25.5	45.4	-9.3	140.9	-58.7	-52.4	-67.1	-40.7	-131.0	-61.0

NOTES BY LINE NUMBER.
1. Line 1 of table 1.57.
2. Sum of lines 3–6 or 7–10.
6. Includes farm and commercial mortgages.
11. Credit market funds raised by federally sponsored credit agencies, and net issues of federally related mortgage pool securities.
13. Line 1 less line 2 plus line 11 and 12. Also line 20 less line 27 plus line 33. Also sum of lines 28 and 47 less lines 40 and 46.
18. Includes farm and commercial mortgages.
26. Line 39 less lines 40 and 46.
27. Excludes equity issues and investment company shares. Includes line 19.
29. Foreign deposits at commercial banks, bank borrowings from foreign branches, and liabilities of foreign banking agencies to foreign affiliates, less claims on foreign affiliates and deposits by banking in foreign banks.
30. Demand deposits and note balances at commercial banks.
31. Excludes net investment of these reserves in corporate equities.
32. Mainly retained earnings and net miscellaneous liabilities.
33. Line 13 less line 20 plus line 27.
34–38. Lines 14–18 less amounts acquired by private finance plus amounts borrowed by private finance. Line 38 includes mortgages.
40. Mainly an offset to line 9.
47. Lines 33 plus 39, or line 13 less line 28 plus 40 and 46.
48. Line 2/line 1.
49. Line 20/line 13.
50. Sum of lines 10 and 29.
51, 53. Includes issues by financial institutions.

NOTE. Full statements for sectors and transaction types in flows and in amounts outstanding may be obtained from Flow of Funds Section, Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

1.59 SUMMARY OF CREDIT MARKET DEBT OUTSTANDING

Billions of dollars; period-end levels.

Transaction category, sector	1983	1984	1985	1986	1987				1988		
					Q1	Q2	Q3	Q4	Q1	Q2	Q3
	Nonfinancial sectors										
1 **Total credit market debt owed by domestic nonfinancial sectors**	**5,204.3**	**5,953.7**	**6,797.0**	**7,618.1**	**7,725.8**	**7,917.4**	**8,074.1**	**8,301.3**	**8,444.3**	**8,629.8**	**8,817.3**
By sector and instrument											
2 U.S. government	1,177.9	1,376.8	1,600.4	1,815.4	1,843.9	1,875.3	1,897.0	1,959.2	2,001.8	2,020.4	2,063.8
3 Treasury securities	1,174.4	1,373.4	1,597.1	1,811.7	1,839.3	1,871.2	1,893.1	1,954.1	1,996.7	2,013.5	2,051.6
4 Agency issues and mortgages	3.6	3.4	3.3	3.6	4.6	4.2	3.9	5.2	5.0	7.0	12.2
5 Private domestic nonfinancial sectors	4,026.4	4,577.0	5,196.6	5,802.7	5,881.9	6,042.1	6,177.1	6,342.1	6,442.6	6,609.4	6,753.5
6 Debt capital instruments	2,717.8	3,040.0	3,488.4	3,946.4	4,065.6	4,189.4	4,296.9	4,404.5	4,479.3	4,596.7	4,715.0
7 Tax-exempt obligations	471.7	522.1	658.4	689.2	696.9	705.2	715.5	723.7	728.0	735.8	749.4
8 Corporate bonds	423.0	469.2	542.9	664.2	696.4	718.5	743.7	764.1	789.4	819.1	841.7
9 Mortgages	1,823.1	2,048.8	2,287.1	2,593.0	2,672.2	2,765.7	2,837.7	2,916.6	2,961.8	3,041.9	3,123.8
10 Home mortgages	1,200.2	1,336.2	1,490.2	1,699.6	1,730.4	1,800.7	1,853.8	1,908.7	1,939.7	2,000.4	2,056.6
11 Multifamily residential	158.8	183.6	213.0	246.3	254.2	259.9	264.9	269.9	273.8	278.1	285.6
12 Commercial	350.4	416.5	478.1	551.4	594.8	613.8	629.0	649.2	660.2	675.5	692.5
13 Farm	113.7	112.4	105.9	95.8	92.8	91.3	90.0	88.9	88.2	87.9	89.2
14 Other debt instruments	1,308.6	1,536.9	1,708.2	1,856.3	1,816.4	1,852.7	1,880.2	1,937.6	1,963.3	2,012.6	2,038.5
15 Consumer credit	437.7	519.3	601.8	656.2	643.3	658.7	680.9	696.9	692.2	709.6	727.8
16 Bank loans n.e.c.	490.2	552.9	592.6	658.6	627.7	636.3	637.5	656.7	669.4	689.9	688.7
17 Open market paper	36.8	58.5	72.2	62.9	63.6	67.9	68.1	73.8	73.5	77.8	80.3
18 Other	344.0	406.2	441.6	478.6	481.7	489.9	493.7	510.1	528.1	535.3	541.6
19 By borrowing sector	4,026.4	4,577.0	5,196.6	5,802.7	5,881.9	6,042.1	6,177.1	6,342.1	6,442.6	6,609.4	6,753.5
20 State and local governments	357.7	385.1	476.9	520.2	527.5	535.3	546.2	554.7	558.3	565.7	578.5
21 Households	1,811.6	2,038.2	2,314.5	2,594.2	2,605.4	2,691.2	2,762.8	2,836.6	2,866.2	2,945.7	3,016.4
22 Nonfinancial business	1,857.1	2,153.7	2,405.2	2,688.3	2,749.0	2,815.7	2,868.1	2,950.9	3,018.1	3,097.9	3,158.5
23 Farm	188.4	187.9	173.4	156.6	149.9	150.2	148.5	144.9	141.5	144.0	145.0
24 Nonfarm noncorporate	645.8	769.0	898.3	1,025.9	1,053.8	1,084.3	1,106.7	1,141.7	1,165.2	1,186.0	1,211.9
25 Corporate	1,022.9	1,196.8	1,333.5	1,505.8	1,545.3	1,581.2	1,612.9	1,664.3	1,711.5	1,767.8	1,801.6
26 Foreign credit market debt held in United States	227.3	235.1	236.7	238.2	236.7	236.8	238.9	244.3	245.1	246.3	247.8
27 Bonds	64.2	68.0	71.8	74.8	75.1	74.6	75.9	81.6	85.4	85.2	86.7
28 Bank loans n.e.c.	37.4	30.8	27.9	26.9	26.0	25.4	24.2	23.3	22.8	22.4	22.0
29 Open market paper	21.5	27.7	33.9	37.4	37.3	35.6	40.6	41.2	42.5	44.0	46.3
30 U.S. government loans	104.1	108.6	103.0	99.1	98.3	101.2	98.2	98.1	94.4	94.7	92.8
31 **Total domestic plus foreign**	**5,431.6**	**6,188.8**	**7,033.7**	**7,856.3**	**7,962.5**	**8,154.2**	**8,313.1**	**8,545.6**	**8,689.4**	**8,876.1**	**9,065.1**
	Financial sectors										
32 **Total credit market debt owed by financial sectors**	**857.9**	**1,006.2**	**1,206.2**	**1,510.8**	**1,621.8**	**1,710.0**	**1,783.8**	**1,862.6**	**1,903.8**	**1,972.6**	**2,035.7**
By instrument											
33 U.S. government related	456.7	531.2	632.7	810.3	887.1	937.1	981.6	1,026.5	1,054.8	1,076.9	1,113.7
34 Sponsored credit agency securities	206.8	237.2	257.8	273.0	268.4	275.8	283.7	303.2	313.5	317.9	328.5
35 Mortgage pool securities	244.9	289.0	368.9	531.6	613.7	656.4	692.9	718.3	736.3	754.0	780.2
36 Loans from U.S. government	5.0	5.0	6.1	5.7	5.0	5.0	5.0	5.0	5.0	5.0	5.0
37 Private financial sectors	401.2	475.0	573.4	700.5	734.8	772.9	802.1	836.1	849.0	895.7	922.0
38 Corporate bonds	115.8	148.9	197.5	268.4	293.4	304.6	324.2	335.5	353.2	370.0	386.8
39 Mortgages	2.1	2.5	2.7	2.7	2.8	2.9	2.9	3.0	3.1	3.1	3.1
40 Bank loans n.e.c.	28.9	29.5	32.1	36.1	36.5	40.1	42.2	40.8	31.7	34.3	33.9
41 Open market paper	195.5	219.5	252.4	284.6	295.2	311.1	312.7	323.8	331.5	353.4	356.8
42 Loans from Federal Home Loan Banks	59.0	74.6	88.8	108.6	106.8	114.3	120.1	133.1	129.5	134.8	141.6
43 **Total, by sector**	**857.9**	**1,006.2**	**1,206.2**	**1,510.8**	**1,621.8**	**1,710.0**	**1,783.8**	**1,862.6**	**1,903.8**	**1,972.6**	**2,035.7**
44 Sponsored credit agencies	211.8	242.2	263.9	278.7	273.4	280.7	288.7	308.2	318.5	322.9	333.5
45 Mortgage pools	244.9	289.0	368.9	531.6	613.7	656.4	692.9	718.3	736.3	754.0	780.2
46 Private financial sectors	401.2	475.0	573.4	700.5	734.8	772.9	802.1	836.1	849.0	895.7	922.0
47 Commercial banks	76.8	84.1	79.2	75.6	76.1	80.7	78.6	82.7	76.4	77.2	75.4
48 Bank affiliates	71.0	86.6	101.2	101.3	109.0	108.7	109.5	104.2	104.4	106.5	105.8
49 Savings and loan associations	73.9	93.2	115.5	145.1	146.6	157.0	165.4	181.1	177.4	187.3	198.0
50 Finance companies	171.7	193.2	246.9	308.1	315.4	328.8	339.9	357.0	368.3	393.8	406.3
51 REITs	3.5	4.3	5.6	6.5	7.0	6.8	7.3	8.1	8.7	9.1	9.6
52 CMO Issuers	4.2	13.5	25.0	64.0	80.7	90.9	101.6	103.1	113.9	121.7	127.0
	All sectors										
53 **Total credit market debt**	**6,289.5**	**7,195.0**	**8,239.8**	**9,367.2**	**9,584.3**	**9,864.2**	**10,096.9**	**10,408.1**	**10,593.3**	**10,848.6**	**11,100.8**
54 U.S. government securities	1,629.4	1,902.8	2,227.0	2,620.0	2,726.0	2,807.4	2,873.7	2,980.7	3,051.6	3,092.3	3,172.5
55 State and local obligations	471.7	522.1	658.4	689.2	696.9	705.2	715.5	723.7	728.0	735.8	749.4
56 Corporate and foreign bonds	603.0	686.0	812.1	1,007.4	1,064.9	1,097.7	1,143.9	1,181.2	1,228.1	1,274.2	1,315.2
57 Mortgages	1,825.4	2,051.4	2,289.8	2,595.8	2,675.1	2,768.6	2,840.6	2,919.7	2,964.9	3,045.0	3,127.0
58 Consumer credit	437.7	519.3	601.8	656.2	643.3	658.7	680.9	696.9	692.2	709.6	727.8
59 Bank loans n.e.c.	556.5	613.2	652.6	721.6	690.3	701.7	703.8	720.8	723.9	746.6	744.6
60 Open market paper	253.8	305.7	358.5	384.9	396.1	414.6	421.4	438.8	447.5	475.3	483.4
61 Other loans	512.1	594.4	639.5	692.0	691.8	710.4	717.0	746.3	757.0	769.8	780.9

1.60 SUMMARY OF CREDIT MARKET CLAIMS, BY HOLDER

Billions of dollars, except as noted; period-end levels.

Transaction category, or sector	1983	1984	1985	1986	1987				1988		
					Q1	Q2	Q3	Q4	Q1	Q2	Q3
1 **Total funds advanced in credit markets to domestic nonfinancial sectors**	**5,204.3**	**5,953.7**	**6,797.0**	**7,618.1**	**7,725.8**	**7,917.4**	**8,074.1**	**8,301.3**	**8,444.3**	**8,629.8**	**8,817.3**
By public agencies and foreign											
2 Total held	1,101.7	1,259.2	1,459.4	1,759.3	1,847.6	1,918.0	1,967.0	2,037.8	2,098.6	2,144.4	2,192.8
3 U.S. government securities	339.0	377.9	421.8	491.2	502.3	519.5	525.6	559.4	592.7	606.1	607.1
4 Residential mortgages	367.0	423.5	518.2	678.5	758.9	800.0	834.6	862.0	884.8	906.1	932.2
5 FHLB advances to savings and loans	59.0	74.6	88.8	108.6	106.8	114.3	120.1	133.1	129.5	134.8	141.6
6 Other loans and securities	336.8	383.1	430.6	481.0	479.6	484.3	486.8	483.4	491.5	497.4	511.9
7 Total held, by type of lender	1,101.7	1,259.2	1,459.4	1,759.3	1,847.6	1,918.0	1,967.0	2,037.8	2,098.6	2,144.4	2,192.8
8 U.S. government	212.8	229.7	247.6	254.3	249.2	242.9	237.1	235.4	233.7	232.0	232.6
9 Sponsored credit agencies and mortgage pools	482.0	556.3	657.8	833.9	912.0	957.9	1,003.7	1,044.1	1,068.2	1,091.6	1,124.2
10 Monetary authority	159.2	167.6	186.0	205.5	204.1	214.9	219.6	230.1	224.9	229.7	230.8
11 Foreign	247.7	305.6	367.9	465.7	482.3	502.3	506.7	528.2	571.8	591.1	605.3
Agency and foreign debt not in line 1											
12 Sponsored credit agencies and mortgage pools	456.7	531.2	632.7	810.3	887.1	937.1	981.6	1,026.5	1,054.8	1,076.9	1,113.7
13 Foreign	227.3	235.1	236.7	238.2	236.7	236.8	238.9	244.3	245.1	246.3	247.8
Private domestic holdings											
14 Total private holdings	4,786.6	5,460.8	6,207.0	6,907.3	7,002.0	7,173.2	7,327.7	7,534.2	7,645.7	7,808.6	7,985.9
15 U.S. government securities	1,290.4	1,524.9	1,805.2	2,128.7	2,223.7	2,287.9	2,348.1	2,421.3	2,458.9	2,486.3	2,565.3
16 State and local obligations	471.7	522.1	658.4	689.2	696.9	705.2	715.5	723.7	728.0	735.8	749.4
17 Corporate and foreign bonds	441.7	476.8	517.6	601.7	626.0	642.4	663.4	688.1	716.3	740.1	757.3
18 Residential mortgages	992.2	1,096.5	1,185.1	1,267.4	1,225.8	1,260.6	1,284.2	1,316.7	1,328.7	1,372.4	1,410.0
19 Other mortgages and loans	1,649.6	1,915.2	2,129.5	2,328.9	2,336.4	2,391.5	2,436.6	2,517.4	2,543.3	2,608.9	2,645.5
20 LESS: Federal Home Loan Bank advances	59.0	74.6	88.8	108.6	106.8	114.3	120.1	133.1	129.5	134.8	141.6
Private financial intermediation											
21 Credit market claims held by private financial institutions	4,111.2	4,691.0	5,264.4	6,009.5	6,126.1	6,277.5	6,433.5	6,585.2	6,723.0	6,892.6	7,042.6
22 Commercial banking	1,622.1	1,791.1	1,978.5	2,173.2	2,155.9	2,207.9	2,248.7	2,309.6	2,322.1	2,377.5	2,414.3
23 Savings institutions	944.0	1,092.8	1,178.4	1,283.0	1,308.4	1,355.4	1,396.5	1,434.2	1,440.3	1,486.8	1,523.4
24 Insurance and pension funds	1,093.5	1,215.3	1,364.2	1,546.0	1,608.7	1,652.6	1,715.3	1,756.9	1,823.0	1,880.9	1,937.2
25 Other finance	451.6	591.7	743.4	1,007.3	1,053.1	1,061.5	1,073.0	1,084.6	1,137.6	1,147.5	1,167.7
26 Sources of funds	4,111.2	4,691.0	5,264.4	6,009.5	6,126.1	6,277.5	6,433.5	6,585.2	6,723.0	6,892.6	7,042.6
27 Private domestic deposits and RPs	2,389.8	2,711.5	2,922.1	3,182.6	3,165.0	3,198.6	3,234.4	3,328.8	3,385.7	3,417.0	3,455.1
28 Credit market debt	401.2	475.0	573.4	700.5	734.8	772.9	802.1	836.1	849.0	895.7	922.0
29 Other sources	1,320.2	1,504.5	1,768.9	2,126.4	2,226.3	2,305.9	2,397.0	2,420.4	2,488.4	2,579.9	2,665.6
30 Foreign funds	−23.0	−14.1	5.6	18.6	26.7	26.1	52.7	62.2	45.9	62.3	54.8
31 Treasury balances	11.5	15.5	25.8	27.5	8.6	30.9	33.0	21.6	23.5	32.6	31.5
32 Insurance and pension reserves	1,036.1	1,160.8	1,289.5	1,427.9	1,461.8	1,507.5	1,552.8	1,592.2	1,656.3	1,706.7	1,751.9
33 Other, net	295.6	342.2	448.0	652.5	729.2	741.4	758.5	744.3	762.8	778.3	827.4
Private domestic nonfinancial investors											
34 Credit market claims	1,076.6	1,244.8	1,516.0	1,598.3	1,610.7	1,668.7	1,696.3	1,785.0	1,771.6	1,811.6	1,865.3
35 U.S. government securities	548.6	663.6	830.7	881.2	912.0	950.4	969.4	1,014.7	1,025.7	1,027.0	1,071.4
36 Tax-exempt obligations	170.0	196.3	235.9	222.3	226.2	243.1	255.9	268.4	265.6	275.3	287.3
37 Corporate and foreign bonds	45.4	44.5	47.6	80.1	88.8	71.4	80.6	85.3	82.7	93.0	88.4
38 Open market paper	68.4	72.4	118.0	115.0	115.5	132.6	118.7	143.5	127.8	148.5	149.6
39 Other	244.3	268.0	283.8	299.7	268.1	271.2	271.9	273.2	269.9	267.9	268.5
40 Deposits and currency	2,566.4	2,891.7	3,112.5	3,393.4	3,364.7	3,405.6	3,444.5	3,555.7	3,607.4	3,646.4	3,690.7
41 Currency	150.9	159.6	171.9	186.3	185.3	191.3	192.4	205.4	204.0	209.9	210.7
42 Checkable deposits	350.9	378.8	419.7	512.9	468.5	488.0	487.2	510.5	491.1	506.8	497.3
43 Small time and savings accounts	1,542.9	1,693.5	1,831.9	1,948.3	1,965.2	1,977.7	1,990.8	2,024.2	2,079.4	2,107.9	2,126.8
44 Money market fund shares	169.5	218.5	227.3	268.9	281.3	279.5	286.4	297.1	322.1	310.4	311.1
45 Large time deposits	247.7	332.1	339.8	328.4	323.4	322.5	326.3	356.0	351.0	346.1	372.4
46 Security RPs	78.8	88.7	103.3	124.1	126.6	130.9	143.6	141.0	142.1	145.9	147.4
47 Deposits in foreign countries	25.7	20.6	18.5	24.5	14.4	15.7	17.8	21.6	17.8	19.4	25.0
48 **Total of credit market instruments, deposits, and currency**	**3,643.0**	**4,136.5**	**4,628.5**	**4,991.7**	**4,975.4**	**5,074.2**	**5,140.8**	**5,340.8**	**5,379.0**	**5,458.0**	**5,556.1**
49 Public holdings as percent of total	20.3	20.3	20.7	22.4	23.2	23.5	23.7	23.8	24.2	24.2	24.2
50 Private financial intermediation (in percent)	85.9	85.9	84.8	87.0	87.5	87.5	87.8	87.4	87.9	88.3	88.2
51 Total foreign funds	224.7	291.5	373.5	484.2	509.0	528.4	559.4	590.5	617.6	653.4	660.0
MEMO: Corporate equities not included above											
52 **Total market value**	**2,134.0**	**2,158.2**	**2,824.5**	**3,362.0**	**3,990.2**	**4,110.0**	**4,300.8**	**3,313.4**	**3,494.8**	**3,612.6**	**3,577.5**
53 Mutual fund shares	112.1	136.7	240.2	413.5	485.2	520.7	525.1	460.1	479.2	486.8	483.9
54 Other equities	2,021.9	2,021.5	2,584.3	2,948.5	3,505.0	3,589.3	3,775.7	2,853.2	3,015.7	3,125.9	3,093.6
55 Holdings by financial institutions	612.0	615.6	800.0	972.2	1,175.7	1,238.9	1,312.5	1,021.7	1,087.1	1,133.8	1,133.0
56 Other holdings	1,522.0	1,542.6	2,024.5	2,389.8	2,814.5	2,871.1	2,988.4	2,291.7	2,407.7	2,478.9	2,444.4

NOTES BY LINE NUMBER.
1. Line 1 of table 1.59.
2. Sum of lines 3–6 or 7–10.
6. Includes farm and commercial mortgages.
12. Credit market debt of federally sponsored agencies, and net issues of federally related mortgage pool securities.
14. Line 1 less line 2 plus line 12 and 13. Also line 21 less line 28 plus line 34. Also sum of lines 29 and 48 less lines 41 and 47.
19. Includes farm and commercial mortgages.
27. Line 40 less lines 41 and 47.
28. Excludes equity issues and investment company shares. Includes line 20.
30. Foreign deposits at commercial banks plus bank borrowings from foreign affiliates, less claims on foreign affiliates and deposits by banking in foreign banks.
31. Demand deposits and note balances at commercial banks.
32. Excludes net investment of these reserves in corporate equities.
33. Mainly retained earnings and net miscellaneous liabilities.
34. Line 14 less line 21 plus line 28.
35–39. Lines 15–19 less amounts acquired by private finance plus amounts borrowed by private finance. Line 39 includes mortgages.
41. Mainly an offset to line 10.
48. Lines 34 plus 40, or line 14 less line 29 plus 41 and 47.
49. Line 2/line 1 and 13.
50. Line 21/line 14.
51. Sum of lines 11 and 30.
52–54. Includes issues by financial institutions.

NOTE. Full statements for sectors and transaction types in flows and in amounts outstanding may be obtained from Flow of Funds Section, Stop 95, Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

2.10 NONFINANCIAL BUSINESS ACTIVITY Selected Measures[1]

1977 = 100; monthly and quarterly data are seasonally adjusted. Exceptions noted.

Measure	1986	1987	1988	1988								
				Apr.	May	June	July	Aug.	Sept.	Oct.[r]	Nov.[r]	Dec.
1 **Industrial production**	**125.1**	**129.8**	**137.2**	**135.4**	**136.1**	**136.5**	**138.0**	**138.5**	**138.6[r]**	**139.3**	**139.8**	**140.2**
Market groupings												
2 Products, total	133.3	138.3	145.9	144.1	145.0	145.3	146.5	147.3	147.4[r]	148.1	148.3	148.8
3 Final, total	132.5	136.8	144.3	142.5	143.5	144.0	145.0	145.8	145.8[r]	146.5	146.5	146.9
4 Consumer goods	124.0	127.7	133.9	131.9	132.7	133.0	134.2	135.0	134.8[r]	136.7	136.5	137.2
5 Equipment	143.6	148.8	158.2	156.5	157.7	158.5	159.4	160.1	160.4[r]	159.5	159.8	159.8
6 Intermediate	136.2	143.5	151.5	149.6	150.4	150.0	151.6	152.3	152.9[r]	153.5	154.4	155.2
7 Materials	113.8	118.2	125.3	123.6	123.9	124.5	126.4	126.5	126.5[r]	127.4	128.3	128.6
Industry groupings												
8 Manufacturing	129.1	134.6	142.8	140.8	141.8	142.1	143.6	144.0	144.4[r]	145.3	145.7	146.2
Capacity utilization (percent)[2]												
9 Manufacturing	79.7	81.1	n.a.	82.9	83.3	83.3	84.0	84.0	84.0	84.3	84.3	84.4
10 Industrial materials industries	78.6	80.5	n.a.	82.9	83.0	83.2	84.4	84.3	84.1	84.5	85.0	85.0
11 Construction contracts (1982 = 100)[3]	158.0	161.0	155.0	144.0	157.0	165.0	156.0	155.0	151.0	153.0	157.0	169.0
12 Nonagricultural employment, total[4]	120.7	124.1	128.6	127.7	127.9	128.6	128.9	129.1	129.4	129.7	130.2	130.5
13 Goods-producing, total	100.9	101.8	105.0	104.5	104.6	105.1	105.4	105.3	105.4	105.8	106.2	106.4
14 Manufacturing, total	96.3	96.8	99.2	98.8	99.0	99.3	99.5	99.4	99.3	99.8	100.2	100.3
15 Manufacturing, production-worker	91.2	92.1	94.3	93.9	94.1	94.4	94.6	94.4	94.3	94.9	95.2	95.4
16 Service-producing	129.0	133.4	138.5	137.4	137.7	138.4	138.7	139.0	139.5	139.8	140.3	140.7
17 Personal income, total	219.7	235.1	252.8	248.8	250.2	251.6	253.3	254.5	256.0	259.9	259.4	261.7
18 Wages and salary disbursements	210.7	226.2	245.2	240.9	242.3	244.2	246.7	247.4	249.0	252.3	253.1	254.6
19 Manufacturing	177.4	183.8	196.0	192.8	193.8	195.4	196.6	196.8	198.1	202.3	201.2	201.7
20 Disposable personal income[5]	218.9	232.7	251.8	243.3	249.5	251.2	253.1	254.2	255.6	259.7	259.0	261.4
21 Retail sales[6]	199.5	209.3	222.8	219.4	221.2	222.5	223.7	224.4	223.7	227.4	229.5	229.9
Prices[7]												
22 Consumer (1982–84 = 100)	109.6	113.6	118.3	117.1	117.5	118.0	118.5	119.0	119.8	120.2	120.3	120.5
23 Producer finished goods (1982 = 100)	103.2	105.4	108.0	107.0	107.5	107.9	108.5	108.8	108.6	109.3	109.7	110.0

1. A major revision of the industrial production index and the capacity utilization rates was released in July 1985. See "A Revision of the Index of Industrial Production" and accompanying tables that contain revised indexes (1977=100) through December 1984 in the FEDERAL RESERVE BULLETIN, vol. 71 (July 1985), pp. 487–501. The revised indexes for January through June 1985 were shown in the September BULLETIN.
2. Ratios of indexes of production to indexes of capacity. Based on data from Federal Reserve, McGraw-Hill Economics Department, Department of Commerce, and other sources.
3. Index of dollar value of total construction contracts, including residential, nonresidential and heavy engineering, from McGraw-Hill Information Systems Company, F. W. Dodge Division.
4. Based on data in *Employment and Earnings* (U.S. Department of Labor). Series covers employees only, excluding personnel in the Armed Forces.
5. Based on data in *Survey of Current Business* (U.S. Department of Commerce).
6. Based on Bureau of Census data published in *Survey of Current Business*.
7. Data without seasonal adjustment, as published in *Monthly Labor Review*. Seasonally adjusted data for changes in the price indexes may be obtained from the Bureau of Labor Statistics, U.S. Department of Labor.

NOTE. Basic data (not index numbers) for series mentioned in notes 4, 5, and 6, and indexes for series mentioned in notes 3 and 7 may also be found in the *Survey of Current Business*.

Figures for industrial production for the last two months are preliminary and estimated, respectively.

2.11 LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT

Thousands of persons; monthly data are seasonally adjusted. Exceptions noted.

Category	1986	1987	1988	1988							
				May	June	July	Aug.	Sept.	Oct.[r]	Nov.[r]	Dec.
HOUSEHOLD SURVEY DATA											
1 **Noninstitutional population[1]**	**182,822**	**185,010**	**186,837**	**186,600**	**186,755**	**186,911**	**187,033**	**187,178**	**187,333**	**187,471**	**187,618**
2 Labor force (including Armed Forces)[1]	120,078	122,122	123,893	123,429[r]	123,717[r]	123,840[r]	124,203[r]	124,200[r]	124,310	124,737	124,779
3 Civilian labor force	117,834	119,865	121,669	121,203[r]	121,524[r]	121,658[r]	122,000[r]	121,984[r]	122,091	122,510	122,563
Employment											
4 Nonagricultural industries[2]	106,434	109,232	111,800	111,293[r]	111,880[r]	111,974[r]	112,061[r]	112,194[r]	112,335	112,709	112,816
5 Agriculture	3,163	3,208	3,169	3,110[r]	3,121[r]	3,060[r]	3,142[r]	3,176[r]	3,238	3,238	3,193
Unemployment											
6 Number	8,237	7,425	6,701	6,800[r]	6,523[r]	6,624[r]	6,797[r]	6,614[r]	6,518	6,563	6,554
7 Rate (percent of civilian labor force)	7.0	6.2	5.5	5.6	5.4[r]	5.4	5.6	5.4	5.3	5.4	5.3
8 Not in labor force	62,744	62,888	62,944	63,171[r]	63,038[r]	63,071[r]	62,830[r]	62,978[r]	63,023	62,734	62,839
ESTABLISHMENT SURVEY DATA											
9 **Nonagricultural payroll employment[3]**	**99,525**	**102,310**	**106,039**	**105,489**	**106,057**	**106,271**	**106,425**	**106,737**	**106,973**	**107,377**	**107,656**
10 Manufacturing	18,965	19,065	19,536	19,490	19,544	19,593	19,560	19,549	19,648	19,718	19,752
11 Mining	777	721	733	739	740	740	739	734	729	721	723
12 Contract construction	4,816	4,998	5,294	5,237	5,308	5,330	5,340	5,365	5,366	5,405	5,418
13 Transportation and public utilities	5,255	5,385	5,584	5,556	5,582	5,598	5,605	5,618	5,631	5,648	5,650
14 Trade	23,683	24,381	25,362	25,245	25,353	25,435	25,471	25,510	25,573	25,663	25,742
15 Finance	6,283	6,549	6,679	6,656	6,679	6,684	6,689	6,692	6,708	6,724	6,733
16 Service	23,053	24,196	25,464	25,216	25,472	25,561	25,662	25,737	25,826	25,938	26,064
17 Government	16,693	17,015	17,387	17,350	17,379	17,330	17,359	17,532	17,492	17,560	17,574

1. Persons 16 years of age and over. Monthly figures, which are based on sample data, relate to the calendar week that contains the 12th day; annual data are averages of monthly figures. By definition, seasonality does not exist in population figures. Based on data from *Employment and Earnings* (U.S. Department of Labor).

2. Includes self-employed, unpaid family, and domestic service workers.

3. Data include all full- and part-time employees who worked during, or received pay for, the pay period that includes the 12th day of the month, and exclude proprietors, self-employed persons, domestic servants, unpaid family workers, and members of the Armed Forces. Data are adjusted to the March 1984 benchmark and only seasonally adjusted data are available at this time. Based on data from *Employment and Earnings* (U.S. Department of Labor).

2.12 OUTPUT, CAPACITY, AND CAPACITY UTILIZATION[1]

Seasonally adjusted

Series	1988				1988				1988			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Output (1977 = 100)				Capacity (percent of 1977 output)				Utilization rate (percent)			
1 **Total industry**	**134.5**	**136.0**	**138.2**	**139.8**	**163.1**	**164.2**	**165.2**	**166.2**	**82.4**	**82.8**	**83.8**	**84.1**
2 Mining	102.5	103.3	104.8	103.9	127.7	127.0	126.2	125.5	80.3	81.5	82.3	82.8
3 Utilities	114.7	111.7	114.9	114.6	139.8	140.1	140.4	140.7	82.0	79.9	81.9	81.4
4 **Manufacturing**	**139.6**	**141.6**	**143.7**	**145.7**	**168.9**	**170.2**	**171.5**	**172.7**	**82.7**	**83.2**	**84.0**	**84.4**
5 Primary processing	123.0	123.9	125.7	127.9	141.6	142.7	143.9	145.1	86.9	86.8	87.5[r]	88.2
6 Advanced processing	149.7	152.3	154.5	156.4	185.6	186.7	188.1	189.4	80.7	81.5	82.4	82.6
7 **Materials**	**122.5**	**124.0**	**126.6**	**128.1**	**148.5**	**149.3**	**150.1**	**150.9**	**82.5**	**83.0**	**84.3**	**84.9**
8 Durable goods	131.5	134.2	136.9	139.3	165.7	166.8	167.9	169.0	79.4	80.4	81.6	82.4
9 Metal materials	86.2	88.1	92.4	94.8	108.8	109.1	109.4	109.7	79.2	80.8	84.8	86.4
10 Nondurable goods	129.4	130.5	132.4	135.5	146.8	148.3	149.8	151.4	88.1	87.9	88.7	89.5
11 Textile, paper, and chemical	131.6	132.6	135.1	138.3	146.7	148.5	150.2	152.0	89.7	89.2	90.0[r]	91.0
12 Paper	145.7	145.9	......	......	147.6	149.2	......	......	98.7	97.8	98.8	......
13 Chemical	133.5	135.7	......	......	153.5	155.4	......	......	87.0	87.3	88.6[r]	......
14 Energy materials	100.9	100.4	103.5	102.0	119.7	119.4	119.1	118.8	84.3	84.2	86.0	85.8

Series	Previous cycle[2]		Latest cycle[3]		1987	1988								
	High	Low	High	Low	Dec.	Apr.	May	June	July	Aug.	Sept.	Oct.[r]	Nov.[r]	Dec.
	Capacity utilization rate (percent)													
15 **Total industry**	**88.6**	**72.1**	**86.9**	**69.5**	**82.4**	**82.7**	**82.9**	**83.0**	**83.7**	**83.8**	**83.7**	**84.0**	**84.1**	**84.2**
16 Mining	92.8	87.8	95.2	76.9	81.5	82.3	80.8	81.2	82.5	82.2	82.2	81.6	82.2	83.3
17 Utilities	95.6	82.9	88.5	78.0	80.0	79.3	79.7	80.8	81.5	83.9	80.3	80.8	81.3	81.9
18 **Manufacturing**	**87.7**	**69.9**	**86.5**	**68.0**	**82.6**	**82.9**	**83.3**	**83.3**	**84.0**	**84.0**	**84.0**	**84.3**	**84.3**	**84.4**
19 Primary processing	91.9	68.3	89.1	65.0	87.6	86.9	87.0	86.6	87.8	87.4	87.2	87.9	88.1	88.4
20 Advanced processing	86.0	71.1	85.1	69.5	80.3	81.2	81.7	81.7	82.2	82.4	82.4	82.6	82.6	82.6
21 **Materials**	**92.0**	**70.5**	**89.1**	**68.5**	**83.6**	**82.9**	**83.0**	**83.2**	**84.4**	**84.3**	**84.1**	**84.5**	**85.0**	**85.0**
22 Durable goods	91.8	64.4	89.8	60.9	80.0	79.7	80.8	80.7	81.7	81.4	81.9	82.3	82.6	82.4
23 Metal materials	99.2	67.1	93.6	45.7	86.3	79.3	82.1	80.8	84.9	83.4	86.0	87.4	86.1	85.7
24 Nondurable goods	91.1	66.7	88.1	70.7	90.8	88.7	87.7	87.4	88.9	88.8	88.2	89.2	89.3	90.0
25 Textile, paper, and chemical	92.8	64.8	89.4	68.8	93.1	90.1	88.8	88.9	90.4	90.3	89.4[r]	90.7	90.7	91.5
26 Paper	98.4	70.6	97.3	79.9	101.6	98.1	98.1	97.1	100.0	98.4	97.9	97.8	96.8	......
27 Chemical	92.5	64.4	87.9	63.5	90.9	88.0	86.9	87.0	88.8	89.0	88.0[r]	90.1	90.8	......
28 Energy materials	94.6	86.9	94.0	82.3	84.8	84.5	83.3	84.4	86.2	86.6	85.3[r]	85.0	86.3	86.1

1. These data also appear in the Board's G.3 (402) release. For address, see inside front cover.

2. Monthly high 1973; monthly low 1975.

3. Monthly highs 1978 through 1980; monthly lows 1982.

2.13 INDUSTRIAL PRODUCTION Indexes and Gross Value[1]

Monthly data are seasonally adjusted

Groups	1977 proportion	1987 avg.	1987 Dec.	1988 Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.[r]	Oct.	Nov.[p]	Dec.[e]
			Index (1977 = 100)												
MAJOR MARKET															
1 **Total index**	**100.00**	**129.8**	**133.9**	**134.4**	**134.4**	**134.7**	**135.4**	**136.1**	**136.5**	**138.0**	**138.5**	**138.6**	**139.3**	**139.8**	**140.2**
2 Products	57.72	138.3	141.3	142.7	143.4	143.6	144.1	145.0	145.3	146.5	147.3	147.4	148.1	148.3	148.8
3 Final products	44.77	136.8	139.8	141.1	141.6	141.8	142.5	143.5	144.0	145.0	145.8	145.8	146.5	146.5	146.9
4 Consumer goods	25.52	127.7	129.8	131.2	131.3	131.2	131.9	132.7	133.0	134.2	135.0	134.8	136.7	136.5	137.2
5 Equipment	19.25	148.8	153.1	154.3	155.3	155.9	156.5	157.7	158.5	159.4	160.1	160.4	159.5	159.8	159.8
6 Intermediate products	12.94	143.4	146.5	148.1	149.4	149.9	149.6	150.4	150.0	151.6	152.3	152.9	153.5	154.4	155.2
7 Materials	42.28	118.2	123.7	123.0	122.1	122.5	123.6	123.9	124.5	126.4	126.5	126.5	127.4	128.3	128.6
Consumer goods															
8 Durable consumer goods	6.89	120.2	120.3	121.7	120.6	120.4	123.3	125.6	125.3	125.3	125.7	126.3	129.7	129.5	132.1
9 Automotive products	2.98	118.5	115.4	118.7	117.6	120.6	121.9	127.1	127.1	124.4	124.2	126.4	129.8	130.3	135.0
10 Autos and trucks	1.79	115.1	110.2	112.8	111.8	116.4	118.0	126.9	125.3	120.8	123.1	124.8	128.3	129.5	138.0
11 Autos, consumer	1.16	90.7	83.7	77.5	79.5	86.3	91.0	98.9	99.0	93.8	93.0	97.7	101.3	101.0	105.1
12 Trucks, consumer	.63	160.5	159.5	178.3	171.6	172.2	168.2	178.9	174.1	170.8	179.0	175.3	178.4	182.4	....
13 Auto parts and allied goods	1.19	123.5	123.3	127.7	126.4	126.9	127.8	127.4	129.7	129.9	125.9	128.8	131.9	131.5	130.6
14 Home goods	3.91	121.6	123.9	124.0	122.8	120.2	124.3	124.4	123.9	125.9	126.8	126.2	129.6	128.9	129.8
15 Appliances, A/C and TV	1.24	141.5	142.7	142.2	140.6	132.8	143.2	142.2	138.0	143.3	146.5	144.9	154.4	150.4	151.0
16 Appliances and TV	1.19	142.1	142.6	140.9	141.4	132.7	142.2	143.0	137.1	143.8	146.1	143.7	151.9	148.9	....
17 Carpeting and furniture	.96	130.7	133.9	134.2	132.3	133.1	133.1	135.8	135.9	136.6	137.2	137.1	138.8	139.9	....
18 Miscellaneous home goods	1.71	102.0	104.8	105.2	104.7	103.9	105.7	105.2	107.0	107.4	106.8	106.6	106.6	107.2	....
19 Nondurable consumer goods	18.63	130.5	133.3	134.7	135.3	135.1	135.1	135.4	135.8	137.5	138.5	138.0	139.3	139.0	139.1
20 Consumer staples	15.29	137.3	140.7	142.3	142.9	142.5	142.5	143.1	143.5	145.3	146.6	145.8	147.4	147.1	147.3
21 Consumer foods and tobacco	7.80	136.2	139.2	140.3	140.8	139.4	138.3	139.2	139.3	141.1	141.3	141.1	143.1	143.3	....
22 Nonfood staples	7.49	138.5	142.2	144.3	145.0	145.7	146.8	147.0	147.9	149.6	152.1	150.7	151.9	151.0	151.6
23 Consumer chemical products	2.75	162.9	167.7	170.7	171.7	172.7	175.6	177.9	179.5	181.8	183.8	185.0	186.6	185.8	....
24 Consumer paper products	1.88	151.8	157.0	157.1	157.5	159.1	161.4	162.4	162.8	164.0	165.3	166.3	166.9	165.7	....
25 Consumer energy	2.86	106.3	108.0	110.6	111.3	111.0	109.6	107.3	107.7	109.3	113.0	107.6	108.9	108.1	....
26 Consumer fuel	1.44	93.1	95.4	95.4	97.0	97.9	98.9	94.3	93.0	94.6	95.5	92.7	95.3	93.2	....
27 Residential utilities	1.42	119.8	120.7	126.0	125.8	124.5	120.5	120.6	122.6	124.4	130.9	122.8	122.7	....	....
Equipment															
28 Business and defense equipment	18.01	153.6	157.8	159.2	160.3	160.8	161.4	162.7	163.5	164.6	165.2	165.6	164.8	165.4	165.6
29 Business equipment	14.34	144.5	149.8	151.2	152.4	153.3	154.6	156.9	158.1	159.3	160.2	160.8	159.9	160.9	161.1
30 Construction, mining, and farm	2.08	62.2	67.4	67.1	67.6	68.3	70.8	71.8	72.4	73.6	73.1	74.3	74.2	74.3	75.3
31 Manufacturing	3.27	117.9	122.2	125.4	124.9	127.0	127.7	128.3	130.3	132.4	134.0	135.8	136.1	137.0	137.6
32 Power	1.27	82.6	84.2	86.2	88.3	87.8	87.0	87.4	88.3	89.8	90.9	92.2	91.8	92.7	92.6
33 Commercial	5.22	226.5	235.5	238.0	240.3	239.9	241.5	245.7	247.1	248.2	249.8	248.7	244.7	245.6	244.1
34 Transit	2.49	108.4	109.1	106.5	108.2	111.1	112.3	115.3	115.7	115.9	115.2	116.8	120.2	121.9	125.1
35 Defense and space equipment	3.67	188.9	188.9	190.6	191.0	189.9	187.9	185.5	184.6	184.9	184.9	184.5	184.0	183.3	183.2
Intermediate products															
36 Construction supplies	5.95	131.5	133.8	136.8	137.7	137.3	137.6	138.8	137.6	138.4	138.1	138.4	139.3	140.9	141.7
37 Business supplies	6.99	153.5	157.4	157.8	159.4	160.7	159.9	160.3	160.6	162.8	164.4	165.2	165.6	165.9	....
38 General business supplies	5.67	158.6	163.3	163.1	165.0	166.6	165.7	165.5	165.9	168.6	170.6	171.8	171.8	172.2	....
39 Commercial energy products	1.31	131.1	131.8	135.0	135.3	135.3	134.6	137.8	137.5	137.6	137.7	136.7	138.7	138.8	....
Materials															
40 Durable goods materials	20.50	125.0	132.0	131.8	131.4	131.3	132.7	134.8	134.9	136.8	136.6	137.8	138.7	139.7	139.7
41 Durable consumer parts	4.92	100.9	104.6	104.7	104.4	103.5	106.2	110.0	110.3	110.1	109.8	111.0	111.4	113.5	114.1
42 Equipment parts	5.94	159.0	165.3	167.4	167.6	167.3	168.9	170.8	171.6	174.1	173.5	174.0	174.7	175.0	174.5
43 Durable materials n.e.c.	9.64	116.4	125.5	123.7	123.0	123.4	124.0	125.3	124.8	127.5	127.6	129.2	130.5	131.2	131.2
44 Basic metal materials	4.64	86.7	100.0	92.9	91.4	90.5	91.6	94.8	93.7	98.4	97.3	100.3	101.1	100.4	100.1
45 Nondurable goods materials	10.09	125.8	132.5	129.9	128.1	130.1	131.1	130.1	130.1	132.8	133.1	132.6	134.6	135.1	136.6
46 Textile, paper, and chemical materials	7.53	127.6	135.6	132.7	129.9	132.4	133.3	131.9	132.1	135.3	135.7	134.9	137.3	137.9	139.6
47 Textile materials	1.52	111.7	113.6	112.6	110.2	112.7	111.9	107.5	107.5	108.5	110.1	109.2	109.5	108.5	....
48 Pulp and paper materials	1.55	141.0	149.0	148.0	144.4	144.8	145.8	146.4	145.4	150.3	148.3	148.1	148.5	147.4	....
49 Chemical materials	4.46	128.4	138.4	134.2	131.5	134.8	136.2	135.1	135.8	139.2	140.0	139.0	142.9	144.6	....
50 Miscellaneous nondurable materials	2.57	120.4	123.3	121.8	123.0	123.2	124.6	125.1	124.2	125.6	125.6	125.9	126.7	....	....
51 Energy materials	11.69	99.8	101.7	101.4	100.6	100.6	101.0	99.5	101.3	102.7	103.2	101.5	101.1	102.6	102.2
52 Primary energy	7.57	105.0	107.7	107.3	104.8	105.0	106.7	104.0	105.6	106.8	106.2	106.8	105.8	108.9	....
53 Converted fuel materials	4.12	90.3	90.7	90.6	93.0	92.6	90.5	91.2	93.5	95.3	97.7	91.8	92.6	91.0	....

2.13 INDUSTRIAL PRODUCTION Indexes and Gross Value[1]—Continued

Groups	SIC code	1977 proportion	1987 avg.	1987 Dec.	1988 Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.[r]	Oct.	Nov.[p]	Dec.[r]
				Index (1977 = 100)												
MAJOR INDUSTRY																
1 Mining and utilities	.....	15.79	104.3	107.3	107.8	106.8	106.7	107.1	106.0	106.8	108.1	109.0	107.2	107.1	108.2	108.5
2 Mining	.....	9.83	100.7	104.6	103.3	101.5	102.7	104.7	102.6	103.0	104.3	103.8	103.7	102.9	104.4	104.4
3 Utilities	.....	5.96	110.3	111.7	115.2	115.6	113.3	111.0	111.6	113.2	114.4	117.8	113.0	114.0	114.4	115.4
4 Manufacturing	.....	84.21	134.6	138.9	139.4	139.5	140.0	140.8	141.8	142.1	143.6	144.0	144.4	145.3	145.7	146.2
5 Nondurable	.....	35.11	136.7	141.3	141.4	141.1	141.7	142.3	142.1	142.6	144.6	145.1	145.3	146.6	146.7	147.1
6 Durable	.....	49.10	133.1	137.3	137.9	138.4	138.8	139.7	141.5	141.7	142.9	143.2	143.8	144.4	145.0	145.5
Mining																
7 Metal	10	.50	77.5	96.5	91.5	83.9	84.9	86.9	86.0	82.2	94.0	96.6	99.1	100.4	......	......
8 Coal	11.12	1.60	131.8	140.6	140.2	133.7	129.1	136.0	127.8	126.9	141.5	137.2	142.2	138.5	149.7	151.8
9 Oil and gas extraction	13	7.07	92.7	94.1	93.1	92.4	94.8	95.5	94.6	95.8	93.3	93.2	92.0	91.3	90.8	......
10 Stone and earth minerals	14	.66	128.2	135.6	132.1	134.3	136.9	141.2	140.1	137.4	140.2	141.3	139.7	142.9	142.2	......
Nondurable manufactures																
11 Foods	20	7.96	137.7	140.1	141.2	141.9	141.1	140.3	141.0	141.3	143.3	143.3	143.2	145.2	145.5	......
12 Tobacco products	21	.62	103.4	110.5	105.8	107.0	107.2	107.2	107.2	104.5	100.6	105.1	105.0	103.7	......	......
13 Textile mill products	22	2.29	115.8	118.2	116.2	115.3	117.0	117.3	114.6	114.3	117.1	116.4	116.2	117.0	116.5	......
14 Apparel products	23	2.79	107.4	107.8	108.7	108.5	108.7	109.2	108.6	109.3	109.4	108.9	109.9	109.5	......	......
15 Paper and products	26	3.15	144.4	150.6	149.9	148.0	149.1	149.2	149.5	148.6	152.3	151.0	150.9	151.7	150.7	......
16 Printing and publishing	27	4.54	172.0	176.9	177.5	178.7	180.4	181.8	180.7	182.3	184.9	186.7	188.0	187.8	186.7	186.7
17 Chemicals and products	28	8.05	140.1	147.9	147.9	145.4	146.4	148.9	149.1	150.5	153.4	154.8	155.3	157.0	158.1	......
18 Petroleum products	29	2.40	93.5	96.1	96.3	95.9	98.4	98.5	95.2	94.1	95.0	96.0	93.7	96.3	94.7	97.7
19 Rubber and plastic products	30	2.80	163.6	170.6	170.5	172.3	172.2	172.3	173.4	174.4	175.4	175.3	175.3	177.3	178.9	......
20 Leather and products	31	.53	60.0	57.5	58.3	59.7	59.5	58.0	57.1	58.9	59.1	59.4	59.9	61.0	60.2	......
Durable manufactures																
21 Lumber and products	24	2.30	130.3	133.6	136.3	139.0	137.8	138.0	139.8	136.4	136.6	133.8	133.5	137.2	138.6	......
22 Furniture and fixtures	25	1.27	152.8	159.4	158.0	158.3	159.4	159.2	160.5	161.2	162.9	164.9	164.9	164.5	165.0	......
23 Clay, glass, and stone products	32	2.72	119.1	120.1	120.4	121.6	122.5	121.4	121.5	123.4	122.2	122.6	122.6	122.5	124.6	......
24 Primary metals	33	5.33	81.5	90.6	86.5	86.4	85.1	85.3	89.2	87.5	91.5	90.8	93.1	94.3	92.4	92.0
25 Iron and steel	331.2	3.49	70.8	81.9	77.8	77.4	74.2	74.5	78.6	74.2	80.2	78.9	81.4	83.1	79.7	......
26 Fabricated metal products	34	6.46	111.0	115.8	117.1	117.6	118.8	118.8	119.8	120.4	121.7	122.1	122.5	122.6	124.2	124.5
27 Nonelectrical machinery	35	9.54	152.7	161.0	162.9	163.6	164.6	167.2	170.3	171.2	173.1	174.1	174.8	173.2	174.6	174.7
28 Electrical machinery	36	7.15	172.3	175.9	177.4	177.8	176.6	178.7	179.1	179.5	181.5	182.2	181.8	182.9	182.3	181.7
29 Transportation equipment	37	9.13	129.2	128.1	128.6	128.4	130.0	130.4	133.1	132.8	131.9	131.8	132.7	134.8	135.6	138.0
30 Motor vehicles and parts	371	5.25	111.8	110.2	109.7	109.3	113.0	114.8	119.6	119.1	116.6	117.5	118.5	121.7	123.0	126.9
31 Aerospace and miscellaneous transportation equipment	372–6.9	3.87	152.8	152.4	154.2	154.5	153.0	151.5	151.5	151.4	152.7	151.3	151.9	152.6	152.7	152.9
32 Instruments	38	2.66	143.9	145.5	148.2	149.2	149.7	150.5	151.3	153.0	156.4	156.8	157.8	159.9	159.8	160.5
33 Miscellaneous manufactures	39	1.46	102.6	105.6	105.0	104.4	105.1	105.9	106.0	107.6	107.8	108.3	108.5	107.7	109.0	......
Utilities																
34 Electric	.....	4.17	126.6	125.6	130.3	130.7	129.0	127.6	129.7	132.1	134.6	138.8	132.2	133.0	133.4	......
			Gross value (billions of 1982 dollars, annual rates)													
MAJOR MARKET																
35 **Products, total**	.....	**517.5**	**1,735.8**	**1,778.8**	**1,790.6**	**1,797.5**	**1,807.5**	**1,812.2**	**1,820.1**	**1,813.9**	**1,822.3**	**1,828.6**	**1,828.9**	**1,853.3**	**1,852.6**	**1,867.0**
36 Final	.....	405.7	1,333.8	1,359.4	1,375.5	1,381.1	1,385.9	1,393.9	1,397.1	1,394.3	1,398.9	1,404.2	1,404.3	1,424.4	1,422.4	1,433.7
37 Consumer goods	.....	272.7	866.0	881.2	893.6	893.7	893.2	899.1	898.9	893.6	895.6	900.4	897.2	916.3	914.4	926.6
38 Equipment	.....	133.0	467.8	478.2	481.9	487.3	492.7	494.7	498.3	500.7	503.2	503.8	507.1	508.1	508.0	507.2
39 Intermediate	.....	111.9	402.0	419.4	415.1	416.5	421.6	418.4	423.0	419.6	423.4	424.3	424.5	428.9	430.2	433.3

1. These data also appear in the Board's G.12.3 (414) release. For address, see inside front cover.
A major revision of the industrial production index and the capacity utilization rates was released in July 1985. See "A Revision of the Index of Industrial Production" and accompanying tables that contain revised indexes (1977=100) through December 1984 in the FEDERAL RESERVE BULLETIN, vol. 71 (July 1985), pp. 487–501. The revised indexes for January through June 1985 were shown in the September BULLETIN.

2.14 HOUSING AND CONSTRUCTION

Monthly figures are at seasonally adjusted annual rates except as noted.

Item	1985	1986	1987	1988 Feb.	1988 Mar.	1988 Apr.	1988 May	1988 June	1988 July	1988 Aug.	1988 Sept.[r]	1988 Oct.[r]	1988 Nov.
	Private residential real estate activity (thousands of units)												
NEW UNITS													
1 Permits authorized	1,733	1,750	1,535	1,429	1,476	1,449	1,436	1,493	1,420	1,464	1,394	1,516	1,516
2 1-family	957	1,071	1,024	1,003	1,030	960	982	1,002	984	1,022	974	1,027	1,046
3 2-or-more-family	777	679	511	426	446	489	454	491	436	442	420	489	470
4 Started	1,742	1,805	1,621	1,519	1,529	1,584	1,393	1,465	1,477	1,461	1,467	1,533	1,558
5 1-family	1,072	1,179	1,146	1,102	1,172	1,093	1,004	1,092	1,068	1,078	1,045	1,136	1,135
6 2-or-more-family	669	626	474	417	357	491	389	373	409	383	422	397	423
7 Under construction, end of period[1]	1,063	1,074	987	983	999	999	984	982	974	965	955	955	960
8 1-family	539	583	591	596	617	622	610	609	606	603	596	599	605
9 2-or-more-family	524	490	397	387	382	377	374	373	368	362	359	356	355
10 Completed	1,703	1,756	1,669	1,452	1,598	1,665	1,450	1,518	1,529	1,538	1,533	1,507	1,422
11 1-family	1,072	1,120	1,123	1,043	1,094	1,059	1,090	1,106	1,077	1,072	1,089	1,082	1,024
12 2-or-more-family	631	637	546	409	504	606	360	412	452	466	444	425	398
13 Mobile homes shipped	284	244	233	208	212	213	216	230	206	223	228	214	231
Merchant builder activity in 1-family units													
14 Number sold	688	748	672	648	664	681	681	718	703	714[r]	698	729	671
15 Number for sale, end of period[1]	346	357	365	359	372	367	370	367	365	363	362	355	365
Price (thousands of dollars)[2]													
Median													
16 Units sold	84.3	92.2	104.7	110.9	108.9	111.0	110.0	111.5	118.0	110.0	116.0	115.0	110.2
Average													
17 Units sold	101.0	112.2	127.9	137.6	133.2	135.6	133.5	136.5	141.3	140.6[r]	141.5	140.0	138.9
EXISTING UNITS (1-family)													
18 Number sold	3,217	3,566	3,530	3,250	3,330	3,520	3,590	3,820	3,630	3,710	3,670	3,670	3,670
Price of units sold (thousands of dollars)[2]													
19 Median	75.4	80.3	85.6	88.1	87.9	87.3	88.8	90.2	90.7	91.4	88.2	88.1	88.0
20 Average	90.6	98.3	106.2	110.4	110.7	108.7	111.9	115.4	114.8	115.1	112.3	110.9	111.8
	Value of new construction[3] (millions of dollars)												
CONSTRUCTION													
21 Total put in place	**355,735**	**386,093**	**398,848**	**392,456**	**403,555**	**396,238**	**398,473**	**395,714**	**404,164[r]**	**403,172[r]**	**406,906**	**407,795**	**411,085**
22 Private	291,665	314,651	323,819	317,754	324,257	318,515	320,194	317,708	324,658[r]	326,763[r]	327,164	329,908	330,127
23 Residential	158,475	187,147	194,772	192,097	195,554	192,026	190,374	188,071	194,215[r]	195,393[r]	196,945	199,034	200,396
24 Nonresidential, total	133,190	127,504	129,047	125,657	128,703	126,489	129,820	129,637	130,443[r]	131,370[r]	130,219	130,874	129,731
Buildings													
25 Industrial	15,769	13,747	13,707	13,489	14,546	13,849	13,907	13,676	13,928[r]	14,006[r]	13,546[r]	15,358[r]	15,617
26 Commercial	59,629	56,762	55,448	53,571	54,843	56,169	57,447	56,585	56,687[r]	56,404[r]	55,815[r]	54,376[r]	53,129
27 Other	12,619	13,216	15,464	17,101	17,301	16,382	16,847	16,757	16,166[r]	16,613[r]	16,600	17,143	17,015
28 Public utilities and other	45,173	43,779	44,428	41,496	42,013	40,089	41,619	42,619	43,662[r]	44,347[r]	45,258[r]	43,997[r]	43,970
29 Public	64,070	71,437	75,028	74,702	79,298	77,723	78,278	78,007	79,506[r]	76,409[r]	79,742	77,887	80,958
30 Military	3,235	3,868	4,327	3,280	4,216	3,872	3,547	4,844	4,350[r]	3,984[r]	4,897	3,650	3,946
31 Highway	21,540	22,681	22,758	25,348	26,963	26,912	25,254	24,822	27,673[r]	23,491[r]	23,841	25,900	26,617
32 Conservation and development	4,777	4,646	5,162	4,535	4,899	4,226	4,460	4,596	4,861[r]	4,793[r]	5,045	3,905	3,999
33 Other	34,518	40,242	42,781	41,539	43,220	42,713	45,017	43,745	42,622[r]	44,141[r]	45,959	44,432	46,396

1. Not at annual rates.
2. Not seasonally adjusted.
3. Value of new construction data in recent periods may not be strictly comparable with data in previous periods because of changes by the Bureau of the Census in its estimating techniques. For a description of these changes see *Construction Reports* (C-30-76-5), issued by the Bureau in July 1976.

NOTE. Census Bureau estimates for all series except (1) mobile homes, which are private, domestic shipments as reported by the Manufactured Housing Institute and seasonally adjusted by the Census Bureau, and (2) sales and prices of existing units, which are published by the National Association of Realtors. All back and current figures are available from the originating agency. Permit authorizations are those reported to the Census Bureau from 16,000 jurisdictions beginning with 1978.

2.15 CONSUMER AND PRODUCER PRICES

Percentage changes based on seasonally adjusted data, except as noted

Item	Change from 12 months earlier		Change from 3 months earlier (at annual rate)				Change from 1 month earlier					Index level Dec. 1988[1]
	1987 Dec.	1988 Dec.	1988				1988					
			Mar.	June	Sept.	Dec.	Aug.	Sept.	Oct.	Nov.	Dec.	
CONSUMER PRICES[2] (1982–84=100)												
1 **All items**	**4.4**	**4.4**	**4.2**	**4.5**	**4.8**	**4.1**	**.4**	**.3**	**.4**	**.3**	**.3**	**120.5**
2 Food	3.5	5.2	1.4	7.1	9.9	2.3	.6	.8	.2	.1	.3	120.7
3 Energy items	8.2	.5	−4.9	4.2	2.7	.4	.9	−.6	.1	.2	−.2	88.7
4 All items less food and energy	4.2	4.7	5.4	4.3	4.0	4.6	.2	.4	.5	.3	.3	126.0
5 Commodities	3.5	4.0	4.7	3.9	3.1	4.2	−.3	.8	.7	.1	.3	118.0
6 Services	4.5	5.0	5.9	4.5	4.1	5.4	.5	.1	.5	.5	.4	130.6
PRODUCER PRICES (1982=100)												
7 Finished goods	2.2	4.0	2.7	3.8	6.5	2.6	.4r	.5r	.0	.3	.4	110.0
8 Consumer foods	−.2	5.7	6.0	8.2	10.0	−.7	.5	1.2	−.1	.0	−.1	115.1
9 Consumer energy	11.2	−3.4	−18.5	.7	−.7	6.9	.0r	−2.1r	.3	1.2	.2	59.3
10 Other consumer goods	2.7	4.8	5.7	2.4	6.6	4.1	.3	.4	.0	.3	.7	121.2
11 Capital equipment	1.3	3.5	3.2	2.5	6.5	1.4	.4	.8	−.3	.3	.3	116.3
12 Intermediate materials[3]	5.4	5.4	4.3	7.8	4.9	4.9	.4	.4	.1	.6	.6	109.3
13 Excluding energy	5.2	7.2	8.2	6.9	7.2	6.7	.4	.6	.5	.7	.4	118.6
Crude materials												
14 Foods	1.8	14.2	17.7	31.0	23.0	−10.2	2.4r	1.4r	1.4	−6.0	2.1	109.5
15 Energy	10.7	−9.4	−24.1	7.8	−26.1	11.6	−1.8r	−1.8r	−2.2	−1.4	6.5	66.7
16 Other	22.6	6.0	15.9	−6.5	8.5	7.7	.9r	−.7r	.2	.7	1.0	134.9

1. Not seasonally adjusted.
2. Figures for consumer prices are those for all urban consumers and reflect a rental equivalence measure of homeownership after 1982.
3. Excludes intermediate materials for food manufacturing and manufactured animal feeds.

SOURCE. Bureau of Labor Statistics.

2.16 GROSS NATIONAL PRODUCT AND INCOME

Billions of current dollars except as noted; quarterly data are at seasonally adjusted annual rates.

Account	1986	1987	1988	1987	1988			
				Q4	Q1	Q2	Q3	Q4
GROSS NATIONAL PRODUCT								
1 **Total**	**4,240.3**	**4,526.7**	**4,861.8**	**4,662.8**	**4,724.5**	**4,823.8**	**4,909.0**	**4,989.9**
By source								
2 Personal consumption expenditures	2,807.5	3,012.1	3,226.0	3,076.3	3,128.1	3,194.6	3,261.2	3,320.1
3 Durable goods	406.5	421.9	449.9	422.0	437.8	449.8	452.9	459.3
4 Nondurable goods	943.6	997.9	1,047.2	1,012.4	1,016.2	1,036.6	1,060.8	1,075.2
5 Services	1,457.3	1,592.3	1,728.9	1,641.9	1,674.1	1,708.2	1,747.5	1,785.6
6 Gross private domestic investment	665.9	712.9	765.5	764.9	763.4	758.1	772.5	767.9
7 Fixed investment	650.4	673.7	717.4	692.9	698.1	714.4	722.8	734.3
8 Nonresidential	433.9	446.8	487.7	464.1	471.5	487.8	493.7	497.8
9 Structures	138.5	139.5	142.3	147.7	140.1	142.3	143.8	142.8
10 Producers' durable equipment	295.4	307.3	345.5	316.3	331.3	345.5	349.9	355.1
11 Residential structures	216.6	226.9	229.7	228.8	226.6	226.5	229.1	236.4
12 Change in business inventories	15.5	39.2	48.1	72.0	65.3	43.7	49.7	33.7
13 Nonfarm	17.4	40.7	41.8	72.8	49.4	33.1	41.9	42.7
14 Net exports of goods and services	−104.4	−123.0	−93.2	−125.7	−112.1	−90.4	−80.0	−90.3
15 Exports	378.4	428.0	518.7	459.7	487.8	507.1	536.1	543.8
16 Imports	482.8	551.1	611.9	585.4	599.9	597.5	616.0	634.1
17 Government purchases of goods and services	871.2	924.7	963.6	947.3	945.2	961.6	955.3	992.2
18 Federal	366.2	382.0	380.2	391.4	377.7	382.2	367.7	393.2
19 State and local	505.0	542.8	583.4	555.9	567.5	579.4	587.6	599.0
By major type of product								
20 Final sales, total	4,224.7	4,487.5	4,813.7	4,590.7	4,659.2	4,780.1	4,859.3	4,956.3
21 Goods	1,697.9	1,792.5	1,938.5	1,849.3	1,879.5	1,928.0	1,960.1	1,986.3
22 Durable	725.3	776.3	858.1	808.7	819.3	849.5	881.6	882.0
23 Nondurable	972.6	1,016.3	1,080.3	1,040.7	1,060.1	1,078.5	1,078.5	1,104.2
24 Services	2,118.3	2,295.7	2,476.8	2,363.9	2,405.2	2,451.5	2,501.6	2,548.8
25 Structures	424.0	438.4	446.6	449.5	439.9	444.3	447.3	454.8
26 Change in business inventories	15.5	39.2	48.1	72.0	65.3	43.7	49.7	33.7
27 Durable goods	4.3	26.6	31.2	50.5	26.6	17.8	45.1	35.1
28 Nondurable goods	11.3	12.6	16.9	21.6	38.6	25.9	4.6	−1.5
MEMO								
29 **Total GNP in 1982 dollars**	**3,721.7**	**3,847.0**	**3,995.0**	**3,923.0**	**3,956.1**	**3,985.2**	**4,009.4**	**4,029.2**
NATIONAL INCOME								
30 **Total**	**3,437.1**	**3,678.7**	**3,964.3**	**3,802.0**	**3,850.8**	**3,928.8**	**4,000.7**	n.a.
31 Compensation of employees	2,507.1	2,683.4	2,904.9	2,769.9	2,816.4	2,874.0	2,933.2	2,996.3
32 Wages and salaries	2,094.0	2,248.4	2,437.1	2,324.8	2,358.7	2,410.0	2,462.0	2,517.9
33 Government and government enterprises	393.7	420.1	446.1	429.2	437.1	442.9	449.1	455.4
34 Other	1,700.3	1,828.3	1,991.0	1,895.6	1,921.6	1,967.1	2,012.9	2,062.5
35 Supplement to wages and salaries	413.1	435.0	467.8	445.1	457.7	464.0	471.1	478.4
36 Employer contributions for social insurance	217.0	227.1	249.5	232.7	243.1	247.5	251.7	255.9
37 Other labor income	196.1	207.9	218.3	212.4	214.6	216.5	219.5	222.5
38 Proprietors' income[1]	286.7	312.9	324.7	326.0	323.9	328.8	321.6	324.6
39 Business and professional[1]	250.3	270.0	288.3	279.0	279.2	285.3	290.7	298.2
40 Farm[1]	36.4	43.0	36.4	47.0	44.7	43.4	30.9	26.4
41 Rental income of persons[2]	12.4	18.4	19.6	20.5	20.5	19.1	19.7	19.1
42 Corporate profits[1]	298.9	310.4	323.6	316.1	316.2	326.5	330.0	n.a.
43 Profits before tax[3]	236.4	276.7	302.0	281.9	286.2	305.9	313.9	n.a.
44 Inventory valuation adjustment	8.3	−18.0	−24.2	−18.2	−19.4	−27.4	−29.3	−20.7
45 Capital consumption adjustment	54.2	51.7	45.8	52.4	49.4	48.0	45.4	40.3
46 Net interest	331.9	353.6	391.5	369.5	373.9	380.6	396.2	415.1

1. With inventory valuation and capital consumption adjustments.
2. With capital consumption adjustment.
3. For after-tax profits, dividends, and the like, see table 1.48.

SOURCE. *Survey of Current Business* (Department of Commerce).

2.17 PERSONAL INCOME AND SAVING

Billions of current dollars; quarterly data are at seasonally adjusted annual rates. Exceptions noted.

Account	1986	1987	1988	1987	1988			
				Q4	Q1	Q2	Q3	Q4
PERSONAL INCOME AND SAVING								
1 **Total personal income**	**3,531.1**	**3,780.0**	**4,063.2**	**3,906.8**	**3,951.4**	**4,022.4**	**4,094.0**	**4,185.1**
2 Wage and salary disbursements	2,094.0	2,248.4	2,437.1	2,325.1	2,358.7	2,410.0	2,462.0	2,517.9
3 Commodity-producing industries	625.5	649.8	695.6	665.5	676.0	689.1	701.3	716.1
4 Manufacturing	473.1	490.3	522.7	501.3	509.6	517.4	525.9	538.0
5 Distributive industries	498.9	531.7	578.9	547.3	558.2	572.1	585.8	599.5
6 Service industries	575.9	646.8	716.5	682.8	687.4	705.9	725.8	746.9
7 Government and government enterprises	393.7	420.1	446.1	429.5	437.1	442.9	449.1	455.4
8 Other labor income	196.1	207.9	218.3	212.4	214.6	216.5	219.5	222.5
9 Proprietors' income[1]	286.7	312.9	324.7	326.0	323.9	328.8	321.6	324.6
10 Business and professional[1]	250.3	270.0	288.3	279.0	279.2	285.3	290.7	298.2
11 Farm[1]	36.4	43.0	36.4	47.0	44.7	43.4	30.9	26.4
12 Rental income of persons[2]	12.4	18.4	19.6	20.5	20.5	19.1	19.7	19.1
13 Dividends	82.8	88.6	96.3	91.9	93.5	95.0	97.3	99.4
14 Personal interest income	499.1	527.0	576.3	550.0	554.2	563.7	581.9	605.5
15 Transfer payments	521.1	548.8	586.0	556.8	576.3	582.8	588.6	596.3
16 Old-age survivors, disability, and health insurance benefits	269.3	282.9	301.9	286.5	298.1	300.4	303.1	305.9
17 LESS: Personal contributions for social insurance	161.1	172.0	195.1	175.9	190.2	193.5	196.7	200.1
18 EQUALS: Personal income	3,531.1	3,780.0	4,063.2	3,906.8	3,951.4	4,022.4	4,094.0	4,185.1
19 LESS: Personal tax and nontax payments	511.4	570.3	590.3	591.0	575.8	601.0	586.5	598.0
20 EQUALS: Disposable personal income	3,019.6	3,209.7	3,472.9	3,315.8	3,375.6	3,421.5	3,507.5	3,587.1
21 LESS: Personal outlays	2,898.0	3,105.5	3,325.9	3,171.8	3,225.7	3,293.6	3,361.8	3,422.5
22 EQUALS: Personal saving	121.7	104.2	147.0	144.0	149.9	127.8	145.7	164.6
MEMO								
Per capita (1982 dollars)								
23 Gross national product	15,401.2	15,772.9	16,226.6	16,031.9	16,127.6	16,213.2	16,265.3	16,305.9
24 Personal consumption expenditures	10,160.1	10,336.2	10,524.4	10,346.1	10,435.4	10,492.3	10,563.1	10,610.7
25 Disposable personal income	10,929.0	11,012.0	11,331.0	11,145.0	11,260.0	11,237.0	11,362.0	11,463.0
26 Saving rate (percent)	4.0	3.2	4.2	4.3	4.4	3.7	4.2	4.6
GROSS SAVING								
27 **Gross saving**	**537.2**	**560.4**	**643.0**	**603.4**	**627.0**	**634.1**	**665.4**	n.a.
28 Gross private saving	681.6	665.3	730.9	714.1	726.3	711.2	732.9	n.a.
29 Personal saving	121.7	104.2	147.0	144.0	149.9	127.8	145.7	164.6
30 Undistributed corporate profits[1]	104.1	81.1	77.9	80.5	78.1	80.1	79.5	n.a.
31 Corporate inventory valuation adjustment	8.3	-18.0	-24.2	-18.2	-19.4	-27.4	-29.3	-20.7
Capital consumption allowances								
32 Corporate	282.4	297.5	315.6	303.7	309.8	313.3	316.8	322.3
33 Noncorporate	173.5	182.5	190.4	185.8	188.5	189.9	190.9	192.4
34 Government surplus, or deficit (−), national income and product accounts	-144.4	-104.9	-87.9	-110.7	-99.2	-77.1	-67.5	n.a.
35 Federal	-205.6	-157.8	-141.9	-160.4	-155.1	-133.3	-123.5	n.a.
36 State and local	61.2	52.9	53.9	49.7	55.8	56.2	56.0	n.a.
37 **Gross investment**	**523.6**	**552.3**	**631.0**	**597.0**	**612.0**	**629.0**	**651.4**	**631.4**
38 Gross private domestic	665.9	712.9	765.5	764.9	763.4	758.1	772.5	767.9
39 Net foreign	-142.4	-160.6	-134.5	-167.8	-151.3	-129.1	-121.1	-136.5
40 **Statistical discrepancy**	**-13.6**	**-8.1**	**-12.0**	**-6.4**	**-15.0**	**-5.1**	**-14.0**	**-14.0**

1. With inventory valuation and capital consumption adjustments.
2. With capital consumption adjustment.

SOURCE. *Survey of Current Business* (Department of Commerce).

3.10 U.S. INTERNATIONAL TRANSACTIONS Summary

Millions of dollars; quarterly data are seasonally adjusted except as noted.[1]

Item credits or debits	1985	1986	1987	1987		1988		
				Q3	Q4	Q1	Q2	Q3[p]
1 Balance on current account	−115,102	−138,827	−153,964	−41,967	−33,523	−36,938	−33,739	−30,894
2 Not seasonally adjusted	....	....	....	−47,330	−31,803	−32,179	−34,606	−37,029
3 Merchandise trade balance[2]	−122,148	−144,547	−160,280	−39,665	−41,192	−35,184	−30,151	−28,533
4 Merchandise exports	215,935	223,969	249,570	64,902	68,013	75,300	79,606	82,306
5 Merchandise imports	−338,083	−368,516	−409,850	−104,567	−109,205	−110,484	−109,757	−110,839
6 *Military transactions, net*	−3,431	−4,372	−2,369	−851	−1,261	−1,033	−914	−934
7 Investment income, net	25,936	23,143	20,374	1,067	12,539	1,159	−1,940	−337
8 Other service transactions, net	−449	2,257	1,755	87	479	1,241	2,017	2,028
9 Remittances, pensions, and other transfers	−3,786	−3,571	−3,434	−855	−828	−882	−793	−806
10 U.S. government grants (excluding military)	−11,223	−11,738	−10,011	−2,125	−3,545	−2,239	−1,958	−2,312
11 *Change in U.S. government assets*, other than official reserve assets, net (increase, −)	−2,829	−2,000	1,162	252	1,012	−814	−801	1,931
12 Change in U.S. official reserve assets (increase, −)	−3,858	312	9,149	32	3,741	1,503	39	−7,380
13 Gold	0	0	0	0	0	0	0	0
14 Special drawing rights (SDRs)	−897	−246	−509	−210	−205	155	180	−35
15 Reserve position in International Monetary Fund	908	1,500	2,070	407	722	446	69	202
16 Foreign currencies	−3,869	−942	7,588	−165	3,225	901	−210	−7,547
17 Change in U.S. private assets abroad (increase, −)	−25,949	−96,303	−86,298	−25,576	−43,645	5,903	−18,210	−34,181
18 Bank-reported claims[3]	−1,323	−59,975	−40,531	−16,519	−23,460	17,108	−13,274	−27,023
19 Nonbank-reported claims	923	−4,220	3,145	−215	1,248	−315	−7,061	....
20 U.S. purchase of foreign securities, net	−7,481	−4,297	−4,456	−972	−1,757	−4,467	1,529	−1,521
21 U.S. direct investments abroad, net	−18,068	−27,811	−44,456	−7,870	−19,676	−6,423	596	−5,637
22 Change in foreign official assets in United States (increase, +)	−1,196	35,507	44,968	611	20,047	24,670	5,946	−2,902
23 U.S. Treasury securities	−838	34,364	43,361	842	19,243	27,701	5,863	−3,706
24 Other U.S. government obligations	−301	−1,214	1,570	714	662	−121	202	572
25 Other U.S. government liabilities[4]	767	2,054	−2,824	−287	108	−123	−570	−354
26 Other U.S. liabilities reported by U.S. banks[3]	645	1,187	3,901	−34	−223	−1,954	868	1,094
27 Other foreign official assets[5]	−1,469	−884	−1,040	−624	257	−833	−417	−508
28 Change in foreign private assets in United States (increase, +)	131,096	185,746	166,521	71,047	36,025	1,395	59,549	50,928
29 U.S. bank-reported liabilities[3]	41,045	79,783	87,778	46,153	29,764	−17,233	31,121	30,434
30 U.S. nonbank-reported liabilities	−366	−2,906	2,150	−116	−1,000	2,015	113	....
31 Foreign private purchases of U.S. Treasury securities, net	20,433	3,809	−7,596	−2,835	496	6,887	5,457	4,322
32 Foreign purchases of other U.S. securities, net	50,962	70,969	42,213	12,819	−4,977	2,379	9,797	8,043
33 Foreign direct investments in United States, net	19,022	34,091	41,976	15,026	11,742	7,347	13,061	8,129
34 Allocation of SDRs	0	0	0	0	0	0	0	0
35 Discrepancy	17,839	15,566	18,461	−4,399	16,342	4,282	−12,784	22,498
36 Owing to seasonal adjustments	....	....	....	−4,658	3,138	3,747	−3,585	−5,205
37 Statistical discrepancy in recorded data before seasonal adjustment	17,839	15,566	18,461	259	13,204	535	−9,199	27,703
MEMO								
Changes in official assets								
38 U.S. official reserve assets (increase, −)	−3,858	312	9,149	32	3,741	1,503	39	−7,380
39 Foreign official assets in United States (increase, +) excluding line 25	−1,963	33,453	47,792	898	19,939	24,793	6,516	−2,548
40 Change in Organization of Petroleum Exporting Countries official assets in United States (part of line 22 above)	−6,709	−9,327	−9,956	−1,723	−2,750	−1,375	−1,783	−423
41 Transfers under military grant programs (excluded from lines 4, 6, and 10 above)	46	101	58	13	12	45	4	5

1. Seasonal factors are not calculated for lines 6, 10, 12–16, 18–20, 22–34, and 38–41.
2. Data are on an international accounts (IA) basis. Differs from the Census basis data, shown in table 3.11, for reasons of coverage and timing. Military exports are excluded from merchandise data and are included in line 6.
3. Reporting banks include all kinds of depository institutions besides commercial banks, as well as some brokers and dealers.
4. Primarily associated with military sales contracts and other transactions arranged with or through foreign official agencies.
5. Consists of investments in U.S. corporate stocks and in debt securities of private corporations and state and local governments.

NOTE. Data are from Bureau of Economic Analysis, *Survey of Current Business* (Department of Commerce).

3.11 U.S. FOREIGN TRADE[1]

Millions of dollars; monthly data are seasonally adjusted.

Item	1985	1986	1987	1988r						
				May	June	July	Aug.	Sept.	Oct.	Nov.
1 EXPORTS of domestic and foreign merchandise excluding grant-aid shipments, f.a.s. value	218,815	227,159	254,122	27,478	26,283	26,516	27,493	27,989	27,816	27,178
GENERAL IMPORTS including merchandise for immediate consumption plus entries into bonded warehouses										
2 C.I.F. value	352,463	382,295	424,442	37,240	39,499	35,989	39,763	38,662	38,078	39,688
3 Customs value	345,276	365,438	406,241	35,732	37,948	34,533	38,140	37,178	36,600	38,134
Trade balance										
4 C.I.F. value	−133,648	−155,137	−170,320	−9,762	−13,216	−9,473	−12,270	−10,673	−10,262	−12,510
5 Customs value	−132,129	−138,279	−152,119	−8,253	−11,665	−8,017	−10,647	−9,189	−8,784	−10,956

1. The Census basis data differ from merchandise trade data shown in table 3.10, U.S. International Transactions Summary, for reasons of coverage and timing. On the *export side*, the largest adjustment is the exclusion of military sales (which are combined with other military transactions and reported separately in the "service account" in table 3.10, line 6). On the *import side*, additions are made for gold, ship purchases, imports of electricity from Canada, and other transactions; military payments are excluded and shown separately as indicated above. As of Jan. 1, 1987 census data are released 45 days after the end of the month; the previous month is revised to reflect late documents. Total exports and the trade balance reflect adjustments for undocumented exports to Canada.

SOURCE. FT900 "Summary of U.S. Export and Import Merchandise Trade" (Department of Commerce, Bureau of the Census).

3.12 U.S. RESERVE ASSETS

Millions of dollars, end of period

Type	1985	1986	1987	1988						
				June	July	Aug.	Sept.	Oct.	Nov.	Dec.p
1 Total	**43,186**	**48,511**	**45,798**	**41,028**	**43,876**	**47,778**	**47,788**	**50,204**	**48,944**	**47,802**
2 Gold stock, including Exchange Stabilization Fund[1]	11,090	11,064	11,078	11,063	11,063	11,061	11,062	11,062	11,059	11,057
3 Special drawing rights[2,3]	7,293	8,395	10,283	9,180	8,984	9,058	9,074	9,464	9,785	9,637
4 Reserve position in International Monetary Fund[2]	11,947	11,730	11,349	9,992	9,773	9,642	9,637	10,075	10,103	9,745
5 Foreign currencies[4]	12,856	17,322	13,088	10,793	14,056	18,017	18,015	19,603	17,997	17,363

1. Gold held under earmark at Federal Reserve Banks for foreign and international accounts is not included in the gold stock of the United States; see table 3.13. Gold stock is valued at $42.22 per fine troy ounce.
2. Beginning July 1974, the IMF adopted a technique for valuing the SDR based on a weighted average of exchange rates for the currencies of member countries. From July 1974 through December 1980, 16 currencies were used; from January 1981, 5 currencies have been used. The U.S. SDR holdiings and reserve position in the IMF also are valued on this basis beginning July 1974.
3. Includes allocations by the International Monetary Fund of SDRs as follows: $867 million on Jan. 1, 1970; $717 million on Jan. 1, 1971; $710 million on Jan. 1, 1972; $1,139 million on Jan. 1, 1979; $1,152 million on Jan. 1, 1980; and $1,093 million on Jan. 1, 1981; plus transactions in SDRs.
4. Valued at current market exchange rates.

3.13 FOREIGN OFFICIAL ASSETS HELD AT FEDERAL RESERVE BANKS[1]

Millions of dollars, end of period

Assets	1985	1986	1987	1988						
				June	July	Aug.	Sept.	Oct.	Nov.	Dec.p
1 Deposits	480	287	244	381	269	230	338	301	251	347
Assets held in custody										
2 U.S. Treasury securities[2]	121,004	155,835	195,126	223,127	223,296	221,715	221,119	226,533	229,926	232,547
3 Earmarked gold[3]	14,245	14,048	13,919	13,662	13,666	13,658	13,653	13,637	13,640	13,636

1. Excludes deposits and U.S. Treasury securities held for international and regional organizations.
2. Marketable U.S. Treasury bills, notes, and bonds; and nonmarketable U.S. Treasury securities payable in dollars and in foreign currencies.
3. Earmarked gold and the gold stock are valued at $42.22 per fine troy ounce. Earmarked gold is gold held for foreign and international accounts and is not included in the gold stock of the United States.

3.14 FOREIGN BRANCHES OF U.S. BANKS Balance Sheet Data[1]

Millions of dollars, end of period

Asset account	1985	1986	1987	1988 May	1988 June	1988 July	1988 Aug.	1988 Sept.	1988 Oct.	1988 Nov.p
	All foreign countries									
1 **Total, all currencies**	**458,012**	**456,628**	**518,618**	**492,844**	**487,677**	**488,283**	**487,895**	**490,582**	**493,728**	**512,364**
2 Claims on United States	119,706	114,563	138,034	141,790	140,932	147,662	157,021	155,386	155,417r	169,444
3 Parent bank	87,201	83,492	105,845	104,299	104,405	109,929	117,525	115,286	115,954	129,096
4 Other banks in United States	13,057	13,685	16,416	14,625	14,424	15,954	16,176	16,121	14,729r	16,061
5 Nonbanks	19,448	17,386	15,773	22,866	22,103	21,779	23,320	23,979	24,734	24,287
6 Claims on foreigners	315,676	312,955	342,520	315,302	311,308	305,556	295,270	298,466	300,969r	304,911
7 Other branches of parent bank	91,399	96,281	122,155	102,931	106,722	103,646	98,299	102,355	100,609	105,121
8 Banks	102,960	105,237	108,859	103,427	100,669	99,660	98,982	98,563	102,072r	100,624
9 Public borrowers	23,478	23,706	21,832	20,991	20,438	19,276	18,709	18,444	18,205	18,170
10 Nonbank foreigners	97,839	87,731	89,674	87,953	83,479	82,974	79,280	79,104	80,083	80,996
11 Other assets	22,630	29,110	38,064	35,752	35,437	35,065	35,604	36,730	37,342	38,009
12 ***Total payable in U.S. dollars***	**336,520**	**317,487**	**350,107**	**334,112**	**334,990**	**336,233**	**342,906**	**340,901**	**337,346**	**351,657**
13 Claims on United States	116,638	110,620	132,023	136,078	135,348	141,415	151,581	149,764	149,698r	162,974
14 Parent bank	85,971	82,082	103,251	101,578	101,422	106,792	114,943	112,621	113,569	125,954
15 Other banks in United States	12,454	12,830	14,657	13,600	13,661	14,434	14,901	14,687	13,250r	14,757
16 Nonbanks	18,213	15,708	14,115	20,900	20,265	20,189	21,737	22,456	22,879	22,263
17 Claims on foreigners	210,129	195,063	202,428	182,980	183,568	179,076	174,433	174,271	171,581r	171,878
18 Other branches of parent bank	72,727	72,197	88,284	76,136	79,774	78,071	73,792	76,506	73,508	75,866
19 Banks	71,868	66,421	63,707	57,102	55,234	54,189	54,839	52,503	54,657r	53,499
20 Public borrowers	17,260	16,708	14,730	14,342	13,851	13,247	12,933	12,770	12,616	12,234
21 Nonbank foreigners	48,274	39,737	35,707	35,400	34,709	33,569	32,869	32,492	30,800	30,279
22 Other assets	9,753	11,804	15,656	15,054	16,074	15,742	16,892	16,866	16,067	16,805
	United Kingdom									
23 **Total, all currencies**	**148,599**	**140,917**	**158,695**	**156,184**	**151,835**	**151,017**	**149,646**	**147,329**	**155,580**	**159,556**
24 Claims on United States	33,157	24,599	32,518	32,832	33,852	35,708	36,307	32,048	36,210	39,222
25 Parent bank	26,970	19,085	27,350	27,506	28,535	30,615	30,767	26,661	30,569	33,138
26 Other banks in United States	1,106	1,612	1,259	1,360	1,322	1,064	1,197	1,238	994	1,343
27 Nonbanks	5,081	3,902	3,909	3,966	3,995	4,029	4,343	4,149	4,647	4,741
28 Claims on foreigners	110,217	109,508	115,700	114,452	107,856	105,594	103,527	105,824	109,793	110,356
29 Other branches of parent bank	31,576	33,422	39,903	33,849	32,446	30,228	29,656	31,758	33,103	33,243
30 Banks	39,250	39,468	36,735	39,883	37,108	37,805	38,259	38,848	40,236	40,875
31 Public borrowers	5,644	4,990	4,752	4,987	4,742	4,665	4,543	4,250	4,190	4,276
32 Nonbank foreigners	33,747	31,628	34,310	35,733	33,560	32,896	31,069	30,968	32,264	31,962
33 Other assets	5,225	6,810	10,477	8,900	10,127	9,715	9,812	9,457	9,577	9,978
34 **Total payable in U.S. dollars**	**108,626**	**95,028**	**100,574**	**97,188**	**95,326**	**94,492**	**96,767**	**93,790**	**99,868**	**101,341**
35 Claims on United States	32,092	23,193	30,439	30,736	31,855	33,795	34,535	30,116	34,134	36,881
36 Parent bank	26,568	18,526	26,304	26,608	27,672	29,706	29,837	25,692	29,667	32,115
37 Other banks in United States	1,005	1,475	1,044	1,068	1,069	870	1,039	910	606	849
38 Nonbanks	4,519	3,192	3,091	3,060	3,114	3,219	3,659	3,514	3,861	3,917
39 Claims on foreigners	73,475	68,138	64,560	62,018	57,969	55,832	57,037	58,474	61,034	59,405
40 Other branches of parent bank	26,011	26,361	28,635	25,448	23,843	22,549	22,465	24,472	25,703	25,574
41 Banks	26,139	23,251	19,188	19,555	17,477	18,025	19,165	19,066	20,488	19,452
42 Public borrowers	3,999	3,677	3,313	3,252	3,188	3,133	3,105	3,022	2,984	2,898
43 Nonbank foreigners	17,326	14,849	13,424	13,763	13,461	12,125	12,302	11,914	11,859	11,481
44 Other assets	3,059	3,697	5,575	4,434	5,502	4,865	5,195	5,200	4,700	5,055
	Bahamas and Caymans									
45 **Total, all currencies**	**142,055**	**142,592**	**160,321**	**156,353**	**159,718**	**160,516**	**165,771**	**164,313**	**155,265**	**164,945**
46 Claims on United States	74,864	78,048	85,318	90,896	88,116	92,308	99,090	99,541	94,437r	104,197
47 Parent bank	50,553	54,575	60,048	60,419	58,579	61,397	67,034	66,607	62,709	71,916
48 Other banks in United States	11,204	11,156	14,277	12,489	12,236	13,863	13,907	13,878	12,489r	13,760
49 Nonbanks	13,107	12,317	10,993	17,988	17,301	17,048	18,149	19,056	19,239	18,521
50 Claims on foreigners	63,882	60,005	70,162	59,374	65,855	62,508	60,822	57,887	54,494r	54,086
51 Other branches of parent bank	19,042	17,296	21,277	18,463	24,745	22,797	20,789	20,320	17,331	17,016
52 Banks	28,192	27,476	33,751	27,019	27,650	26,120	26,866	24,545	25,327r	25,322
53 Public borrowers	6,458	7,051	7,428	6,955	6,835	6,457	6,185	6,219	6,045	5,862
54 Nonbank foreigners	10,190	8,182	7,706	6,937	6,625	7,134	6,982	6,803	5,791	5,886
55 Other assets	3,309	4,539	4,841	6,083	5,747	5,700	5,859	6,885	6,334	6,662
56 **Total payable in U.S. dollars**	**136,794**	**136,813**	**151,434**	**148,545**	**152,219**	**152,685**	**157,975**	**156,409**	**147,481**	**157,150**

1. Beginning with June 1984 data, reported claims held by foreign branches have been reduced by an increase in the reporting threshold for "shell" branches from $50 million to $150 million equivalent in total assets, the threshold now applicable to all reporting branches.

3.14—Continued

Liability account	1985	1986	1987	1988 May	June	July	Aug.	Sept.	Oct.	Nov.[p]
	All foreign countries									
57 **Total, all currencies**	**458,012**	**456,628**	**518,618**	**492,844**	**487,677**	**488,283**	**487,895**	**490,582**	**493,728**	**512,364**
58 Negotiable CDs	34,607	31,629	30,929	32,175	29,485	30,159	31,203	28,953	27,969	30,734
59 To United States	156,281	152,465	161,390	162,027	156,294	159,009	164,401	165,492	161,783	172,679
60 Parent bank	84,657	83,394	87,606	86,901	87,260	84,196	88,819	94,953	95,427	104,660
61 Other banks in United States	16,894	15,646	20,559	15,423	14,680	15,310	16,356	14,272	14,029	13,417
62 Nonbanks	54,730	53,425	53,225	59,703	54,354	59,503	59,226	56,267	52,327	54,602
63 To foreigners	245,939	253,775	304,803	277,082	280,939	277,776	270,678	274,822	281,143	285,427
64 *Other branches of parent bank*	89,529	95,146	124,601	104,667	110,429	107,084	100,538	106,284	106,010	110,867
65 Banks	76,814	77,809	87,274	82,421	82,380	83,086	80,606	80,382	81,946	82,045
66 Official institutions	19,520	17,835	19,564	17,699	17,159	16,628	17,232	16,911	18,786	17,743
67 Nonbank foreigners	60,076	62,985	73,364	72,295	70,971	70,978	72,302	71,245	74,401	74,772
68 Other liabilities	21,185	18,759	21,496	21,560	20,959	21,339	21,613	21,315	22,833	23,524
69 **Total payable in U.S. dollars**	**353,712**	**336,406**	**361,438**	**341,729**	**341,411**	**341,539**	**346,185**	**348,248**	**343,233**	**359,429**
70 Negotiable CDs	31,063	28,466	26,768	27,233	25,015	24,870	26,128	24,353	23,218	26,130
71 To United States	150,905	144,483	148,442	149,645	144,464	147,551	152,745	154,647	150,497	159,322
72 Parent bank	81,631	79,305	81,783	80,331	80,752	77,503	81,710	88,413	88,447	96,334
73 Other banks in United States	16,264	14,609	19,155	14,073	13,256	14,011	15,153	13,153	12,868	12,080
74 Nonbanks	53,010	50,569	47,504	55,241	50,456	56,037	55,882	53,081	49,182	50,908
75 To foreigners	163,583	156,806	177,711	155,450	162,056	158,901	156,358	158,325	158,514	162,485
76 Other branches of parent bank	71,078	71,181	90,469	76,920	83,493	81,144	75,014	79,450	78,423	81,367
77 Banks	37,365	33,850	35,065	28,635	28,909	28,495	30,041	29,341	28,831	30,542
78 Official institutions	14,359	12,371	12,409	10,028	9,571	9,354	9,938	9,207	10,624	9,121
79 Nonbank foreigners	40,781	39,404	39,768	39,867	40,083	39,908	41,365	40,327	40,636	41,455
80 Other liabilities	8,161	6,651	8,517	9,401	9,876	10,217	10,954	10,923	11,004	11,492
	United Kingdom									
81 **Total, all currencies**	**148,599**	**140,917**	**158,695**	**156,184**	**151,835**	**151,017**	**149,646**	**147,329**	**155,580**	**159,556**
82 Negotiable CDs	31,260	27,781	26,988	27,659	25,390	25,750	26,998	24,311	23,345	26,013
83 To United States	29,422	24,657	23,470	27,145	25,120	26,859	25,013	25,657	31,575	32,420
84 Parent bank	19,330	14,469	13,223	15,518	15,996	16,844	15,100	17,115	22,800	23,309
85 Other banks in United States	2,974	2,649	1,740	2,408	1,791	2,051	1,878	2,021	2,192	1,768
86 Nonbanks	7,118	7,539	8,507	9,219	7,333	7,964	8,035	6,521	6,583	7,343
87 To foreigners	78,525	79,498	98,689	91,995	91,691	88,489	87,504	87,212	89,934	90,404
88 Other branches of parent bank	23,389	25,036	33,078	28,743	28,967	26,948	25,570	26,837	25,743	26,268
89 Banks	28,581	30,877	34,290	31,995	33,125	32,763	31,829	31,701	32,385	33,029
90 Official institutions	9,676	6,836	11,015	9,672	8,893	9,034	9,982	8,570	10,656	9,542
91 Nonbank foreigners	16,879	16,749	20,306	21,585	20,706	19,744	20,123	20,104	21,150	21,565
92 Other liabilities	9,392	8,981	9,548	9,385	9,634	9,919	10,131	10,149	10,726	10,719
93 **Total payable in U.S. dollars**	**112,697**	**99,707**	**102,550**	**99,378**	**97,555**	**96,908**	**97,926**	**96,970**	**101,689**	**102,933**
94 Negotiable CDs	29,337	26,169	24,926	24,994	22,960	22,846	24,229	22,043	20,864	23,543
95 To United States	27,756	22,075	17,752	22,405	20,889	23,105	20,993	22,177	28,063	27,123
96 Parent bank	18,956	14,021	12,026	14,134	14,712	15,729	13,745	16,031	21,665	21,086
97 Other banks in United States	2,826	2,325	1,512	2,184	1,512	1,817	1,655	1,819	1,978	1,366
98 Nonbanks	5,974	5,729	4,214	6,087	4,665	5,559	5,593	4,327	4,420	4,671
99 To foreigners	51,980	48,138	55,919	47,969	48,777	46,083	47,227	47,149	47,278	46,843
100 Other branches of parent bank	18,493	17,951	22,334	18,902	20,303	18,539	17,550	18,696	17,384	17,443
101 Banks	14,344	15,203	15,580	12,860	12,957	12,240	13,501	13,417	13,436	14,029
102 Official institutions	7,661	4,934	7,530	5,470	4,700	5,036	5,781	4,519	6,186	4,713
103 Nonbank foreigners	11,482	10,050	10,475	10,737	10,817	10,268	10,395	10,517	10,272	10,658
104 Other liabilities	3,624	3,325	3,953	4,010	4,929	4,874	5,477	5,601	5,484	5,424
	Bahamas and Caymans									
105 **Total, all currencies**	**142,055**	**142,592**	**160,321**	**156,353**	**159,718**	**160,516**	**165,771**	**164,313**	**155,265**	**164,945**
106 Negotiable CDs	610	847	885	1,096	941	940	731	924	1,092	1,361
107 To United States	104,556	106,081	113,950	112,605	109,424	112,540	117,765	116,687	107,115	115,194
108 Parent bank	45,554	49,481	53,239	51,745	52,221	49,896	54,174	56,818	51,522	58,236
109 Other banks in United States	12,778	11,715	17,224	11,659	11,451	12,069	13,412	11,106	10,824	10,673
110 Nonbanks	46,224	44,885	43,487	49,201	45,752	50,575	50,179	48,763	44,769	46,285
111 To foreigners	35,053	34,400	43,815	40,369	47,361	44,993	45,062	44,478	44,636	45,781
112 Other branches of parent bank	14,075	12,631	19,185	18,909	24,755	22,288	21,221	22,872	23,283	23,065
113 Banks	10,669	8,617	10,769	9,080	9,779	10,155	9,607	8,405	8,154	9,444
114 Official institutions	1,776	2,719	1,504	1,053	1,850	1,015	1,099	1,067	972	1,060
115 *Nonbank foreigners*	8,533	10,433	12,357	11,327	10,977	11,535	13,135	12,134	12,227	12,212
116 Other liabilities	1,836	1,264	1,671	2,283	1,992	2,043	2,213	2,224	2,422	2,609
117 **Total payable in U.S. dollars**	**138,322**	**138,774**	**152,927**	**148,923**	**151,684**	**152,235**	**157,512**	**156,215**	**147,718**	**156,697**

3.15 SELECTED U.S. LIABILITIES TO FOREIGN OFFICIAL INSTITUTIONS

Millions of dollars, end of period

Item	1986	1987	1988						
			May	June	July	Aug.	Sept.	Oct.	Nov.p
1 **Total**[1]	**211,834**	**259,556r**	**294,729**	**290,842**	**290,944r**	**290,263**	**288,601r**	**294,494**	**300,136**
By type									
2 Liabilities reported by banks in the United States[2]	27,920	31,838	31,460	30,761	32,070r	32,813	32,224	34,101	34,290
3 U.S. Treasury bills and certificates[3]	75,650	88,829	96,604	95,299	96,715r	96,698	96,812	100,804	103,833
U.S. Treasury bonds and notes									
4 Marketable	91,368	122,432	150,991	149,333	146,971	145,521	144,040r	144,597	146,800
5 Nonmarketable[4]	1,300	300	499	502	506	509	513	516	520
6 U.S. securities other than U.S. Treasury securities[5]	15,596	16,157r	15,175	14,947	14,682	14,722	15,012	14,476	14,693
By area									
7 Western Europe[1]	88,629	124,620	131,406	126,772	125,195r	123,428	121,206r	124,711	127,875
8 Canada	2,004	4,961	9,372	10,773	10,725	9,981	10,054	11,014	10,066
9 Latin America and Caribbean	8,417	8,328	9,145	9,407	9,888r	11,336	10,136	9,840	10,501
10 Asia	105,868	116,098	135,120	134,285	135,657r	136,165	137,513	139,420	142,763
11 Africa	1,503	1,402	1,418	1,266	1,179	1,196	1,130	1,094	993
12 Other countries[6]	5,412	4,147	7,773	7,837	7,793	7,646	8,049	7,901	7,418

1. Includes the Bank for International Settlements.
2. Principally demand deposits, time deposits, bankers acceptances, commercial paper, negotiable time certificates of deposit, and borrowings under repurchase agreements.
3. Includes nonmarketable certificates of indebtedness (including those payable in foreign currencies through 1974) and Treasury bills issued to official institutions of foreign countries.
4. Excludes notes issued to foreign official nonreserve agencies. Includes bonds and notes payable in foreign currencies.
5. Debt securities of U.S. government corporations and federally sponsored agencies, and U.S. corporate stocks and bonds.
6. Includes countries in Oceania and Eastern Europe.

NOTE. Based on Treasury Department data and on data reported to the Treasury Department by banks (including Federal Reserve Banks) and securities dealers in the United States.

3.16 LIABILITIES TO AND CLAIMS ON FOREIGNERS Reported by Banks in the United States Payable in Foreign Currencies[1]

Millions of dollars, end of period

Item	1984	1985	1986	1987	1988r		
				Dec.r	Mar.	June	Sept.
1 Banks' own liabilities	8,586	15,368	29,702	55,438	55,818	55,110	61,216
2 Banks' own claims	11,984	16,294	26,180	51,271	52,221	51,183	60,849
3 Deposits	4,998	8,437	14,129	18,861	18,407	17,785	22,073
4 Other claims	6,986	7,857	12,052	32,410	33,814	33,398	38,776
5 Claims of banks' domestic customers[2]	569	580	2,507	551	810	1,004	392

1. Data on claims exclude foreign currencies held by U.S. monetary authorities.
2. Assets owned by customers of the reporting bank located in the United States that represent claims on foreigners held by reporting banks for the accounts of the domestic customers.

3.17 LIABILITIES TO FOREIGNERS Reported by Banks in the United States[1]
Payable in U.S. dollars

Millions of dollars, end of period

Holder and type of liability	1985	1986	1987	1988						
				Mayr	June	Julyr	Aug.	Sept.r	Oct.	Nov.p
1 **All foreigners**	**435,726**	**540,996**	**618,874r**	**629,198**	**637,694r**	**654,809**	**658,039r**	**657,404**	**651,247**	**677,944**
2 Banks' own liabilities	341,070	406,485	470,070r	465,821	476,484r	490,856	493,988r	491,108	482,064	503,439
3 Demand deposits	21,107	23,789	22,383	22,135	22,991r	21,983	20,314	21,375	21,834	22,013
4 Time deposits[2]	117,278	130,891	148,374r	138,129	141,145r	142,551	145,123r	148,747	141,922	149,426
5 Other[3]	29,305	42,705	51,677r	48,723	47,418r	50,747	52,630r	53,840	56,692	53,881
6 Own foreign offices[4]	173,381	209,100	247,635r	256,835	264,931r	275,575	275,920r	267,145	261,615	278,119
7 Banks' custody liabilities[5]	94,656	134,511	148,804r	163,377	161,209r	163,953	164,050r	166,296	169,183	174,505
8 U.S. Treasury bills and certificates[6]	69,133	90,398	101,743	108,803	108,614	109,555	109,106	109,768	112,257	116,851
9 Other negotiable and readily transferable instruments[7]	17,964	15,417	16,776r	16,595	16,626	16,231	15,971r	15,555	16,396	16,614
10 Other	7,558	28,696	30,285r	37,978	35,969r	38,167	38,973r	40,973	40,530	41,041
11 **Nonmonetary international and regional organizations[8]**	**5,821**	**5,807**	**4,464**	**6,889**	**7,879**	**7,061**	**4,749**	**7,764**	**5,879**	**4,698**
12 Banks' own liabilities	2,621	3,958	2,702	4,898	5,142	4,882	2,925	5,104	4,067	3,442
13 Demand deposits	85	199	124	84	84	92	85	104	143	76
14 Time deposits[2]	2,067	2,065	1,538	1,981	1,873	1,857	966	1,688	1,101	1,334
15 Other[3]	469	1,693	1,040	2,833	3,185	2,933	1,874	3,311	2,823	2,031
16 Banks' custody liabilities[5]	3,200	1,849	1,761	1,991	2,737	2,179	1,824	2,660	1,812	1,256
17 U.S. Treasury bills and certificates[6]	1,736	259	265	132	745	286	43	755	62	83
18 Other negotiable and readily transferable instruments[7]	1,464	1,590	1,497	1,852	1,989	1,861	1,769	1,899	1,750	1,163
19 Other	0	0	0	7	3	32	12	5	0	10
20 **Official institutions[9]**	**79,985**	**103,569**	**120,667**	**128,065**	**126,060**	**128,786**	**129,511**	**129,036**	**134,905**	**138,123**
21 Banks' own liabilities	20,835	25,427	28,703	28,451	27,882	28,486	29,079	28,725	30,348	30,333
22 Demand deposits	2,077	2,267	1,757	1,882	1,834	1,696	1,405	1,756	1,780	1,584
23 Time deposits[2]	10,949	10,497	12,843	12,861	11,865r	11,520	12,289	11,573	11,209	11,718
24 Other[3]	7,809	12,663	14,103	13,707	14,183r	15,270	15,385	15,396	17,359	17,032
25 Banks' custody liabilities[5]	59,150	78,142	91,965	99,613	98,178	100,300	100,432	100,311	104,557	107,790
26 U.S. Treasury bills and certificates[6]	53,252	75,650	88,829	96,604	95,299	96,715	96,698	96,812	100,804	103,833
27 Other negotiable and readily transferable instruments[7]	5,824	2,347	2,990	2,775	2,672	3,368	3,450	3,221	3,612	3,758
28 Other	75	145	146	234	207	217	284	279	141	198
29 **Banks[10]**	**275,589**	**351,745**	**414,280r**	**413,695**	**423,854r**	**436,443**	**439,532r**	**436,310**	**425,233**	**448,008**
30 Banks' own liabilities	252,723	310,166	371,665r	365,664	375,461r	387,578	390,416r	385,217	374,630	396,189
31 Unaffiliated foreign banks	79,341	101,066	124,030	108,829	110,529r	112,003	114,495	118,072	113,015	118,071
32 Demand deposits	10,271	10,303	10,898	10,210	10,899r	10,217	9,258	9,349	10,233	10,272
33 Time deposits[2]	49,510	64,232	79,717r	69,455	72,187r	73,000	73,826r	77,713	71,085	77,067
34 Other[3]	19,561	26,531	33,415r	29,165	27,444r	28,787	31,412r	31,010	31,696	30,731
35 Own foreign offices[4]	173,381	209,100	247,635r	256,835	264,931r	275,575	275,920r	267,145	261,615	278,119
36 Banks' custody liabilities[5]	22,866	41,579	42,615r	48,031	48,394r	48,865	49,116	51,093	50,603	51,819
37 U.S. Treasury bills and certificates[6]	9,832	9,984	9,134	8,872	9,212	9,324	9,299	8,969	7,976	8,087
38 Other negotiable and readily transferable instruments[7]	6,040	5,165	5,392	4,341	4,725	4,625	4,090	4,230	5,265	5,686
39 Other	6,994	26,431	28,089r	34,819	34,457r	34,916	35,727	37,893	37,362	38,046
40 **Other foreigners**	**74,331**	**79,875**	**79,463r**	**80,549**	**79,900r**	**82,520**	**84,247r**	**84,294**	**85,230**	**87,115**
41 Banks' own liabilities	64,892	66,934	67,000	66,808	67,999	69,910	71,568	72,061	73,018	73,474
42 Demand deposits	8,673	11,019	9,604	9,959	10,173	9,979	9,566	10,166	9,677	10,081
43 Time deposits[2]	54,752	54,097	54,277	53,832	55,220r	56,174	58,042r	57,772	58,527	59,307
44 Other[3]	1,467	1,818	3,119	3,017	2,606r	3,757	3,960r	4,123	4,814	4,086
45 Banks' custody liabilities[5]	9,439	12,941	12,463r	13,742	11,901r	12,610	12,678r	12,233	12,212	13,641
46 U.S. Treasury bills and certificates[6]	4,314	4,506	3,515	3,196	3,358	3,231	3,066	3,231	3,415	4,848
47 Other negotiable and readily transferable instruments[7]	4,636	6,315	6,898r	7,628	7,241	6,378	6,663r	6,205	5,770	6,007
48 Other	489	2,120	2,050r	2,918	1,303r	3,002	2,950r	2,797	3,027	2,786
49 MEMO: Negotiable time certificates of deposit in custody for foreigners	9,845	7,496	7,314	8,261	7,711	6,975	6,792	6,121	6,122	6,137

1. Reporting banks include all kinds of depository institutions besides commercial banks, as well as some brokers and dealers.
2. Excludes negotiable time certificates of deposit, which are included in "Other negotiable and readily transferable instruments."
3. Includes borrowing under repurchase agreements.
4. U.S. banks: includes amounts due to own foreign branches and foreign subsidiaries consolidated in "Consolidated Report of Condition" filed with bank regulatory agencies. Agencies, branches, and majority-owned subsidiaries of foreign banks: principally amounts due to head office or parent foreign bank, and foreign branches, agencies, or wholly owned subsidiaries of head office or parent foreign bank.
5. Financial claims on residents of the United States, other than long-term securities, held by or through reporting banks.
6. Includes nonmarketable certificates of indebtedness and Treasury bills issued to official institutions of foreign countries.
7. Principally bankers acceptances, commercial paper, and negotiable time certificates of deposit.
8. Principally the International Bank for Reconstruction and Development, and the Inter-American and Asian Development Banks. Data exclude "holdings of dollars" of the International Monetary Fund.
9. Foreign central banks, foreign central governments, and the Bank for International Settlements.
10. Excludes central banks, which are included in "Official institutions."

3.17—Continued

Area and country	1985	1986	1987	1988						
				May	June	July	Aug.	Sept.	Oct.	Nov.p
1 **Total**	**435,726**	**540,996**	**618,874r**	**629,198r**	**637,694r**	**654,809r**	**658,039r**	**657,404r**	**651,247**	**677,944**
2 **Foreign countries**	**429,905**	**535,189**	**614,411r**	**622,310r**	**629,815r**	**647,749r**	**653,289r**	**649,640r**	**645,368**	**673,247**
3 Europe	164,114	180,556	234,641	227,898r	227,661r	231,218r	232,797r	224,663r	226,813	234,004
4 Austria	693	1,181	920	1,090	941	1,425r	1,245	1,072	1,271	1,612
5 Belgium–Luxembourg	5,243	6,729	9,347	9,893	10,363	9,531r	10,051	9,937r	10,247	11,103
6 Denmark	513	482	760	1,164	1,364	1,474	2,078	1,402	2,358	3,089
7 Finland	496	580	377	426r	426	549	417	447	339	339
8 France	15,541	22,862	29,835	28,250r	26,980r	26,005r	24,237	24,295	23,285	24,564
9 Germany	4,835	5,762	7,022	6,492r	5,110r	5,211	6,226	5,085	5,898	7,975
10 Greece	666	700	689	675	653	620	694	633	677	683
11 Italy	9,667	10,875	12,073	9,285	10,705r	9,921r	9,766	8,550	12,512	13,337
12 Netherlands	4,212	5,600	5,014	5,756r	5,351	5,007r	5,647	6,167r	6,377	5,939
13 Norway	948	735	1,362	1,240	1,078	1,322r	900	1,060	1,143	1,342
14 Portugal	652	699	801	910	897	859	848	858	915	738
15 Spain	2,114	2,407	2,621	2,844r	4,173r	5,011	5,570	6,248	6,838	5,976
16 Sweden	1,422	884	1,379	2,280	1,522	1,926	2,011	2,196	1,579	1,829
17 Switzerland	29,020	30,534	33,766	31,293	31,197r	30,416r	29,043r	31,330r	31,157	32,711
18 Turkey	429	454	703	628	570	537	709	706	878	793
19 United Kingdom	76,728	85,334	116,852	115,455r	115,531r	121,895	122,620	113,287	109,996	111,718
20 Yugoslavia	673	630	710	586	690	614	629	579	655	569
21 Other Western Europe[1]	9,635	3,326	9,798	9,038	9,259r	8,215r	9,463r	10,207r	9,921	8,895
22 U.S.S.R	105	80	32	136	239	80r	99	45	100	74
23 Other Eastern Europe[2]	523	702	582	456	611	598r	544	558r	670	717
24 Canada	17,427	26,345	30,095	27,894r	30,037r	29,944	28,128	28,247	26,697	26,177
25 Latin America and Caribbean	167,856	210,318	220,372r	229,928r	232,041r	242,719r	246,723r	246,743r	240,073	257,283
26 Argentina	6,032	4,757	5,006	5,219	5,876	5,975	6,775	7,106	7,065	7,307
27 Bahamas	57,657	73,619	74,767r	74,011r	74,282r	76,002r	78,889r	77,921	76,805	83,598
28 Bermuda	2,765	2,922	2,344	2,927	2,077	2,413	2,394	2,389	2,577	2,836
29 Brazil	5,373	4,325	4,005	4,122	4,205	4,489	4,524r	4,475	4,726	5,135
30 British West Indies	42,674	72,263	81,494r	91,678r	94,347r	101,332r	99,907r	101,711r	95,828	104,954
31 Chile	2,049	2,054	2,210	2,184	2,378	2,323	2,463	2,467	2,727	2,653
32 Colombia	3,104	4,285	4,204	4,395	4,502	4,441	4,403	4,171	4,136	4,221
33 Cuba	11	7	12	9	10	9	8	9	12	9
34 Ecuador	1,239	1,236	1,082	1,206	1,212	1,216	1,224	1,244	1,265	1,360
35 Guatemala	1,071	1,123	1,082	1,191	1,209	1,183	1,182	1,177	1,150	1,178
36 Jamaica	122	136	160	152	156	154	149	166	177	164
37 Mexico	14,060	13,745	14,480	15,866	15,801	16,334	17,260	15,842r	15,635	15,389
38 Netherlands Antilles	4,875	4,970	4,975	5,348	5,338	4,798	5,011	5,252	5,354	5,907
39 Panama	7,514	6,886	7,414	4,005	4,171	4,251	4,262	4,128	4,114	4,046
40 Peru	1,167	1,163	1,275	1,423	1,438	1,514	1,539r	1,584	1,605	1,650
41 Uruguay	1,552	1,537	1,582	1,717	1,882	1,828	1,898r	1,884	1,788	1,885
42 Venezuela	11,922	10,171	9,048	9,255	8,950	9,116	9,330	9,752	9,547	9,301
43 Other	4,668	5,119	5,234	5,219	5,207r	5,343	5,504	5,462r	5,560	5,690
44 Asia	72,280	108,831	121,288r	125,676r	128,096r	133,933r	135,851r	139,845r	142,030	145,858
China										
45 Mainland	1,607	1,476	1,162	1,921	1,725	1,564	1,757	1,608r	1,479	1,401
46 Taiwan	7,786	18,902	21,503	23,874	23,072	24,023	23,422	22,334	23,377	24,791
47 Hong Kong	8,067	9,393	10,180	10,219r	9,321r	9,951	10,417	10,875	11,532	12,386
48 India	712	674	582	619	942	858	845	1,013	793	765
49 Indonesia	1,466	1,547	1,404	1,030r	1,075	1,036	1,254r	1,121r	1,286	991
50 Israel	1,601	1,892	1,292	1,190	1,334	1,244	1,194	1,130	2,323	1,063
51 Japan	23,077	47,410	54,322r	58,077r	60,846r	63,460r	64,559r	70,188	70,594	73,103
52 Korea	1,665	1,141	1,637	1,476	1,572	1,459	1,720	2,091	2,440	2,813
53 Philippines	1,140	1,866	1,085	975	954	1,085	1,001	971	1,140	1,150
54 Thailand	1,358	1,119	1,345	1,448	1,099	1,650	1,422	1,369r	1,363	1,205
55 Middle-East oil-exporting countries[3]	14,523	12,352	13,988	12,413	12,089	14,298	12,787	14,091	13,200	12,838
56 Other	9,276	11,058	12,788	12,434	14,066	13,306r	15,472	13,053	12,503	13,352
57 Africa	4,883	4,021	3,945	4,055	4,023	3,837	3,846	3,659	3,702	3,530
58 Egypt	1,363	706	1,151	1,196	1,187	1,039	969	813	850	757
59 Morocco	163	92	194	65	73	80	70	111	66	64
60 South Africa	388	270	202	267	245	200	204	247	245	267
61 Zaire	163	74	67	63	60	63	67	71	71	72
62 Oil-exporting countries[4]	1,494	1,519	1,014	1,090	1,108r	1,052	1,039	1,015	993	952
63 Other	1,312	1,360	1,316	1,373	1,351r	1,403	1,498	1,402	1,477	1,418
64 Other countries	3,347	5,118	4,070	6,859	6,957	6,098	5,945	6,484	6,054	6,396
65 Australia	2,779	4,196	3,327	5,943	6,017	5,329	5,170	5,639r	5,199	5,426
66 All other	568	922	744	916	939	769	775	845	854	970
67 Nonmonetary international and regional organizations	5,821	5,807	4,464	6,889	7,879	7,061r	4,749	7,764	5,879	4,698
68 International[5]	4,806	4,620	2,830	4,955	5,925	5,130r	2,979	5,721	3,912	3,211
69 Latin American regional	894	1,033	1,272	1,727	1,769	1,651	1,614	1,762	1,662	1,276
70 Other regional[6]	121	154	362	207	185	279	156	281	306	211

1. Includes the Bank for International Settlements and Eastern European countries that are not listed in line 23.
2. Comprises Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, and Romania.
3. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).
4. Comprises Algeria, Gabon, Libya, and Nigeria.
5. Excludes "holdings of dollars" of the International Monetary Fund.
6. Asian, African, Middle Eastern, and European regional organizations, except the Bank for International Settlements, which is included in "Other Western Europe."

3.18 BANKS' OWN CLAIMS ON FOREIGNERS Reported by Banks in the United States[1] Payable in U.S. Dollars

Millions of dollars, end of period

Area and country	1985	1986	1987	1988 May	June	July	Aug.	Sept.	Oct.	Nov.p
1 **Total**	**401,608**	**444,745**	**459,877r**	**451,885r**	**458,967r**	**470,241r**	**469,243r**	**477,149r**	**465,768**	**485,283**
2 **Foreign countries**	**400,577**	**441,724**	**456,472r**	**450,496r**	**456,372r**	**467,427r**	**466,799r**	**471,566r**	**462,785**	**481,030**
3 Europe	106,413	107,823	102,348r	100,486r	100,909r	99,751r	99,284r	102,409r	105,922	108,175
4 Austria	598	728	793	865	806	888	743	808	812	721
5 Belgium–Luxembourg	5,772	7,498	9,397	8,724	7,863	8,530	8,419	8,786r	8,907	8,951
6 Denmark	706	688	717	630	640	742r	608	582	631	595
7 Finland	823	987	1,010	1,103	954	1,325	1,231	1,195	912	1,161
8 France	9,124	11,356	13,548r	12,147	12,186r	11,861	11,965r	12,164	12,338	12,478
9 Germany	1,267	1,816	2,039	1,727r	2,862r	2,169r	2,000r	1,728r	2,303	2,300
10 Greece	991	648	462r	557r	589r	562r	523r	506r	494	601
11 Italy	8,848	9,043	7,460	6,606	7,072	6,607	6,626	6,118r	6,039	7,092
12 Netherlands	1,258	3,296	2,619r	2,766	2,656	3,017	2,933r	3,202	2,671	2,763
13 Norway	706	672	934	886	589	484	534	510	534	478
14 Portugal	1,058	739	477	400	358	333	321	333	266	253
15 Spain	1,908	1,492	1,853r	1,906r	1,862r	1,973r	2,011r	1,969	1,806	2,054
16 Sweden	2,219	1,964	2,254r	2,480	2,087	1,958	2,256	1,983r	1,852	2,086
17 Switzerland	3,171	3,352	2,718r	3,098r	3,291r	2,491r	2,569r	2,559r	2,918	2,983
18 Turkey	1,200	1,543	1,680	1,543	1,495	1,432	1,397	1,396	1,343	1,390
19 United Kingdom	62,566	58,335	50,823r	51,674r	52,033r	51,918r	51,789r	54,669r	57,933	57,880
20 Yugoslavia	1,964	1,835	1,700	1,586	1,624	1,559	1,537	1,476r	1,472	1,450
21 Other Western Europe[2]	998	539	619	598	647	671	524	889r	1,155	926
22 U.S.S.R.	130	345	389	339	506	431	466	473r	724	1,207
23 Other Eastern Europe[3]	1,107	948	852	851	787	800	831r	1,065r	812	806
24 Canada	16,482	21,006	25,368r	23,794r	24,634r	23,937r	24,137r	23,804r	22,491	23,274
25 Latin America and Caribbean	202,674	208,825	214,789r	204,693r	202,663r	205,268r	206,798r	212,897r	201,032	211,113
26 Argentina	11,462	12,091	11,996	12,296r	12,365	12,342r	12,238	12,235	12,077	12,025
27 Bahamas	58,258	59,342	64,587r	59,258r	55,554r	60,350r	63,305r	64,253r	59,310	67,525
28 Bermuda	499	418	471	369	818	460	430r	688	597r	563
29 Brazil	25,283	25,716	25,897	26,119	26,230	26,023r	25,909	25,610r	25,452	26,353
30 British West Indies	38,881	46,284	50,042r	49,618r	51,763r	50,483r	49,641r	55,262r	48,884	50,628
31 Chile	6,603	6,558	6,308	6,018	5,881	5,771r	5,677	5,656	5,459	5,332
32 Colombia	3,249	2,821	2,740	3,082	3,095	3,127	3,029	3,023	3,016	2,963
33 Cuba	0	0	1	0	0	0	0	0	0	0
34 Ecuador	2,390	2,439	2,286	2,197	2,142	2,143r	2,156	2,185	2,168	2,162
35 Guatemala[4]	194	140	144	149	144	157	148	150	175	160
36 Jamaica[4]	224	198	188	177	187	214	184	185	201	205
37 Mexico	31,799	30,698	29,532	26,649r	26,177	26,022r	25,885	25,971r	25,645	25,146
38 Netherlands Antilles	1,340	1,041	980	1,434	1,238	1,055	1,269	1,079	1,491	1,414
39 Panama	6,645	5,436	4,744	2,567r	2,492	2,400	2,370r	2,238r	2,214	2,363
40 Peru	1,947	1,661	1,329	1,297	1,149	1,137r	1,192	1,080	1,065	1,012
41 Uruguay	960	940	963r	880	885	878	889r	891	850	883
42 Venezuela	10,871	11,108	10,843r	10,863r	10,912	11,021r	10,862r	10,754r	10,803	10,746
43 Other Latin America and Caribbean	2,067	1,936	1,738	1,719	1,631	1,684r	1,612r	1,636	1,626	1,632
44 Asia	66,212	96,126	106,096r	114,022r	120,202r	130,573r	128,787r	124,835r	124,974	130,213
China										
45 Mainland	639	787	968	942r	1,065	1,033	1,017	888r	844	775
46 Taiwan	1,535	2,681	4,592r	3,805	3,957	3,562	3,241	3,121r	2,940	3,829
47 Hong Kong	6,797	8,307	8,218r	8,356	9,632	8,342	7,451	8,389r	9,495	10,826
48 India	450	321	510	507	499	508	548	540	634	568
49 Indonesia	698	723	580	706r	772r	765r	786r	778r	808	767
50 Israel	1,991	1,634	1,363	1,259	1,213	1,206	1,174	1,180	1,170	1,231
51 Japan	31,249	59,674	68,658r	78,688r	82,350r	93,140r	92,840r	87,246r	87,629	89,716
52 Korea	9,226	7,182	5,148r	4,884r	5,003r	4,889r	4,909r	5,137r	5,112	5,142
53 Philippines	2,224	2,217	2,071	2,012	2,055	2,029	2,030	2,009	1,912	1,900
54 Thailand	845	578	496	596	641	668	683	759	766	778
55 Middle East oil-exporting countries[5]	4,298	4,122	4,858	3,542r	4,574r	6,400	6,216r	6,401r	5,407	6,664
56 Other Asia	6,260	7,901	8,635r	8,725	8,441	8,031	7,891	8,389r	8,257	8,018
57 Africa	5,407	4,650	4,742	5,092	5,423	5,493	5,462	5,454r	5,628	5,629
58 Egypt	721	567	521	503	605	539	530	535	540	532
59 Morocco	575	598	542	483	484	481	478	478	474	488
60 South Africa	1,942	1,550	1,507	1,496	1,693	1,726	1,711	1,693r	1,707	1,698
61 Zaire	20	28	15	42	41	38	36	16	17	18
62 Oil-exporting countries[6]	630	694	1,003	1,244	1,275	1,340	1,359	1,388	1,484	1,491
63 Other	1,520	1,213	1,153	1,324	1,325	1,369	1,348	1,343	1,406	1,402
64 Other countries	3,390	3,294	3,129r	2,409r	2,541r	2,404r	2,331r	2,167	2,738	2,625
65 Australia	2,413	1,949	2,100r	1,413	1,678	1,554	1,499	1,392	1,879	1,566
66 All other	978	1,345	1,029r	996r	863r	850r	832r	775	859	1,059
67 Nonmonetary international and regional organizations[7]	1,030	3,021	3,404	1,389r	2,595r	2,814r	2,445r	5,583r	2,983	4,253

1. Reporting banks include all kinds of depository institutions besides commercial banks, as well as some brokers and dealers.
2. Includes the Bank for International Settlements. Beginning April 1978, also includes Eastern European countries not listed in line 23.
3. Beginning April 1978 comprises Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, and Romania.
4. Included in "Other Latin America and Caribbean" through March 1978.
5. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).
6. Comprises Algeria, Gabon, Libya, and Nigeria.
7. Excludes the Bank for International Settlements, which is included in "Other Western Europe."

3.19 BANKS' OWN AND DOMESTIC CUSTOMERS' CLAIMS ON FOREIGNERS Reported by Banks in the United States[1]
Payable in U.S. Dollars

Millions of dollars, end of period

Type of claim	1985	1986	1987[r]	1988[r]						
				May	June	July	Aug.	Sept.	Oct.	Nov.[p]
1 **Total**	**430,489**	**478,650**	**497,635**	....	**494,280**	....	....	**512,950**	....	....
2 Banks' own claims on foreigners	401,608	444,745	459,877	451,885	458,967	470,241	469,243	477,149	465,768	485,283
3 Foreign public borrowers	60,507	64,095	64,605	61,526	62,758	62,825	61,696	63,736	60,232	63,931
4 Own foreign offices[2]	174,261	211,533	224,727	226,308	229,972	239,112	237,012	245,397	237,410	255,015
5 Unaffiliated foreign banks	116,654	122,946	127,609	122,587	123,498	127,298	128,447	124,852	122,077	123,470
6 Deposits	48,372	57,484	60,687	57,898	59,043	60,184	60,558	61,521	54,122	55,984
7 Other	68,282	65,462	66,922	64,690	64,455	67,114	67,889	63,330	67,955	67,486
8 All other foreigners	50,185	46,171	42,936	41,464	42,738	41,006	42,089	43,164	46,050	42,866
9 Claims of banks' domestic customers[3]	28,881	33,905	37,758	....	35,314	....	....	35,801	....	....
10 Deposits	3,335	4,413	3,692	....	4,843	....	....	5,391	....	....
11 Negotiable and readily transferable instruments[4]	19,332	24,044	26,696	....	24,002	....	....	20,916	....	....
12 Outstanding collections and other claims	6,214	5,448	7,370	....	6,468	....	....	9,494	....	....
13 MEMO: Customer liability on acceptances	28,487	25,706	23,107	....	19,618	....	....	18,730	....	....
Dollar deposits in banks abroad, reported by nonbanking business enterprises in the United States[5]	38,102	43,984[r]	40,087	44,316	42,763	46,837	49,732	42,669	41,525	n.a.

1. *Data for banks' own claims are given on a monthly basis, but the data for claims of banks' own domestic customers are available on a quarterly basis only.*
Reporting banks include all kinds of depository institutions besides commercial banks, as well as some brokers and dealers.

2. *U.S. banks:* includes amounts due from own foreign branches and foreign subsidiaries consolidated in "Consolidated Report of Condition" filed with bank regulatory agencies. *Agencies, branches, and majority-owned subsidiaries of foreign banks:* principally amounts due from head office or parent foreign bank, and foreign branches, agencies, or wholly owned subsidiaries of head office or parent foreign bank.

3. Assets owned by customers of the reporting bank located in the United States that represent claims on foreigners held by reporting banks for the account of their domestic customers.

4. Principally negotiable time certificates of deposit and bankers acceptances.

5. Includes demand and time deposits and negotiable and nonnegotiable certificates of deposit denominated in U.S. dollars issued by banks abroad. For description of changes in data reported by nonbanks, see July 1979 BULLETIN, p. 550.

3.20 BANKS' OWN CLAIMS ON UNAFFILIATED FOREIGNERS Reported by Banks in the United States[1]
Payable in U.S. Dollars

Millions of dollars, end of period

Maturity; by borrower and area	1984	1985	1986	1987	1988		
				Dec.[r]	Mar.[r]	June[r]	Sept.
1 **Total**	**243,952**	**227,903**	**232,295**	**235,130**	**219,323**	**227,589**	**228,788**
By borrower							
2 Maturity of 1 year or less[2]	167,858	160,824	160,555	163,997	152,658	162,912	166,345
3 Foreign public borrowers	23,912	26,302	24,842	25,889	24,488	25,608	27,644
4 All other foreigners	143,947	134,522	135,714	138,108	128,171	137,304	138,701
5 Maturity over 1 year[2]	76,094	67,078	71,740	71,133	66,664	64,677	62,443
6 Foreign public borrowers	38,695	34,512	39,103	38,625	35,879	35,613	35,014
7 All other foreigners	37,399	32,567	32,637	32,507	30,785	29,064	27,429
By area							
Maturity of 1 year or less[2]							
8 Europe	58,498	56,585	61,784	59,027	51,552	55,242	53,958
9 Canada	6,028	6,401	5,895	5,680	4,978	6,426	5,913
10 Latin America and Caribbean	62,791	63,328	56,271	56,535	55,544	56,333	55,642
11 Asia	33,504	27,966	29,457	35,919	35,579	38,893	41,831
12 Africa	4,442	3,753	2,882	2,833	2,596	2,914	3,112
13 All other[3]	2,593	2,791	4,267	4,003	2,410	3,103	5,888
Maturity of over 1 year[2]							
14 Europe	9,605	7,634	6,737	6,696	5,914	5,420	5,320
15 Canada	1,882	1,805	1,925	2,661	2,213	2,337	2,070
16 Latin America and Caribbean	56,144	50,674	56,719	53,817	51,541	49,775	48,294
17 Asia	5,323	4,502	4,043	3,830	3,680	3,711	3,954
18 Africa	2,033	1,538	1,539	1,747	2,201	2,429	2,265
19 All other[3]	1,107	926	777	2,381	1,114	1,006	541

1. Reporting banks include all kinds of depository institutions besides commercial banks, as well as some brokers and dealers.

2. Remaining time to maturity.

3. Includes nonmonetary international and regional organizations.

3.21 CLAIMS ON FOREIGN COUNTRIES Held by U.S. Offices and Foreign Branches of U.S.-Chartered Banks[1,2]

Billions of dollars, end of period

Area or country	1984	1985	1986		1987				1988		
			Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	Sept.
1 **Total**	**405.7**	**385.4**	**381.6**	**385.1**	**395.4r**	**384.6**	**387.7**	**381.4r**	**373.1r**	**352.6r**	**356.9r**
2 G-10 countries and Switzerland	148.1	146.0	154.8	156.6	162.7	158.1	155.2	160.0r	156.7r	150.5	150.3
3 Belgium-Luxembourg	8.7	9.2	8.3	8.3	9.1	8.3	8.2	10.1	9.3	9.2	9.5
4 France	14.1	12.1	14.5	13.7	13.3	12.5	13.7	13.8	11.5	10.8	10.0
5 Germany	9.0	10.5	12.4	11.6	12.7	11.2	10.5	12.6	11.8	10.6	8.9
6 Italy	10.1	9.6	7.8	9.0	8.7r	7.5	6.6	7.3	7.4	6.1	5.9
7 Netherlands	3.9	3.7	3.9	4.6	4.4	7.3	4.8	4.0r	3.3	3.3	3.0
8 Sweden	3.2	2.7	2.7	2.4	3.0	2.4	2.6	2.1	2.1	1.9	2.0
9 Switzerland	3.9	4.4	4.7	5.8	5.8	5.7	5.4	5.6	5.1	5.6	5.2
10 United Kingdom	60.3	63.0	68.8	71.0	73.7	72.0r	72.1	69.1	71.4r	69.8	68.9
11 Canada	7.9	6.8	5.9	5.3	5.3	4.7	4.7	5.6r	4.9r	5.4	5.2
12 Japan	27.1	23.9	25.8	24.9	26.9	26.3r	26.5r	29.8	29.9r	27.9r	31.7
13 Other developed countries	33.6	29.9	28.9	25.7	25.7	25.2	25.9	26.2r	26.2	23.7	22.7
14 Austria	1.6	1.5	1.7	1.7	1.9	1.8	1.9	1.9	1.6	1.6	1.6
15 Denmark	2.2	2.3	2.2	1.7	1.7	1.5	1.6	1.7	1.4	1.0	1.1
16 Finland	1.9	1.6	1.6	1.4	1.4	1.4	1.4	1.3	1.0	1.2	1.3
17 Greece	2.9	2.6	2.3	2.3	2.1	2.0	1.9	2.0	2.3	2.2	2.1
18 Norway	3.0	2.9	2.7	2.4	2.2	2.1	2.0	2.3	2.0	2.0	2.0
19 Portugal	1.4	1.2	1.0	.8	.9r	.8	.8	.5	.4	.4	.4
20 Spain	6.5	5.8	6.7	5.8	6.3	6.1	7.4	8.0	9.0	7.2	6.3
21 Turkey	1.9	1.8	1.9	1.8	1.7	1.7	1.5	1.6	1.6	1.5	1.3
22 Other Western Europe	1.7	2.0	1.6	1.4	1.4	1.5	1.6	1.6	1.9	1.6	1.9
23 South Africa	4.5	3.2	3.0	3.0	3.0	3.0	2.9	2.9	2.8	2.8	2.7
24 Australia	6.0	5.0	4.2	3.5	3.2	3.1	2.9	2.4r	2.1	2.2	1.8
25 OPEC countries[3]	24.9	21.3	19.7	19.3	20.0	18.8	19.0	17.1	17.2r	16.4	17.6
26 Ecuador	2.2	2.1	2.2	2.2	2.1	2.1	2.1	1.9	1.9	1.8	1.8
27 Venezuela	9.3	8.9	8.7	8.6	8.5	8.4	8.3	8.1	8.1	8.0	7.9
28 Indonesia	3.3	3.0	2.8	2.5	2.4	2.2	2.0	1.9	1.9	1.9r	1.9
29 Middle East countries	7.9	5.3	4.4	4.3	5.4	4.4	5.0	3.6	3.6	3.1	4.3
30 African countries	2.3	2.0	1.7	1.7	1.6	1.7	1.7	1.7	1.7	1.7	1.7
31 Non-OPEC developing countries	111.8	104.2	99.1	99.1	100.7r	100.4r	97.7	97.7	94.0	91.3	87.0
Latin America											
32 Argentina	8.7	8.8	9.2	9.5	9.5	9.5	9.3	9.4	9.5	9.4	9.2
33 Brazil	26.3	25.4	25.2	25.2	26.2r	25.1	25.1	24.7	23.9	23.7	22.4
34 Chile	7.0	6.9	7.1	7.1	7.3r	7.2	7.0	6.9	6.6	6.4	6.2
35 Colombia	2.9	2.6	1.9	2.1	2.0	1.9	1.9	2.0	1.9	2.1	2.1
36 Mexico	25.7	23.9	23.9	23.8	24.1r	25.3	24.8	23.7	22.5	21.1	20.6
37 Peru	2.2	1.8	1.5	1.4	1.4	1.3	1.2	1.1	1.1	.9	.8
38 Other Latin America	3.9	3.4	3.3	3.1	3.0	2.9	2.8	2.7	2.8	2.6	2.5
Asia											
China											
39 Mainland	.7	.5	.6	.4	.9	.6	.3	.3	.4	.3	.3
40 Taiwan	5.1	4.5	4.3	4.9	5.5	6.6	6.0	8.2	6.1	4.9	3.1
41 India	.9	1.2	1.3	1.2	1.8r	1.7	1.9	1.9	2.1	2.3	2.0
42 Israel	1.8	1.6	1.4	1.5	1.4	1.3	1.3	1.0	1.0	1.0	1.0
43 Korea (South)	10.6	9.2	7.1	6.6	6.2	5.6	4.9r	5.0r	5.7r	5.9	6.0
44 Malaysia	2.7	2.4	2.1	2.1	1.9	1.7	1.6	1.5	1.5	1.5	1.6
45 Philippines	6.0	5.7	5.4	5.4	5.4	5.4	5.4	5.1	5.1	4.9	4.5
46 Thailand	1.8	1.4	1.0	.9	.9	.8	.7	.7	1.0	1.1	1.2
47 Other Asia	1.1	1.0	.6	.7	.6	.7	.7	.7	.7	.8	.8
Africa											
48 Egypt	1.2	1.0	.7	.7	.6	.6	.6	.5	.5	.6	.5
49 Morocco	.8	.9	.9	.9	.9	.9	.8	.9	.9	.9	.8
50 Zaire	.1	.1	.1	.1	.1	.1	.1	.0	.1	.1	.0
51 Other Africa[4]	2.1	1.9	1.6	1.6	1.4	1.3	1.3	1.3	1.0	1.2	1.2
52 Eastern Europe	4.4	4.1	3.3	3.2	3.0	3.3	3.3	3.0	2.9	3.1	3.1
53 U.S.S.R.	.1	.1	.1	.1	.1	.3	.5	.4	.3	.4	.4
54 Yugoslavia	2.3	2.2	1.9	1.7	1.6	1.7	1.7	1.6	1.7	1.7	1.7
55 Other	2.0	1.8	1.4	1.4	1.3	1.3	1.2	1.0	.9	1.0	1.1
56 Offshore banking centers	65.6	62.9	58.3	61.3	63.1r	60.7r	64.3	54.3r	54.6r	45.3r	48.8r
57 Bahamas	21.5	21.2	19.6	22.0	23.9r	19.9	25.5	17.1	18.3	11.0r	15.8r
58 Bermuda	.9	.7	.4	.7	.8	.6	.6	.6	.8	1.0	.9
59 Cayman Islands and other British West Indies	11.8	11.6	11.3	12.4	12.2r	14.0r	12.8	13.3r	12.2r	10.6r	10.6
60 Netherlands Antilles	3.4	2.2	1.8	1.8	1.7	1.3	1.2	1.2	1.3	1.2	1.2
61 Panama[5]	6.7	6.0	5.1	4.0	4.3r	3.9	3.7	3.7	3.2	3.0	2.7
62 Lebanon	.1	.1	.1	.1	.1	.1	.1	.1	.1	.1	
63 Hong Kong	11.4	11.4	10.3	11.1	11.4	12.5	12.3	11.3r	11.3	11.7	10.6
64 Singapore	9.8	9.8	9.7	9.2	8.6	8.3	8.1	7.0	7.4	6.8	7.0
65 Others[6]	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
66 Miscellaneous and unallocated[7]	17.3	16.9	17.3	19.8	20.1	18.1	22.3	23.2	21.5	22.2	27.0r

1. The banking offices covered by these data are the U.S. offices and foreign branches of U.S.-owned banks and of U.S. subsidiaries of foreign-owned banks. Offices *not* covered include (1) U.S. agencies and branches of foreign banks, and (2) foreign subsidiaries of U.S. banks. To minimize duplication, the data are adjusted to exclude the claims on foreign branches held by a U.S. office or another foreign branch of the same banking institution. The data in this table combine foreign branch claims in table 3.14 (the sum of lines 7 through 10) with the claims of U.S. offices in table 3.18 (excluding those held by agencies and branches of foreign banks and those constituting claims on own foreign branches).
2. Beginning with June 1984 data, reported claims held by foreign branches have been reduced by an increase in the reporting threshold for "shell" branches from $50 million to $150 million equivalent in total assets, the threshold now applicable to all reporting branches.
3. This group comprises the Organization of Petroleum Exporting Countries shown individually, other members of OPEC (Algeria, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, and United Arab Emirates), and Bahrain and Oman (not formally members of OPEC).
4. Excludes Liberia.
5. Includes Canal Zone beginning December 1979.
6. Foreign branch claims only.
7. Includes New Zealand, Liberia, and international and regional organizations.

3.22 LIABILITIES TO UNAFFILIATED FOREIGNERS Reported by Nonbanking Business Enterprises in the United States[1]

Millions of dollars, end of period

	Type, and area or country	1984	1985	1986	1987		1988		
					Sept.	Dec.	Mar.[r]	June[r]	Sept.[p]
1	**Total**	**29,357**	**27,825**	**25,587[r]**	**28,571[r]**	**27,852[r]**	**28,877**	**29,387**	**30,902**
2	Payable in dollars	26,389	24,296	21,749[r]	24,006[r]	22,468[r]	23,293	24,136	25,727
3	Payable in foreign currencies	2,968	3,529	3,838[r]	4,565[r]	5,384[r]	5,584	5,251	5,175
	By type								
4	Financial liabilities	14,509	13,600	12,133[r]	12,936[r]	11,828[r]	13,134	13,112	13,456
5	Payable in dollars	12,553	11,257	9,609[r]	9,945[r]	8,303[r]	9,459	9,607	10,082
6	Payable in foreign currencies	1,955	2,343	2,524[r]	2,991[r]	3,525[r]	3,675	3,505	3,374
7	Commercial liabilities	14,849	14,225	13,454[r]	15,635	16,025[r]	15,743	16,275	17,446
8	Trade payables	7,005	6,685	6,450[r]	7,548	7,425[r]	6,560	6,867	6,615
9	Advance receipts and other liabilities	7,843	7,540	7,004	8,086	8,600[r]	9,183	9,409	10,832
10	Payable in dollars	13,836	13,039	12,140[r]	14,061	14,165[r]	13,834	14,529	15,645
11	Payable in foreign currencies	1,013	1,186	1,314	1,574	1,859	1,909	1,746	1,801
	By area or country								
	Financial liabilities								
12	Europe	6,728	7,700	7,917[r]	9,162[r]	8,065[r]	8,983	8,758	9,442
13	Belgium-Luxembourg	471	349	270	230	202	241	269	326
14	France	995	857	661	615	364	365	332	329
15	Germany	489	376	368	505	583	586	626	709
16	Netherlands	590	861	542[r]	505[r]	884[r]	883	880	893
17	Switzerland	569	610	646	685	493	652	707	697
18	United Kingdom	3,297	4,305	5,140	6,357	5,346[r]	6,074	5,772	6,318
19	Canada	863	839	399	397	400	467	461	439
20	Latin America and Caribbean	5,086	3,184	1,944[r]	998[r]	829[r]	1,178	1,175	894
21	Bahamas	1,926	1,123	614	280	278	249	211	233
22	Bermuda	13	4	4	0	0	0	0	0
23	Brazil	35	29	32	22	25	23	20	35
24	British West Indies	2,103	1,843	1,146[r]	618[r]	459[r]	807	878	581
25	Mexico	367	15	22	17	13	15	26	2
26	Venezuela	137	3	0	3	0	2	0	0
27	Asia	1,777	1,815	1,805	2,300	2,429	2,426	2,641	2,672
28	Japan	1,209	1,198	1,398	1,830	2,042	1,987	2,066	2,076
29	Middle East oil-exporting countries[2]	155	82	8	7	8	11	11	11
30	Africa	14	12	1	2	4	5	2	3
31	Oil-exporting countries[3]	0	0	1	0	1	3	1	1
32	All other[4]	41	50	67	76	100	75	74	7
	Commercial liabilities								
33	Europe	4,001	4,074	4,446[r]	4,951	5,635[r]	5,738	5,836	6,744
34	Belgium-Luxembourg	48	62	101	59	134[r]	156	150	204
35	France	438	453	352	437	451	441	433	470
36	Germany	622	607	715[r]	674	916	818	798	1,204
37	Netherlands	245	364	424	336	428[r]	463	535	653
38	Switzerland	257	379	385[r]	556	559	527	482	394
39	United Kingdom	1,095	976	1,341	1,473	1,668	1,798	1,848	2,187
40	Canada	1,975	1,449	1,405	1,399	1,301	1,392	1,168	1,139
41	Latin America and Caribbean	1,871	1,088	924	1,082	865	938	996	1,016
42	Bahamas	7	12	32	22	19	15	58	20
43	Bermuda	114	77	156	252	168	325	272	222
44	Brazil	124	58	61	40	46	59	53	58
45	British West Indies	32	44	49	47	19	14	28	30
46	Mexico	586	430	217	231	189	164	233	193
47	Venezuela	636	212	216	176	162	85	111	207
48	Asia	5,285	6,046	5,080[r]	6,511	6,573	5,888	6,262	6,671
49	Japan	1,256	1,799	2,042[r]	2,422	2,580	2,510	2,659	2,789
50	Middle East oil-exporting countries[2,5]	2,372	2,829	1,679	2,104	1,964	1,062	1,318	1,313
51	Africa	588	587	619	572	574	575	624	463
52	Oil-exporting countries[3]	233	238	197	151	135	139	115	106
53	All other[4]	1,128	982	980	1,119	1,078	1,211	1,390	1,415

1. For a description of the changes in the International Statistics tables, see July 1979 BULLETIN, p. 550.
2. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).
3. Comprises Algeria, Gabon, Libya, and Nigeria.
4. Includes nonmonetary international and regional organizations.
5. Revisions include a reclassification of transactions, which also affects the totals for Asia and the grand totals.

3.23 CLAIMS ON UNAFFILIATED FOREIGNERS Reported by Nonbanking Business Enterprises in the United States[1]

Millions of dollars, end of period

	Type, and area or country	1984	1985	1986	1987		1988		
					Sept.	Dec.[r]	Mar.[r]	June[r]	Sept.[p]
1	**Total**	**29,901**	**28,876**	**36,265[r]**	**33,265[r]**	**31,967**	**31,445**	**38,716**	**37,969**
2	Payable in dollars	27,304	26,574	33,867[r]	30,705[r]	29,114	29,368	36,637	35,387
3	Payable in foreign currencies	2,597	2,302	2,399	2,561	2,854	2,077	2,078	2,582
	By type								
4	Financial claims	19,254	18,891	26,273	22,847[r]	21,338	20,612	27,102	26,969
5	Deposits	14,621	15,526	19,916	17,274[r]	15,214	13,257	20,037	19,866
6	Payable in dollars	14,202	14,911	19,331	16,366[r]	13,997	12,604	19,195	18,666
7	Payable in foreign currencies	420	615	585	908	1,217	654	842	1,200
8	Other financial claims	4,633	3,364	6,357	5,572	6,124	7,355	7,064	7,104
9	Payable in dollars	3,190	2,330	5,005	4,448[r]	5,020	6,301	6,238	6,276
10	Payable in foreign currencies	1,442	1,035	1,352	1,124	1,104	1,054	826	828
11	Commercial claims	10,646	9,986	9,992[r]	10,419[r]	10,630	10,832	11,614	10,999
12	Trade receivables	9,177	8,696	8,783	9,420[r]	9,565	9,719	10,558	10,016
13	Advance payments and other claims	1,470	1,290	1,209[r]	999[r]	1,065	1,113	1,056	984
14	Payable in dollars	9,912	9,333	9,530[r]	9,891[r]	10,097	10,464	11,204	10,445
15	Payable in foreign currencies	735	652	462	528	533	369	410	554
	By area or country								
	Financial claims								
16	Europe	5,762	6,929	10,744	10,785	10,182	10,314	12,577	11,292
17	Belgium-Luxembourg	15	10	41	26	7	15	16	49
18	France	126	184	138	171	360	335	185	212
19	Germany	224	223	116	103	122	112	181	130
20	Netherlands	66	161	151	157	351	336	337	364
21	Switzerland	66	74	185	44	84	57	82	94
22	United Kingdom	4,864	6,007	9,855	10,074	9,008	9,210	11,407	9,820
23	Canada	3,988	3,260	4,808	3,295[r]	3,293	2,777	3,074	3,768
24	Latin America and Caribbean	8,216	7,846	9,291	7,568[r]	6,817	6,572	10,898	11,178
25	Bahamas	3,306	2,698	2,628	3,299	1,804	2,349	4,145	4,015
26	Bermuda	6	6	6	2	7	43	126	212
27	Brazil	100	78	86	113	63	86	46	65
28	British West Indies	4,043	4,571	6,078	3,705[r]	4,427	3,561	6,077	6,417
29	Mexico	215	180	174	174	172	154	147	133
30	Venezuela	125	48	21	18	19	35	28	27
31	Asia	961	731	1,317	1,105	908	874	446	610
32	Japan	353	475	999	737	628	708	211	425
33	Middle East oil-exporting countries[2]	13	4	7	10	10	7	6	6
34	Africa	210	103	85	71	65	53	60	96
35	Oil-exporting countries[3]	85	29	28	14	7	7	10	9
36	All other[4]	117	21	28	24	72	23	47	26
	Commercial claims								
37	Europe	3,801	3,533	3,725[r]	4,166[r]	4,190	4,201	4,901	4,257
38	Belgium-Luxembourg	165	175	133	169	179	192	159	170
39	France	440	426	431[r]	462[r]	652	554	686	535
40	Germany	374	346	444	551[r]	562	637	770	601
41	Netherlands	335	284	164	190	135	151	173	146
42	Switzerland	271	284	217	206	185	172	262	182
43	United Kingdom	1,063	898	999	1,228	1,086	1,084	1,300	1,184
44	Canada	1,021	1,023	934	1,051	931	1,155	946	901
45	Latin America and Caribbean	2,052	1,753	1,857	1,732[r]	1,947	1,973	2,090	2,115
46	Bahamas	8	13	28	12	19	14	13	12
47	Bermuda	115	93	193	143	170	171	174	161
48	Brazil	214	206	234	231	227	214	234	236
49	British West Indies	7	6	39	20	26	24	25	22
50	Mexico	583	510	412	369	368	374	399	460
51	Venezuela	206	157	237	192	298	314	343	290
52	Asia	3,073	2,982	2,755	2,800	2,919	2,857	3,002	3,014
53	Japan	1,191	1,016	881	1,027	1,160	1,109	1,169	992
54	Middle East oil-exporting countries[2]	668	638	563	434	450	408	445	406
55	Africa	470	437	500	407	401	419	422	419
56	Oil-exporting countries[3]	134	130	139	124	144	126	136	136
57	All other[4]	229	257	222	262	241	227	253	294

1. For a description of the changes in the International Statistics tables, see July 1979 BULLETIN, p. 550.
2. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).
3. Comprises Algeria, Gabon, Libya, and Nigeria.
4. Includes nonmonetary international and regional organizations.

3.24 FOREIGN TRANSACTIONS IN SECURITIES

Millions of dollars

Transactions, and area or country	1986	1987	1988 Jan.–Nov.	1988 May	June	July	Aug.	Sept.	Oct.	Nov.[p]
	U.S. corporate securities									
STOCKS										
1 Foreign purchases	148,114	249,122[r]	169,736	13,654	20,007	19,207	17,275	11,971	13,232	11,973
2 Foreign sales	129,395	232,849	170,550	14,723	19,678	18,383	16,704	12,552	14,852	11,861
3 **Net purchases, or sales (–)**	**18,719**	**16,272[r]**	**–814**	**–1,069**	**329**	**824**	**572**	**–581**	**–1,620**	**112**
4 **Foreign countries**	**18,927**	**16,321[r]**	**–683**	**–976**	**287**	**793**	**548**	**–554**	**–1,507**	**89**
5 Europe	9,559	1,932[r]	–2,652	–1,151	33	227	287	–616	–128	–901
6 France	459	905	–217	–153	121	–34	–21	–37	89	–49
7 Germany	341	–70[r]	282	–66	–36	–3	9	–14	107	–20
8 Netherlands	936	892	–534	–43	–56	20	–5	–56	17	–30
9 Switzerland	1,560	–1,123	–1,969	–247	–204	–90	–37	–506	–217	–268
10 United Kingdom	4,826	631[r]	–611	–711	146	253	234	245	–41	–579
11 Canada	816	1,048	813	102	–172	58	162	44	–116	576
12 Latin America and Caribbean	3,031	1,318[r]	1,271	–82	–116	58	159	310	374	98
13 Middle East[1]	976	–1,360	–2,334	62	–549	–159	91	–188	–846	151
14 Other Asia	3,876	12,896	1,929	106	1,039	518	–228	–127	–693	138
15 Japan	3,305	11,365	2,330	85	1,187	475	–282	24	–626	133
16 Africa	297	123	189	23	3	78	41	5	5	21
17 Other countries	373	365	102	–35	51	13	36	19	–102	6
18 **Nonmonetary international and regional organizations**	**–208**	**–48**	**–130**	**–92**	**42**	**31**	**23**	**–28**	**–112**	**23**
BONDS[2]										
19 Foreign purchases	123,169	105,856	77,942	7,810	8,341	8,277	5,966	7,450	7,552	7,653
20 Foreign sales	72,520	78,312	53,257	3,700[r]	4,590	5,064	4,144	5,048[r]	4,656	4,794
21 **Net purchases, or sales (–)**	**50,648**	**27,544**	**24,686**	**4,110[r]**	**3,751**	**3,213**	**1,822**	**2,401[r]**	**2,896**	**2,859**
22 **Foreign countries**	**49,801**	**26,804**	**25,236**	**4,080[r]**	**3,569**	**3,190**	**1,837**	**2,337[r]**	**3,020**	**2,828**
23 Europe	39,313	21,989	15,343	2,074[r]	2,203	1,744	1,482	1,611[r]	2,341	1,250
24 France	389	194	272	–18	15	–7	5	90	45	13
25 Germany	–251	33	1,269	11	226	8	166	160	34	–122
26 Netherlands	387	269	1,502	180	55	17	41	415	545	176
27 Switzerland	4,529	1,587	240	152	–71	–139	84	97	175	–13
28 United Kingdom	33,900	19,770	11,180	1,705[r]	1,738	1,685	1,188	793[r]	1,339	1,146
29 Canada	548	1,296	533	98	216	130	27	–155	20	5
30 Latin America and Caribbean	1,552	2,857	1,683	141	174	254	193	45	198	51
31 Middle East[1]	–3,113	–1,314	–333	–4	–124	–101	–87	–14	–45	143
32 Other Asia	11,346	2,021	8,078	1,755	1,091	1,152	254	916	502	1,353
33 Japan	9,611	1,622	6,958	1,641	1,049	1,035	178	575	399	1,210
34 Africa	16	16	–8	–2	4	0	1	1	4	–1
35 Other countries	139	–61	–60	17	5	10	–33	–67[r]	–1	26
36 **Nonmonetary international and regional organizations**	**847**	**740**	**–550**	**31**	**182**	**23**	**–14**	**64**	**–124**	**31**
	Foreign securities									
37 Stocks, net purchases, or sales (–)	–1,853	1,081[r]	–638	852[r]	–160[r]	–126	–257	–57	–125	–185
38 Foreign purchases	49,149	95,458[r]	67,308	5,969[r]	6,413[r]	7,052	5,904	5,054	6,071	7,625
39 Foreign sales	51,002	94,377[r]	67,945	5,117[r]	6,573[r]	7,178	6,161	5,111	6,196	7,810
40 Bonds, net purchases, or sales (–)	–3,685	–7,946[r]	–8,427	829[r]	–699[r]	–659	–363	–509	–3,389	435
41 Foreign purchases	166,992	199,089[r]	195,950	15,127[r]	17,033[r]	19,224	17,038	25,271	20,525	20,875
42 Foreign sales	170,677	207,035[r]	204,378	14,299[r]	17,732[r]	19,882	17,401	25,780	23,914	20,440
43 **Net purchases, or sales (–), of stocks and bonds**	**–5,538**	**–6,865[r]**	**–9,065**	**1,681[r]**	**–858[r]**	**–785**	**–620**	**–566**	**–3,514**	**250**
44 **Foreign countries**	**–6,493**	**–6,757[r]**	**–9,447**	**1,465[r]**	**–770[r]**	**–759**	**–650**	**–547**	**–3,564**	**214**
45 Europe	–18,026	–12,101[r]	–8,769	637[r]	–1,185	–488	–897	–446	–2,881	–478
46 Canada	–876	–4,072[r]	–3,142	–162	–190[r]	–319	216	–730	–273	392
47 Latin America and Caribbean	3,476	828	1,508	322	301	–48	–34	290	–120	57
48 Asia	10,858	9,299[r]	1,082	678[r]	552[r]	237	–114	189	130	172
49 Africa	52	89	–20	–1	1	11	37	28	–189	18
50 Other countries	–1,977	–800[r]	–106	–9[r]	–248[r]	–153	143	121	–230	52
51 **Nonmonetary international and regional organizations**	**955**	**–108[r]**	**382**	**216**	**–89**	**–26**	**30**	**–19**	**49**	**36**

1. Comprises oil–exporting countries as follows: Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).
2. Includes state and local government securities, and securities of U.S. government agencies and corporations. Also includes issues of new debt securities sold abroad by U.S. corporations organized to finance direct investments abroad.

3.25 MARKETABLE U.S. TREASURY BONDS AND NOTES Foreign Transactions

Millions of dollars

Country or area	1986	1987	1988	1988						
			Jan.–Nov.	May	June	July	Aug.	Sept.	Oct.	Nov.[p]
	Transactions, net purchases or sales (–) during period[1]									
1 **Estimated total**[2]	**19,388**	**25,587**	**48,413**	**11,062**	**–2,161**[r]	**905**	**–383**	**–1,937**[r]	**2,196**	**8,596**
2 Foreign countries[2]	20,491	30,889	45,715	9,972	–3,336[r]	2,156	–149	–2,259	–241	8,261
3 Europe[2]	16,326	23,716	13,970	3,108	–3,226	–1,460	–836	–1,233	–175	1,733
4 Belgium-Luxembourg	–245	653	1,013	159	–68	122	–209	–333	–3	133
5 Germany[2]	7,670	13,330	–4,942	79	–4,241	–4,240	–2,020	–720	277	–1,015
6 Netherlands	1,283	–913	–242	–22	–796	312	–346	–58	41	135
7 Sweden	132	210	–441	104	–232	–187	175	–121	–162	355
8 Switzerland[2]	329	1,917	–1,056	–309	654	–51	344	–1,355	87	–411
9 United Kingdom	4,546	3,975	9,898	1,523	47	837	416	2,023	–1,019	1,945
10 Other Western Europe	2,613	4,563	9,736	1,560	1,420	1,755	803	–663	615	591
11 Eastern Europe	0	–19	5	14	–10	–9	0	–7	–10	–2
12 Canada	881	4,526	2,974	1,415	669	–314	–315	–167	633	–368
13 Latin America and Caribbean	926	–2,192	800	360	–580	0	–312	269	–574	582
14 Venezuela	–96	150	–109	1	2	–2	–128	–17	1	0
15 Other Latin America and Caribbean	1,130	–1,142	973	–17	63	57	–292	285	–331	506
16 Netherlands Antilles	–108	–1,200	–63	376	–645	–55	108	1	–244	77
17 Asia	1,345	4,488	26,547	4,476	–381[r]	3,246	919	–1,351	–104	6,870
18 Japan	–22	868	21,913	2,820	–52	3,006	1,540	–2,841	223	4,224
19 Africa	–54	–56	–6	–13	–1	–10	5	31	0	–8
20 All other	1,067	407	1,429	626	183	694	391	193	–21	–548
21 Nonmonetary international and regional organizations	–1,104	–5,300	2,700	1,090	1,174	–1,251[r]	–234	323[r]	2,438	335
22 International	–1,430	–4,387	3,160	1,155	1,546	–1,137	–282	294[r]	2,365	489
23 Latin American regional	157	3	–41	7	–38	–14	–8	0	0	10
Memo										
24 Foreign countries[2]	20,491	30,889	45,715	9,972	–3,336[r]	2,156	–149[r]	–2,259	–241	8,261
25 Official institutions	14,214	31,064	24,369	5,062	–1,658	–2,362	–1,450	–1,481[r]	557	2,204
26 Other foreign[2]	6,283	–181	21,345	4,910	–1,678	4,518	1,301	–779[r]	–798	6,058
Oil-exporting countries										
27 Middle East[3]	–1,529	–3,142	833	–612	–201	295	449	–182	–1,023	2,121
28 Africa[4]	5	16	1	0	0	0	0	0	0	0

1. Estimated official and private transactions in marketable U.S. Treasury securities with an original maturity of more than 1 year. Data are based on monthly transactions reports. Excludes nonmarketable U.S. Treasury bonds and notes held by official institutions of foreign countries.

2. Includes U.S. Treasury notes publicly issued to private foreign residents denominated in foreign currencies.

3. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).

4. Comprises Algeria, Gabon, Libya, and Nigeria.

3.26 DISCOUNT RATES OF FOREIGN CENTRAL BANKS

Percent per year

Country	Rate on Jan. 31, 1989		Country	Rate on Jan. 31, 1989		Country	Rate on Jan. 31, 1989	
	Percent	Month effective		Percent	Month effective		Percent	Month effective
Austria	4.5	Jan. 1989	France[1]	8.25	Jan. 1989	Norway	8.0	June 1983
Belgium	8.25	Jan. 1989	Germany, Fed. Rep. of	4.0	Jan. 1989	Switzerland	4.0	Jan. 1989
Brazil	49.0	Mar. 1981	Italy	12.5	Aug. 1988	United Kingdom[2]	....	....
Canada	11.43	Jan. 1989	Japan	2.5	Feb. 1987	Venezuela	8.0	Oct. 1985
Denmark	7.0	Oct. 1983	Netherlands	5.0	Jan. 1989			

1. As of the end of February 1981, the rate is that at which the Bank of France discounts Treasury bills for 7 to 10 days.
2. Minimum lending rate suspended as of Aug. 20, 1981.
NOTE. Rates shown are mainly those at which the central bank either discounts or makes advances against eligible commercial paper and/or government commercial banks or brokers. For countries with more than one rate applicable to such discounts or advances, the rate shown is the one at which it is understood the central bank transacts the largest proportion of its credit operations.

3.27 FOREIGN SHORT-TERM INTEREST RATES

Percent per year, averages of daily figures

Country, or type	1986	1987	1988	1988						1989
				July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
1 Eurodollars	6.70	7.07	7.86	8.09	8.47	8.31	8.51	8.91	9.30	9.28
2 United Kingdom	10.87	9.65	10.28	10.45	11.29	12.09	11.94	12.23	13.07	13.06
3 Canada	9.18	8.38	9.63	9.42	9.92	10.48	10.48	10.86	11.15	11.34
4 Germany	4.58	3.97	4.28	4.88	5.28	4.93	5.03	4.91	5.32	5.63
5 Switzerland	4.19	3.67	2.94	3.67	3.57	3.34	3.62	4.10	4.77	5.31
6 Netherlands	5.56	5.24	4.72	4.85	4.50	5.51	5.35	5.30	5.60	5.99
7 France	7.68	8.14	7.80	7.32	7.58	7.86	7.87	8.03	8.36	8.55
8 Italy	12.60	11.15	11.04	11.02	11.02	11.27	11.30	11.48	11.96	11.84
9 Belgium	8.04	7.01	6.69	6.84	7.25	7.39	7.24	7.18	7.38	7.59
10 Japan	4.96	3.87	3.96	3.84	3.98	4.15	4.26	4.22	4.16	4.24

NOTE. Rates are for 3-month interbank loans except for Canada, finance company paper; Belgium, 3-month Treasury bills; and Japan, Gensaki rate.

3.28 FOREIGN EXCHANGE RATES[1]

Currency units per dollar

Country/currency	1986	1987	1988	1988					1989
				Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
1 Australia/dollar[2]	67.093	70.136	78.408	80.57	79.15	80.96	85.07	85.73	87.05
2 Austria/schilling	15.260	12.649	12.357	13.281	13.135	12.777	12.307	12.359	12.904
3 Belgium/franc	44.662	37.357	36.783	39.562	39.149	38.077	36.670	36.815	38.441
4 Canada/dollar	1.3896	1.3259	1.2306	1.2237	1.2267	1.2055	1.2186	1.1962	1.1913
5 China, P.R./yuan	3.4615	3.7314	3.7314	3.7314	3.7314	3.7314	3.7314	3.7314	3.7314
6 Denmark/krone	8.0954	6.8477	6.7411	7.2280	7.1764	7.0055	6.7547	6.7891	7.1143
7 Finland/markka	5.0721	4.4036	4.1933	4.4720	4.4282	4.3041	4.1522	4.1408	4.2553
8 France/franc	6.9256	6.0121	5.9594	6.3919	6.3515	6.1975	5.9746	5.9994	6.2538
9 Germany/deutsche mark	2.1704	1.7981	1.7569	1.8880	1.8668	1.8165	1.7491	1.7563	1.8356
10 Greece/drachma	139.93	135.47	142.00	151.62	151.47	148.71	145.22	146.10	152.25
11 Hong Kong/dollar	7.8037	7.7985	7.8071	7.8050	7.8106	7.8133	7.8095	7.8062	7.8047
12 India/rupee	12.597	12.943	13.899	14.217	14.490	14.720	14.966	15.019	15.092
13 Ireland/punt[2]	134.14	148.79	152.49	142.17	143.60	147.30	152.70	152.29	145.82
14 Italy/lira	1491.16	1297.03	1302.39	1397.93	1393.15	1353.36	1300.22	1295.61	1345.12
15 Japan/yen	168.35	144.60	128.17	133.77	134.32	128.68	123.20	123.61	127.36
16 Malaysia/ringgit	2.5830	2.5185	2.6189	2.6520	2.6643	2.6785	2.6779	2.6935	2.7221
17 Netherlands/guilder	2.4484	2.0263	1.9778	2.1319	2.1063	2.0486	1.9729	1.9824	2.0723
18 New Zealand/dollar[2]	52.456	59.327	65.558	64.815	61.480	62.113	64.067	63.621	62.412
19 Norway/krone	7.3984	6.7408	6.5242	6.9016	6.9150	6.7400	6.5796	6.5234	6.6808
20 Portugal/escudo	149.80	141.20	144.26	153.72	154.18	150.13	145.57	145.56	150.74
21 Singapore/dollar	2.1782	2.1059	2.0132	2.0417	2.0409	2.0202	1.9616	1.9442	1.9404
22 South Africa/rand	2.2918	2.0385	2.1900	2.4531	2.4575	2.4662	2.3943	2.3487	2.3847
23 South Korea/won	884.61	825.93	734.51	725.74	723.00	712.72	696.08	687.89	685.28
24 Spain/peseta	140.04	123.54	116.52	124.122	124.36	120.02	115.17	113.73	114.78
25 Sri Lanka/rupee	27.933	29.471	31.847	32.807	32.953	32.989	32.989	33.016	33.132
26 Sweden/krona	7.1272	6.3468	6.1369	6.4878	6.4448	6.2694	6.0968	6.0888	6.2725
27 Switzerland/franc	1.7979	1.4918	1.4642	1.5837	1.5763	1.5372	1.4675	1.4799	1.5619
28 Taiwan/dollar	37.837	31.756	28.636	28.693	28.914	28.880	28.170	28.199	27.821
29 Thailand/baht	26.314	25.774	25.312	25.560	25.548	25.365	25.146	25.146	25.322
30 United Kingdom/pound[2]	146.77	163.98	178.13	169.65	168.40	173.87	180.85	182.58	177.37
MEMO									
31 United States/dollar[3]	112.22	96.94	92.72	98.29	97.91	95.10	91.91	91.88	95.12

1. Averages of certified noon buying rates in New York for cable transfers. Data in this table also appear in the Board's G.5 (405) release. For address, see inside front cover.
2. Value in U.S. cents.
3. Index of weighted-average exchange value of U.S. dollar against the currencies of 10 industrial countries. The weight for each of the 10 countries is the 1972–76 average world trade of that country divided by the average world trade of all 10 countries combined. Series revised as of August 1978 (see FEDERAL RESERVE BULLETIN, vol. 64, August 1978, p. 700).

Guide to Tabular Presentation, Statistical Releases, and Special Tables

GUIDE TO TABULAR PRESENTAION

Symbols and Abbreviations

c	Corrected
e	Estimated
p	Preliminary
r	Revised (Notation appears on column heading when about half of the figures in that column are changed.)
*	Amounts insignificant in terms of the last decimal place shown in the table (for example, less than 500,000 when the smallest unit given is millions)
0	Calculated to be zero
n.a.	Not available
n.e.c.	Not elsewhere classified
IPCs	Individuals, partnerships, and corporations
REITs	Real estate investment trusts
RPs	Repurchase agreements
SMSAs	Standard metropolitan statistical areas
. . .	Cell not applicable

General Information

Minus signs are used to indicate (1) a decrease, (2) a negative figure, or (3) an outflow.

"U.S. government securities" may include guaranteed issues of U.S. government agencies (the flow of funds figures also include not fully guaranteed issues) as well as direct obligations of the Treasury. "State and local government" also includes municipalities, special districts, and other political subdivisions.

In some of the tables, details do not add to totals because of rounding.

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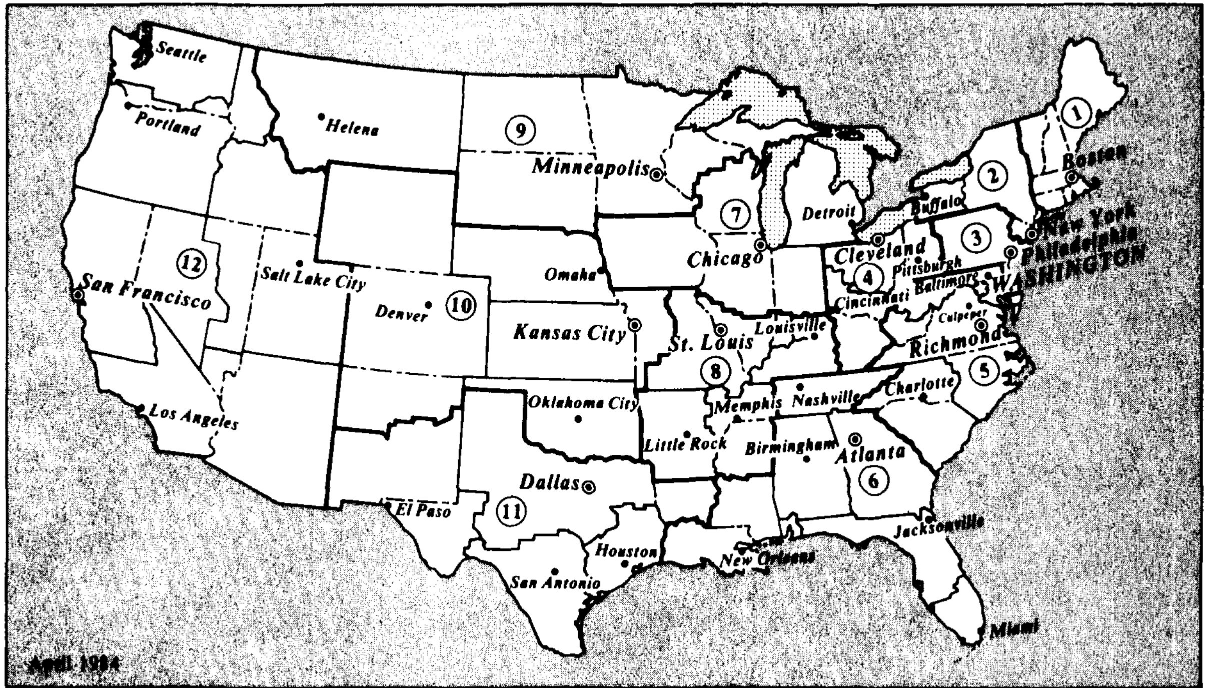

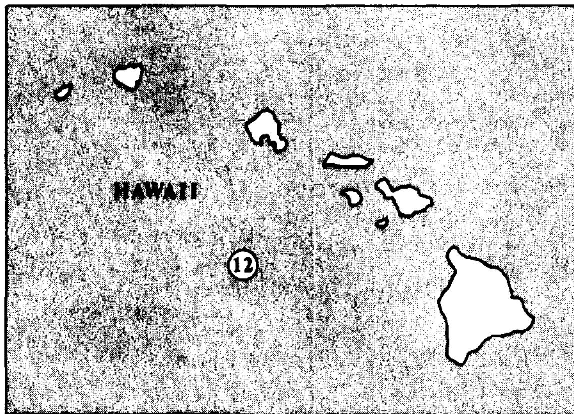

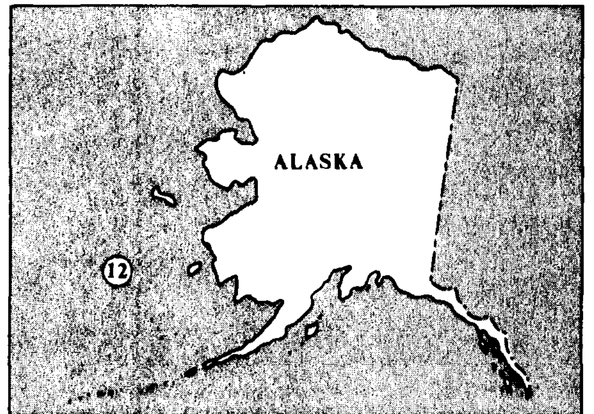

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