BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

September 12, 1972

CONFIDENTIAL (FR)

TO: Federal Open Market Committee

FROM: Mr. Broida

Enclosed are a memorandum by Mr. Puckett and a transmittal from Mr. Axilrod relating to bank loan commitments. These materials were prepared pursuant to a discussion at the Committee meeting of July 18, 1972.

Although the subject of bank loan commitments is not listed on the agenda for the September 19 Committee meeting, it can be discussed then should any Board member or Reserve Bank President so desire.

Arthur L. Broida
Deputy Secretary
Federal Open Market Committee

Enclosures

September 12, 1972

TO: Federal Open Market Committee

SUBJECT: Bank loan commitments.

FROM: Stephen H. Axilrod, Economist (Domestic Finance)

In response to a recent FOMC discussion, the attached memorandum from Mr. Puckett, Senior Economist in the Board's Banking Section, analyzes the available information on bank loan commitments. We have been collecting figures only since 1969 from a small number of banks, so that conclusions that can be drawn are at best quite tentative. In particular, we are unable to make comparisons between bank exposure now as compared with similar stages of past business cycles.

Nonetheless, it does appear as if recent trends in new commitments, takedowns, and unused commitments are not out of keeping with what one might expect at this stage of the economic cycle and have not, at least so far, placed banks as a group in a dangerously exposed position. We will, however, be keeping a close watch on developments, and will also be reviewing the series to determine if and how it might be made more useful.

Attachment

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date September 11, 1972

To Mr. Stephen H. Axilrod

Subject: Bank Loan Commitments

From Richard H. Puckett

The main results from an analysis of loan commitment data are as follows:

(1) As of July 31, the latest date for which data are available, the level of unused loan commitments[1/] at 42 reporting banks was $76 billion, up $3.8 billion, or 5.3 per cent, from the end of April. In the three-month period ending July the rate at which banks added to unused loan commitments was somewhat more rapid than during similar periods in previous years.

(2) Based on the information we have, the rate of growth of unused commitments does not seem out of line with a period of strong business expansion. Although we do not have data before 1969 to permit comparison with similar stages of the business cycle, the recent 5.3 per cent rate of increase was slower than in the late 1970-early 1971 period, when business was rebuilding bank lines following the previous period of monetary tightness.

(3) Comparing the commitments of banks to their current stocks of liquid assets, does not reveal any significant deterioration in the ability of banks to honor obligations to make loans. The fact that individual banks can raise funds in the open market, particularly by selling CD's, also buttresses their position

1/ Loan commitments are derived to include all types of lending arrangements including lines of credit where the bank has indicated to the customer, orally or in writing, that it is willing to make loans when needed at some future date up to a specified amount.

in meeting any sudden demands generated by the exercise of loan commitments.

(4) While there may be some slight uptrend in the rate of takedowns, expirations, and cancellations of commitments as might be expected in a period of expansion, the most recently observed rate--where takedowns, expirations, and cancellations are 30 per cent of unused and new commitments--is consistent with the usual seasonal reviews of credit lines taking place during the survey period.

It should be emphasized that the statistical base for the analysis of commitments is highly limited. The series on bank loan commitments is relatively new. The survey has been held regularly only since the beginning of 1969; consequently, seasonally adjusted data are not yet available. The survey, moreover, is based on a relatively small sample of 48 banks in which 42 supply complete data on commitments and commitment policies and 6 supply partial information. The commitment data, in addition, are highly volatile, swinging by relatively large amounts from quarter to quarter and year to year. For these reasons -- the relatively short time span covered by available data, the limited sample size, and the volatile nature of the series -- problems in interpreting movements in the data are more difficult than usual.

Turning to the most recent survey, the statistics appear to indicate some strength in the rate of growth of unused commitments. As shown in Table 1A, the volume of unused commitments for the three months ending July 31 rose 5.3 per cent above the level for the preceding three months -- higher than the 2.3 per cent rate of growth for the previous quarter, but less than the pace of early 1971.

The current growth seems fairly broadly based across banks and types of commitments. All major categories of commitments -- those for loans to C&I firms and nonbank financial institutions and for real estate mortgages -- grew at least moderately, while unused commitments for real estate mortgages continued to show a rate of growth considerably above average. At the 48 reporting banks shown in Table 2, 19 indicated increases in total unused commitments. Of the remaining banks, 21 indicated no change, and 8 experienced moderate declines.

Over the entire year -- from July, 1971 to July, 1972 -- the rate of growth in unused commitments, 16 per cent, was approximately half that of the previous year -- from July, 1970 to July, 1971 -- when commitment activity had been buoyed by recovery from the preceding severe monetary stringency. As a result of that stringency, unused commitments actually declined by about 4 per cent from July, 1969 to July, 1970.

The growth in unused commitments over the last two years can be evaluated in the light of changes in available liquidity at the 42 respondent banks that give data on the value of commitments. When the ratio of liquid assets[2/] to unused commitments is computed, the liquidity-commitment ratio of 19.8 per cent, holding presently,

2/ Liquid assets are the sum of Treasury bills, U.S. Government notes and bonds with maturities of less than one year, broker-dealer loans, tax warrants, federal funds sold, loans to domestic banks, and bankers acceptances.

turns out to be only slightly below the median of 20.5 per cent for the entire 1969-1972 survey period. Taking the ratio of liquid assets to unused commitments plus time and demand deposits shows a present ratio of 6.0 per cent that is equal to the median for the survey period. Measured on either basis, the liquid asset holdings at respondent banks do not seem out of line with obligations to accomodate borrowers requesting credit.

Aside from liquid asset holdings, the ability of banks to honor their commitments is strongly affected by their ability to raise funds in the open market. Most large and medium-sized banks, of course, can raise funds by selling negotiable certificates of deposit -- as long as rates on money market instruments are not above ceilings determined by Regulation Q. Some margin currently exists between offering rates and ceilings for time deposits other than large CD's. There are no ceilings on large denomination CD's ($100,000 and over) issued with maturities of less than 90 days, and for longer maturities a spread exists between offering rates and the ceilings on the order of 200 to 150 basis points (as of August 30).

In any case the need for funds is conditioned by, among other things, the rate of takedowns of commitments. Our data, though, include takedowns along with expirations and cancellations. The ratio of takedowns, expirations, and cancellations to available commitments,[3/]

[3/] The ratio is given by takedowns, expirations, and cancellations in a three month interval divided by the sum of new commitments in that interval and unused commitments at the beginning of the period.

shown in Chart 1, has varied between 33 per cent in the three months ending July, 1971 to 15 per cent during the three months ending October, 1969.

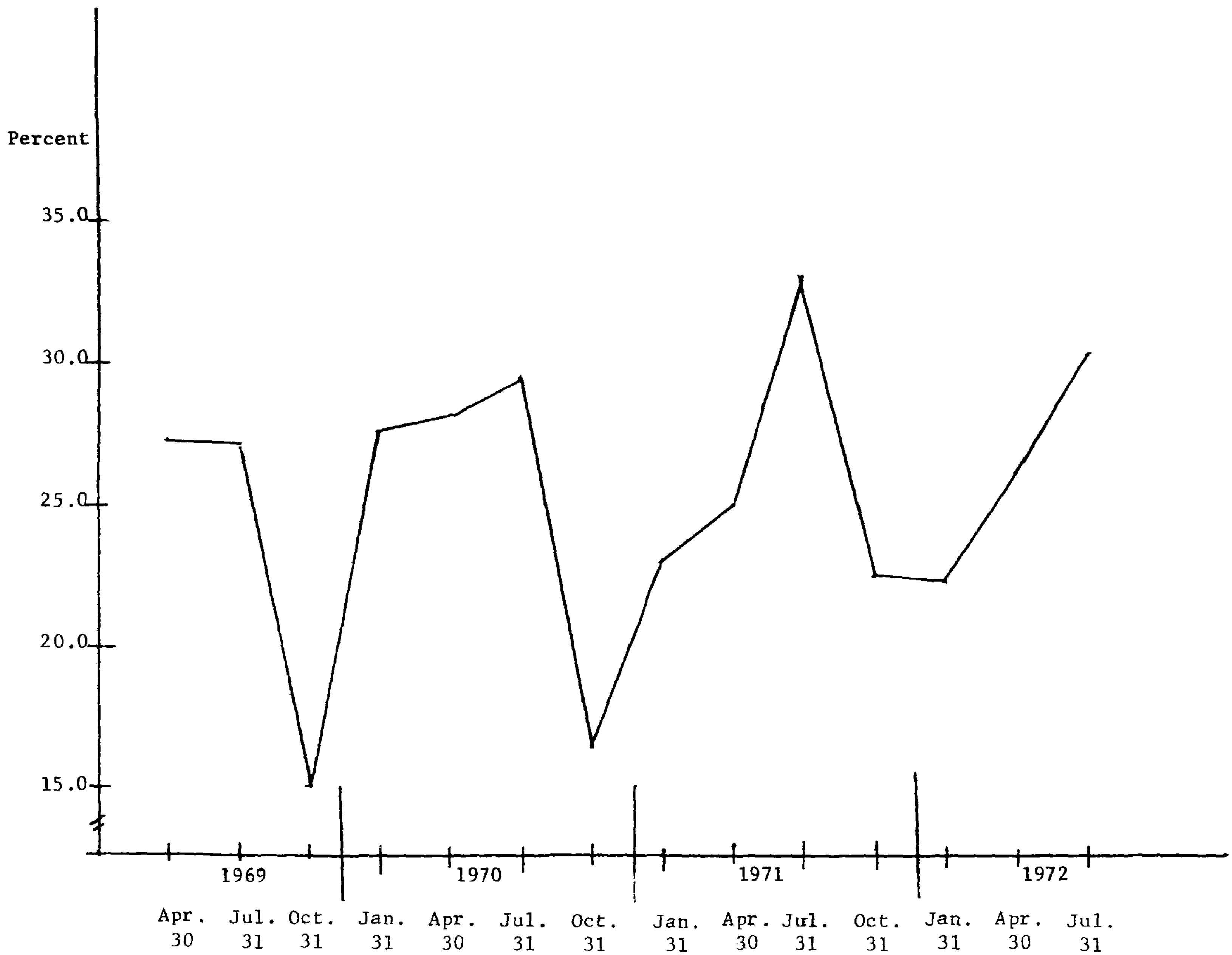
The extremes in the ratio reflect seasonal behavior as well as the erratic nature of actual financing needs. Some slight upward trend in the ratio may be discerned, as might be expected as the result of the economic expansion. Some fluctuations are seasonal, arising from the fact that banks periodically review commitments, allowing old ones to lapse, while extending new ones. This procedure raises new commitments as well as expirations and cancellations without necessarily increasing unused commitments. As indicated in Chart 1, such reviews often seem to occur in the three months ending July 31 when the rate of takedowns, expirations, and cancellations has always been the highest for the year.

This review process then seems to be reflected in the most recent data where large "takedowns" (Table 1C) are almost matched by large amounts of new commitments (Table 1B). As might be expected when such activity is connected with a periodic commitment review, relatively little change in the loan portfolio of banks in the survey occurred during the survey period. During the three month interval ending July 31 loans to commercial and industrial firms, to nonfinancial business, and for real estate finance, at banks in the sample rose modestly by $1.3 billion to approximately $74.7 billion.

In spite of this fairly modest growth in loans most respondents indicated that they expect a moderate increase in take-downs to occur over the next three months. Of a total of 48 banks, 26 expected a modest rise, 21 no change, and 1 a moderate decline.

Chart 1

TAKEDOWNS EXPIRATIONS AND CANCELLATIONS AS A PER CENT OF AVAILABLE COMMITMENTS



NOT FOR
QUOTATION OR
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QUARTERLY SURVEY OF BANK LOAN COMMITMENTS
AT SELECTED LARGE U.S. BANKS *1
(AS OF JUL. 31, 1972)

TABLE 1A UNUSED COMMITMENTS

(DOLLAR AMOUNTS IN BILLIONS)

	(1) AS OF JUL. 31 1972		(2) AS OF APR. 30 1972		(3) AS OF JAN. 31 1972		(4) AS OF OCT. 29 1971		(5) AS OF JUL. 31 1971		(6) AS OF APR. 30 1971		(7) AS OF JAN. 31 1971		(8) AS OF OCT. 31 1970	
	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG
NUMBER OF BANKS	42		42		42		42		42		42		42		42	
UNUSED COMMITMENTS	75.7	5.3	71.9	2.3	70.3	5.0	66.9	2.9	65.1	4.7	62.1	6.4	58.4	6.8	54.6	9.2
C & I FIRMS	57.2	5.1	54.4	2.4	53.2	3.9	51.1	2.4	50.0	5.3	47.4	6.5	44.5	6.6	41.7	8.
NONBK FINAN INSTS	13.7	4.8	13.1	0.9	13.0	6.7	12.2	4.1	11.7	3.3	11.3	3.0	11.0	7.3	10.3	14.
REAL ESTATE MORTG	4.7	8.9	4.4	5.9	4.1	13.6	3.6	6.2	3.4	1.1	3.4	18.0	2.9	8.3	2.6	4.9
MEMO: CONSTRUCTION LOANS INCL ABOVE	3.8	8.7	3.5	8.2	3.2	9.2	2.9	1.0	2.9	5.5	2.7	18.8	2.3	6.7	2.2	1.9
COMMERCIAL & INDUST FIRMS																
TERM LOANS	2.5	12.7	2.3	5.2	2.1	-6.6	2.3	19.9	1.9	6.9	1.8	16.9	1.5	5.4	1.4	10.9
REVOLVING CREDITS	14.1	4.9	13.4	-3.8	14.0	2.7	13.6	1.9	13.3	3.0	12.9	1.2	12.8	7.4	11.9	12.1
TOT: TERM & REV *2	17.2	6.3	16.2	-3.0	16.7	1.2	16.5	3.9	15.9	3.2	15.4	1.5	15.1	8.4	14.0	10.6
CONFIRMED LINES	35.9	4.8	34.2	4.7	32.7	5.6	31.0	1.7	30.4	5.2	28.9	8.5	26.7	5.9	25.2	8.7
OTHER COMMITMENTS	4.1	3.2	4.0	5.4	3.8	2.3	3.7	1.4	3.6	17.7	3.1	15.4	2.7	4.9	2.6	-7.4
NONBANK FINANCIAL INSTITUTIONS																
FINANCE COMPANIES	8.3	1.6	8.1	0.7	8.1	5.8	7.7	5.2	7.3	1.9	7.1	0.0	7.1	6.9	6.7	19.6
MTGE WAREHOUSING	2.2	8.2	2.0	5.1	1.9	2.7	1.9	5.0	1.8	10.6	1.6	-1.6	1.6	9.6	1.5	5.5
ALL OTHER	3.3	11.4	2.9	-1.1	3.0	12.2	2.6	0.2	2.6	2.6	2.6	16.0	2.2	6.7	2.1	6.7
REAL ESTATE MORTGES																
RESIDENTIAL	2.0	12.0	1.8	13.5	1.6	16.6	1.3	13.7	1.2	12.3	1.0	17.7	0.9	10.7	0.8	7.7
OTHER	2.8	6.8	2.6	1.3	2.6	11.8	2.3	2.3	2.2	-4.0	2.3	18.2	2.0	7.2	1.8	3.7

*1 BANKS PARTICIPATING IN THE QUARTERLY INTEREST RATE SURVEY -- MAINLY BANKS WITH TOTAL DEPOSITS OF $1 BILLION OR MORE.
*2 THE TOTAL MAY EXCEED THE SUM OF THE PREVIOUS TWO ITEMS SINCE SOME BANKS REPORT ONLY TOTALS.

** NOTE: MINOR INCONSISTENCIES MAY OCCUR IN FIGURES DUE TO ROUNDING. **

NOT FOR
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QUARTERLY SURVEY OF BANK LOAN COMMITMENTS
AT SELECTED LARGE U.S. BANKS *1
(AS OF JUL. 31, 1972)

TABLE 1B NEW COMMITMENTS

(DOLLAR AMOUNTS IN BILLIONS)

	(1) AS OF JUL. 31 1972		(2) AS OF APR. 30 1972		(3) AS OF JAN. 31 1972		(4) AS OF OCT. 29 1971		(5) AS OF JUL. 31 1971		(6) AS OF APR. 30 1971		(7) AS OF JAN. 31 1971		(8) AS OF OCT. 31 1970	
	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG
NUMBER OF BANKS	42		42		42		42		42		42		42		42	
GRAND TOTAL																
NEW COMMITMENTS	36.6	35.4	27.0	15.6	23.4	10.3	21.2	-39.4	35.0	43.0	24.5	16.0	21.1	38.9	15.2	-30.3
C & I FIRMS	28.1	38.2	20.4	12.0	18.2	8.5	16.8	-38.7	27.4	45.2	18.9	17.7	16.0	38.3	11.6	-31.
NONBK FINAN INSTS	6.2	32.8	4.7	30.2	3.6	25.5	2.9	-48.1	5.5	37.8	4.0	6.4	3.8	47.3	2.6	-3
REAL ESTATE MORTG	2.2	12.3	1.9	23.9	1.6	1.9	1.5	-24.9	2.1	29.7	1.6	22.9	1.3	24.1	1.0	7.6
MEMO: CONSTRUCTION LOANS INCL ABOVE	1.3	10.0	1.2	11.7	1.1	4.8	1.0	-24.2	1.4	16.4	1.2	21.8	1.0	19.6	0.8	2.5
COMMERCIAL & INDUST FIRMS																
TERM LOANS	3.6	60.3	2.2	11.6	2.0	-8.8	2.2	17.3	1.9	-0.1	1.9	24.5	1.5	67.6	0.9	-28.4
REVOLVING CREDITS	5.5	12.3	4.9	11.1	4.4	17.6	3.8	-44.6	6.8	40.8	4.8	-6.7	5.2	83.0	2.8	-25.7
TOT: TERM & REV *2	9.3	27.2	7.3	11.7	6.5	5.4	6.2	-30.4	8.9	29.2	6.9	1.1	6.8	75.3	3.9	-23.9
CONFIRMED LINES	17.5	48.3	11.8	18.7	9.9	4.8	9.5	-36.6	14.9	35.1	11.1	30.5	8.5	19.6	7.1	-37.5
OTHER COMMITMENTS	1.4	8.2	1.3	-25.8	1.7	57.0	1.1	-68.9	3.5	291.1	0.9	25.4	0.7	18.8	0.6	15.4
NONBANK FINANCIAL INSTITUTIONS																
FINANCE COMPANIES	3.6	41.7	2.5	52.3	1.7	-0.4	1.7	-52.6	3.5	63.6	2.2	-4.4	2.3	40.4	1.6	-36.3
MTGE WAREHOUSING	1.0	3.9	0.9	1.9	0.9	65.9	0.5	-40.1	0.9	46.2	0.6	-14.0	0.7	97.3	0.4	-23.2
ALL OTHER	1.7	36.3	1.2	19.5	1.0	57.1	0.7	-40.3	1.1	-10.7	1.2	55.0	0.8	34.8	0.6	-29.8
REAL ESTATE MORTGES																
RESIDENTIAL	1.1	22.5	0.9	19.1	0.8	-2.2	0.8	-13.0	0.9	51.9	0.6	47.7	0.4	18.0	0.3	-10.0
OTHER	1.1	3.6	1.0	28.3	0.8	6.0	0.8	-33.9	1.2	16.7	1.0	12.0	0.9	27.1	0.7	1[illegible]

*1 BANKS PARTICIPATING IN THE QUARTERLY INTEREST RATE SURVEY -- MAINLY BANKS WITH TOTAL DEPOSITS OF $1 BILLION OR MORE.
*2 THE TOTAL MAY EXCEED THE SUM OF THE PREVIOUS TWO ITEMS SINCE SOME BANKS REPORT ONLY TOTALS.

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QUARTERLY SURVEY OF BANK LOAN COMMITMENTS
AT SELECTED LARGE U.S. BANKS *1
(AS OF JUL. 31, 1972)

TABLE 1C TAKEDOWNS, EXPIRATIONS AND CANCELLATIONS *2

(DOLLAR AMOUNTS IN BILLIONS)

	(1) AS OF JUL. 31 1972		(2) AS OF APR. 30 1972		(3) AS OF JAN. 31 1972		(4) AS OF OCT. 29 1971		(5) AS OF JUL. 31 1971		(6) AS OF APR. 30 1971		(7) AS OF JAN. 31 1971		(8) AS OF OCT. 31 1970	
	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG	AMT	% CHG*3
NUMBER OF BANKS	42		42		42		42		42		42		42		42	
TOTAL TAKEDOWNS	32.8	30.2	25.4	26.1	20.1	22.2	19.3	22.4	32.0	33.0	20.7	25.0	17.4	22.9	10.6	0.0
C & I FIRMS	25.4	30.7	19.1	26.0	16.2	23.3	15.6	23.4	24.8	33.2	16.0	25.2	13.2	22.9	8.4	0.0
NONBK FINAN INSTS	5.6	29.0	4.6	25.9	2.8	17.7	2.4	16.5	5.2	30.6	3.7	24.6	3.0	21.6	1.3	0.0
REAL ESTATE MORTG	1.8	27.5	1.7	28.1	1.1	20.7	1.3	26.8	2.0	37.1	1.1	24.0	1.1	27.2	0.9	
MEMO: CONSTRUCTION LOANS INCL ABOVE	1.0	21.5	0.9	21.5	0.8	20.4	1.0	25.6	1.2	29.5	0.7	21.2	0.8	26.1	0.8	0.0
COMMERCIAL & INDUST FIRMS																
TERM LOANS	3.3	56.3	2.1	48.3	2.1	50.0	1.8	44.0	1.7	47.6	1.6	47.3	1.4	48.1	0.7	0.0
REVOLVING CREDITS	4.9	25.6	5.4	28.9	4.1	22.5	3.5	20.5	6.4	32.4	4.7	26.5	4.3	25.1	1.5	0.0
TOT: TERM & REV *4	8.3	32.4	7.8	32.5	6.3	27.5	5.6	25.3	8.4	34.7	6.7	30.3	5.7	27.2	2.6	0.0
CONFIRMED LINES	15.8	30.6	10.2	23.0	8.2	20.1	9.0	22.4	13.4	30.6	8.8	23.3	7.0	20.8	5.1	0.0
OTHER COMMITMENTS	1.3	23.4	1.1	21.3	1.6	30.2	1.0	22.1	3.0	45.0	0.5	13.6	0.6	18.2	0.8	0.0
NONBANK FINANCIAL INSTITUTIONS																
FINANCE COMPANIES	3.5	29.5	2.5	23.3	1.2	13.1	1.3	14.4	3.4	31.7	2.2	23.2	1.8	20.1	0.5	0.0
MTGE WAREHOUSING	0.8	26.6	0.8	28.9	0.9	30.7	0.5	19.6	0.7	29.3	0.7	28.7	0.6	26.2	0.3	0.0
ALL OTHER	1.4	29.5	1.3	30.4	0.7	19.5	0.7	19.9	1.0	28.4	0.9	25.8	0.7	23.1	0.5	0.0
REAL ESTATE MORTGES																
RESIDENTIAL	0.9	30.9	0.7	28.0	0.5	25.4	0.6	31.3	0.8	39.1	0.4	28.9	0.3	25.8	0.3	0.0
OTHER	0.9	24.8	1.0	28.2	0.5	17.6	0.7	23.9	1.3	36.0	0.6	21.6	0.8	27.8	0.6	0.0

*1 BANKS PARTICIPATING IN THE QUARTERLY INTEREST RATE SURVEY -- MAINLY BANKS WITH TOTAL DEPOSITS OF $1 BILLION OR MORE.
*2 FOR THIS TABLE THE PERCENTAGE CHANGE COLUMN CONTAINS THE RATIO OF TAKEDOWNS TO AVAILABLE COMMITMENTS; EXPRESSED AS A PERCENTAGE. (AVAILABLE COMMITMENTS = UNUSED COMMITMENTS FROM THE PREVIOUS QUARTER + NEW COMMITMENTS IN THE CURRENT QUARTER).
*3 PERCENTAGE CHANGE NOT COMPUTED FOR THIS QUARTER DUE TO THE SIZE CONSTRAINTS OF THE MATRIX.
*4 THE TOTAL MAY EXCEED THE SUM OF THE PREVIOUS TWO ITEMS SINCE SOME BANKS REPORT ONLY TOTALS.

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QUARTERLY SURVEY OF BANK LOAN COMMITMENTS
AT SELECTED LARGE U.S. BANKS
(AS OF JUL. 31, 1972)

TABLE 2: VIEWS ON COMMITMENT POLICY

	(1) JULY 31 1972	(2) APR. 30 1972	(3) JAN. 31 1972	(4) OCT. 29 1971	(5) JULY 31 1971	(6) APR. 30 1971	(7) JAN. 31 1971	(8) OCT. 31 1970
TOTAL NUMBER OF BANKS RESPONDING:	48	48	48	48	48	48	47	48
UNUSED COMMITMENTS IN THE PAST THREE MONTHS HAVE:								
RISEN RAPIDLY	2	0	1	0	1	5	3	1
RISEN MODERATELY	17	20	22	25	19	25	31	28
REMAINED UNCHANGED	21	21	19	15	19	12	7	13
DECLINED MODERATELY	8	7	6	8	9	6	6	6
DECLINED RAPIDLY	0	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	26	26	14	13	16	13	8	6
REMAIN UNCHANGED	21	20	28	31	31	33	29	24
DECLINE MODERATELY	1	2	6	4	1	2	10	18
DECLINE RAPIDLY	0	0	0	0	0	0	0	0
COMMITMENT POLICY COMPARED TO THREE MONTHS AGO IS:								
MUCH MORE RESTRICTIVE	0	0	0	0	0	0	0	0
SOMEWHAT MORE RESTRICTIVE	1	1	0	0	2	1	0	2
UNCHANGED	42	44	34	37	37	25	8	18
LESS RESTRICTIVE	5	3	13	11	9	21	34	27
MUCH LESS RESTRICTIVE	0	0	1	0	0	1	5	1

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QUARTERLY SURVEY OF BANK LOAN COMMITMENTS
AT SELECTED LARGE U.S. BANKS
(AS OF JUL. 31, 1972)

TABLE 3 EXPLANATION OF CHANGES IN NEW COMMITMENT POLICY

	(1) JULY 31 1972	(2) APR. 30 1972	(3) JAN. 31 1972	(4) OCT. 29 1971	(5) JULY 31 1971	(6) APR. 30 1971	(7) JAN. 31 1971	(8) OCT. 31 1970
INDICATED CHANGE:								
MORE RESTRICTIVE:	1	1	0	0	2	1	0	2
INCREASED DEMAND	0	0	0	0	1	0	0	0
REDUCED FUNDS	0	0	0	0	1	0	0	2
BOTH	1	1	0	0	0	1	0	0
LESS RESTRICTIVE:	5	3	14	11	9	22	39	28
INCREASED FUNDS	1	2	2	0	5	7	11	10
DECREASED DEMAND	2	1	3	5	2	4	5	7
BOTH	2	0	9	6	2	11	23	11