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CONFIDENTIAL (FR)
CLASS II - FOMC

March 14, 1975

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

SUPPLEMENTAL NOTES

The Domestic Nonfinancial Economy

Industrial production declined an estimated 3.0 per cent further in February bringing the total index to 110.3 per cent of the 1967 average--12.2 per cent below the September 1974 level. Cutbacks in output continued to be widespread among consumer goods, equipment, construction products, and industrial materials.

Products. At a 4.6 million units annual rate, auto assemblies were down 4 per cent from January and 30 per cent below a year earlier. Unit sales exceeded production in both February and January, and stocks of new autos were reduced considerably. Auto assemblies are currently scheduled to increase in March. Production of other durable and nondurable consumer goods also continued to decline in February. Business equipment output was reduced 2½ per cent further--and was almost 10 per cent below the high reached last autumn.

Materials. Production of industrial materials declined further as output was again curtailed in consumer durable parts, equipment parts, other durable materials, and textiles, paper, and chemicals. Production cuts in these industries have totaled 18 per cent since last autumn. This is twice as much as the reduction in output of products, suggesting a substantial liquidation of materials inventories.

Inventories. Book value of retail inventories declined at a \$10.2 billion annual rate in January following a \$4 billion rate of increase in December and a fourth quarter average rate of accumulation of \$14.9 billion. Almost half of the January decline was in automotive stocks and the remainder was largely in nondurable goods. Book value of wholesale trade inventories declined at a rate of \$4.5 billion off from a December rate of increase of \$7.1 billion and a fourth quarter growth rate of \$8.3 billion.

For manufacturing and trade the rate of decrease was \$1.8 billion in January, off from the December rate of increase of \$46.7 billion and the fourth quarter rate of growth of \$52.9 billion. The manufacturing and trade inventory-sales ratio remained at 1.68 in January.

Auto sales. Sales of new domestic-type autos in the first ten days of March were at 7.1 million unit annual rates, down 1 per cent from the month of February in which all producers had rebate programs. These sales in early March are slightly above the depressed levels of the same period in 1974.

Merchant builder sales of new single-family homes rose 2 per cent in January from the upward revised but still exceptionally low December figure. Builders' backlogs of unsold homes at the end of January remained quite large--about a year's supply at the current sales rate. The median price of the mix of homes sold in January increased further and remained above the rising median price of unsold homes. Sales of used homes in January were again substantially below a year earlier. The median price of such units rose to \$33,120--8 per cent above January 1975. However, the percentage increase from a year earlier was somewhat less than in other recent months.

SALES, STOCKS AND PRICES OF NEW SINGLE-FAMILY HOMES

| | Homes sold 1/ (thousands of units) | Homes for sale 2/ (thousands of units) | Months' supply | Median price of: | |
|-------------|--|--|-------------------|--------------------------------------|--|
| | | | | Homes sold (thousands of dollars) | Homes for sale (thousands of dollars) |
| <u>1973</u> | | | | | |
| QI(r) | 725 | 425 | 7.0 | 30.4 | 29.4 |
| QII(r) | 662 | 437 | 7.9 | 32.7 | 31.2 |
| QIII(r) | 565 | 453 | 9.6 | 33.5 | 32.1 |
| QIV(r) | 503 | 448 | 10.7 | 34.0 | 32.9 |
| <u>1974</u> | | | | | |
| QI(r) | 523 | 452 | 10.4 | 35.2 | 34.0 |
| QII(r) | 549 | 436 | 9.5 | 35.6 | 35.0 |
| QIII(r) | 490 | 414 | 10.1 | 36.2 | 35.7 |
| QIV(r) | 420 | 400 | 11.4 | 37.3 | 36.2 |
| Oct. (r) | 433 | 409 | 11.3 | 37.2 | 35.9 |
| Nov. (r) | 440 | 403 | 11.0 | 37.2 | 36.0 |
| Dec. (r) | 387 | 400 | 12.4 | 37.3 | 36.2 |
| <u>1975</u> | | | | | |
| Jan. (p) | 394 | 402 | 12.2 | 37.6 | 36.5 |

1/ Seasonally adjusted annual rate.

2/ Seasonally adjusted, end of period.

The Domestic Financial Situation

Mortgage market. According to the HUD(FHA) opinion survey, the average interest rate on new commitments for conventional new-home mortgages declined 10 basis points further during February to 9.05 per cent. The rate on conventional existing-home mortgages, also at 9.05 per cent, dropped 15 basis points from a month earlier. In the private secondary market, yields on FHA-insured new-home mortgages averaged 8.84 per cent at the end of February--15 basis points below the rate at the end of January and down 154 basis points from the high at the end of September. Such movements are consistent with the FHLMC series on primary market rates and the FNMA secondary market auction yields cited in the Greenbook.

AVERAGE RATES AND YIELDS ON NEW-HOME MORTGAGES
(HUD-FHA Field Office Opinion Survey)

| End of Month | Primary market | | | Secondary market 1/ | |
|--------------|------------------------|-----------------------------|------------------------|-----------------------------|-----------------------|
| | Conventional loans | | Level 3/ (per cent) | FHA-insured loans | |
| | Level 2/ (per cent) | Spread 4/ (basis points) | | Spread 4/ (basis points) | Discounts (points) |
| 1974-Low | 3.55 (Feb.) | -66 (Sept.) | 8.54 (Feb.) | - 8 (Sept.) | 2.3 (Feb.) |
| High | 9.80 (Sept.) | 45 (Feb.) | 10.38 (Sept.) | 44 (Feb.) | 6.3 (July, Sept.) |
| July | 9.40 | n.a. | 9.85 | n.a. | 6.3 |
| Aug. | 9.60 | -39 | 10.30 | 31 | 5.3 |
| Sept. | 9.80 | -66 | 10.38 | - 8 | 6.3 |
| Oct. | 9.70 | -33 | 10.13 | 10 | 4.6 |
| Nov. | 9.55 | -13 | -- | -- | -- |
| Dec. | 9.45 | n.a. | 9.51 | n.a. | 3.8 |
| 1975-Jan. | 9.15 | 15 | 8.99 | - 1 | 3.8 |
| Feb. | 9.05 | 11 | 3.34 | -10 | 2.6 |

- 1/ Any gaps in data are due to periods of adjustment to changes in maximum permissible contract rates on FHA-insured loans.
- 2/ Average contract rate (excluding fees or points) on commitments for conventional first mortgage loans, rounded to the nearest 5 basis points.
- 3/ Average gross yield (before deducting servicing costs) to investors on 30-year minimum-downpayment FHA-insured first mortgages for immediate delivery in the private secondary market (excluding FNMA), assuming prepayment in 15 years.
- 4/ Average gross mortgage rate or yield minus average yield on new issues of Aaa utility bonds in the last week of the month.

Corporate bond yields. During the week ending March 14 the Federal Reserve's new-issue yield index for corporate securities retreated more than 35 basis points to 9.27 per cent, and the recently offered series backed-up to 9.33 per cent, a rise of 16 basis points. Both of these series are now about 25 basis points above their levels just prior to the last FOMC meeting.

This sharp turnaround in corporate rates appears to reflect the considerable market congestion that has developed recently as a consequence of the record pace of new corporate offerings, together with the unexpected concentration of recent new Treasury issues in coupon securities. While new issue volume in the corporate market has been heavy for several months, the market had managed to place these issues with surprisingly little trouble. This condition began to change toward the end of February, when the Treasury announced that \$7 billion of new money would be raised by mid-April in longer-maturity coupon issues. Market participants had generally expected a sizable part of this borrowing to be placed in Treasury bills. Although the market impact of this change took a while to develop, a number of new corporate offerings began to meet resistance from investors. The number of issues being sold by syndicates was sizable, and investors were able to become highly selective--ultimately forcing syndicates on some issues to terminate before their awards were fully distributed. Upon release from syndicate yields on such issues rose in some instances by as much as 30 basis points.

CORRECTION:

Page I-17, line 12, 1975 proj., QII, should be 157.5, not 167.5.

INTEREST RATES

| | 1974 | | 1975 | |
|-----------------------------------|--------------|-------------|-------------|--------------|
| | Highs | Lows | Feb. 18 | Mar. 13 |
| <u>Short-Term Rates</u> | | | | |
| Federal funds (wkly. avg.) | 13.55 (7/3) | 8.81 (2/27) | 6.29 (2/19) | 5.44 (3/12) |
| 3-month | | | | |
| Treasury bills (bid) | 9.74 (8/23) | 6.93 (2/6) | 5.32 | 5.40 |
| Comm. paper (90-119 day) | 12.25 (7/17) | 7.75 (2/22) | 6.38 | 6.00 |
| Bankers' acceptances | 12.50 (8/15) | 7.75 (2/26) | 6.30 | 6.30 |
| Euro-dollars | 14.38 (7/16) | 8.25 (2/18) | 7.38 | 6.56 |
| CD's (NYC) 90-119 day | | | | |
| Most often quoted new | 12.00 (9/4) | 7.88 (2/20) | 6.25 (2/19) | 6.13 (3/12) |
| 6-month | | | | |
| Treasury bills (bid) | 9.86 (8/23) | 6.80 (2/19) | 5.36 | 5.52 |
| Comm. paper (4-6 mo.) | 12.13 (7/10) | 7.50 (2/22) | 6.38 | 6.00 |
| Federal agencies | 10.63 (8/28) | 7.16 (2/19) | 5.79 | 6.04 (3/12) |
| CD's (NYC) 180-269 day | | | | |
| Most often quoted new | 11.90 (8/21) | 7.50 (2/27) | 6.25 (2/19) | 6.13 (3/12) |
| 1-year | | | | |
| Treasury bills (bid) | 9.65 (8/23) | 6.37 (2/15) | 5.38 | 5.58 |
| Federal agencies | 10.18 (8/26) | 7.01 (2/19) | 6.11 | 6.26 (3/12) |
| CD's (NYC) | | | | |
| Most often quoted new | 9.75 (7/17) | 7.00 (2/27) | 6.00 (2/19) | 6.00 (3/12) |
| Prime municipals | 6.50 (7/12) | 3.70 (2/15) | 3.50 (2/21) | 3.80 (3/14) |
| <u>Intermediate and Long-Term</u> | | | | |
| Treasury coupon issues | | | | |
| 5-years | 8.79 (8/23) | 6.72 (2/14) | 7.00 | 7.19 |
| 20-years | 8.72 (8/26) | 7.40 (1/4) | 7.64 | 7.83 |
| Corporate | | | | |
| Seasoned Aaa | 9.40 (10/8) | 7.73 (1/2) | 8.59 | 8.61 (3/12) |
| Baa | 10.53 (12/2) | 8.54 (1/2) | 10.41 | 10.28 (3/12) |
| New Issue Aaa Utility | 10.61 (10/2) | 8.05 (2/13) | 9.04 (2/19) | 9.27p |
| Municipal | | | | |
| Bond Buyer Index | 7.15 (12/12) | 5.16 (2/6) | 6.40 (2/20) | 6.65 |
| Mortgage--average yield | | | | |
| in FNMA auction | 10.59 (9/9) | 8.43 (2/25) | 8.98 (2/12) | 8.78 (3/10) |

SUPPLEMENTAL APPENDIX A*
Quarterly Survey of Changes in Bank Lending Practices

Over two-thirds of the 123 large banks responding to the February survey of changes in lending practices reported that demand for commercial and industrial loans was weaker in February than it had been three months earlier, and most of the respondents expected business loan demand to remain weak or deteriorate further. The proportion of banks anticipating moderately weaker demand was somewhat larger than in the previous survey, which correctly predicted a weakening in business loan growth. Although many banks eased interest rate terms somewhat further between November and February, nonprice lending terms at the majority of banks remained restrictive.

The further slackening of credit demands over the interval between the surveys was accompanied by continued easing of interest rates charged at a number of banks. Over 40 per cent of the respondents indicated that they had liberalized their interest rate policy. However, half of the respondents indicated no change regarding interest rates. The prevailing prime rate declined by more than 150 basis points over the three-month period between the November and February surveys, but the spread between prime commercial paper rates and bank prime rates widened substantially. Consequently, the responses indicating no change in interest rate policies appear to mean a maintenance of tautness in bank credit markets by keeping interest rates relatively high.

Non-price terms of lending to nonfinancial and financial businesses were essentially unchanged at most of the reporting banks, in contrast to the general tightening in such terms and conditions which had been reported in the previous three surveys. Over 80 per cent of the banks reported no change in compensating balance requirements or in policies regarding maturities on term loans, and about two-thirds indicated that they had made no change in applying standards of credit worthiness. However, at a minority of respondent banks there were indications of a continued tilt toward tightness. About one-fourth reported that they were moderately firmer with respect to credit worthiness, and 6 per cent were substantially firmer. Furthermore, about one-third of the respondents noted that they had tightened policies with respect to reviewing credit lines or loan applications from new customers and customers outside their local service areas, whereas only 10 per cent had firmed their policies toward established and local customers.

* Prepared by Eleanor M. Pruitt, Economist, Banking Section, Division of Research and Statistics.

As compared with the previous survey, the number of banks that were more willing to make mortgage and consumer loans and loans to brokers was somewhat greater, but over three-quarters of the respondents indicated that their policies were unchanged.

In general, despite weakening demand for business loans, most banks were maintaining a restrictive stance with respect to most types of loans. A number of respondents remarked that they were continuing to emphasize loan quality in the present situation and desired to keep the maturity of their loan portfolios as short as possible.

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 FEBRUARY 15, 1975 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 | 123 | 100.0 | 0 | 0.0 | 5 | 4.1 | 33 | 26.8 | 77 | 62.6 | 8 | 6.5 |
| ANTICIPATED DEMAND IN NEXT 3 MONTHS | 123 | 100.0 | 0 | 0.0 | 7 | 5.7 | 44 | 35.7 | 67 | 54.5 | 5 | 4.1 |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| LENDING TO NONFINANCIAL BUSINESSES | | | | | | | | | | | | |
| TERMS AND CONDITIONS: | | | | | | | | | | | | |
| INTEREST RATES CHARGED | 123 | 100.0 | 1 | 0.8 | 7 | 5.7 | 61 | 49.6 | 45 | 36.6 | 9 | 7.3 |
| COMPENSATING OR SUPPORTING BALANCES | 123 | 100.0 | 4 | 3.3 | 15 | 12.2 | 102 | 82.9 | 2 | 1.6 | 0 | 0.0 |
| STANDARDS OF CREDIT WORTHINESS | 123 | 100.0 | 8 | 6.5 | 33 | 26.8 | 82 | 66.7 | 0 | 0.0 | 0 | 0.0 |
| MATURITY OF TERM LOANS | 123 | 100.0 | 6 | 4.9 | 13 | 10.6 | 103 | 83.7 | 1 | 0.8 | 0 | 0.0 |
| REVIEWING CREDIT LINES OR LOAN APPLICATIONS | | | | | | | | | | | | |
| ESTABLISHED CUSTOMERS | 123 | 100.0 | 1 | 0.8 | 12 | 9.8 | 98 | 79.7 | 11 | 8.9 | 1 | 0.8 |
| NEW CUSTOMERS | 123 | 100.0 | 13 | 10.6 | 33 | 26.8 | 59 | 48.0 | 18 | 14.6 | 0 | 0.0 |
| LOCAL SERVICE AREA CUSTOMERS | 123 | 100.0 | 0 | 0.0 | 11 | 8.9 | 97 | 78.9 | 14 | 11.4 | 1 | 0.8 |
| NONLOCAL SERVICE AREA CUSTOMERS | 123 | 100.0 | 11 | 8.9 | 26 | 21.1 | 75 | 61.1 | 11 | 8.9 | 0 | 0.0 |

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1/ SURVEY OF LENDING PRACTICES AT 124 LARGE BANKS REPORTING IN THE FEDERAL RESERVE QUARTERLY INTEREST RATE SURVEY AS OF FEBRUARY 15, 1975.

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 | 8 | 6.5 | 22 | 17.9 | 92 | 74.8 | 1 | 0.8 | 0 | 0.0 |
| INTENDED USE OF THE LOAN | 123 | 100.0 | 8 | 6.5 | 23 | 18.7 | 90 | 73.2 | 2 | 1.6 | 0 | 0.0 |
| LENDING TO "NONCAPTIVE" FINANCE COMPANIES | | | | | | | | | | | | |
| TERMS AND CONDITIONS: | | | | | | | | | | | | |
| INTEREST RATES CHARGED | 123 | 100.0 | 2 | 1.6 | 7 | 5.7 | 88 | 71.6 | 19 | 15.4 | 7 | 5.7 |
| COMPENSATING OR SUPPORTING BALANCES | 123 | 100.0 | 4 | 3.3 | 10 | 8.1 | 108 | 87.8 | 1 | 0.8 | 0 | 0.0 |
| ENFORCEMENT OF BALANCE REQUIREMENTS | 123 | 100.0 | 7 | 5.7 | 12 | 9.8 | 104 | 84.5 | 0 | 0.0 | 0 | 0.0 |
| ESTABLISHING NEW OR LARGER CREDIT LINES | 123 | 100.0 | 14 | 11.4 | 24 | 19.5 | 82 | 66.7 | 3 | 2.4 | 0 | 0.0 |
| WILLINGNESS TO MAKE OTHER TYPES OF LOANS | | | | | | | | | | | | |
| TERM LOANS TO BUSINESSES | 123 | 100.0 | 6 | 4.9 | 14 | 11.4 | 93 | 75.6 | 10 | 8.1 | 0 | 0.0 |
| CONSUMER INSTALMENT LOANS | 122 | 100.0 | 0 | 0.0 | 7 | 5.7 | 99 | 81.2 | 15 | 12.3 | 1 | 0.8 |
| SINGLE FAMILY MORTGAGE LOANS | 120 | 100.0 | 5 | 4.2 | 8 | 6.7 | 95 | 79.1 | 12 | 10.0 | 0 | 0.0 |
| MULTI-FAMILY MORTGAGE LOANS | 119 | 100.0 | 6 | 5.0 | 12 | 10.1 | 100 | 84.1 | 1 | 0.8 | 0 | 0.0 |
| ALL OTHER MORTGAGE LOANS | 121 | 100.0 | 6 | 5.0 | 13 | 10.7 | 98 | 81.0 | 4 | 3.3 | 0 | 0.0 |
| PARTICIPATION LOANS WITH CORRESPONDENT BANKS | 123 | 100.0 | 2 | 1.6 | 7 | 5.7 | 98 | 79.7 | 15 | 12.2 | 1 | 0.8 |
| LOANS TO BROKERS | 123 | 100.0 | 5 | 4.1 | 7 | 5.7 | 97 | 78.8 | 13 | 10.6 | 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.

NOT FOR QUOTATION OR PUBLICATION

TABLE 2

COMPARISON OF QUARTERLY CHANGES IN BANK LENDING PRACTICES AT BANKS GROUPED BY SIZE OF TOTAL DEPOSITS 1/
(STATUS OF POLICY ON FEBRUARY 15, 1975, 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 | 0 | 4 | 4 | 20 | 31 | 68 | 59 | 8 | 6 |
| ANTICIPATED DEMAND IN NEXT 3 MONTHS | 100 | 100 | 0 | 0 | 2 | 9 | 32 | 38 | 60 | 50 | 6 | 3 |
| LENDING TO NONFINANCIAL BUSINESSES | | | | | | | | | | | | |
| TERMS AND CONDITIONS: | | | | | | | | | | | | |
| INTEREST RATES CHARGED | 100 | 100 | 0 | 1 | 9 | 3 | 59 | 43 | 28 | 43 | 4 | 10 |
| COMPENSATING OR SUPPORTING BALANCES | 100 | 100 | 2 | 4 | 11 | 13 | 87 | 80 | 0 | 3 | 0 | 0 |
| STANDARDS OF CREDIT WORTHINESS | 100 | 100 | 4 | 9 | 23 | 30 | 73 | 61 | 0 | 0 | 0 | 0 |
| MATURITY OF TERM LOANS | 100 | 100 | 2 | 7 | 9 | 11 | 89 | 81 | 0 | 1 | 0 | 0 |
| REVIEWING CREDIT LINES OR LOAN APPLICATIONS | | | | | | | | | | | | |
| ESTABLISHED CUSTOMERS | 100 | 100 | 0 | 1 | 15 | 6 | 76 | 83 | 9 | 9 | 0 | 1 |
| NEW CUSTOMERS | 100 | 100 | 15 | 7 | 21 | 31 | 51 | 46 | 13 | 16 | 0 | 0 |
| LOCAL SERVICE AREA CUSTOMERS | 100 | 100 | 0 | 0 | 9 | 9 | 78 | 80 | 13 | 10 | 0 | 1 |
| NONLOCAL SERVICE AREA CUSTOMERS | 100 | 100 | 4 | 13 | 17 | 24 | 68 | 56 | 11 | 7 | 0 | 0 |

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1/ SURVEY OF LENDING PRACTICES AT 53 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 FEBRUARY 15, 1975.

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TABLE 2 (CONTINUED)

| | NUMBER ANSWERING QUESTION | | SIZE OF BANK MUCH FIRMER POLICY | | -- TOTAL DEPOSITS IN BILLIONS | | | | MODERATELY EASIER POLICY | | MUCH EASIER POLICY | |
|---|---------------------------|-----------|---------------------------------|-----------|-------------------------------|-----------|------------------------------|-----------|--------------------------|-----------|---------------------------|-----------|
| | \$1 & OVER | UNDER \$1 | \$1 & OVER | UNDER \$1 | 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 |
| FACTORS RELATING TO APPLICANT 2/ | | | | | | | | | | | | |
| VALUE AS DEPOSITOR OR SOURCE OF COLLATERAL BUSINESS | 100 | 100 | 2 | 10 | 13 | 21 | 85 | 68 | 0 | 1 | 0 | 0 |
| INTENDED USE OF THE LOAN | 100 | 100 | 4 | 9 | 13 | 23 | 83 | 65 | 0 | 3 | 0 | 0 |
| LENDING TO "NONCAPTIVE" FINANCE COMPANIES | | | | | | | | | | | | |
| TERMS AND CONDITIONS: | | | | | | | | | | | | |
| INTEREST RATES CHARGED | 100 | 100 | 2 | 1 | 4 | 7 | 81 | 65 | 9 | 20 | 4 | 7 |
| COMPENSATING OR SUPPORTING BALANCES | 100 | 100 | 6 | 1 | 2 | 13 | 92 | 85 | 0 | 1 | 0 | 0 |
| ENFORCEMENT OF BALANCE REQUIREMENTS | 100 | 100 | 6 | 6 | 8 | 11 | 86 | 83 | 0 | 0 | 0 | 0 |
| ESTABLISHING NEW OR LARGER CREDIT LINES | 100 | 100 | 6 | 16 | 19 | 20 | 73 | 61 | 2 | 3 | 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 | 2 | 7 | 9 | 13 | 81 | 71 | 8 | 9 | 0 | 0 |
| CONSUMER INSTALMENT LOANS | 100 | 100 | 0 | 0 | 2 | 9 | 79 | 82 | 17 | 9 | 2 | 0 |
| SINGLE FAMILY MORTGAGE LOANS | 100 | 100 | 2 | 6 | 4 | 9 | 84 | 75 | 10 | 10 | 0 | 0 |
| MULTI-FAMILY MORTGAGE LOANS | 100 | 100 | 2 | 7 | 4 | 15 | 94 | 77 | 0 | 1 | 0 | 0 |
| ALL OTHER MORTGAGE LOANS | 100 | 100 | 0 | 9 | 10 | 12 | 88 | 75 | 2 | 4 | 0 | 0 |
| PARTICIPATION LOANS WITH CORRESPONDENT BANKS | 100 | 100 | 0 | 3 | 4 | 7 | 87 | 75 | 9 | 14 | 0 | 1 |
| LOANS TO BROKERS | 100 | 100 | 0 | 7 | 4 | 7 | 85 | 75 | 11 | 10 | 0 | 1 |

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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.

SUPPLEMENTAL APPENDIX B
A BRIEF OUTLINE OF THE HOUSE VERSION OF THE
"TAX REDUCTION ACT OF 1975"*

The House has passed H.R. 2166, the "Tax Reduction Act of 1975". The provisions of this Act are briefly outlined in this Appendix.

Rebate on 1974 Tax Liability - The Act provides a rebate on 1974 personal tax liabilities. The size of the rebate to be dispensed will depend upon the amount of a person's tax liability and level of adjusted gross income. For people with adjusted gross incomes of less than \$20,000, the following schedule applies:

| <u>Tax Liability</u> | <u>Size of Rebate</u> |
|-------------------------|-----------------------|
| up to \$100 | 100% of liability |
| from \$100 to \$1,000 | \$100 |
| from \$1,000 to \$2,000 | 10% of liability |
| over \$2,000 | maximum of \$200 |

The rebate paid to taxpayers with adjusted gross incomes of more than \$20,000 becomes progressively smaller the higher the income level until income levels of \$30,000 or more are reached; at which point the rebate reaches a minimum of \$100.

Individual Income Tax Reductions - For calendar year 1975 only, several reductions are made in individual income tax liabilities, and these are reflected in revised withholding schedules.

(1) The minimum standard deduction (sometimes referred to as the low-income allowance) is raised from \$1,300 to \$2,500 for joint returns and from \$1,300 to \$1,900 for single persons. As a result of this change, a family of four would not pay income taxes for incomes up to \$5,500--which nowadays represents the Federal poverty level.

(2) The percentage standard deduction is increased from 15 per cent of adjusted gross income with a maximum of \$2,000 to 16 per cent of adjusted gross income with a maximum of \$3,000 for joint returns (and \$2,500 for single persons). Together with the increased low-income allowance, this measure is estimated to cost \$5.2 billion.

* Prepared by Frank Russek, Economist, Government Finance Section, Division of Research and Statistics.

(3) The Act provides for a refundable credit of 5 per cent of earned income. The credit reaches a maximum of \$200 at the \$4,000 income level. Beyond that point, it decreases until it is fully phased out at an income of \$6,000. Those taxpayers whose liability is less than the calculated credit are to receive a check for the net amount of the credit. Thus, this measure resembles a negative income tax. However, the intent of this provision is to offset the lack of low-income exemptions in the social security tax structure. Most recipients of the credit do pay 5.85 per cent of their income in social security taxes. It is estimated that the earned income credit will cost \$2.9 billion.

Increase in the Investment Tax Credit - The investment tax credit is increased from the present 7 per cent (4 per cent in the case of public utilities) to 10 per cent for all taxpayers. (For public utilities, the additional credit is limited to \$100 million per company). The increased credit is to be available for equipment placed in service between January 21, 1975 and January 1, 1976, and equipment ordered in 1975 and placed in service during 1976. In the case of long lead time equipment, the Act permits the investment credit to be taken when progress payments are made rather than waiting until the equipment is placed in service. To assist small business, the dollar amount of used equipment eligible for the investment tax credit is raised from \$50,000 to \$75,000 for the 1975 period. Finally, in the case of public utilities, the present limitation on the amount of tax liability that may be offset by the investment tax credit in one year is increased from 50 per cent to 100 per cent for 1975 and 1976, and then gradually reduced back to the 50 per cent level over a 5 year period. The reduction in tax liability resulting from these various changes in the investment tax credit is estimated at \$2.4 billion in 1975 and \$1.5 billion in 1976.

Increase in the Corporate Surtax Exemption - To aid small business, the surtax exemption (the amount to which the 22 per cent corporate tax rate rather than the 48 per cent rate applies) is temporarily increased from the present \$25,000 to \$50,000. This is expected to reduce revenue by \$1.2 billion.

Repeal of Oil and Gas Depletion - The bill eliminates depletion allowances on oil and gas wells as of January 1, 1975, except for wells producing regulated natural gas or natural gas sold under a fixed contract. The gain in annual revenue is estimated at \$2.5 billion.

In general, the provisions of H.R. 2166 are consistent with staff fiscal policy assumptions. However, we are assuming that the tax reductions--other than the rebate--which generally expire at the end of 1975, will be made permanent by subsequent legislation. Moreover, we have not yet incorporated the repeal of oil and gas depletion allowances, since consideration of this measure by the Senate has been postponed temporarily. In addition, other Senate modifications, which seem to be tending in the direction of larger tax cuts, may well modify the eventual provisions of the Act.