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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

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IN BROAD REVIEW

Overall domestic economic activity has apparently continued to expand, eventhough industrial production appears to have declined a little in September, mainly because excess inventories of steel were beginning to be worked off. The labor market remained strong in September, with the unemployment rate dropping slightly to 4.4 per cent, the lowest in many years. Retail sales apparently remained at a high level. Construction activity in the third quarter was unchanged from the second.

In financial markets, there was a slackening in bank credit expansion in September. The volume of corporate and municipal security issues in October is expected to be substantially below the large September total. Money market conditions have generally eased a little, with bill and other interest rates dropping back somewhat from recent advanced levels. Stock market trading has remained high but below the very high September level while prices have moved in a narrow range around their May highs. Price-earning ratios, however, are well below those last May.

U.S. foreign trade in July and August showed improvement as exports rose in both months while growth in imports appeared to have tapered off.

SUPPLEMENTAL NOTES

The Domestic Economy

A decline in the industrial production index of around 1 point still appears likely for September but data are not yet available to make a firm estimate. In addition to a sharp drop in steel production, strikes and Hurricane Betsy were drags on the total index. With the manufacturing production index lower in September, the third quarter rate of capacity utilization was little changed from the 90 per cent level estimated for the first and second quarters of the year.

Steel ingot production fell 15 per cent in September and is declining further this month. Auto assemblies declined about 3 per cent due to the strike at American Motors, but truck production was not affected and remained at the August level. The Boeing strike that began in mid-September curtailed output in the aircraft industry. Output of crude and refined petroleum products was reduced by Hurricane Betsy. Meanwhile, output of television sets increased further and paperboard production remained at a high rate.

According to the weekly estimates, the industrial commodity price index has edged up .1 per cent further since mid-August, bringing the rise to .3 per cent since May and 1.5 per cent since the summer of 1964. Foodstuffs have continued to decline from their July peak, and the total wholesale price index has remained at the June-August level.

The consumer price index, after rising more than 1 per cent from March to July chiefly because of reduced supplies of foods, declined .2 per cent in August. Average food prices fell .7 per cent mainly as a result of increased supplies of vegetables. Nonfood commodities as a group were unchanged and services rose slightly.

Sales of new domestic automobiles in September remained at the 8.9 million annual rate of the previous three months and were about the same as a year ago after allowance for later new model introductions this year. With most 1966 models now introduced, prices appear close to those for 1965 models. One company indicated that prices were a little higher while the other major producers claimed small price reductions after allowance for added safety equipment.

The growth of consumer instalment credit slowed in August, seasonally adjusted. The flow of repayments was higher on most types of loans, while the rate of new credit extensions leveled off. First reports coming in for September suggest that net borrowing returned to levels somewhat above August.

Commercial bank delinquencies, which usually trend upward in late summer and early fall, rose somewhat more than seasonally. Delinquencies in purchased automobile paper which had been stable during the first half of the year, accounted for most of the recent change.

CONSUMER INSTALMENT CREDIT
(Seasonally adjusted annual rate, in billions of dollars)

1965	Net Change in Outstandings	Extensions	Repayments
First quarter	7.8	71.7	63.9
Second quarter	8.0	73.7	65.7
Third quarter			
July	8.0	75.3	67.3
August	7.3	75.4	68.1
Average of 2 months	7.7	75.4	67.7

New orders for durable goods showed somewhat less decline in August than the advance figures had indicated -- 3 instead of 4 per cent -- and unfilled orders continued to rise. The improvement was due mainly to an upward revision in new orders for defense products, which now show a steady rise from May to August. Orders for the strategic non-electrical machinery group also rose, while orders for steel, as expected, were down sharply.

Business inventory accumulation in August was larger than expected but not so large as in July, and for the two months accumulation exceeded the second quarter rate and approached the very high rate at the beginning of the year. Accumulation in the third quarter at a slower rate than in the second quarter is still possible, however, if factory stocks, because of steel liquidation, show little net change in September and distributors stocks continue to rise at the moderate July-August pace.

At manufacturers, accumulation totaled \$400 million in August and nearly \$800 million in July for a monthly average of about \$600 million. This was double the average for the second quarter and stemmed from: (a) continued rapid accumulation of steel stocks by metal-using industries; (b) a sharp spurt in work-in-process stocks in machinery and transportation equipment industries; and (c) an increase in accumulation by nondurable goods producers following little change earlier in the year.

At distributors, stocks increased at a steady rate of about \$200 million a month in July and August, as compared with \$365 million

in the second quarter and \$580 million in the first quarter. Auto and apparel stocks rose but most other stocks at retail showed little change in July and August. Total wholesale inventories were about unchanged between June and August.

Expenditures for new construction edged up in September and at \$68.5 billion remained near the record level reached in June. Residential construction activity continued down moderately while outlays for business and other private nonresidential construction were higher. Public construction expenditures also increased slightly in September. For the third quarter as a whole, construction expenditures were unchanged from the second quarter, as can be seen in the table.

NEW CONSTRUCTION PUT IN PLACE

	Q 3 1965 (Billions) <u>1/</u>	Per cent change from	
		Q 2 1965	Q 2 1964
Total	\$68.3	--	4
Private	48.2	--	6
Residential	26.5	-2	1
Nonresidential	21.7	+3	11
Business	16.2	+5	17
Public	20.1	+1	-1

1/ Seasonally adjusted annual rate; preliminary.

Home mortgage markets have recently showed some signs of a less easy tone. Symptomatic of the change was a further sharp increase in offerings of FHA and VA loans to the Federal National Mortgage Association for purchase under its secondary market operations. For August, data just recently available indicate that average loan amounts,

loan-to-value ratios, and maturities for conventional first mortgages on both new and existing homes were slightly less liberal than in July. Contract interest rates, however, were little changed.

AVERAGE TERMS ON CONVENTIONAL FIRST MORTGAGES FOR HOME PURCHASE

	July	August	Per cent increase in August 1965 from a year ago
New home loans			
Contract rate (per cent)	5.77	5.76	--
Purchase price (\$1,000)	24.7	24.9	3
Loan amount (\$1,000)	18.3	18.2	2
Loan/price (per cent)	75.0	73.8	1
Maturity (years)	25.0	24.5	-1
Existing home loans			
Contract rate (per cent)	5.86	5.86	-1
Purchase price (\$1,000)	20.2	19.7	3
Loan amount (\$1,000)	14.5	14.1	4
Loan/price (per cent)	72.5	72.1	1
Maturity (years)	20.6	20.4	2

Demands for labor continued strong in September. Unemployment declined slightly to 4.4 per cent from 4.5 per cent in July and August. In September 1964, the rate was 5.1 per cent. The jobless rate for adult men was down to 3.1 and for married men to 2.2 per cent; a lower rate also was reported for adult women. For teenagers and nonwhites, however, unemployment increased somewhat following fairly sharp reductions in August, but for these groups rates were slightly lower than in July and also below a year earlier. At 8.2 per cent, the unemployment rate for nonwhite workers remained more than double that of white workers.

Another significant labor market development in September was a fairly sharp reduction to 1.7 million in the number of workers on part-time for economic reasons -- about 300,000 below a year ago and the smallest number since early 1956. The decline in this group apparently reflected fairly large shifts of involuntary part-time workers to full-time jobs.

In July and August the labor force had expanded sharply as an unusually large number of students entered the labor market and found jobs. As expected, a large proportion of these returned to school in September and the labor force declined sharply. Part of the decline in the labor force in September also was attributed to an unusually large reduction in farm employment because of generally unfavorable weather during the survey week.

Despite the large withdrawal of young workers following re-opening of schools, there were 550,000 more youths in the labor force this September than a year ago. The rise this year was more than double that in the preceding year, owing primarily to the rapid growth in population of youths of working age.

The Domestic Financial Situation

Total loans and investments at all commercial banks are estimated to have increased only about \$500 million in September. Even with the large increase in August, the annual rate of growth in the third quarter fell to 5.8 per cent, compared with almost 10 per cent in the second quarter and about 12.5 per cent during the unusual first quarter.

Loan expansion was at a reduced rate in September, mainly reflecting a large reduction in security loans. Dealer loans declined substantially at the end of the month in response to large System purchases of Treasury issues, and broker loans also declined. Excluding security loans, total loans rose at an annual rate of 13-1/2 per cent in the third quarter, a little below that of the second quarter but 1-1/2 percentage points above the 1964 rate.

Additional factors contributing to the reduced rate of credit expansion in September were a further decline in holdings of U.S. Government securities and sharply reduced acquisitions of municipal and Federal agency issues. The decline in holdings of Governments was associated in part with the decline in Treasury balances at commercial banks, which was unusually large in the absence of Treasury cash financing. The small rise in holdings of other securities presumably reflects both the reduced volume of new municipal offerings in August and pressures of other demands on banks under conditions of reduced liquidity.

Demand for business loans was strong around and subsequent to the tax date after having moderated considerably in late August and early September. For the month as a whole, these loans expanded at an annual rate of close to 13 per cent, about the same as in August. Outstanding loans to the public utilities, trade, and miscellaneous

manufacturing and mining groups all rose more than seasonally. Those to the metals group, which had declined in late August and early September, rose sharply over the tax date and then declined again later in the month.

Loans to finance companies, which had expanded sharply in late August and early September as these firms borrowed to finance automobile dealer inventories at the end of the model run, declined substantially in the second half of the month. Further liquidation of finance company loans is expected, mainly of a seasonal character but partly also in response to recent increases in interest rates on loans to these companies.

Following a slowdown in August, the money supply rose in September at a seasonally adjusted annual rate of almost 12 per cent. This increase was associated in part with an unusually large run-down of U.S. Government deposits. So far this year, however, the money supply has grown at an annual rate of 3.8 per cent--a little below that for the whole year 1964.

Time and savings deposit growth in September was at an annual rate of 12 per cent, considerably below the high rates of the previous two months. While savings deposit inflows remained strong, CD run-offs during the tax and dividend period were unusually heavy, and only about half the run-off had been replaced by the month end.

Over the last two or three weeks, in response to money market tightness and a large loan demand, prime banks pushed their offering rates on CD's to or near the Regulation Q ceiling of 4.5 per cent. New York banks attracted over \$500 million of CD funds at these rates in the three weeks since the tax date, with rates receding somewhat toward the end of this period. With prime bank rates at this level, nonprime banks are likely to encounter some difficulty in rolling over their maturing CD's.

U. S. Government securities market. The sharp upward movement of interest rates on U.S. Government securities that had developed in the latter part of September did not carry into early October. In fact, in the early days of this month, yields on Government securities declined.

YIELDS ON U. S. GOVERNMENT SECURITIES

Date (closing bids)	3-month bills	6-month bills	3 years	5 years	10 years	20 years
<u>1965</u>						
Highs	4.05	4.21	4.35	4.34	4.36	4.34
Lows	3.76	3.81	4.00	4.08	4.17	4.17
<u>1965</u>						
July 28	3.81	3.88	4.09	4.15	4.20	4.21
Sept. 21	3.93	4.09	4.22	4.24	4.28	4.30
29	4.05	4.21	4.35	4.34	4.36	4.34
Oct. 6	4.00 ^{1/}	4.17 ^{1/}	4.30	4.31	4.32	4.32

^{1/} Yields as of the close of business October 7.

The upward interest rate pressure in the bill market toward the end of last month occurred as the Treasury's announcement of a \$4 billion March and June tax bill offering came into a market in which the supply of bills already in dealer hands was heavy in relation to current demand and in which there were rumors of a discount rate increase. The supply situation was eased considerably by large System bill purchases in the market, totaling \$1.3 billion from September 22 through October 1. In good part as a result of these purchases dealer bill trading positions declined by \$1.9 billion over the interval to a level of only \$500 million.

In last Monday's auction, dealers rebuilt positions somewhat, but they were cautious bidders. Dealer awards of the 3-month bill, now carrying a less favorable maturity date than the previous such bill, were about average at the 4.05 per cent issuing rate. Awards of the 6-month

bill were on the light side, however, at their 4.20 per cent issuing rate. Rates declined from these levels in subsequent trading.

The abatement of bill market pressures enabled the tax bills to be auctioned with 100 per cent tax and loan credit on October 5 at lower rates than earlier anticipated -- 3.78 and 3.94 per cent for the 6- and 9-month bills respectively. Demand for these bills by corporations and others in the secondary market proved to be better than many had earlier expected. As a result, dealers were willing to take bills into position at rising prices. By the close of business on October 7, both tax bills were quoted at 4.20 per cent.

The bond market, too, improved in tone along with, and partly in response to, the bill market, with some of the price rise attributable to remarks by high officials in the Administration suggesting there was no need for further interest rate increases, at least of any magnitude. Bond market activity, according to reports, has been largely professional, however. There was evidence of some increase in dealer gross short positions in the period of market weakness during the latter part of September, which was followed by a minor amount of short covering later.

The Treasury can be expected to announce terms for its November refunding in late October. Only \$3.3 billion of maturing issues are in the hands of the public, and this can be expected to be a fairly routine refunding, given the current state of the market. The possibility exists, however, that the Treasury could raise some additional cash at this time if the market outlook turns more favorable. Current projections of the

Treasury balance indicate that additional cash will be required at least by late November, with the market expecting \$3 billion more in bills.

Corporate and municipal bond markets. Public offerings in both corporate and municipal bond markets this month are expected to be substantially lower than the very large September totals. As a result, the pressure of new offerings on bond yields has diminished somewhat since the last Committee meeting, and yield movements in both markets have tended to reflect chiefly shifts in expectations prompted by recent changes in short-term interest rates.

BOND YIELDS

	Corporate		State and local government	
	Aaa		Moody's	Bond buyer (mixed qualities)
	New	Seasoned		
<u>1964</u>				
High	4.53	4.45	3.16	3.32
Low	4.30	4.35	2.99	3.12
<u>1965</u>				
High	4.71(8/27)	4.53(9/17)	3.31(9/30)	3.41(10/7)
Low	4.33(1/29)	4.41(3/12)	2.94(2/11)	3.04(2/11)
<u>Week ending:</u>				
July 23	4.56	4.48	3.16	3.25
Sept. 10	4.70	4.52	3.21	3.30
Sept. 24	4.64*	4.52	3.31	3.39
Oct. 8	4.72*	4.57	3.31	3.41

* Not representative.

In the corporate market, underwriters bid strongly for two top quality utility issues early this week with reoffering yields down slightly from the high last month. Later in the week, however, the new issue yield series, as adjusted to a Aaa basis, was forced to a new high by the more liberal reoffering yield assigned a lower-rated gas utility issue which

was expected to pose more marketing problems. With quick sell-outs for the high-rated issues and satisfactory reception of the week's other offerings, primary market yields appear to have stabilized at levels close to or slightly below recent highs. Secondary market yields on recently distributed issues no longer in syndicate have declined slightly in the past few days. While yields on seasoned Aaa-rated bonds have continued to rise, this series typically lags behind quotations on newer issues that are more actively traded.

Yields on high quality municipal bonds have shown little further change following a 16 basis point advance from mid-August to late September. The lighter calendar and apparent stability in municipal yields have been accompanied by some dealer success in reducing inventories, reportedly after substantial price concessions. Early this week the total of dealers' advertised inventories fell below \$700 million for the first time since mid-summer.

BOND OFFERINGS^{1/}
(In millions of dollars)

	Corporate				State & local govt.	
	Public offerings		Private placements		1965 ^{e/}	1964
	1965 ^{e/}	1964	1965 ^{e/}	1964		
Jan.-Oct. average	462	327	655	502	924	907
August	380	183	500	433	700	799
September	640	376	700	672	1,000	920
October	300	181	700	642	700	852

^{1/} Includes refundings -- data are gross proceeds for corporate offerings and principal amounts for State and local government issues.

Stock market. Trading activity in the stock market continues high, although volume has fallen somewhat below the 7.4 million daily average for the month of September. Prices, as measured by Standard and Poor's 500 stock index, have continued to move in a narrow range at about the highs reached last May, but the price-earnings ratio of 17.2 (based on the October 7 close of 90.47) remains well below the high of nearly 20 associated with the May price peak and the lower earnings reported at that time.

Intense activity in a limited number of highly volatile issues and industry groups has recently accounted for an increased proportion of total trading. The percentage accounted for by the 10 most active issues (usually about 1/8 of the total) averaged 17 per cent in the last two weeks of September and ran as high as 25 per cent. Most of these issues have been speculative in character. In comparing current price levels with the previous high in May, a relatively few favored industry groups have accounted for most of the upward movement. Group indexes of aerospace, radio-TV manufacturers, electronics, and air transport, for instance, now exceed their mid-May levels by amounts ranging from 10 to 30 per cent. With the composite index at about its May high, only 33 of the component industrial group indexes are above their mid-May levels, while 49 remain below.

International Developments

The U.S. merchandise trade surplus in June-August was at an annual rate of over \$5-1/2 billion, after correction of the import statistics as noted below. For July-August alone, the surplus exceeded a \$6-1/2 billion rate.

Exports, after rising 4 per cent from June to July, increased another 4 per cent in August. The average for the three months June-August (\$27 billion at a seasonally adjusted annual rate) shows an 8 per cent increase over June-August 1964, and a 7 per cent increase over the average rate for the six months December 1964-May 1965. It is perhaps questionable whether the underlying trend of exports has turned up so suddenly and so sharply as these comparisons seem to show. An alternative interpretation is that the underlying trend of demand for U.S. exports may have been gradually upward throughout the first half of the year, contrary to the impression previously given by the disappointingly low December-May total. (On this interpretation, the dock strike may have caused not only delays in shipment but also some losses of export sales.) The excellent summer export performance might then be regarded as confirming a favorable underlying trend, rather than calling for special explanation.

Imports in July-August averaged about \$21 billion (annual rate) after adjustment for a change in statistical procedure and for delays in unloading due to the maritime strike in the summer. This figure is 10 per cent above the imports of July-August 1964 and 5 per cent above the average rate for December-May. In comparison with June,

however, July-August imports were clearly down. Petroleum imports fell off after the end of the quota year in June, coffee imports were low, and steel imports appear to have leveled off.

In foreign exchange markets, the outstanding development of the past two weeks has been the further recovery of sterling. This week the forward discount has averaged about 1.3 per cent per annum, and the spot rate about \$2.803. The change in market attitudes toward sterling reflects growing satisfaction with the measures the British Government took at the end of July and in early September. The actual effects of these measures on the balance of payments -- apart from induced capital flows and changes in leads and lags -- will not appear until later in the year. However, exports in July-August showed renewed growth. Despite a rise in British imports in those months, the trade balance averaged about the same in July-August as in the first half of the year.

British industrial output has not changed significantly since February, and through July the production index remained within a 132-130 range (1958 = 100). Retail trade in volume terms tended to ease off after March, but a dip in June was followed by return in July to the April-May level. Fixed investment outlays in manufacturing, which had reached a record high in the first quarter of this year, declined a little in the second quarter.

Industrial production and foreign trade in other leading countries, so far as the available statistics show, have undergone no marked shifts from trends noted earlier this year. No significant

upturn has yet developed (through August) in Japanese or French imports, and those of the Netherlands and Switzerland appear also to have changed their level very little since mid-1964. Recovery in Italian imports was continuing last summer, though the levels reached were still well below the peak of 1963. Strong advances in imports were continuing in Germany, Sweden, and Canada. German imports in July-August were 18 per cent larger in value than a year earlier, and there were no indications of any interruption of their growth.

In general, the trends of imports noted above are closely related to trends of domestic demand in the various countries.

Expansion of production in France, Italy, and Japan has received stimulus from rapid growth of these countries' own export sales. However, in each of these three countries business capital expenditures apparently had not begun to pick up last summer, and renewed expansion of consumer buying was only just starting in Italy and France. According to French official estimates, inventory accumulation in France this year will have been virtually nil; a moderate resumption of inventory investment is expected next year. With domestic demands so slack, neither in Japan or France has industrial production broken through to levels higher than in the autumn of 1964. In Italy, however, industrial production reached new highs in May and June.

In Germany demand has continued to expand, but no significant increase in industrial production has been possible since early this year, as resource supplies -- especially labor -- remain hard pressed. Average hourly earnings in industry have been increasing almost twice

as fast as productivity in recent months. During the summer, relaxation of export and inventory demands was offset by increased consumer and public spending; and business outlays for machinery and equipment continued to rise. The strong rise in consumer prices through June reflected mainly rising food prices.

SUPPLEMENTAL APPENDIX A: SURVEY OF BANK LENDING PRACTICES, SEPTEMBER 1965

The results of the fifth quarterly survey of changes in bank lending practices are summarized in the following paragraphs and accompanying table. Reports were received from the 81 banks included in the quarterly interest rate survey.

Nearly three-fifths of the respondents (48 out of 81 banks) reported that demand for commercial and industrial loans had strengthened in the third quarter and over half of these had indicated increased loan demand in the second quarter as well. So widespread and sustained has loan demand been in the past year that more than one-third of the banks in the survey indicated strengthened demand in at least three of the past four quarters, and only five banks reported no increase in this period. Two of these were large banks in Chicago and Dallas, and the others were smaller banks in New Orleans, St. Louis, and Salt Lake City.

Accompanying the heavy demand for loans, and the tauter monetary policy of recent months, more than half of the banks firmed interest rates on loans to business borrowers in the third quarter and most of these also tightened requirements with respect to compensating balances. Another five per cent of the banks firmed compensating balance requirements but made no change in interest rates.

Pressure on bank loan rates has been rising continuously since late November 1964, when the discount rate was raised and ceiling rates of interest payable on time and savings deposits were increased. Many banks responded by adjusting upward their rates on such deposits, thereby adding considerably to their expenses. With the cost of deposits and borrowed funds increased, bank profits have been under pressure. Since last November, all except 9 of the survey banks have reported firmer policies on interest rates on loans to business borrowers with most of the banks tightening rates in at least two quarters and nearly 40 per cent in three or more.

Thus far, the overall average rate shown by these banks in the Quarterly Interest Rate Survey has provided no clear confirmation that rate increases were occurring. The average rate for September was 5.00 per cent, about the same as it has been throughout this business upswing. Within all loan size categories below \$200,000, however, average rates have moved upward over the past year, with increases ranging from 3 to 9 basis points. The effects of these increases on the overall average, however, have been offset by the increased volume of large loans at the prime rate.

Aside from interest rates and compensating balance requirements, policies with respect to other terms and conditions of the loan were firmed

by a much smaller number of banks. Higher standards of credit worthiness were imposed on business borrowers by one-fourth of the banks in the third quarter, while about one-eighth instituted firmer policies on the type and amount of collateral and on the maturity of loans. In these categories, the proportions were about in line with earlier quarters.

Lending standards were tightened more generally for certain types of customers than for others. About two-fifths of the banks said they had firmed their lending standards for new customers and those located outside the local service area of the bank. As in previous surveys, only a few banks indicated any change in policy for established customers.

Among those banks that submitted explanatory comments on their recent firming of lending standards, the two most often mentioned reasons were an increase in expenses and a high loan-deposit ratio. A large money market bank in New York City stated that in light of the rise in loan deposit ratios and in the cost of deposits, the banking system is struggling against an artificial prime rate. A number of banks also mentioned the tightening of their reserve positions. One stated that the strong loan demand was putting pressure on loanable funds and it would need to develop additional funds to meet the increasing requirements. A large bank in Kansas City summarized the situation as follows: "Whatever the superlative of tight money is, that is the situation at present."

More than two-fifths of the banks reported in the third quarter that the applicant's value to the bank as a depositor or source of collateral business was more important than three months ago -- a higher percentage than in any previous quarter of this year. One-fifth of the banks indicated they were less aggressive in seeking new loans -- the same as in the June survey. Banks that were "less willing" to make term loans represented a larger proportion than in all previous surveys except September 1964 and, conversely, the number "more willing" to make such loans was smaller than in other surveys.

While only 12 per cent of the banks firmed interest rates to finance companies in the third quarter, and about half that proportion tightened compensating balance requirements, these included a number of the big money market banks in New York, Chicago, and San Francisco, many of which had not previously increased their rates to finance companies. Presumably interest rates and compensating balance requirements for finance companies operating on a nationwide basis are determined for the most part by these big money market banks. Subsequent to the survey, several large banks have announced that they were raising the rate on loans to finance companies from 4-1/2 to 4-3/4 per cent, and it is not yet clear whether this increase will become generalized.

In nonrate areas of loan policy, where smaller banks appear to have somewhat more leeway in establishing terms and conditions for loans to finance companies, 38 banks -- a greater number than in any previous survey -- reported firmer policies on establishing new or larger credit lines for such companies. Firmer policies on enforcement of balance requirements were indicated by nearly one-fourth of the respondents, about the same as in other recent surveys.

U. S. Total
 Survey of Changes in Bank Lending Practices
 June-September 1965
 (Numbers of banks)

Lending to Nonfinancial Businesses

	<u>Stronger</u>	<u>Weaker</u>	<u>Unchanged</u>
1. Strength of loan demand	48	7	26
	<u>Greater</u>	<u>Less</u>	<u>Unchanged</u>
2. Aggressiveness of bank in seeking new loans	3	16	62
3. Factors considered in deciding whether to approve credit requests:			
	<u>More important</u>	<u>Less important</u>	<u>Unchanged</u>
Applicant's value to the bank as a depositor or source of collateral business	36	-	45
Applicant's intended use of loan proceeds	16	-	65
4. Practices with respect to reviewing lines of credit or loan applications of:			
	<u>Firmer</u>	<u>Easier</u>	<u>Unchanged</u>
Established customers	6	-	75
New customers	32	-	49
Local service area customers	8	-	73
Nonlocal service area customers	35	-	45
5. Terms and conditions of loans:			
	<u>Firmer</u>	<u>Easier</u>	<u>Unchanged</u>
Interest rates	44	-	37
Compensating or supporting balances	39	-	42
Standards of credit-worthiness	22	-	59
Type and amount of collateral	10	-	71
Maturity	13	2	65

6. Term loans		<u>More willing</u>	<u>Less willing</u>	<u>Unchanged</u>
Willingness to make		1	15	65
		<u>Longer</u>	<u>Shorter</u>	<u>Unchanged</u>
Maximum maturity bank will approve		-	-	80
	<u>Years</u>		<u>Number of banks</u>	
	3		5	
	5		40	
	6		1	
	7		12	
	8		4	
	10		5	
	n.a.		14	

Lending to Finance Companies

	<u>Firmer</u>	<u>Easier</u>	<u>Unchanged</u>
Interest rates	10	-	71
Size of compensating or supporting balances required	5	-	76
Enforcement of balance requirements	18	-	63
Establishing new or larger credit lines	38	-	43

Source: Survey of Lending Practices at Large Banks in the Federal Reserve Quarterly Interest Rate Survey conducted as of September 15, 1965.