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CONFIDENTIAL (FR)

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

December 10, 1971

By the Staff
Board of Governors
of the Federal Reserve System

SUPPLEMENTAL NOTES

The Domestic Economy

Inventories. Book value of retail trade inventories declined at a \$0.5 billion annual rate in October, as stocks at automotive and GAAF outlets declined. Based on the advance retail sales estimate, the retail stock-sales ratio declined slightly, from 1.45 to 1.44.

For total manufacturing and trade stocks, the October increase was at a \$5.7 billion rate compared with \$6.1 billion in the third quarter. The turnaround from negative to positive in manufacturing stocks almost offset the switch from positive to negative at retail. The overall inventory-sales ratio rose from 1.55 in September to 1.56 in October.

Manufacturers' inventory and sales anticipations. When surveyed in November, manufacturers anticipated adding to the book value of their inventories at an annual rate of \$5.2 billion in the fourth quarter; this was slightly higher than their anticipations taken three months earlier, and if realized would be the highest rate since 1969-III. For the first quarter of next year they anticipate a \$2.4 billion rate of accumulation.

However, inventory growth fell short even of the more reliable second anticipation in the two latest quarters, with the actual third quarter rate a rundown instead of the anticipated \$1.6 billion rate buildup. Third quarter sales also declined rather than increasing as anticipated.

For sales, a slight increase is expected in the fourth quarter and a 3.2 per cent rise (quarterly rate) in the first quarter, resulting in a rise in the inventory-sales ratio in December and then a drop to 1.70 by March.

The amount and percentage of inventory reported as excess (net) were unchanged from June to September and were below 1970 levels.

The Domestic Financial Situation

Mortgage quality. The quality of home mortgage debt outstanding deteriorated further during the third quarter, according to the Mortgage Bankers Association after-the-fact delinquency and foreclosure series, which are heavily weighted with FHA and VA loans. The average delinquency rate of 3.59 per cent was the highest for any third quarter in the history of the series, which began in 1953. The further rise partly reflected an additional spurt in delinquency rates on loans under FHA's Sec. 235 program that subsidizes interest rates down to 1 per cent for eligible lower-income homeowners. Delinquency rates on these subsidized loans continued to run more than twice the average rates indicated for other types of FHA-insured loans in the MBA series. Meanwhile, foreclosure rates edged up to a new third-quarter high of .41 per cent.

DELINQUENCY AND FORECLOSURE RATES ON HOME MORTGAGES
(Per cent)

	Third quarter averages		Third quarter					
	1954-61	1962-71	1966	1967	1968	1969	1970	1971
Delinquent	2.66	3.11	3.09	3.15	2.93	2.91	3.10	3.59
In foreclosure	n.a.	.32	.36	.31	.26	.25	.31	.41

NOTE: Mortgage Bankers Association survey based on several million mortgages on 1-to 4-family properties held or serviced by approximately 400 member respondents, largely involving FHA and VA loans.

Monetary aggregates. The revisions to recent M_1 data noted in the Greenbook now have been completed and the resulting rates of change are shown in the revised Monetary Aggregates table. The annual rate of decline in M_1 for September has been reduced to -2.1 from the -3.2 per cent shown earlier, while October now shows a 0.5 per cent rate of growth as compared with the previous 1.6 per cent rate of decline. The annual rate of increase for November has been reduced to 0.5 per cent from the 1.1 per cent rise shown earlier, a somewhat smaller downward adjustment than was anticipated. This smaller November adjustment is not related to the effects of the revision but reflects final figures for the last week of the month which came in considerably stronger than the preliminary unpublished estimate.

MONETARY AGGREGATES
(Seasonally adjusted changes)

	1 9 7 1				
	QI	QII	QIII	Oct.	Nov.
	<u>Annual percentage rates</u>				
1. M ₁ (Currency plus private demand deposits)	9.1	10.6	3.7r	.5r	.5p
2. M ₂ (M ₁ plus commercial bank time and savings deposits other than large CD's)	18.1	12.4	4.4r	7.1r	6.8p
3. M ₃ (M ₂ plus savings deposits at mutual savings banks and S&L's)	19.0	14.7r	7.4r	9.1r	8.3p
4. Adjusted bank credit proxy	10.9	8.4	7.6	4.8	12.2p
5. Other aggregates					
a) Total time and savings deposits	28.8	14.7	8.2	17.1	9.6p
b) Time and savings deposits other than large CD's	27.5	14.0	5.3	13.7	13.5p
	<u>Billions of dollars</u>				
c) Negotiable CD's (Monthly or monthly average)	.9	.4	.8	1.1	-.5p
d) Nondeposit sources (Monthly or monthly average)	-1.5	-.9	-.1	.8	.5p

r - Revised

p - Preliminary

INTEREST RATES

	1971							
	Highs		Lows		Aug. 13	Nov. 15	Dec. 9	
<u>Short-Term Rates</u>								
Federal funds (wkly. avg.)	5.59	(9/15)	3.29	(3/10)	5.59	(8/11)	4.93(11/10)	4.59
3-month								
Treasury bills (bid)	5.53	(7/19)	3.22	(3/11)	5.15		4.16	4.11
Bankers' acceptances	5.62	(8/23)	3.88	(3/10)	5.62		4.75	4.50
Euro-dollars	10.00	(8/17)	4.94	(3/17)	7.89		5.90	6.64
Federal agencies	5.70	(7/30)	3.27	(2/24)	5.58		4.33(11/10)	4.17
Comm. paper (90-119 day)	5.88	(8/18)	4.25	(4/12)	5.88		4.88	4.75
CD's (prime NYC)								
Most often quoted new	5.75	(8/11)	3.62	(3/24)	5.75		4.75(11/10)	4.75
Secondary market	6.05	(8/18)	3.80	(3/17)	5.88	(8/11)	4.88(11/10)	4.80
6-month								
Treasury bills (bid)	5.84	(7/24)	3.35	(3/11)	5.51		4.31	4.30
Bankers' acceptances	5.75	(8/23)	4.00	(3/10)	5.75	(e)	4.88 (e)	4.62(e)
Comm. paper (4-6 mo.)	5.88	(8/18)	4.00	(3/29)	5.88		5.00	4.88
Federal agencies	6.02	(7/30)	3.53	(3/10)	5.83		4.43(11/10)	4.55
CD's (prime NYC)								
Most often quoted new	6.00	(8/11)	4.00	(3/24)	6.00		5.00(11/10)	4.88
Secondary market	6.40	(8/18)	3.70	(3/3)	6.25	(8/11)	5.00(11/10)	5.02
1-year								
Treasury bills (bid)	6.01	(7/28)	3.45	(3/11)	5.85		4.40	4.54
CD's (prime NYC)								
Most often quoted new	6.25	(8/11)	4.38	(3/3)	6.25		5.12(11/10)	5.13
Prime municipals	3.60	(8/12)	2.15	(3/24)	3.60		2.70(11/10)	2.90
<u>Intermediate and Long-Term</u>								
Treasury coupon issues								
5-years	7.03	(8/10)	4.74	(3/22)	6.78		5.71	5.79
20-years	6.56	(6/15)	5.69	(3/23)	6.32		5.84	6.00
Corporate								
Seasoned Aaa	7.71	(8/13)	7.05	(2/16)	7.71		7.26	7.26
Baa	8.93	(1/5)	8.33	(2/25)	8.87		8.37	8.42
New Issue Aaa	8.23	(5/20)	6.76	(1/29)	7.97		7.12(11/12)	7.08
Municipal								
Bond Buyer Index	6.23	(6/24)	5.00	(3/18)	6.03		5.19(11/10)	5.23
Moody's Aaa	5.90	(6/30)	4.65	(10/21)	5.80		4.90(11/11)	5.00
Mortgage--implicit yield								
in FNMA auction 1/	8.07	(7/26)	7.32	(4/12)	--		7.70	7.66(11/29)

1/ Yield on short-term forward commitment after allowance for commitment fee and required purchase and holding of FNMA stock. Assumes discount on 30-year loan amortized over 15 years.

e - estimated.

International Developments

Direct investment control. The Office of Foreign Direct Investment issued an amendment to its regulations on December 9 which had the effect of giving direct investors a grace period of the first two months in 1972 for complying with the OFDI regulations as they would have affected 1971. Direct investors are allowed to credit towards their 1971 compliance requirements long-term borrowings abroad or net reductions in amounts due from foreign affiliates effected during the first two months of 1972. In addition, the requirement that they repatriate unused proceeds of foreign borrowings at year-end was suspended. The likely effect of these amendments will be to eliminate any abnormal return flow of funds that would have resulted from speculative outflows during 1971, and it is also likely that corporations will take advantage of the grace period to delay their ordinary year-end window-dressing until some time early in 1972.

CORRECTIONS:

Section I, page 4, line 4 of paragraph 1, insert "in" after however and before the tax.

Section I, page 5, line 8 of Outlook change foreign "inventories" to foreign currencies.

Section II, page 20, caption in lower part of the table should be Per cent change in "November" from a year earlier (not August).

Section III - page 3, line 1 of last paragraph should read offsetting some of the expansion in "Government deposits" (not interbank balances).

Section III, page 16, line 5, last word should be "eased" (not evened).

SUPPLEMENTAL APPENDIX A:

LOAN COMMITMENTS*

The Federal Reserve survey of loan commitment activity at 48 large banks in the three months ending October 31, 1971, confirms the general weakness in business loan demand. Although outstanding unused commitments rose to the highest level in the three years of the survey, the increase in unused commitments was the smallest in one and a half years. At the same time, the quarter-to-quarter declines in the flow of new commitments and in takedowns were the largest in the history of the survey. (See Table 1.) As indicated in Table 2, although one fourth anticipated some pickup, two thirds of the respondents expected their rate of takedowns to remain modest (unchanged) in the three months ending January, 1972. About one fourth of those surveyed have adopted a less restrictive commitment policy than existed in the previous three months; no respondent has adopted a more restrictive policy. As indicated in Table 3, those adopting less restrictive policies explain their action by weak loan demand and the availability of funds.

The weakness in new commitments and takedowns, expirations and cancellations centered mainly in the business loan category and in loans to finance companies. However, the continued policy of business firms to extend the maturity structure of their liabilities is indicated by the increase in both new commitments and takedowns for term loans over the three month period.

* Prepared by Marilyn Barron, Research Assistant, Banking Section, Division of Research and Statistics.

QUARTERLY SURVEY OF BANK LOAN COMMITMENTS AT SELECTED LARGE U.S. BANKS 1/
October 31, 1971

Table 1: NEW AND UNUSED COMMITMENTS
(Billions of dollars, not seasonally adjusted)

	New commitments made during 3-month ending			Takedowns, expirations and cancellations during 3-months ending			Unused commitments			Outstanding on Oct. 31
	Apr. 31	July 31	Oct. 31	Apr. 31	July 31	Oct. 31	Change during 3-months ending			
							Apr. 30	July 31	Oct. 31	
Grand total commitments	24.5	35.0	21.2	20.7	32.0	18.8	3.7	2.9	2.4	67.5
Total-Comm. & Industrial	18.9	27.4	16.8	16.0	24.8	15.1	2.9	2.5	1.7	51.7
Total-Nonbank Financial Institutions	4.0	5.5	2.9	3.7	5.2	2.4	0.3	0.4	0.5	12.2
Total-Real Estate Mortgages	1.6	2.1	1.5	1.1	2.0	1.3	0.5	<u>3/</u>	0.2	3.6
MEMO: Const. Loans (included above)	1.2	1.4	1.0	0.7	1.2	1.0	0.4	0.2	<u>3/</u>	2.9
Total-Comm. & Industrial										
Term Loans	1.9	1.9	2.2	1.6	1.7	1.8	0.3	0.1	0.4	2.3
Revolving Credits	4.8	6.8	3.8	4.7	6.4	3.5	0.1	0.4	0.3	13.6
Total Term & Revolving <u>2/</u>	6.9	8.9	6.2	6.7	8.4	5.6	0.2	0.5	0.6	16.5
Confirmed Lines of Credit	11.1	14.9	9.5	8.8	13.4	9.0	2.3	1.5	0.5	31.0
Other Commitments	0.9	3.5	1.1	0.5	3.0	0.5	0.4	0.5	0.6	4.2
Total-Nonbank Financial Institutions										
Finance Companies	2.2	3.5	1.7	2.2	3.4	1.3	<u>3/</u>	0.1	0.4	7.7
For Mortgage Warehousing	0.6	0.9	0.5	0.7	0.7	0.5	<u>3/</u>	0.2	0.1	1.9
All Other	1.2	1.1	0.7	0.9	1.0	0.7	0.4	0.1	<u>3/</u>	2.6
Total-Real Estate Mortgages										
Residential	0.6	0.9	0.8	0.4	0.8	0.6	0.2	0.1	0.2	1.3
Other	1.0	1.2	0.8	0.6	1.3	0.7	0.4	-0.1	0.1	2.3

1/ Participants in Quarterly Interest Rate Survey with total deposits of more than \$1 billion (42 banks).

2/ This item may exceed sum of previous two items because some banks report combined total only.

3/ Less than \$50 million.

NOTE: Figures may not add to total due to rounding.

Table 2: VIEWS ON COMMITMENT POLICY

	Jan. 31 <u>1970</u>	Apr. 30 <u>1970</u>	July 31 <u>1970</u>	Oct. 31 <u>1970</u>	Jan. 31 <u>1971</u>	Apr. 30 <u>1971</u>	July 31 <u>1971</u>	Oct. 31 <u>1971</u>
Total number of banks responding:	48	48	48	48	47	48	48	48
Unused commitments in the past three months have:								
Risen rapidly	1	0	0	1	3	5	1	0
Risen moderately	7	12	19	28	31	25	19	25
Remained unchanged	18	15	17	13	7	12	19	15
Declined moderately	21	21	12	6	6	6	9	8
Declined rapidly	1	0	0	0	0	0	0	0
Takedowns in the next three months should:								
Rise rapidly	0	0	0	0	0	0	0	0
Rise moderately	9	13	13	6	8	13	16	13
Remain unchanged	30	30	33	24	29	33	31	31
Decline moderately	9	5	2	18	10	2	1	4
Decline rapidly	0	0	0	0	0	0	0	0
Commitment policy compared to three months ago is:								
Much more restrictive	3	0	0	0	0	0	0	0
Somewhat more restrictive	15	7	5	2	0	1	2	0
Unchanged	29	40	37	19	8	25	37	37
Less restrictive	1	1	6	26	34	21	9	11
Much less restrictive	0	0	0	1	5	1	0	0

Table 3: EXPLANATION OF RECENT CHANGE IN NEW COMMITMENT POLICIES AS INDICATED IN THE CURRENT SURVEY

<u>Indicated Change</u>	Number of Banks Indicating Change	<u>Reasons for Change</u>		
		<u>Increased Loan Demand</u>	<u>Reduced Availability of Funds</u>	<u>Both Demand And Funds</u>
More restrictive	0	0	0	0
Less restrictive	11	5	0	6

SUPPLEMENTAL APPENDIX B:
QUARTERLY SURVEY OF CHANGES IN
BANK LENDING PRACTICES*

Consistent with other information on conditions in loan markets, the Survey of Bank Lending Practices for the three months ending November 15, indicated relatively weaker loan demands and a greater availability of funds. (See Table 1.) Reflecting declines in the prime rate from 6 per cent at the time of the previous survey to split rates of 5-1/2 per cent to 5-5/8 per cent in effect when this survey was taken, the majority of respondents participating in the survey noted easier policies regarding interest rates. Respondents, in addition, indicated some easing of nonprice terms and a greater aggressiveness in seeking business from new and existing customers, including those outside of their bank's local service area. Somewhat more widespread availability of credit also was shown as bankers reported they were more willing to offer funds for purposes such as consumer installment loans, mortgage loans for single family housing, term loans, and participations.

Weaker loan demands, which were noted at about 40 per cent of the banks in the sample, were indicated to be the major reasons for easier conditions in loan markets. A few respondents commented that businesses have obtained a more comfortable liquidity position from nonbank sources, thus reducing their requirements for bank loans. Nearly 30 per cent of the respondents, nonetheless, expected stronger loan demands in the next quarter.

Examination of the responses to the survey by size of bank, as seen in Table 2, shows small differences between banks with deposits of \$1 billion or more and those banks with deposits less than \$1 billion. Policies at larger banks were somewhat more liberal in extending credit to established customers. Relatively more of the smaller banks moved toward an easier policy regarding interest rates charged on loans to finance companies.

Regional differences among banks, shown in Table 3, in general, did not seem striking.

* Prepared by Marilyn Barron, Research Assistant, Banking Section, Division of Research and Statistics.

NOT FOR QUOTATION OR PUBLICATION

TABLE 1

QUARTERLY SURVEY OF CHANGES IN BANK LENDING PRACTICES
 AT SELECTED LARGE BANKS IN THE U.S. 1/
 (STATUS OF POLICY ON NOVEMBER 15, 1971 COMPARED TO THREE MONTHS EARLIER)
 (NUMBER OF BANKS & PERCENT OF TOTAL BANKS REPORTING)

	TOTAL		MUCH STRONGER		MODERATELY STRONGER		ESSENTIALLY UNCHANGED		MODERATELY WEAKER		MUCH WEAKER	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (AFTER ALLOWANCE FOR BANK'S USUAL SEASONAL VARIATION)												
COMPARED TO THREE MONTHS AGO	125	100.0	1	0.8	23	18.4	52	41.6	48	38.4	1	0.8
ANTICIPATED DEMAND IN NEXT 3 MONTHS	124	100.0	1	0.8	37	29.8	75	60.5	11	8.9	0	0.0
	ANSWERING QUESTION		MUCH FIRMER POLICY		MODERATELY FIRMER POLICY		ESSENTIALLY UNCHANGED POLICY		MODERATELY EASIER POLICY		MUCH EASIER POLICY	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
LENDING TO NONFINANCIAL BUSINESSES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	125	100.0	0	0.0	0	0.0	39	31.2	81	64.8	5	4.0
COMPENSATING OR SUPPORTING BALANCES	125	100.0	0	0.0	2	1.6	107	85.6	16	12.8	0	0.0
STANDARDS OF CREDIT WORTHINESS	125	100.0	0	0.0	7	5.6	114	91.2	4	3.2	0	0.0
MATURITY OF TERM LOANS	124	100.0	0	0.0	2	1.6	108	87.1	14	11.3	0	0.0
REVIEWING CREDIT LINES OR LOAN APPLICATIONS												
ESTABLISHED CUSTOMERS	125	100.0	0	0.0	0	0.0	105	84.0	20	16.0	0	0.0
NEW CUSTOMERS	124	100.0	0	0.0	8	6.5	89	71.7	27	21.8	0	0.0
LOCAL SERVICE AREA CUSTOMERS	124	100.0	0	0.0	0	0.0	104	83.9	20	16.1	0	0.0
NONLOCAL SERVICE AREA CUSTOMERS	123	100.0	1	0.8	7	5.7	96	78.1	19	15.4	0	0.0

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1/ SURVEY OF LENDING PRACTICES AT 125 LARGE BANKS REPORTING IN THE FEDERAL RESERVE QUARTERLY INTEREST RATE SURVEY AS OF NOVEMBER 15, 1971.

TABLE 1 (CONTINUED)

	ANSWERING QUESTION		MUCH FIRMER POLICY		MODERATELY FIRMER POLICY		ESSENTIALLY UNCHANGED POLICY		MODERATELY EASIER POLICY		MUCH EASIER POLICY	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
FACTORS RELATING TO APPLICANT 2/												
VALUE AS DEPOSITOR OR SOURCE OF COLLATERAL BUSINESS	123	100.0	1	0.8	7	5.7	102	82.9	13	10.6	0	0.0
INTENDED USE OF THE LOAN	125	100.0	1	0.8	3	2.4	116	92.8	5	4.0	0	0.0
LENDING TO "NONCAPTIVE" FINANCE COMPANIES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	125	100.0	0	0.0	1	0.8	74	59.2	47	37.6	3	2.4
COMPENSATING OR SUPPORTING BALANCES	125	100.0	0	0.0	2	1.6	119	95.2	4	3.2	0	0.0
ENFORCEMENT OF BALANCE REQUIREMENTS	125	100.0	0	0.0	3	2.4	120	96.0	2	1.6	0	0.0
ESTABLISHING NEW OR LARGER CREDIT LINES	125	100.0	1	0.8	3	2.4	96	76.8	25	20.0	0	0.0
	ANSWERING QUESTION		CONSIDERABLY LESS WILLING		MODERATELY LESS WILLING		ESSENTIALLY UNCHANGED		MODERATELY MORE WILLING		CONSIDERABLY MORE WILLING	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
WILLINGNESS TO MAKE OTHER TYPES OF LOANS												
TERM LOANS TO BUSINESSES	125	100.0	0	0.0	3	2.4	100	80.0	22	17.6	0	0.0
CONSUMER INSTALLMENT LOANS	124	100.0	0	0.0	1	0.8	86	69.4	33	26.6	4	3.2
SINGLE FAMILY MORTGAGE LOANS	122	100.0	2	1.6	4	3.3	88	72.2	27	22.1	1	0.8
MULTI-FAMILY MORTGAGE LOANS	121	100.0	1	0.8	5	4.1	110	91.0	5	4.1	0	0.0
ALL OTHER MORTGAGE LOANS	123	100.0	0	0.0	3	2.4	104	84.6	16	13.0	0	0.0
PARTICIPATION LOANS WITH CORRESPONDENT BANKS	125	100.0	0	0.0	2	1.6	104	83.2	19	15.2	0	0.0
LOANS TO BROKERS	123	100.0	0	0.0	0	0.0	110	89.4	12	9.8	1	0.8

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2/ FOR THESE FACTORS, FIRMER MEANS THE FACTORS WERE CONSIDERED MORE IMPORTANT IN MAKING DECISIONS FOR APPROVING CREDIT REQUESTS, AND EASIER MEANS THEY WERE LESS IMPORTANT.

COMPARISON OF QUARTERLY CHANGES IN BANK LENDING PRACTICES AT BANKS GROUPED BY SIZE OF TOTAL DEPOSITS 1/
 (STATUS OF POLICY ON NOVEMBER 15, 1971, COMPARED TO THREE MONTHS EARLIER)
 (NUMBER OF BANKS IN EACH COLUMN AS PER CENT OF TOTAL BANKS ANSWERING QUESTION)

	SIZE OF BANK -- TOTAL DEPOSITS IN BILLIONS											
	TOTAL		MUCH STRONGER		MODERATELY STRONGER		ESSENTIALLY UNCHANGED		MODERATELY WEAKER		MUCH WEAKER	
	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (AFTER ALLOWANCE FOR BANK'S USUAL SEASONAL VARIATION)												
COMPARED TO THREE MONTHS AGO	100	100	0	1	15	21	46	39	37	39	2	0
ANTICIPATED DEMAND IN NEXT 3 MONTHS	100	100	0	1	30	30	61	60	9	9	0	0
	TOTAL		MUCH FIRMER		MODERATELY FIRMER		ESSENTIALLY UNCHANGED		MODERATELY EASIER		MUCH EASIER	
	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1
LENDING TO NONFINANCIAL BUSINESSES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	100	100	0	0	0	0	31	31	67	63	2	6
COMPENSATING OR SUPPORTING BALANCES	100	100	0	0	0	3	87	84	13	13	0	0
STANDARDS OF CREDIT WORTHINESS	100	100	0	0	6	6	90	91	4	3	0	0
MATURITY OF TERM LOANS	100	100	0	0	0	3	89	86	11	11	0	0
REVIEWING CREDIT LINES OR LOAN APPLICATIONS												
ESTABLISHED CUSTOMERS	100	100	0	0	0	0	78	89	22	11	0	0
NEW CUSTOMERS	100	100	0	0	6	7	73	70	21	23	0	0
LOCAL SERVICE AREA CUSTOMERS	100	100	0	0	0	0	81	86	19	14	0	0
NONLOCAL SERVICE AREA CUSTOMERS	100	100	0	1	10	3	73	82	17	14	0	0

1/ SURVEY OF LENDING PRACTICES AT 54 LARGE BANKS (DEPOSITS OF \$1 BILLION OR MORE) AND 71 SMALL BANKS (DEPOSITS OF LESS THAN \$1 BILLION) REPORTING IN THE FEDERAL RESERVE QUARTERLY INTEREST RATE SURVEY AS OF NOVEMBER 15, 1971.

TABLE 2 (CONTINUED)

	NUMBER ANSWERING QUESTION		SIZE OF BANK MUCH FIRMER POLICY		-- TOTAL DEPOSITS IN BILLIONS MODERATELY FIRMER POLICY		ESSENTIALLY UNCHANGED POLICY		MODERATELY EASIER POLICY		MUCH EASIER POLICY	
	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1
FACTORS RELATING TO APPLICANT 2/												
VALUE AS DEPOSITOR OR SOURCE OF COLLATERAL BUSINESS	100	100	0	1	0	10	87	80	13	9	0	0
INTENDED USE OF THE LOAN	100	100	0	1	4	1	90	95	6	3	0	0
LENDING TO "NONCAPTIVE" FINANCE COMPANIES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	100	100	0	0	0	1	65	55	33	41	2	3
COMPENSATING OR SUPPORTING BALANCES	100	100	0	0	2	1	96	95	2	4	0	0
ENFORCEMENT OF BALANCE REQUIREMENTS	100	100	0	0	2	3	96	96	2	1	0	0
ESTABLISHING NEW OR LARGER CREDIT LINES	100	100	0	1	2	3	72	81	26	15	0	0
	NUMBER ANSWERING QUESTION		CONSIDERABLY LESS WILLING		MODERATELY LESS WILLING		ESSENTIALLY UNCHANGED		MODERATELY MORE WILLING		CONSIDERABLY MORE WILLING	
	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1
WILLINGNESS TO MAKE OTHER TYPES OF LOANS												
TERM LOANS TO BUSINESSES	100	100	0	0	2	3	83	77	15	20	0	0
CONSUMER INSTALMENT LOANS	100	100	0	0	0	1	66	72	30	24	4	3
SINGLE FAMILY MORTGAGE LOANS	100	100	0	3	4	3	71	73	23	21	2	0
MULTI-FAMILY MORTGAGE LOANS	100	100	0	1	4	4	92	91	4	4	0	0
ALL OTHER MORTGAGE LOANS	100	100	0	0	0	4	92	79	8	17	0	0
PARTICIPATION LOANS WITH CORRESPONDENT BANKS	100	100	0	0	2	1	85	82	13	17	0	0
LOANS TO BROKERS	100	100	0	0	0	0	85	93	13	7	2	0

2/ FOR THESE FACTORS, FIRMER MEANS THE FACTORS WERE CONSIDERED MORE IMPORTANT IN MAKING DECISIONS FOR APPROVING CREDIT REQUESTS, AND EASIER MEANS THEY WERE LESS IMPORTANT.

QUARTERLY SURVEY OF CHANGES IN BANK LENDING PRACTICES AT SELECTED LARGE BANKS IN THE U.S. 1/
STATUS OF POLICY ON NOVEMBER 15, 1971 COMPARED TO THREE MONTHS EARLIER
(NUMBER OF BANKS)

	ALL OSTS	BOS- TON	NEW YORK		PHIL- ADEL.	CLEVE- LAND	RICH- MOND	ATLAN- TA	CHIC- AGO	ST. LOUIS	MINNE- APOLIS	KANS. CITY	DAL- LAS	SAN FRAN
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (AFTER ALLOWANCE FOR BANK'S USUAL SEASONAL VARIATION)														
COMPARED TO 3 MONTHS AGO	125													
MUCH STRONGER	1	0	0	0	0	0	0	1	0	0	0	0	0	0
MODERATELY STRONGER	23	1	5	0	5	3	2	2	1	5	0	1	1	1
ESSENTIALLY UNCHANGED	52	3	6	3	3	1	5	5	4	5	6	1	5	6
MODERATELY WEAKER	48	4	9	6	3	2	4	5	4	4	3	1	3	6
MUCH WEAKER	1	0	0	0	0	0	0	0	0	1	0	0	0	0
ANTICIPATED DEMAND NEXT THREE MONTHS	124													
MUCH STRONGER	1	0	0	0	0	0	0	1	0	0	0	0	0	0
MODERATELY STRONGER	37	2	4	1	3	3	2	3	4	8	4	1	3	2
ESSENTIALLY UNCHANGED	75	5	15	7	8	3	8	8	5	5	4	0	6	9
MODERATELY WEAKER	11	1	1	1	0	0	1	1	0	2	1	1	0	2
MUCH WEAKER	0	0	0	0	0	0	0	0	0	0	0	0	0	0
LENDING TO NONFINANCIAL BUSINESSES														
TERMS AND CONDITIONS														
INTEREST RATES CHARGED	125													
MUCH FIRMER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATELY FIRMER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ESSENTIALLY UNCHANGED POLICY	39	1	8	5	3	1	4	3	6	6	2	0	1	4
MODERATELY EASIER POLICY	81	6	12	4	8	5	6	9	4	8	5	3	8	9
MUCH EASIER POLICY	5	1	0	0	0	0	1	0	0	1	2	0	0	0
COMPENSATING BALANCES	125													
MUCH FIRMER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATELY FIRMER POLICY	2	0	0	0	0	0	0	0	0	1	0	0	1	0
ESSENTIALLY UNCHANGED POLICY	107	8	15	7	8	6	10	11	7	12	7	3	7	12
MODERATELY EASIER POLICY	16	0	5	2	3	0	1	1	3	2	2	0	1	1
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0

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1/ SURVEY OF LENDING PRACTICES AT 125 LARGE BANKS REPORTING IN THE FEDERAL RESERVE QUARTERLY INTEREST RATE SURVEY AS OF NOVEMBER 15, 1971.

TABLE 3 (CONTINUED)

	ALL DSTS	BOS- TON	NEW YORK TOTAL CITY OUTSIDE		PHIL- ADEL.	CLEVE- LAND	RICH- MOND	ATLAN- TA	CHIC- AGO	ST. LOUIS	MINNE- APOLIS	KANS. CITY	DAL- LAS	SAN FRAN
LENDING TO NONFINANCIAL BUSINESSES														
TERMS AND CONDITIONS														
STANDARDS OF CREDIT WORTHINESS 125														
MUCH FIRMER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATELY FIRMER POLICY	7	0	0	0	2	0	0	1	1	1	0	1	0	1
ESSENTIALLY UNCHANGED POLICY	114	7	20	9	11	4	10	11	8	14	8	3	8	9
MODERATELY EASIER POLICY	4	1	0	0	0	1	1	1	0	0	0	0	0	0
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MATURITY OF TERM LOANS 124														
MUCH FIRMER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATELY FIRMER POLICY	2	0	0	0	0	0	0	1	0	1	0	0	0	0
ESSENTIALLY UNCHANGED POLICY	108	6	18	9	9	5	9	11	8	15	5	3	7	8
MODERATELY EASIER POLICY	14	2	2	0	2	1	2	1	1	0	3	0	2	0
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
REVIEWING CREDIT LINES OR LOANS														
ESTABLISHED CUSTOMERS 125														
MUCH FIRMER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATELY FIRMER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ESSENTIALLY UNCHANGED POLICY	105	7	18	9	9	6	7	10	9	11	7	3	8	9
MODERATELY EASIER POLICY	20	1	2	0	2	0	4	2	1	4	2	0	1	0
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
NEW CUSTOMERS 124														
MUCH FIRMER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATELY FIRMER POLICY	8	0	0	0	0	1	0	1	2	2	0	1	0	0
ESSENTIALLY UNCHANGED POLICY	89	6	16	8	8	5	8	9	6	10	6	1	6	7
MODERATELY EASIER POLICY	27	2	4	1	3	0	3	2	2	3	3	1	3	1
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
LOCAL SERVICE AREA CUSTOMERS 124														
MUCH FIRMER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATELY FIRMER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ESSENTIALLY UNCHANGED POLICY	104	7	18	9	9	6	7	10	9	12	6	3	7	8
MODERATELY EASIER POLICY	20	1	2	0	2	0	4	2	1	3	3	0	2	0
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0

NOT FOR QUOTATION OR PUBLICATION

TABLE 3 (CONTINUED)

	ALL DSTS	BOS- TON	NEW YORK		PHIL- ADEL.	CLEVE- LAND	RICH- MOND	ATLAN- TA	CHIC- AGO	ST. LOUIS	MINNE- APOLIS	KANS. CITY	DAL- LAS	SAN FRAN
LENDING TO NONFINANCIAL BUSINESSES														
REVIEWING CREDIT LINES OR LOANS														
NONLOCAL SERVICE AREA CUST	123													
MUCH FIRMER POLICY	1	0	0	0	0	0	0	1	0	0	0	0	0	0
MODERATELY FIRMER POLICY	7	0	0	0	0	2	0	1	2	0	0	0	0	1
ESSENTIALLY UNCHANGED POLICY	96	6	18	8	10	4	7	11	8	11	6	2	8	6
MODERATELY EASIER POLICY	19	2	1	0	1	0	4	0	0	2	3	1	1	2
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
FACTORS RELATING TO APPLICANT 2/														
VALUE AS DEPOSITOR OR SOURCE OF COLLATERAL BUSINESS	123													
MUCH FIRMER POLICY	1	0	0	0	0	0	0	1	0	0	0	0	0	0
MODERATELY FIRMER POLICY	7	0	0	0	0	0	0	1	1	2	1	2	0	0
ESSENTIALLY UNCHANGED POLICY	102	6	17	8	9	5	8	10	8	13	7	2	6	9
MODERATELY EASIER POLICY	13	1	2	0	2	1	3	2	0	1	0	0	1	0
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
INTENDED USE OF LOAN	125													
MUCH FIRMER POLICY	1	0	0	0	0	0	0	1	0	0	0	0	0	0
MODERATELY FIRMER POLICY	3	0	0	0	0	0	0	0	2	0	0	0	0	1
ESSENTIALLY UNCHANGED POLICY	116	8	20	9	11	6	11	9	12	8	3	9	8	12
MODERATELY EASIER POLICY	5	0	0	0	0	0	0	0	1	1	0	0	1	0
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
LENDING TO "NONCAPTIVE" FINANCE COMPANIES														
TERMS AND CONDITIONS														
INTEREST RATES CHARGED	125													
MUCH FIRMER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATELY FIRMER POLICY	1	0	0	0	0	0	0	0	0	1	0	0	0	0
ESSENTIALLY UNCHANGED POLICY	74	6	14	7	7	3	6	6	8	9	2	1	4	7
MODERATELY EASIER POLICY	47	1	6	2	4	3	5	6	2	5	5	2	5	2
MUCH EASIER POLICY	3	1	0	0	0	0	0	0	1	1	0	0	0	0

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2/ FOR THESE FACTORS, FIRMER MEANS THE FACTORS WERE CONSIDERED MORE IMPORTANT IN MAKING DECISIONS FOR APPROVING CREDIT REQUESTS, AND EASIER MEANS THEY WERE LESS IMPORTANT.

TABLE 3 (CONTINUED)

	ALL DSTS	BOS- TON	NEW YORK		PHIL- ADEL.	CLEVE- LAND	RICH- MOND	ATLAN- TA	CHIC- AGO	ST. LOUIS	MINNE- APOLIS	KANS. CITY	DAL- LAS	SAN FRAN
			TOTAL	CITY	OUTSIDE									
LENDING TO "NONCAPTIVE" FINANCE COMPANIES														
TERMS AND CONDITIONS:														
SIZE OF COMPENSATING BALANCES	125													
MUCH FIRMER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATELY FIRMER POLICY	2	0	0	0	0	0	0	1	1	0	0	0	0	0
ESSENTIALLY UNCHANGED POLICY	119	8	20	9	11	6	10	11	9	13	9	3	9	12
MODERATELY EASIER POLICY	4	0	0	0	0	0	1	1	0	1	0	0	0	1
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ENFORCEMENT OF BALANCE REQUIREMENT	125													
MUCH FIRMER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATELY FIRMER POLICY	3	0	0	0	0	0	0	1	1	1	0	0	0	0
ESSENTIALLY UNCHANGED POLICY	120	8	20	9	11	6	11	9	13	8	3	9	9	12
MODERATELY EASIER POLICY	2	0	0	0	0	0	0	0	1	0	0	0	0	1
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ESTABLISHING NEW OR LARGER CREDIT LINES	125													
MUCH FIRMER POLICY	1	0	0	0	0	0	0	1	0	0	0	0	0	0
MODERATELY FIRMER POLICY	3	0	0	0	0	0	0	1	2	0	0	0	0	0
ESSENTIALLY UNCHANGED POLICY	96	5	17	8	9	5	9	8	9	7	2	7	9	9
MODERATELY EASIER POLICY	25	3	3	1	2	1	2	1	4	2	1	2	0	4
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
WILLINGNESS TO MAKE OTHER TYPES OF LOANS														
TERM LOANS TO BUSINESSES	125													
CONSIDERABLY LESS WILLING	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATELY LESS WILLING	3	0	0	0	0	0	0	0	0	1	0	1	0	1
ESSENTIALLY UNCHANGED	100	6	16	8	8	4	10	10	14	6	3	5	5	11
MODERATELY MORE WILLING	22	2	4	1	3	2	1	2	0	1	2	0	3	4
CONSIDERABLY MORE WILLING	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CONSUMER INSTALMENT LOANS	124													
CONSIDERABLY LESS WILLING	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATELY LESS WILLING	1	0	0	0	0	0	0	1	0	0	0	0	0	0
ESSENTIALLY UNCHANGED	86	8	15	7	8	5	6	8	5	10	7	3	7	7
MODERATELY MORE WILLING	33	0	3	1	2	1	5	3	3	5	2	0	2	4
CONSIDERABLY MORE WILLING	4	0	1	0	1	0	0	1	1	0	0	0	0	1

TABLE 3 (CONTINUED)

	ALL DSTS	BOS- TON	NEW YORK		PHIL- ADEL.	CLEVE- LAND	RICH- MOND	ATLAN- TA	CHIC- AGO	ST. LOUIS	MINNE- APOLIS	KANS. CITY	DAL- LAS	SAN FRAN
WILLINGNESS TO MAKE OTHER TYPES OF LOANS			TOTAL	CITY	OUTSIDE									
SINGLE FAMILY MORTGAGE LOANS	122													
CONSIDERABLY LESS WILLING	2	0	0	0	0	0	0	1	0	1	0	0	0	0
MODERATELY LESS WILLING	4	0	0	0	0	0	0	0	0	1	0	1	1	1
ESSENTIALLY UNCHANGED	88	6	16	7	9	4	4	7	8	6	3	8	8	9
MODERATELY MORE WILLING	27	2	2	1	1	2	7	1	7	1	0	0	0	2
CONSIDERABLY MORE WILLING	1	0	0	0	0	0	0	0	0	0	0	0	0	1
MULTIFAMILY MORTGAGE LOANS	121													
CONSIDERABLY LESS WILLING	1	0	0	0	0	0	0	1	0	0	0	0	0	0
MODERATELY LESS WILLING	5	0	0	0	0	0	0	0	0	2	0	1	1	1
ESSENTIALLY UNCHANGED	110	7	17	8	9	6	10	8	12	7	3	8	8	12
MODERATELY MORE WILLING	5	1	1	0	1	0	1	0	2	0	0	0	0	0
CONSIDERABLY MORE WILLING	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ALL OTHER MORTGAGE LOANS	123													
CONSIDERABLY LESS WILLING	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATELY LESS WILLING	3	0	0	0	0	0	0	0	0	2	0	1	0	0
ESSENTIALLY UNCHANGED	104	7	16	8	8	5	8	9	12	5	3	6	9	13
MODERATELY MORE WILLING	16	1	3	0	3	1	3	1	3	2	0	2	0	0
CONSIDERABLY MORE WILLING	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PARTICIPATION LOANS WITH CORRESPONDENT BANKS	125													
CONSIDERABLY LESS WILLING	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATELY LESS WILLING	2	0	1	1	0	0	0	0	0	0	0	1	0	0
ESSENTIALLY UNCHANGED	104	6	16	8	8	4	11	9	12	7	3	6	6	13
MODERATELY MORE WILLING	19	2	3	0	3	2	0	1	3	2	0	2	3	0
CONSIDERABLY MORE WILLING	0	0	0	0	0	0	0	0	0	0	0	0	0	0
LOANS TO BROKERS	123													
CONSIDERABLY LESS WILLING	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATELY LESS WILLING	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ESSENTIALLY UNCHANGED	110	6	17	6	11	6	10	9	13	7	3	8	8	12
MODERATELY MORE WILLING	12	2	3	3	0	1	1	1	0	2	0	0	1	1
CONSIDERABLY MORE WILLING	1	0	0	0	0	0	0	0	1	0	0	0	0	0
NUMBER OF BANKS	125													

SUPPLEMENTAL APPENDIX C

SURVEY OF STATE AND LOCAL LONG-TERM BORROWING REALIZATIONS:
THIRD QUARTER, 1971*

State and local governments, on balance, realized all but 6 per cent of the \$6.2 billion of long-term borrowing planned for the third quarter of 1971 (Table 1). Universe estimates projected from the FRB-Census Survey of State and Local Long-term Borrowing Realizations^{1/} indicate that some governments borrowed \$1.3 billion above original planned levels while other units--in most reported instances only temporarily--abandoned about the same amount of long-term tax-exempt offerings. Due to some nonresponse, no information is available concerning the results of an additional \$.3 billion of previously reported borrowing anticipations. In all, State and local governments borrowed \$5.9 billion in long-term markets during the July through September period of which \$5.8 billion was accounted for by the survey. Results compiled from survey returns indicate that the net effect of downward interest rate movements (borrowing above originally scheduled amounts offset by shortfalls from borrowing plans) was to stimulate almost \$550 million in long-term borrowing above previously planned levels; this of course contrasts with the strong negative impact on borrowing that had been caused by high interest rates in previous years. Most of the delayed or cancelled borrowing could be accounted for by units which were faced with administrative or legal delays.

Future borrowing plans, as adjusted to universe levels from survey results,^{2/} show an estimated \$6.2 billion of long-term offerings for the fourth quarter, about the same as had been planned for the third quarter. Although long-term borrowing anticipations for the first half of 1972 amount to \$8.6 billion, they are expected to increase as the time horizon shortens, assuming that this sector continues to evaluate market conditions favorably.

^{1/} The Governments Division of the U.S. Bureau of the Census is responsible for the polling of respondents. Their expertise has consistently produced fine reporting results with a response rate of 82 per cent for this quarter. The survey accounted for all but \$300 million of previously reported anticipations and for 98 per cent of actual long-term borrowing during the quarter.

^{2/} These anticipations data were collected in the survey of borrowing plans as of June 30, 1971 and were modified by results from the third quarter realizations survey.

* Prepared by Paul Schneiderman, Economist, Capital Markets Section, Division of Research and Statistics.

Table 1

LONG-TERM BORROWING ANTICIPATIONS AND REALIZATIONS OF
STATE AND LOCAL GOVERNMENTS
3rd Quarter, 1971

	Billions of dollars				Per cent
	Anticipa- tions	Borrowed as planned	Borrowed above plans	Shortfalls from borrowing plans	Borrowing/ Anticipations
States and state colleges	2.1	1.7	.4	.3	100
Counties	.5	.2	.2	.2	80
Cities and towns	2.1	1.5	.5	.4	95
Special districts	.6	.5	--*/	.1	83
School districts	<u>.9</u>	<u>.5</u>	<u>.1</u>	<u>.4</u>	<u>67</u>
Totals	6.2 ^{1/}	4.5 ^{2/}	1.3 ^{2/}	1.3	94

NOTE: Totals may not add due to rounding.

*/ Less than \$100 million.

1/ Of this total, the behavior of units having \$.3 billion in anticipations could not be accounted for by this survey because of non-response.

2/ The survey accounted for \$5.8 billion of the \$5.9 billion of known long-term borrowing that was undertaken during June-September 1971.

Shortfalls from Planned Borrowing

State and local governments elected to postpone to future periods a little more than \$900 million and cancel another \$400 million of planned long-term borrowing during the third quarter. Total shortfalls were one-half as large as those for the previous quarter.

The bulk of the long-term borrowing suspensions during the third quarter--\$350 million--were accounted for by units which indicated administrative or legal problems were an inhibiting factor at the time (Table 2). This amount is about in line with the average effect such delays have had upon borrowing plans in each of the last four quarters. Delays in the scheduling of the projects themselves--and not delays in the arranging of financing--appear to be the cause for more than one-half of all such shortfalls. Actually, problems associated with the financing of the projects directly caused only slightly more than \$30 million of capital outlay cutbacks, with financial substitutes supporting projects not postponed or cancelled. Respondents indicated plans to reinstate over 72 per cent of the long-term borrowing that was suspended during the quarter because of legal or administrative delays in projects or their financing.

Actual or anticipated interest rate movements were responsible for only a small part of the failure to realize borrowing plans during the third quarter. At \$180 million, postponements and cancellations induced by interest rate considerations were well below the \$480 million average of the last four quarters. The nearly one percentage point drop in interest costs over the third quarter induced some governmental units to carry out borrowing as planned and to accelerate other plans when practical. Of the units that did report borrowing setbacks induced by interest rates, interest rate ceilings, yields evaluated as too high, and expectations that yields would decline further accounted for 7, 4, and 2.5 per cent of all shortfalls, respectively. Reports of postponements or delays in capital projects because of borrowing shortfalls so induced were insignificant, as the bulk of long-term borrowing deficits was absorbed by financing out of liquid assets or by short-term borrowing. Over 30 per cent of such alternative financing is scheduled to be replaced by long-term funding during the next year.

The survey indicated a small amount of long-term borrowing suspended because authorization for such issues was not forthcoming. A continuation of authorization difficulties is expected to be reported in future quarters given the high rate of rejections of bond proposals included on the November election ballots.

Table 2

SHORTFALLS FROM BORROWING PLANS
3rd Quarter, 1971
(In millions of dollars)

	Authorization not obtained	Administrative and legal delays	Interest rate ceiling	Interest rates too high	Interest rates expected to fall	Other	Total	Memo: Per Cent
States and state colleges	10	195	--	10	20	45	280	21
Counties	43	135	--	--	5	--	183	14
Cities and towns	17	249	--	31	5	69	371	28
Special districts	16	29	41	--	2	6	94	7
School districts	<u>4</u>	<u>243</u>	<u>53</u>	<u>14</u>	<u>--</u>	<u>104</u>	<u>418</u>	<u>31</u>
Total	90	851 ^{1/}	94	55	32	224	1,346	100
Per cent	7	63	7	4	2	17	100	

NOTE: Totals may not add due to rounding.

^{1/} Of this total, \$404 million represents delays not necessarily related to financing.

School districts, among types of units, fared poorly in their realization of long-term borrowing plans, even under favorable market conditions. This probably occurred because of their dependence on the property tax--voters have been reluctant to approve bonds, elected officials hesitant about proposing issues, and units may have reached their bonding limits. While the State and local sector experienced total shortfalls equal to roughly one-fifth of anticipations, the rate for school districts was twice as high. School districts accounted for only 15 per cent of reported anticipations, but experienced 37 per cent of interest rate induced shortfalls. Additionally, the impact of suspended long-term borrowing plans was more severe for school districts; these units absorbed more than 70 per cent of all capital outlay cutbacks while at the same time experienced 30 per cent of total State and local long-term borrowing shortfalls. Such impacts may result from these districts relatively small borrowings, irregular use of the capital markets, relative lack of liquidity and overall tight operating budgets.

Borrowing Above Originally Planned Levels

Early authorizations, firming of project plans, and favorable interest rate movements accounted for the bulk of the \$1.3 billion in long-term borrowing that exceeded previously scheduled levels for the July through September period (Table 3). According to survey responses, the sizable decline in municipal yields, most of which occurred following announcement of the administration's new economic policy, accounted for over one-half of the long-term borrowing accelerations. The favorable interest rate movements may also have had some influence on the speeding up of authorizations and project plans.

Alternative Means of Finance

Where borrowing shortfalls did occur, many governments, desiring to maintain their planned capital expenditures, relied upon other financing means (Table 4). As has typically been the case, short-term borrowing was resorted to most often, and, although slightly below the average use of this expedient over the last four quarters, the \$309 million of short-term borrowing could perhaps account for a substantial amount of the net change in State and local short-term debt outstanding in the recent quarter. The magnitudes of use of existing liquid assets and reduction of other cash outlays do not differ markedly from those in previous periods. Their relatively limited role as an alternative source of funds for capital projects reflects the generally tight budget positions of the governments involved.

Long-term Borrowing Anticipations

State and local governments reported long-term borrowing anticipations of \$6.2 billion for the fourth quarter. It now appears

Table 3

BORROWING ABOVE PREVIOUSLY PLANNED LEVELS
3rd Quarter, 1971
(In millions of dollars)

	Authorized sooner than expected	Project plans ready early	Interest Rates expected to rise	Interest rates declined	Other	Total	Memo: Per cent
States and state colleges	47	92	2	239	61	441	34
Counties	36	100	1	70	31	238	19
Cities and towns	41	31	170 ^{1/}	173 ^{1/}	54	469	37
Special districts	--	--	25	--	3	44	3
School districts	<u>26</u>	<u>3</u>	<u>--</u>	<u>47</u>	<u>8</u>	<u>84</u>	<u>7</u>
Total	150	242	198	529	157	1,276	100
Per cent	11.8	19.0	15.5	41.5	12.3	100.0	

NOTE: Totals may not add due to rounding.

^{1/} The bulk of this amount, \$167 million under each category, is accounted for by the report of one large metropolitan city.

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unlikely that these plans will be completely realized as staff estimates for long-term municipal issues through December now total only \$5.5 billion. Preliminary anticipations for the first half of 1972 indicate \$4.9 billion in the authorized category and another \$3.7 billion of borrowings already scheduled though not yet authorized. More accurate estimates for the first and second quarters of 1972 will be available after the semi-annual anticipations survey to be conducted as of the end of December.

Table 4

ALTERNATIVE MEANS OF FINANCING LONG-TERM BORROWING SHORTFALLS
3rd Quarter, 1971

	Millions of dollars	Per cent
Short-term borrowing	309	41
Use of liquid assets	131	18
Postpone other cash outlays	145	19
Money not needed and other ^{1/}	169	22
Total	754	100
MEMO: Capital outlay cutbaeks	106	

^{1/} Does not include \$457 million reported as delay because of problems inherent in the projects themselves, but does reflect long-term borrowing units hoped to accomplish before the inception of the project.