In the private bond market, yields keep creeping upward with a rather severe decline in prices. For instance, Connecticut Light and Power Company "Aaa" 30-year first mortgage bonds yield 5.90%; "A" bond of Interstate Power Company, yield 6.10%; "Baa" Eastern Associated Cola Bonds with a sell-out, priced to yield 6.50%, etc.

2. RECORD GOVERNMENT SPENDING, DEBT AND DEFICIT

Recent news of large government expenditures, the request to raise the debt ceiling, and with a substantially higher deficit looming, has contributed heavily to the strain in money markets. It is probably the overwhelming reason.

There is no immediate or critical money need for the private segment of the economy which the money market could not handle. But the sluggish private sector got the money fever with the projections of government expenditures of $135–140 billion for fiscal 1968, the need to increase the debt ceiling by $29 billion, and the anticipated deficit estimated by Chairman Mills of the House Ways and Means Committee to run as high as $29.2 billion.

The government will be in the market in the April-December period for up to $40 billion for re-financing of the debt. Most of this will be in the short term market. Chances are that as a result the short term rate, which has been declining, will be firmed again.

MATURITY SCHEDULE OF
FEDERAL GOVERNMENT BONDS*
(In Millions of Dollars)

1967	Total	U.S. Government and Federal Reserve Banks	Held By All Other Investors
February	$ 7,509	$ 3,686	$ 3,822
March	2,006	202	1,804
April	2,780	228	2,552
May	9,748	6,816	2,932
June	4,237	359	3,878
August	10,965	6,110	4,857
October	457	–	457
November	10,154	7,509	2,645
Total	$47,857	$24,909	$22,948

*Outstanding December 31, 1966 other than Regular Weekly and Annual Treasury Bills.

The immediate problem of financing the war is complicated by the current trend of the government to finance debt with a shorter average maturity and to concentrate debt financing within a 5-year span. The average maturity of the marketable debt was raised from 4 years 2 months in September, 1960, to 5 years 5 months in January, 1965. Since then, it declined, due to the tight money situation, to 4 years 5 months at the end of this April. If the current trend should continue and refunding is handled the same way as now, it will decline at the end of December, 1968, to 3 years 8 months.

This is the reason Fowler asked Congress for the extension of maturity on Treasury notes to 10 years from the present 5 year limit and for authority to sell up to $2 billion in Treasury bonds without regard to the statutory 4¼% ceiling. Both requests were rejected by the House Ways and Means Committee, but the Treasury got extension of sales of Treasury notes to seven years.

3. LIQUIDITY PROBLEMS

In this financial climate, lending institutions need to stay as short as possible on loans. Lenders, remembering last year, are reluctant to tie up available liquid assets in long-term loans.

For home building, the liquidity position of S&Ls is of prime interest. Savings and loans, after all, supply almost half of home mortgages.

Normally, it could be expected that S&Ls would invest about 70-75% of their new funds in mortgages. The balance would be used for repayments of borrowed money and for liquidity purposes.

However, the first quarter, 1967, shows that 67.8% of the new funds were used for repayments, 15.4% for raising liquidity levels, and only 16.8% for new mortgages.

Last year the S&Ls dropped to a 26 year low in their liquidity (Table 3). Not since 1941 had the amount of money they hold in cash on hand or in the bank and government securities dropped to under 10%. In 1966, this ratio declined to 9.6%, or the same as in 1941. This rate has been declining steadily since its post-war peak of nearly 40% reached in 1945. And out of this "many S&Ls have large amounts of liquidity locked up in long-term securities," to quote HLBB Chairman Horne.

The need for rebuilding of liquidity has been emphasized over and over again by HLBB officials, arguing that S&Ls should not rely almost entirely on the Federal Home Loan District Banks.

On the other hand, a liquidity build-up is needed as a buffer against tight money at a later date. This is what the S&Ls have been attempting to do.

In the first four months of 1967, they repaid about $2.5 billion to the FHLBB, put more money into cash and government securities, yet their liquidity was still, at the end of April, slightly under 10%. In order to raise liquidity to a 12-14% range they have a long way to go.