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² A two-step process was used. An advanced optical character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

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SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

February 3, 1967

SUPPLEMENTAL NOTES

The Domestic Financial Situation

Reflecting the trend toward slightly easier mortgage markets, FNMA raised its secondary-market buying prices on FHA and VA loans, effective February 3. FNMA's price increase -- reducing the yield on mortgages eligible for purchase by some 12 basis points -- was the first in over 2-1/2 years. As a further market stimulant, FNMA also removed two former restrictions on its purchasing requirements. Mortgage sellers will no longer be required to submit loans for FNMA purchase within four months after FHA or VA underwriting, and the FNMA ceilings of \$20,000 on existing-house loans and \$25,000 on new-house loans eligible for purchase will no longer be in effect.

A further stimulant to the industry was provided by the Home Loan Bank Board on February 3 when regulations on repayment of advances to meet withdrawals and restrictions on maximum loan commitments outstanding were relaxed. The loosening of these restrictions, imposed since last May, will mean that S&L's can increase their outstanding loan commitments from four times their loan repayments plus the last four months net increase in savings capital, to levels "consistent with local market conditions". Also, associations which had previously received advances to meet withdrawals and were repaying this debt on a monthly basis out of new savings, can now convert these advances to the expansion category, and thus will not have to repay immediately. But the Home Loan Bank Board also emphasized that associations with poor scheduled items ratios or those approaching/regulatory

maximum on lines of credit will continue to be discouraged from incurring further Bank indebtedness.

The Treasury's \$7.5 billion cash refunding drew over \$42 billion of subscriptions for the new 15-month and 5-year notes. Allotments were set at 10 per cent of subscriptions for the shorter-term issue with subscriptions up to \$100,000 awarded in full. On the 5-year note, the allotment was an unusually low 7 per cent and subscriptions up to \$50,000 were allotted in full.

International Developments

The Swedish central bank (Sveriges Riksbank) has reduced its discount rate from 6 per cent to 5-1/2 per cent effective February 3.

Corrections:

Page III-18. Third sentence, first paragraph, should begin as follows: "Commercial banks, which had stayed fairly near their unusually high year-earlier levels of net takings in the second and third quarters, and life insurance companies . . .".

The heading of the table on page IV-6 should be "Short-term Rates," and after each rate except Federal Funds "3-month" should be inserted. Insert after Federal Funds: Euro-dollar call money: 4-7/8 per cent at end January 1966, 6-1/4 per cent in middle of September 1966, 5-1/8 per cent near end of January 1967.