For release on delivery

Statement by

Arthur F. Burns

Chairman, Board of Governors of the Federal Reserve System

before the

Committee on Banking, Housing and Urban Affairs

United States Senate

March 10, 1977

As you know, Mr. Chairman, I attach special importance to this meeting today at which I shall report to you, on behalf of the Board of Governors, on the condition of the banking system.

This hearing, the first of its kind for this Committee, is an outgrowth of our shared judgment -- the Committee's and the Board's -- that there ought to exist an official forum for objective and systematic review of our banking system. Certainly from the Board's standpoint, there has been a regrettable lack of balance at times in the past several years in public discussion of banking matters. It is our hope, which I am sure you share, that hearings of this kind will contribute to better understanding of the performance of the Nation's banking system and in so doing will bring individual banking problems into better perspective.

A few years ago it would have been difficult to generate broad interest in the kind of review this Committee is now initiating. The reason, obviously, is that from the standpoint of the public the Nation's banking system was adjusting well to the general growth of the economy. During the decade of the 1960's, bankers progressively shed much of the caution that had carried over from the great Depression and -- freed, as they came to be, of some of the restraints imposed on them -- they began to do things that were impressively creative.

That history of change during the 1960's is reasonably well known, and I need not dwell on it. In brief, what bankers did was to reach out for new business far more aggressively than they had formerly. To that end, they devised new techniques -- many highly ingenious -- for gathering deposits and making loans. They opened offices at a rate much more rapid than the growth of the Nation's population, and increasingly extended their operations to new geographic areas and functions. Banks that previously served only local markets sought to become regional in scope; regional banks moved to establish a national presence; and our Nation's largest banks looked more and more to opportunities abroad. As long as such growth was outwardly free of signs of strain -- as it generally was for more than a decade -- the development met with broad approval. Complaints were few -- except, of course, from banking's competitors, who were understandably unenthusiastic about banking's new display of entrepreneurial energy and talent. Consumers and businessmen could only be pleased by the enlarged range of banking services and the more intense competition among financial institutions.

There is, however, another side to the ledger. As often happens with evolutionary change that is essentially constructive, the pendulum swung too far too quickly. Excited by the profit gains which the drive for growth yielded in the 1960's, a good many bankers paid less heed than they should have to traditional canons of banking prudence.

Most importantly, the growth of loans and investments in the banking system proceeded much more rapidly than did additions to the base of equity capital. Commercial bank assets increased at an average annual rate of 9 per cent in the decade of the 1960's and at the even more rapid rate of 15 per cent in the first three years of the 1970's. In both periods, the rate of growth of bank assets appreciably exceeded the growth in the dollar value of the Nation's production -- a fact indicative of the determined efforts banks were making to enlarge their share of total financing activity.

The consequence of the hard push for growth was that, by the end of 1973, equity capital was equivalent to only about 6-1/2 per cent of total bank assets -- down sharply from 9 per cent at the end of 1960. Moreover, the equity capital of banks had been leveraged by some parent holding companies which used funds raised in debt markets to increase equity investment in their subsidiary banks.

That thinning of the capital cushion would have been reason enough for some uneasiness about banking trends as we moved into the 1970's. But there were other reasons as well. Of key importance was the particular way in which asset growth was achieved. The 1960's witnessed the birth and rapid spread of so-called liability management by banks -- a technique that in practice involved heavy reliance on borrowed funds, often very short-dated funds, to accommodate loan requests. Thus, uneasiness was engendered not only by the rapid expansion of assets relative to equity but also because that expansion rested so heavily on volatile resources.

The unease was accentuated by the fact that, in addition to the rapid growth of loans, commercial banks proceeded with a rapid build-up of commitments to their customers to make additional loans in the future. A suspicion, moreover, that banks had to some extent compromised previous standards of asset quality in their drive for growth added to concern in the early 1970's. So, too, did realization that the holding-company device had carried bankers into terrain that was relatively unfamiliar. Finally, the advent of widespread floating of currencies produced keen awareness that many of the Nation's larger banks, by virtue of their international involvement, had become exposed to additional risks. In sum, as the decade of the 1970's began, apprehension was emerging -- and this was not confined to banking regulators -- that the innovations and developments of the 1960's, welcome as they were in many respects, posed some formidable challenges.

Such uneasiness as existed in the public mind with respect to trends in banking remained relatively mild, however, until 1974. The failure of U. S. National of San Diego in October 1973, followed some months later by the well-advertised difficulties of Franklin National and Bankhaus Herstatt, both ending in failures, transformed the incipient unease into serious apprehension. Indeed, for the first time since the 1930's major doubts began to be voiced here and there about the soundness of our Nation's, and indeed the world's, banking system.

The unhappy closing in our country of two large banks -- U. S. National and Franklin National -- was handled by the regulatory authorities in a manner that caused a minimum of disturbance to their customers and no loss at all to their depositors. Even so, public concern about banking continued. In fact, it still lingers on in some degree, having been nurtured since 1974 by a succession of troubling events and revelations.

Financial strains associated with the quantum jump in oil prices -- involving as they did huge borrowing by oil-deficit nations -- have contributed to unease about the health of banking. So too has the severity of the recent recession -- itself the product of an inflationary environment that fostered widespread speculation. The slump in business activity triggered a number of major business bankruptcies entailing some well-publicized loan losses for banks. The recession, moreover, laid bare the financial weakness of many real estate investment trusts, which, as is well known, are heavily in debt to our Nation's banks. And the recession also played a part in exposing New York City's financial difficulties, thus bringing to acute national consciousness the risk exposure of commercial banks -- particularly, but by no means exclusively, the large New York banks -- to the vicissitudes of municipal finances.

All of these events have at times made for nervousness about the condition of banking, and that situation may not change quickly. A number of the problems impinging on banks -- for example, those related to international oil financing and those having to do with New York City -- are almost certain to keep coming back into the headlines. Then, too, loan losses and loan problems often continue months or even years after a recession in economic activity has ended. The recent recession illuminated the bad credits, indeed to a large extent caused them, but considerable time will be required for troubled debtors to work out their financial difficulties. Hence, the total amounts of questionable loans, and the number of banks classified as problem banks because of a sizable volume of such loans, may not diminish rapidly even in an upbeat economy. We ought to expect that and not be surprised by such disclosures.

On behalf of the Federal Reserve, I am pleased to report that our analysis leads to the conclusion that the Nation's banking system has passed well beyond the worst of its recent difficulties and is in fact regaining strength steadily. This is the product of several influences -- among them, corrective actions taken by the banks on their own initiative, supervisory pressure for better performance, and the recovery that is underway in the general economy.

All of the widely used measures of bank-capital position have shown definite improvement since 1974, reflecting a combination of much slower growth in banking activity and sizable additions to capital resources. Total loans and investments of commercial banks have increased at an annual rate of approximately 5-1/2 per cent during the past two years, only about a third of the pace that prevailed in the opening years of this decade. A major part of the slowdown reflects, of course, the subsidence of credit needs occasioned by the state of the economy and the increased reliance of business firms on public debt markets. But there also has become discernible a greater sense of caution and selectivity on the part of bankers in extending credit. Meanwhile, in order to bolster their capital, banks have raised substantial sums in the longer-term debt market, and they have also added to their equity base both by stepping up sales of new stock and by continuing to pursue conservative dividend policies.

Fortunately, our Nation's banks have enjoyed relatively good profits, in part because of a new cost-consciousness that has manifested itself not just in go-slow policies affecting the scope of operations but in some instances also in personnel reductions -- something that until recently was wholly uncharacteristic of the banking industry. Earnings of banks have been big enough, taken in the aggregate, to absorb the large loan losses that have occurred in lagged response to the recession and yet permit moderate gains in net income. This performance of profits has been a key factor, of course, in enabling banks to strengthen their capital position by retaining a large part of earnings. It is also worth noting that in many of the larger banks, profits have been bolstered by exceptional income gains growing out of international activities.

The ratio of bank equity to total assets that I mentioned earlier as having fallen to 6-1/2 per cent at the end of 1973 recorded no significant deterioration thereafter. It tended to stabilize in 1974, then improved modestly in 1975, and modestly again through the middle of 1976, when it approached 7 per cent. Other available measures of the status of bank capital -- those that take debt capital into account as well as equity and which focus on risk assets rather than total assets -- show either equal or greater strengthening. In particular, the ratio of total capital -- that is, equity plus subordinated debt -- to risk assets rose by more than a full percentage point between the end of

1974 and mid-1976, when it reached 10.2 per cent. Significantly, this improvement in bank capital positions has occurred for all size classes of banks, from the smallest to the biggest.

The growth of bank assets has not merely slowed, but -- as is typical in strength-rebuilding phases of the kind now proceeding -- there has been a decided improvement in the composition of newly acquired bank assets. Between the end of 1974 and the end of 1976, commercial banks added enormously to their holdings of U.S. government securities -- in all, about $47 billion. This emphasis on liquid assets has strengthened the general quality of bank asset positions. Moreover, in view of the chastening experience so many banks have had, loan officers have typically been exercising greater care in extending new credit.

Besides the improvement in asset composition, there has been a diminished emphasis by banks on accommodating expansion of their portfolios by relying on short-term borrowed funds. The total of so-called managed liabilities of large banks declined between December 1974 and December 1976, despite a substantial rise in the over-all liabilities of these banks. The relative dependence on borrowed funds that are potentially very volatile has thus decreased. At present, the average ratio of managed liabilities to the total assets of large banks is some six percentage points below the high recorded in the summer of 1974.

As I stated earlier, it would be unrealistic, even with the improvement now occurring in asset quality, to expect a rapid change in the loan-loss experience of banks. Banks for some time will continue to wrestle with the legacy of loans that turned sour during the recession. Complete information on loan-loss experience is not yet available for 1976. But such data as we do have indicate a flattening tendency in the net loan losses of commercial banks, measured as a percentage of loans. That is an encouraging change from 1975, when loan losses climbed sharply. Strengthening the impression that a turn for the better has occurred is the fact that during 1976 a decline was recorded in the proportion of past due loans of National banks. Moreover, preliminary data for 1976 on bank assets classified by bank examiners as substandard or worse also suggest that the dollar amount of classified loans is no longer rising. Thus, some signs of improvement in bank loan experience have appeared, and these should multiply as expansion of the economy continues and gives support to the financial position of bank customers.

Essentially the same stabilizing tendencies are evident with regard to banks classified by banking agencies as being in the "problem" category. When a bank is placed in such a category, this simply means that it requires special supervisory attention. The number of such banks increased sharply in 1974 and 1975, but it has since then remained substantially unchanged. For purposes of evaluation, it is important to bear in mind that the composition of these lists changes frequently as difficulties are identified by the regulators and resolved by the institutions. Thus, no inference of a lack of progress in overcoming specific problems should be drawn from the recent relative stability in the over-all number of banks on such lists. In particular, the recent stability of numbers does not mean that there is a set of chronic "hard-core" cases that defy remedy. We should, moreover, keep in mind the fact that the overwhelming majority of our commercial banks do not require special supervisory attention.

The so-called problem banks represent only a small percentage of the total number of commercial banks in the United States -- less than 5 per cent even at the worst readings of recent years. And, of course, the number of banks that actually fail is a small percentage of so-called problem banks. The incidence of failure in the banking industry is, indeed, very much smaller than in other lines of business. In the difficult period from 1973 through 1976, there were only 39 bank failures in the United States and most failing institutions were relatively small. As a rule, the supervisory agencies were able to arrange takeovers of the failed institutions by healthy banks. Few were liquidated; thus services to customers were generally uninterrupted, and losses to depositors on uninsured balances were minimal.

The Federal Reserve Board expects the gradual improvement that is under way in the condition of the banking system to continue. Our anticipation that the general economy will expand at a good rate during 1977 and on into next year is, of course, critical to that judgment. But other important reasons also suggest further strengthening in the banking situation.

By no means the least of these is the sobered mood of bankers. The difficulty experienced by some banks in issuing certificates of deposit at times during 1974 or 1975 has clearly left its mark. So has the embarrassment that certain institutions suffered in having to pay a premium rate on their certificates of deposit. Fresh is the memory, also, of the cost and strain many banks experienced in making good on liberally-granted commitments to extend credit. Such things as these, combined with the shock of heavy loan losses, appear to have significantly altered the psychological framework within which banking decisions are made. Liability management no longer seems quite so wondrous to many bankers, and there is clearly a new degree of appreciation that commitments to lend ought not to be undertaken lightly. Having learned the hard way that the business cycle is, after all, very much alive, most bankers are likely for a time to apply stricter standards than they did a few years ago in making credit judgments. All in all, the banking industry is exhibiting considerable caution, which extends both to the traditional range of banking operations and to the nonbanking activities of holding companies. This should help to clear up old problems and avoid new ones.

Not only bankers, but also their customers, are in a more sober mood and this, likewise, bodes well for progress towards a healthier banking industry. Business managers in particular -- stung by their own discovery that the business cycle is not yet dead and that huge risks are entailed in enlarging balance-sheet totals through short-term borrowings --

have been hard at work putting their houses in order. They have sold sizable amounts of both long-term bonds and equity securities and have used the proceeds of these sales largely to reduce short-term bank debt and increase their liquid assets. Those developments, together with the continuing improvement of corporate earnings, certainly ought to result in fewer new bad-loan problems for banks and also should help progressively in cleaning up existing problems.

I can, moreover, assure this Committee that the Federal Reserve Board will make every effort to see to it that the current trend toward a strengthened banking situation continues. The Board in its regulatory and supervisory actions is adhering basically to the cautionary thrust that was formally initiated in the spring of 1973.

There has been no significant departure, for instance, in our "go-slow" policy toward expansion of bank holding company activities. The list of activities generally permissible for these companies has not been expanded since early 1974, and the Board has recently determined that two requested activities are not to be permitted. Individual companies have been allowed to expand into new areas only when the Board has been satisfied with their financial condition and managerial capabilities. On the other hand, companies whose asset composition, capital, or liquidity raises doubts, ought by now to know that the Board will be extremely skeptical of proposals that divert financial or managerial resources to new undertakings. Partly as a result of pointed denial of various applications to undertake new investments -- through which the Board has signalled to the market its "go-slow" policy -- the number of requests filed with the Federal Reserve has sharply diminished in the past two years. Moreover, in some instances in which applications for expansion have been approved, the authority to proceed has been made conditional on improvement of the applicant's capital base.

The Board intends to continue using such leverage in the interest of assuring further improvement in the condition of the banking system. The capabilities of the Federal Reserve to exercise a constructive influence on banker attitudes and actions are numerous, even though our power to deal with certain problem areas is inadequate. Perhaps of greatest significance is the fact that the examination and supervisory process is being strengthened by expanded and more timely surveillance, thereby enhancing our ability to identify problems and to respond to them at an early stage. Parallel developments to strengthen monitoring and follow-through capabilities are under way in the office of the Comptroller of the Currency and at the Federal Deposit Insurance Corporation. Coordination of efforts among the three agencies is, of course frequent.

The conclusion of the Federal Reserve Board that the condition of the banking system is improving does not mean that we are taking anything for granted or that we see no problems. The wiser attitude that now appears to prevail among bankers needs to be tested as the expansion in economic activity proceeds. Memories -- however painful -- can sometimes be short. Should we find that the lessons of the recent past -- concerning capital adequacy, excessive reliance on volatile funds, or expansion into unfamiliar areas -- are no longer generally respected by bankers, the Board will be ready to take whatever action seems appropriate.

Nor, even now, despite steady improvement in real estate markets, do we have any complacency about the involvement of banks and bank-holding companies in real estate investment trusts (REITs). Many of these trusts have avoided bankruptcy only because of the forbearance of creditors, and from the strained and often touchy relationships that inevitably exist in such a situation sudden flare-ups of trouble are always possible. A number of REITs face a significant increase of maturing medium-term debt later this year and in 1978. This situation demands close attention, with the prospect that more REIT-related losses lie ahead for banks and that it will be a long while before the messy problems in that area have been resolved.

Much the same is true of the financial difficulties of New York City in which the New York banks have such a substantial stake. The working assumption must be that a solution calming to financial markets will be devised, but simple prudence demands that the Federal Reserve System, because of its responsibility for containing shocks to financial markets, be alert to any sudden untoward turn in that troublesome situation.

Another area of concern with respect to the soundness of our banking system is the continued attrition in Federal Reserve membership. In 1976, 46 banks chose to give up membership and 8 banks left the System as a result of mergers with nonmembers. Over the past eight years a total of 427 member banks have withdrawn from the System, and an additional 91 have left as a result of merger. These banks have left mainly because of the high cost of the non-interest earning reserves that they are required to hold as members of the Federal Reserve. Not a few of the banks that dropped out of the System, being financially weak, faced a desperate need to cut costs and improve profits. At present 60 per cent of insured commercial banks, accounting for about 25 per cent of deposits, are outside the Federal Reserve System.

Unless the trend toward nonmembership is reversed, the soundness of the banking system will be jeopardized by the fact that so many banks will not have direct access to the Federal Reserve discount window. The availability of the discount window -- as was demonstrated dramatically in 1974 -- is an important element contributing to the stability of our banking system. There should be no assumption that correspondent banks will always be able to afford assistance to nonmembers. This is a problem that warrants priority attention by this Committee and the full Congress.

The Board also would like to see this Committee focus as soon as it reasonably can on gaps that continue to exist in the supervisory powers of the agencies that regulate banks. On January 31 of this year, the Board, as you know, forwarded to this Committee a regulatory reform bill that we believe would contribute materially to better bank supervision.

Our draft bill proposes, among other things, the creation of a statutory inter-agency bank examination council that would establish uniform standards and procedures for Federal examination of banks. The bill would also place statutory limits on loans to insiders. As the Committee is aware, problems with insider loans have been a major contributing factor in a number of bank failures. In addition, we see a need for change in existing "cease and desist" authority. At present the Board cannot remove bank or bank holding company officers for anything less than a showing of personal dishonesty. We believe that authority for removal, with appropriate safeguards, ought to extend as well to gross managerial negligence.

The bill we have proposed would also permit out-of-State acquisition of large banks in danger of failure. When adverse developments trigger deposit losses that seriously weaken a bank, it may be necessary in the public interest to combine the weakened institution with a larger and stronger bank. As you know, this recently occurred in New York and California, where large in-State banks were available to acquire the problem banks involved. Had institutions of the size of Franklin National or U.S. National failed in certain other States, no in-State bank would have been large enough to acquire them. In such circumstances, the ability to arrange acquisitions across State boundaries would become urgent.

These specific legislative changes would be helpful. From a broader perspective, it is vital to make membership in the Federal Reserve more attractive -- perhaps by providing for lower reserve requirements or allowing the System to pay interest on the reserve balances that member banks maintain. Moreover, in view of the expanding presence of foreign banks in the United States -- with assets here that now exceed $75 billion -- the Board believes it important to subject foreign banks to the same Federal rules and regulations that apply to domestic banks. To strengthen our banking system, we therefore urge adoption by Congress of legislation on foreign banking such as the House of Representatives passed last year.

I have dwelt thus far on the condition of the banking system in relation to the activities that banks carry on in our domestic markets. A proper assessment must take into account as well the role of our banks abroad. That role has expanded enormously, and the pace of growth has been especially fast in the last several years. The indebtedness of foreigners to U.S. banks and their foreign branches rose annually during the past three years by about 20 per cent. It is important to recognize in this connection that most of the expansion in foreign lending by our banks has been made possible by funds raised abroad.

As the world economy keeps getting bigger, some year-to-year increase in the international loan portfolios of U.S. banks is a normal occurrence. But the recent pace of bank lending to foreigners goes beyond anything that can be explained in terms of the growth of either world economic activity or international trade. In addition, it reflects three developments: first, the enormous rise of financing needs around the world that was occasioned by the quintupling of oil prices; second, the willingness of American banks to respond to those financing needs; third, the growth of multinational corporations and the internationalization of banking through the Euro-currency markets.

The sharp increase of oil prices did not in and of itself give rise to a need for financing activity of the kind American banks have been engaged in. Theoretically at least, the OPEC group, recognizing the severe payments imbalances they had caused, could themselves have become bankers on a major scale. We know, of course, that they largely avoided the route of extending credit directly to the countries that were buyers of their oil, but instead funneled their huge surpluses into a variety of financial assets -- chiefly bank deposits. They thereby shifted the banking opportunity -- and with it, of course, the burden of credit evaluation -- to others, which meant mainly the large American and European banks that the OPEC group used as depositories. The fact that things might have happened otherwise is something we should not forget, since in the years immediately ahead -- if serious oil-related payments imbalances persist -- it may yet be necessary to urge upon the OPEC group a much more active role as bankers than they have so far played.

American banks, as is well known, responded along with other banks to the "recycling" challenge, serving since 1974 a very substantial intermediary role between the OPEC group and the countries whose external payments had deteriorated because of OPEC pricing. The fact that loan demand within the United States was relatively weak in 1975 and 1976 undoubtedly has been a factor helping to sustain an unusually high rate of foreign lending activity by our banks.

The sharp increase of oil prices, to say nothing of the world-wide recession, caused extensive dislocations in the world economy; but much more serious difficulties would have occurred if commercial banks here and elsewhere had not acted as they did. There simply was no official mechanism in place in 1974 that could have coped with recycling of funds on the vast scale that then became necessary. The supportive role that American and other commercial banks played in this situation thus prevented financial strains from cumulating dangerously, and this role continues even now. Certainly, our export trade and the general economy have been helped -- and are being helped -- by banking's role in international lending.

This is not to say there have been no excesses or that expansion of international lending by American banks can continue at an undiminished pace. Even though losses on foreign loans have been small -- indeed, relatively smaller than on domestic loans -- the Federal Reserve Board is concerned about the enlarged risk exposure of our banks. I personally have voiced apprehension about various aspects of these international lending activities in both private and public discussion.

The rapid expansion of credit to the non-oil "less developed" countries (LDC's) warrants particularly close attention. The total indebtedness of such countries to American banks alone approximated $45 billion at the end of 1976. These countries also owe substantial sums to foreign banks, official insitutions, and others. The fact that the aggregate external indebtedness of these countries may run to something like $180 billion has been well-publicized.

Of course, total debt figures -- and more importantly the interest charges flowing from them -- need to be viewed in the context of the levels of production and exports of the non-oil LDC's. Looked at in those terms, they are decidedly less worrisome. Nevertheless, the ratio of the external debt to exports and also the ratio of the external interest burden to exports have deteriorated for most non-oil LDC's in recent years, although some stabilizing tendencies did emerge in 1976. In some countries, such ratios have reached levels which justify serious concern and which point to the need for determined stabilization policies. In the absence of such policies, difficulties may be encountered in rolling over existing debt or borrowing to meet new requirements.

This situation demands a heightened sense of caution on the part of our banks in managing their international loan portfolios, and such caution does in fact appear to be emerging. Here, too, though, the Board will be watchful of developments. As part of a broader effort to improve knowledge of international lending activities, we are currently engaged in a joint project with other central banks to obtain a more accurate size and maturity profile of the indebtedness to banks of individual countries. Such data should prove useful to bankers as they proceed to evaluate credit requests by foreigners. The Board has communicated its intent to be both helpful to banks and watchful of their activities. The latter point is currently being signaled, for example, by an informal survey of bank practices in defining, monitoring, and controlling risk in international lending.

The Board's judgment about the condition of the international loan portfolios of American banks is not easily summarized. We have been concerned with the rapidity of the rise in foreign lending, and we believe that here and there a slowing must occur -- to rates of growth, generally, that are consonant with expansion of the debt-servicing capabilities of individual borrowing countries. Such slowing, it should be appreciated, may well involve some problems for the international economy, since the structural payments imbalances that have occasioned such heavy bank lending to foreign countries are not going to disappear rapidly. The inference is clear that a strong cooperative effort is more than ever necessary -- involving, among others, official international agencies, the Group of Ten countries, OPEC, the non-oil LDC's, and the private banks. Unless we succeed in devising sound financial alternatives, serious strains in the world economy may develop.

In closing, let me say that I am sensitive to the fact that the statement I have made this morning -- despite its length -- by no means reviews the condition of our banking system as fully as would be desirable. Some of the matters I have touched on are extremely complex and that inherently creates risks that relatively brief treatment may give rise to misunderstandings.

I particularly hope that the emphasis I have placed on the need for caution in credit extension will not be misunderstood. In banking, as in other pursuits, a fine line exists between being too cautious and not being cautious enough. At the Federal Reserve Board, we certainly do not want caution to be overdone in the sense of having our bankers be unresponsive to the needs of creditworthy borrowers, either at home or abroad. Nor do we as supervisors, despite our obligation to be watchful, seek to substitute our judgments for those of on-line bankers in deciding who should get credit. We have neither the capacity nor the desire to play such a role.

The legitimate credit needs of our citizens and our businesses must be met if our economy -- and indeed the world economy -- is to prosper. It is precisely for that reason that the Federal Reserve is pursuing a policy of adding steadily to our banking system's resources, and yet doing so on a scale that will not reignite the fires of inflation. Our banks are in a good position to serve the needs of their communities. They have been extending impressive amounts of credit to consumers, to farmers, and to those in need of mortgage credit. As the demand for business credit strengthens, that too will be reasonably accommodated. I hope that in dwelling on other considerations this morning, I have created no misimpressions about this critical matter.

* * * * * * * *