

Confidence-Sensitive Funds and
Contingency Planning

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April 1977

Working paper
~~Staff Report~~: #71

PACS: #3020

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Confidence-Sensitive Funds and Contingency Planning

A commercial bank obtains the bulk of its lending resources from its depositors and short-term creditors. Depositors are in part protected against loss by government insurance. However, amounts in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limits and all funds provided by short-term creditors are uninsured and highly sensitive to the ongoing fortunes of the banking business.

Any information suggesting that the safety of a bank is in question can bring a loss of confidence and a withdrawal of these confidence-sensitive funds. If large enough, a withdrawal can suddenly force a bank into an unanticipated search for cash. One solution for a Federal Reserve System member bank experiencing such a need for cash is to apply for temporary assistance under the Federal Reserve's emergency lending program. Any aid given by the Fed provides a bank time to sort out its problems and find a durable solution.

For several years before 1974, little importance had been given to the idea that a bank could lose the confidence of its depositors and creditors. But the events of the past three years--particularly the difficulties of New York's Franklin National Bank--provide a clear reminder that such a loss is not at all impossible. In view of this, contingency planning for meeting an outflow of confidence-sensitive funds would seem to be a matter of some significance to those banks that finance themselves with a sizable volume of uninsured liabilities.

This paper briefly recounts several of the key financial developments of 1974, describes the contingency planning exercise developed by this Bank to encourage planning by large member banks, and

then discusses some of the comments received in a trial run. The Appendix contains a copy of the exercise together with an illustrative example.

The 1974 Crisis

On Friday, May 10, 1974, Franklin National Bank canceled its second-quarter dividend--the first such action by a major bank since the 1930s--and then topped this with a weekend statement that its foreign exchange department had lost about \$14 million since the end of the second quarter and had potential losses of approximately \$25 million. Uninsured depositors and creditors, alerted by earlier market speculations on the soundness of Franklin, reacted promptly and began to withdraw substantial amounts of funds.

Having been assured by the Comptroller of the Currency that Franklin was solvent, the Federal Reserve extended emergency credit through the discount window to help offset these losses. This assistance continued until early October when Franklin was declared insolvent. Its remaining deposit liabilities and an equal amount of sound assets were immediately taken over by the European-American Bank and Trust Company.

The May 10 announcement came at a time when financial markets were under severe pressure. Business firms were trying to finance a rising volume of inventories with bank credit; banks were trying to satisfy these demands with funds from the certificate of deposit, Euro-dollar, commercial paper, and federal funds markets; and the Federal Reserve was attempting to keep the growth of the money supply within desirable bounds. In this environment, interest rates rose to new highs while market prices of fixed income securities dropped rather substantially and, in dropping, forced banks to take losses on their trading

account securities. Further, many banks were either suspected of or known to be holding real estate loans that at best were temporarily nonearning, or at worst would ultimately lead to substantial write-offs.

News of Franklin's losses aggravated a difficult situation. Many creditors and large uninsured depositors switched their funds to either federal government obligations or to the ten or so largest banks in the country, feeling that the size of these large banks and the concern of the federal banking authorities would provide relatively greater safety. Smaller banks that had been tapping the national market for funds were seriously affected: some had to pay substantial premiums, others could not borrow all they wanted, and a few, it is rumored, could not obtain funds at all.

The possibility that other banks would experience liquidity problems raised questions within the Federal Reserve concerning its information about the financial position of banks. What banks were likely to experience a loss of depositor confidence? If cash outflows developed, how much assistance would be required of the Federal Reserve, for what length of time, and with what types of collateral?

In an attempt to obtain better information, staff members at the Federal Reserve Bank of Minneapolis asked the larger banks in the Ninth District about their contingency plans for meeting unanticipated withdrawals of confidence-sensitive funds. The responses indicated that planning was well developed in only a small minority of cases.

This would have been of little concern had it appeared that the financial system was about to return to the relative tranquillity of the 1950s and early 1960s. Such a return was of course quite possible, but not at all assured. It was felt then, as it is now, that a large

bank might still on occasion lose the confidence of its creditors and uninsured depositors because of some external event, like the fall of a financial institution in some other part of the country, or some internal development, such as a default on an important group of outstanding loans. As long as critical events of this nature were realistic possibilities, contingency planning seemed an essential component of good management.

The Planning Exercise

To encourage planning, this Bank decided to develop a contingency planning exercise. It was felt that the exercise could be most helpful to individual users as well as the Minneapolis Fed if it provided information about the contingent discount window demands of member banks and the problems they would encounter in meeting cash outflows and maintaining the viability of their operations.

With these needs in mind, staff members at this Bank designed a planning exercise, gave it a trial run, and then modified it in response to the comments received (discussed in the following section). In its present form it is based on the assumption that a bank's confidence-sensitive liabilities are its certificates of deposit of \$100,000 or more (both negotiable and nonnegotiable, but excluding those against which pledged securities are held), federal funds purchased on an unsecured basis, amounts borrowed from foreign branches, and funds obtained through the issuance of commercial paper by the parent holding company. All of these liabilities are short-term in nature, uninsured by the FDIC except for the first \$40,000 of time certificates, and unsecured by any specific pledge of collateral. A marked loss of confidence by a bank's

depositors and creditors, a loss that affected its foreign branches as well as its parent holding company, would seriously impair its ability to refinance these debts at maturity.

The exercise considers two contingencies. The first is a complete runoff of confidence-sensitive liabilities for a period of six months. At the end of this runoff period, stability is achieved in the sense that the bank can refinance ("roll over") its then outstanding liabilities. A runoff this large could only take place in the most unusual circumstances. It might occur, for example, if a bank had a demonstrated inability to generate earnings, reflecting poor management, and then was confronted with sizable losses on loans, securities, or foreign exchange dealings.

The second contingency considered is that of a partial runoff of sensitive liabilities. As in the first case, the bank loses its foreign branch borrowings and amounts obtained through the issuance of commercial paper by the holding company parent. But unlike the first case, it experiences an outflow of only those certificates of deposit held by "national" customers, those located outside the Ninth District, and federal funds purchased from noncorrespondents. A crisis of this dimension might come about because of a bank's performance--for example, a poor yearly earnings report and the omission of a dividend--or possibly because of a large bank failure elsewhere that significantly reduced the confidence of all holders of uninsured liabilities.

For each of these cases, the planning exercise requires the bank to indicate the timing and magnitude of its cash outflows and the amounts it would obtain to meet these outflows from maturing assets, asset sales (in normally operating markets), and Federal Reserve borrowing. The bank is also asked to furnish information on its collateral

for borrowings and on the assets it would liquidate at the end of the six-month period to repay the Federal Reserve. Finally, with the help of tables supplied with the exercise, the bank provides estimates of the losses that would be sustained on asset sales both during and at the end of the period and compares these losses with the resources available for absorbing them. Losses are defined as the difference between book and market values, where market values are taken to be those of the crisis conditions of June 1974.

A Trial Run

After the original planning exercise was drafted, five large member banks located in the metropolitan area of Minneapolis-St. Paul agreed to try it out and share the quantitative results with the Federal Reserve Bank of Minneapolis. They were also invited to offer comments on the relevancy of the entire exercise and the aptness of its design.

The principal differences between the original used in the trial run and the version that appears in the Appendix are in the treatment of loans and the availability of cash balances. The original instructions asked the user of the exercise to assume that the loan portfolio had no cash throw-off, that is, to assume that all cash from maturing loans had to be employed in making new loans and was not available to handle liability losses. This approach was taken to gain comparability among the banks taking part in the trial and in the belief that virtually all cash from maturing loans would have to be reinvested to maintain customer relations. The original instructions also restricted the amount of cash held in the form of demand balances with other banks that could be called upon to meet outflows. In Case I, no more than 50

percent of demand balances were to be used; and in Case II, no more than 20 percent. These restrictions reflected the view that a bank would remain fully operational during a contingency period and need at least a portion of its working balances.

Three of the banks that took part in the experiment offered detailed critiques. One thought that the full runoff case was quite unrealistic because it seemed to be based on the idea of a complete collapse of the financial system. Two of the banks felt that there should be no restrictions on the use of demand balances, and one added that cash items in the process of collection should be included as a source of funds. All three believed that maturing loans provided a significant flow of cash that could be used to meet a decline in liabilities. One bank suggested that the exercise should start from a balance sheet that is an average of several days' or weeks' figures, since a single-day balance sheet quite often gives a distorted picture of a banks' status. And finally, one bank put forward the idea that demand deposit balances in excess of the \$40,000 insurance limit should be considered sensitive to changes in confidence.

All of these comments and suggestions have merit and were given careful regard. As noted earlier, only two of them were employed in revising the exercise. The new instructions now permit the user to determine how the cash from maturing loans is to be treated and no longer restrict the handling of demand balances. In its revised form, the exercise should now provide a better starting point for banks that wish to consider the topic of contingency planning. And for those wishing to implement planning, the exercise can be used as it is or freely adapted with either the ideas generated in the trial run that

were not incorporated in the revision or ideas that reflect special needs and circumstances.

APPENDIX

Contingency Planning Exercise

The material that follows is presented as one means of gaining a more accurate idea of the likely consequences of two contingent events, that of a full runoff of confidence-sensitive liabilities, called Case I, and that of a partial runoff, Case II. The assumptions of the exercise are first stated, then the instructions, and finally an example is worked out.

Assumptions

It is assumed that the liabilities described below cannot be renewed at maturity and must be paid in cash, that this runoff continues for six months and then stabilizes without the bank being able to expand these liabilities again, and that all other liabilities remain constant both during and immediately after the six-month contingency period. The liabilities that must be paid are:

1. Time deposits issued in denominations of \$100,000 or more, both negotiable and nonnegotiable, except those held by state and local governments against which securities have been pledged.
2. Federal funds purchased on an unsecured basis. Funds obtained through the sale of securities under agreements to repurchase are excluded from this exercise, since such borrowings are matched by securities.
3. Net amounts due to own foreign branches. This item is included since a loss of confidence is likely to affect foreign as well as domestic operations.

4. Amounts due the parent holding company that represent funds borrowed by the parent through the issuance of short-term, negotiable, unsecured promissory notes (commercial paper). On the books of the bank completing this exercise, amounts due the parent may be in the form of promissory notes, obligations incurred through the sale of loans under agreements to repurchase, and obligations representing the sale of participations in loan pools and pools of securities.

In Case I, all of the above liabilities that mature must be paid. In Case II, that of a partial runoff, it is assumed that liability items three and four must be paid at maturity and that items one and two are changed to the following:

- 1'. Time deposits in denominations of \$100,000 or more, both negotiable and nonnegotiable, issued to national customers, that is, those located outside the Ninth Federal Reserve District.
- 2'. Federal funds purchased on an unsecured basis from noncorrespondents.

Instructions

1. Tables 1 and 2 are the basic spread sheets for the two contingencies. Columns 2 through 7 are for listing the amounts of maturing liabilities, by type and maturity, and the matching amounts of cash resources, including funds obtained from the discount window. It should be noted that if "excess" funds are available in any subperiod and are not needed to reduce debt to the Fed, they should remain, or be

considered as remaining, in the same investment vehicle. For example, if securities valued at \$100 million mature on day 1, but only \$80 million are needed to meet a cash outflow, then the residual \$20 million should be thought of as invested in securities that are capable of maturing in any subsequent period and thus of generating cash for meeting withdrawals.

Column 1 is provided for balance sheet amounts outstanding at the close of business on the day prior to the start of the contingency period.

2. Cash in the form of demand balances held with other banks (excluding the Federal Reserve) used to meet outflows should be entered in Row 6. Time balances, as they mature, can be entered in Row 7. There is no provision in this exercise for using cash items in the process of collection, currency and coin, or balances with the Fed as a source of cash for handling outflows, since it is assumed that the bank remains a going enterprise and needs these funds for continuing operations.

3. Only those securities that are fully owned and without any legal encumbrance, such as pledging requirements, can be used to generate cash either through maturation or sale (Rows 9a and 9b, Columns 2 through 7). Since amounts obtained from the sale of securities should depend on market prices, Tables 3 and 4 are provided for the determination of U.S. Treasury, U.S. agency, and municipal market values. All other securities, such as agency participation certificates and GNMA pass-throughs, should be priced out at June 1974 yields and a work sheet attached listing the securities and the method of computation.

4. Many banks have loan portfolios with maturity structures that would appear to be capable of generating substantial cash flow to

meet deposit losses. This appearance is of course quite deceptive since many borrowers fully expect not to have their demand notes called while others anticipate a credit extension at date of maturity. Furthermore, customers with loan commitments may expect to have them honored. For these reasons, it may be appropriate to assume for purposes of this exercise that no cash can be generated through the maturation of the loan portfolio. If this is the approach taken, then there are only two ways in which loans can provide funds for payout. The first relates to the outright sale of loans under previously existing agreements. Funds obtained in this way should be detailed in Table 7 and entered in Tables 1 and 2 in Row 10b, Columns 2 through 7. The second way is through the sale of loans in the market (assumed to take place at the end of the six-month runoff period--see instruction 6 below).

The user of this exercise may believe, however, that the loan portfolio is a source of cash for meeting outflows and that the amounts generated can be estimated with fair accuracy. In this case, cash from maturing items should be entered in Row 10a, Columns 2 through 7. Amounts obtained from the outright sale of loans under previously existing agreements should be entered in Row 10b, Columns 2 through 7, with details on the agreements provided in Table 7.

5. The discount window is a source of funds in an emergency. Amounts required should be indicated on the last two lines of Tables 1 and 2. A listing of collateral by type of asset such as municipal security, consumer loan, etc., should be provided on a separate sheet.

6. It should be assumed for these exercises that the total amount of borrowing from the Federal Reserve still outstanding at the

end of the six-month contingency period must be repaid at that time. Funds for making repayment can be obtained from the sale of securities and loans, and the amounts realized should be entered in Column 8 of Tables 1 and 2. Priority should be given to the sale of unpledged securities at market yields specified in Tables 3 and 4. Any residual amounts needed should be obtained from the sale of loans at market prices calculated in Tables 5 and 6.

7. Losses sustained on asset sales should, as indicated above, be determined with the aid of Tables 3 through 6 and then summarized in Table 8.

An Example

The above instructions can be illustrated with the ABC National Bank. Its balance sheet is given in Exhibit 1 and provides information for most of the entries in Column 1 in Tables 1 and 2. The remaining entries can only be obtained from internal bank records and Exhibit 2 sets forth the necessary data.

The completed Column 1 indicates that the ABC Bank has \$242 million in confidence-sensitive liabilities under Case I assumptions and \$167 million under those of Case II; these amounts represent 31 and 21 percent, respectively, of total liabilities. The assets section of Column 1 gives the resources that might be employed for meeting outflows. However, not all assets are actually available for this purpose. Securities total \$133 million, but Exhibit 2 indicates the \$18 million are pledged as security for public deposits and \$56 million, though formally listed on the balance sheet, have been sold under repurchase agreements. Thus, of the \$133 million, only \$59 million is legally unencumbered and free for bank use. In the loan portfolio, the entire \$465 million is unencumbered.

Columns 2 through 7 show changes in assets and liabilities during the six-month contingency period. All of the confidence-sensitive liabilities at the ABC Bank mature within six months; the pattern of runoff within this period is shown in the top half of Tables 1 and 2. Resources in the form of cash and federal funds sold are insufficient to handle the outflows in either Case I and II. The free portion of the securities portfolio contains U.S. Treasury bills that mature within six months (\$31 million) and in nine months (\$12 million). The bank decides that the nine-month bills can be sold in the first week of the runoff period to raise funds. The loan portfolio contains \$27 million in loans purchased under a resale agreement that matures in 21 days, \$10 million in (national) finance company paper that matures in 79 days, and \$16 million of the same type of paper that comes due in 145 days. Bank management judges that these amounts from maturing loans are not needed to meet loan commitments and can be employed to handle the runoff.

Amounts available from cash, federal funds sold, securities matured or sold, and loans matured are still insufficient to meet the loss of liabilities. The residual is made up at the Federal Reserve, where borrowing rises in Case I to \$92 million at the end of 90 days before dropping to \$71 million at the end of the 180-day period. This final amount is paid back by selling the remaining \$16 million in free securities (with a loss of \$400 thousand--see Table 3) and \$60.9 million in eight-year conventional mortgages (with a loss of \$5.5 million--see Table 5). In Case II, that of a partial runoff, Fed borrowing mounts to \$23 million at the end of 90 days, then drops to zero in the final subperiod so that no final asset sales are necessary.

Exhibit 1

ABC National Bank
 Call Report Balance Sheet
 (Millions of dollars)

<u>Call Report Item</u>	<u>Assets</u>	<u>Amount</u>
1	Cash	191
C2	Including: Dem. balance with U.S. banks (20)	
C3-C4	Other balance with banks (22)	
	<u>Securities</u>	
2-3	U.S. treasury and agency	38
4	State and local government	66
5	Other	0
7	Trading account	29
	Total	133
8	Federal funds sold and securities purchased under resale agreements	33
9a	Loans, gross	465
5-6,10-15	All other assets	42
16	Total assets	864
	<u>Liabilities, Reserves, and Capital</u>	
24	Deposits	577
Mem.3	Including: Time deposits of 100,000 or more (138)	
25	Federal funds purchased and securities sold under repurchase agreements	155
26	Liabilities for borrowed money	14
27-29	All other liabilities	42
H2	Including: Due foreign branch (8)	—
	Total liabilities	788
9a,36	Reserves	8
31	Subordinated notes and debentures	10
32-34	Capital stock and surplus	46
35	Undivided profits	12
38	Total liabilities, reserves, and capital	864

Exhibit 2

Supplementary Balance Sheet Information Not
Separately Provided in Call Report
(Millions of dollars)

<u>Description</u>	<u>Amount</u>
Time deposits of 100,000 or more excluding those held by state and local governments (included in Call Report Item 24)	
Held by national customers	91
Held by local customers	<u>33</u>
Total	124
Federal funds purchased on an unsecured basis (included in Item 25)	
From correspondents	42
From others	<u>63</u>
Total	105
Liabilities to parent holding company representing the issuance of commercial paper (included in Item 26)	5
Securities sold under agreements to repurchase and pools of securities against which participations have been sold (in Items 2-7)*	56
Securities pledged against public deposits (in Items 2-7)*	18

* Book values may exceed corresponding liability items.

Table 1

Case 1--Full Runoff

	1	2	3	4	5	6	7	8
	Amount Outstanding *()	-----Asset and Liability Changes During Subsequent Day Periods-----						Total Change
		1	2-7	8-30	31-90	91-180		
Liabilities								
1. Federal funds purchased	<u>105</u>	<u>105</u>					<u>105</u>	
2. Time deposits, large	<u>124</u>		<u>26</u>	<u>33</u>	<u>58</u>	<u>7</u>	<u>124</u>	
3. Due own foreign branch	<u>8</u>		<u>8</u>				<u>8</u>	
4. Holding co. cml. paper	<u>5</u>			<u>5</u>			<u>5</u>	
5. Total	<u>242</u>	<u>105</u>	<u>34</u>	<u>38</u>	<u>58</u>	<u>7</u>	<u>242</u>	
Assets								
6. Cash, demand balances	<u>20</u>	<u>20</u>					<u>20</u>	
7. Cash, other bank balances	<u>22</u>		<u>4</u>	<u>5</u>	<u>13</u>		<u>22</u>	
8. Fed. funds sold and sec. purch. under resale agrmt.	<u>33</u>	<u>30</u>	<u>3</u>				<u>33</u>	
9. Securities	<u>133 (59)</u>							
a. Cash from maturing items			<u>5</u>	<u>8</u>	<u>6</u>	<u>12</u>	<u>31</u>	
b. From sale			<u>12</u>				<u>12</u>	<u>15.6</u>
10. Loans	<u>465</u>							
a. Cash from maturing items				<u>27</u>	<u>10</u>	<u>16</u>	<u>53</u>	
b. From sale								<u>55.4</u>
11. Total	<u>673</u>	<u>50</u>	<u>24</u>	<u>40</u>	<u>29</u>	<u>28</u>	<u>171</u>	<u>71.0</u>
Borrowings from Federal Reserve	<u>0</u>	<u>55</u>	<u>10</u>	<u>-2</u>	<u>29</u>	<u>-21</u>		
Cumulative borrowings from Fed. Reserve		<u>55</u>	<u>65</u>	<u>63</u>	<u>92</u>	<u>71</u>		

*Date of balance sheet.

Table 2
Case II--Partial Runoff

	1	2	3	4	5	6	7	8
	Amount Outstanding *()	-----Asset and Liability Changes During Subsequent Day Periods-----					Total Change	Final Asset Sale
		1	2-7	8-30	31-90	91-180		
Liabilities								
1. Fed. funds pur. national	<u>63</u>	<u>63</u>					<u>63</u>	
2. Time depts., large, national	<u>91</u>		<u>21</u>	<u>24</u>	<u>45</u>	<u>1</u>	<u>91</u>	
3. Due own foreign branch	<u>8</u>		<u>8</u>				<u>8</u>	
4. Holding co. cml. paper	<u>5</u>			<u>5</u>			<u>5</u>	
5. Total	<u>167</u>	<u>63</u>	<u>29</u>	<u>29</u>	<u>45</u>	<u>1</u>	<u>167</u>	
Assets								
6. Cash, demand balances	<u>20</u>	<u>20</u>					<u>20</u>	
7. Cash, other bank balances	<u>22</u>		<u>4</u>	<u>5</u>	<u>13</u>		<u>22</u>	
8. Fed. funds sold and sec. purch. under resale agrmt.	<u>33</u>	<u>30</u>	<u>3</u>				<u>33</u>	
9. Securities	<u>133 (59)</u>							
a. Cash from maturing items			<u>5</u>	<u>8</u>	<u>6</u>	<u>12</u>	<u>31</u>	
b. From sale			<u>12</u>				<u>12</u>	<u>0</u>
10. Loans	<u>465</u>							
a. Cash from maturing items				<u>27</u>	<u>10</u>	<u>12</u>	<u>49</u>	
b. From sale								<u>0</u>
11. Total	<u>673</u>	<u>50</u>	<u>24</u>	<u>40</u>	<u>29</u>	<u>24</u>	<u>167</u>	<u>0</u>
Borrowings from Federal Reserve	<u>0</u>	<u>13</u>	<u>5</u>	<u>-11</u>	<u>16</u>	<u>-23</u>		
Cumulative borrowings from Fed. Reserve		<u>13</u>	<u>18</u>	<u>7</u>	<u>23</u>	<u>0</u>		

*Date of balance sheet.

Table 3

Value of Securities Sold in Market--Case I

	1 Maturity Range	2 Midpoint	3 Avg. Cpn. Rate (%)	4 Par Value of Cell (Mill. \$)	5 Market Yield (%)	6 Market Value (Mill. \$)	7 Book Value (Mill. \$)	8 Gain or (Loss) (Mill. \$)
U.S. Treasury								
Bills						<u>12</u>	<u>12</u>	
Notes, Bonds	0<1	6 mos.	_____	_____	8.70	_____	_____	_____
	1<6	3.5 yr.	_____	_____	8.00	_____	_____	_____
	6<11	8.5 yr.	_____	_____	7.60	_____	_____	_____
	11 & over	13.5 yr.	_____	_____	7.60	_____	_____	_____
U.S. Agency	0<1	6 mos.	_____	_____	8.00	_____	_____	_____
	1<6	3.5 yr.	_____	_____	8.30	_____	_____	_____
	6<11	8.5 yr.	_____	_____	8.35	_____	_____	_____
	11 & over	13.5 yr.	_____	_____	8.35	_____	_____	_____
State & Local	0<1	6 mos.	_____	_____	5.10	_____	_____	_____
	1<6	3.5 yr.	_____	_____	5.20	_____	_____	_____
	6<11	8.5 yr.	<u>5.00</u>	<u>16</u>	5.40	<u>15.6</u>	<u>16</u>	<u>(.4)</u>
	11 & over	13.5 yr.	_____	_____	5.65	_____	_____	_____
				Total		<u>27.6</u>	<u>28</u>	<u>(.4)</u>

Instructions: The book value of U.S. Treasury bills can be taken as market value. To determine the market values of other securities, distribute their total par values in the appropriate cells of Column 4. Calculate the weighted average coupon rate for each cell and enter in Column 3. Then, using a bond table and assuming that the correct maturities are those specified in Column 2, estimate market values for each classification at the yields given in Column 5. Place book values in Column 7 and compute gains or losses from market values. The total of Column 6 plus the market value of any other securities sold to raise cash should equal the sum of the two items in Columns 7 and 8, Row 9b, Table 1.

Note: Market yields are those of June 1974.

Table 4

Value of Securities Sold in Market--Case II

	1	2	3	4	5	6	7	8
	Maturity		Avg. Cpn.	Par Value	Market	Market	Book	Gain or
	Range	Midpoint	Rate	of Cell	Yield	Value	Value	(Loss)
			(%)	(Mill. \$)	(%)	(Mill. \$)	(Mill. \$)	(Mill. \$)
U.S. Treasury								
Bills						<u>12</u>	<u>12</u>	
Notes, Bonds	0<1	6 mos.	_____	_____	8.70	_____	_____	_____
	1<6	3.5 yr.	_____	_____	8.00	_____	_____	_____
	6<11	8.5 yr.	_____	_____	7.60	_____	_____	_____
	11 & over	13.5 yr.	_____	_____	7.60	_____	_____	_____
U.S. Agency	0<1	6 mos.	_____	_____	8.00	_____	_____	_____
	1<6	3.5 yr.	_____	_____	8.30	_____	_____	_____
	6<11	8.5 yr.	_____	_____	8.35	_____	_____	_____
	11 & over	13.5 yr.	_____	_____	8.35	_____	_____	_____
State & Local	0<1	6 mos.	_____	_____	5.10	_____	_____	_____
	1<6	3.5 yr.	_____	_____	5.20	_____	_____	_____
	6<11	8.5 yr.	_____	_____	5.40	_____	_____	_____
	11 & over	13.5 yr.	_____	_____	5.65	_____	_____	_____
				Total		<u>12</u>	<u>12</u>	_____

Instructions: The book value of U.S. Treasury bills can be taken as market value. To determine the market values of other securities, distribute their total par values in the appropriate cells of Column 4. Calculate the weighted average coupon rate for each cell and enter in Column 3. Then, using a bond table and assuming that the correct maturities are those specified in Column 2, estimate market values for each classification at the yields given in Column 5. Place book values in Column 7 and compute gains or losses from market values. The total of Column 6 plus the market value of any other securities sold to raise cash should equal the sum of the two items in Columns 7 and 8, Row 9b, Table 2.

Note: Market yields are those of June 1974.

Table 5
Market Value of Loans--Case I
(Millions of dollars)

	<u>Book</u>	<u>Market</u>	<u>Loss</u>
Consumer loans (4%)	_____	_____	_____
Real estate			
Maturity over 10 years (18%)	_____	_____	_____
Maturity under 10 years (9%) *	<u>60.9</u>	<u>55.4</u>	<u>5.5</u>
Commercial and other loans			
Floating rate, national (3%)	_____	_____	_____
Floating rate, other (6%)	_____	_____	_____
Fixed rate (10%)	_____	_____	_____
Total	<u>60.9</u>	<u>55.4</u>	<u>5.5</u>

Instructions: All loans classified loss or doubtful by supervisory authorities and loans that are nonaccruing or delinquent over sixty days should be assumed to have no market value. Market values of other loans should be estimated by reducing their book values by the discount factors given in parentheses. Floating rate notes are those whose rates are adjusted at least once every three months to bring them into line with some specified market rate, such as the prime. The term "national" refers to Fortune's top two hundred industrial and three hundred nonindustrial corporations. Total market value of loans sold should be entered on line 10b, Column 8.

Note: The discount factors, except for those on floating rate notes, were calculated by assuming that loans could only be sold at prices competitive with those prevailing in June 1974. In the case of floating rate notes, the discount factors of 3 and 6 percent are "distress sale" price reductions.

* Conventional Mortgages

Table 6
Market Value of Loans--Case II
(Millions of dollars)

	<u>Book</u>	<u>Market</u>	<u>Loss</u>
Consumer loans (4%)	_____	_____	_____
Real estate			
Maturity over 10 years (18%)	_____	_____	_____
Maturity under 10 years (9%)	_____	_____	_____
Commercial and other loans			
Floating rate, national (3%)	_____	_____	_____
Floating rate, other (6%)	_____	_____	_____
Fixed rate (10%)	_____	_____	_____
Total	=====	=====	=====

Instructions: All loans classified loss or doubtful by supervisory authorities and loans that are nonaccruing or delinquent over sixty days should be assumed to have no market value. Market values of other loans should be estimated by reducing their book values by the discount factors given in parentheses. Floating rate notes are those whose rates are adjusted at least once every three months to bring them into line with some specified market rate, such as the prime. The term "national" refers to Fortune's top two hundred industrial and three hundred nonindustrial corporations. Total market value of loans sold should be entered on line 10b, Column 8.

Note: The discount factors, except for those on floating rate notes, were calculated by assuming that loans could only be sold at prices competitive with those prevailing in June 1974. In the case of floating rate notes, the discount factors of 3 and 6 percent are "distress sale" price reductions.

Table 8

Losses on Asset Sales
(Millions of dollars)

Case I

Securities

From Table 3

.4

From separate work sheet

Loans

From Table 5

5.5

Total, Case I

5.9

Case II

Securities

From Table 4

From separate work sheet

Loans

From Table 6

Total, Case II

0