To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council held on September 18, 1956.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin	x WM	
Gov. Szymczak	x MSS	
Gov. Vardaman	x	
Gov. Mills	x	
Gov. Robertson	x R	
Gov. Balderston	x CCB	
Gov. Shepardson	x CNS	

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A meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council was held in the offices of the Board on Tuesday, September 18, 1956, at 10:30 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Vardaman 1/
Mr. Mills
Mr. Robertson
Mr. Shepardson

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary

Messrs. Ireland, Massie, Mitchell, Denton, Fleming, Livingston, Miller, Baird, Kemper, and Matkin, members of the Federal Advisory Council from the First, Second, Third, Fourth, Fifth, Seventh, Eighth, Ninth, Tenth, and Eleventh Districts, respectively

Mr. Smith, President, First National Bank of Atlanta

Mr. William J. Korsvik, Acting Secretary of the Federal Advisory Council

President Fleming noted that Mr. Kimball was unable to be present at this meeting of the Council and that the Federal Reserve Bank of Atlanta had asked Mr. Edward D. Smith, President of the First National Bank of Atlanta, to attend the meeting as a representative from the Sixth District. President Fleming also noted that the Twelfth Federal Reserve District was not represented at this meeting in view of the fact that Mr. King had found last week that he would be unable to to present.

1/ Withdrew from meeting at point indicated in minutes.

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In this connection, he suggested that it was desirable to have a representative at each Council meeting from each of the Federal Reserve Districts. While the by-laws of the Federal Advisory Council provide for an alternate, he said, some of the Federal Reserve Banks do not designate an alternate for this purpose. He raised the question, therefore, whether the Board had views as to whether each Reserve Bank should provide for an alternate to attend meetings of the Council in the absence of the elected member.

Chairman Martin said that the meetings should be made as effective as possible by hearing from each Federal Reserve District. He felt it would be desirable to have alternates as suggested by President Fleming, although the elected member as principal ordinarily should attend and it would not be desirable for the alternate to come as a regular procedure. Chairman Martin noted that the Conference of Chairmen of the Federal Reserve Banks would meet in Washington in December and he suggested that this topic might be discussed with them at that time.

President Fleming referred to the action of the Congress in passing the Federal Executive Pay Bill, known as Public Law No. 854, 84th Congress, fixing the salaries of the members of the Board at $20,000 per annum except that the salary of the Chairman of the Board was fixed at $20,500 per annum. He stated that the Council was not entirely pleased with this action of the Congress although it did represent

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a step forward in compensation for the members of the Board. However, the Council felt that the law had not given appropriate recognition to the position of the Chairman of the Board of Governors in relation to heads of other Government agencies, and it hoped this could be corrected at a later date.

Chairman Martin expressed the appreciation of the Board for the efforts made by the Federal Advisory Council as well as others toward bringing about an adjustment in compensation for members of the Board. He emphasized that this was important primarily from the standpoint of status of the Board in the Federal hierarchy and that to some extent compensation measured the status of banking in relation to the rest of the economy. If the position of the Board of Governors and other bank supervisory agencies were to continue to be down-graded in the Federal Government, it was only a matter of time, he said, until this would be reflected in the status of the entire banking business, which he felt would be unfortunate.

Before this meeting there had been sent to the members of the Board a memorandum prepared by the Federal Advisory Council regarding topics that had been placed on the agenda for the joint meeting. The statements of the topics, the comments by the Council, and the discussion of the respective topics are set forth below:

1. What are the views of the Council with respect to the prospective business situation for the balance of the year?

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All districts present report a high level of business which they expect to continue for the balance of the year. Employment is at an all-time high. The present strong demand for credit is expected to continue for the balance of the year. Housing starts are down from a year ago, but the total dollar volume of construction is higher. Although the farm equipment industry, textiles, and certain agricultural areas suffering from a drought are not sharing in the general prosperity, over-all business activity may reach record levels in the fourth quarter.

Mr. Ireland said that the First District fitted unmistakably into the pattern described in the Council's statement. The usual indexes of business in that area were at a very high level at this time, and he expected activity would continue high and probably would increase further. Non-agricultural employment was at the highest level in history and, outside the textile industry, each area of New England's economy was at a very high level, even including residential building. Demand for credit continued strong and was expected to increase further. Demand deposits were up somewhat more than for the country as a whole. While Mr. Ireland was very optimistic on the outlook, he said he had in mind the problems this high level of activity brought with it.

Mr. Massie said that there was some unemployment in the Second District during the steel strike, particularly in the Buffalo area, and also some attributable to the letdown in automobile assemblies. This had been corrected, however, and employment was now at a new high. The garment industry was much more active in terms of volume but was not showing

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satisfactory profits. Retail trade continued strong despite the drop off in incomes at the time of the steel strike and the letdown in automobile assemblies. Housing starts were fairly satisfactory and industrial construction had absorbed what decrease there had been in housing, so that the total volume was up. The farm situation in the New York District was good. There seemed to be no letup in the heavy demand for credit. New York was losing deposits to other parts of the country and probably would lose quite a volume of foreign deposits, particularly time money, that had been in the New York City banks for a considerable period of time. Over all, however, the tendency of business in the District continued upward, Mr. Massie said, and his views on the outlook were much the same as those expressed by Mr. Ireland.

Mr. Mitchell said that business in the Third District was very active. Industrial production was affected by the steel strike in the third quarter but following settlement of the strike, production climbed and information indicated that orders were increasing in all lines except synthetic fibers and textiles. Bituminous coal mining had increased somewhat although it was still not in good shape. The number of housing construction awards was down 15 per cent for the period since the first of this year, although dollar volume had not shown so large a decline. Industrial construction was at an all time high, and total construction was up from last year. Department store sales also were up, freight car

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loadings were increasing, wages were increasing, and prices were going up. Steel inventories were down because of the strike but other inventories were increasing. Mr. Mitchell said that loans of banks in the Philadelphia District were up from last year but deposits were down moderately. Money was still tight.

Mr. Denton reported a high level of business in the Fourth District. Perhaps because of the steel strike, the steel industry was now loaded with orders, and activity in new automobile model production was moving toward a seasonal peak. Inventories of automobiles in dealers' hands were not now excessive and, in fact, dealers could be expected to accumulate additional inventories during the next two quarters. Deposits in the Cleveland District were very slightly higher than a year ago. Business as a whole, Mr. Denton said, could be reported as being in excellent condition in the Fourth District at this time.

President Fleming said that in the Fifth District there were some bright spots and there were some that were not so bright. Agriculture seemed to be making a come back. The strongest elements were coal mining, trade, and public utilities. Maryland was in a very strong position and rising. Residential construction was down from last year but that decrease was more than made up by increased construction for public utilities and industry. Retail trade was running almost 2 per cent ahead of last year. One of the brightest spots in the District was the bituminous

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coal mining industry, which, despite the steel strike, was 13 per cent ahead of a year ago largely as a result of foreign demand for coal. Employment was at high levels in Maryland and at particularly high levels in the Portsmouth and Norfolk areas of Virginia. Bank loans were up from a year ago but deposits were down slightly. The over-all situation, Mr. Fleming said, was good.

Mr. Smith said that the specifics of Sixth District business conditions were about the same as those described for other Districts, with activity good throughout the area. He noted that the Atlanta District was in the process of greater industrialization and that, on top of good business generally, the District was benefiting from an annual increment of industrial expansion. Mr. Smith noted that even though the Sixth District had made substantial gains in trying to get per capita income up to the national average, it was still below that average. However, each year it was partly closing that gap which gave the District a higher rate of increase in income than that for the country as a whole.

Mr. Livingston said that the Seventh District picture was bright. Retail sales had been very good with an improving tone since the meeting in May. He called attention to a difference between the situation in agriculture and in manufacturing, stating that crops in general had been pretty good although corn prospects in Western Iowa were down some. Meat packers have had a good year although the third quarter was poor, and

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the full year may be slightly better than last year. As to the automobile situation, which was very important to the District, dealers' stocks of 1956 model cars were reported to be in good shape and 1957 was expected to be a very good automobile year. New car models were being unveiled in Chicago this week. The employment situation was good, although there was, of course, some unemployment because of the steel strike. The farm implement business continued very poor. Demand for credit continued strong and was expected to remain that way throughout the balance of this year. Housing starts in the Seventh District were down somewhat from last year and Mr. Livingston ascribed this to a shortage of money rather than to over-development of building. Commercial construction was good. Taking the situation as a whole, he looked for business to be very good the rest of this year.

Mr. Miller said that Eighth District business conditions were much as described for other areas. Demand for credit was high and he could see no reason why it would not continue that way for the rest of this year. Retail trade was good, running at about the national average. The coal situation was improving somewhat and there was more optimism than there had been for some time. Housing starts were down but commercial construction and road building were keeping total construction at a high point. All in all, the Eighth District was looking for a very high level of activity during the remainder of this year.

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Mr. Baird said that agricultural income in the Ninth District would be up this year. A pronounced change in industrialization in Minnesota had taken place over the last few years, and industrial output of the area was now far above a decade ago. Real estate people reported more difficulty now in selling houses in the Ninth District than last year, but Mr. Baird thought this was not because the region was overbuilt. Ninth District banks had suffered a shrinkage of deposits since last year, whereas nationally deposits had increased. This was reflected in the heavy discounting at the Reserve Bank up until a short time ago, but recently demand for credit at the Reserve Bank had lessened. Mr. Baird said that the District was looking forward to excellent business during the rest of this year, except in the case of the farm implement business.

Mr. Kemper said that business was surprisingly good in the Tenth District, considering the prolonged drought. Department store sales were up, although by less than the national average, and automobile sales were down 16 per cent from last year. Farm marketings had been substantially less than a year ago. He noted a marked difference between the price of fed cattle and grass cattle, with finished steers being sold as high as $30 a hundred while range cattle were selling for about $17 or $18. The credit situation was very tight, Mr. Kemper said. The District average loan-deposit ratio was about 42 per cent, compared with a national average

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of 51 per cent. Mortgage money was tight, although construction contracts were 18 per cent less this year than last. A decline of 32 per cent in July contracts as compared with a year ago might indicate the District was getting a little overbuilt, Mr. Kemper thought. He referred to the sale of Commodity Credit Corporation loans by country banks to their city correspondents, stating that it had been necessary for some of the city banks to ration the amounts that they would take. Taking the District as a whole, conditions were good and the outlook would be very good if the District could get some rainfall.

Mr. Matkin said that the Eleventh District had some bad situations where there had been drought, and it had excellent business in other areas. Record oil runs were occurring and Mr. Matkin thought that increased demand for Texas oil might result from the Suez Canal difficulties. Construction awards were about the same as last year with housing off a little and other types of construction up. Crops as a whole were not as good as last year, the cotton crop being off 7 per cent. Mr. Matkin said he expected good business for the balance of this year, with a continuing high demand for loans.

In response to a question from Governor Balderston, several of the members of the Council stated that the recent steel strike had been followed by noticeable increases in wage rates in other industries.

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Replying to a question from Governor Vardaman, Mr. Denton said that the recent increase in steel prices would take care of the current increase in wage costs but that the settlement involved subsequent increases in wage rates as well as fringe benefits that would not be covered by the current increase in prices. Therefore, he took it for granted that there would be further steel price increases a little later on.

Governor Shepardson inquired of Mr. Matkin whether the drought conditions in the southwest had resulted in many livestock producers reaching "the end of the rope", to which Mr. Matkin responded that he thought any such instances were the exception and that livestock producers generally would continue in the business.

2. In view of the tax deductibility of interest costs, are higher interest rates operating as an effective deterrent on demands for bank credit?

While the recent increases in interest rates undoubtedly have lessened the demand for certain types of bank credit, notably real estate loans and loans to carry securities, the Council believes that in general the higher interest rates have not, up to this time, operated as an effective deterrent on the demands for bank credit.

President Fleming stated that some members of the Council felt that the higher level of interest rates would become more effective in restricting credit in the fourth quarter of the year.

3. Have bank credit demands for longer-term financing needs been increasing relative to demands for short-term purposes with adverse effects on the

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liquidity of bank loan and investment portfolios? To what extent have corporations, planning capital market financing but deferring such financing because of adverse market conditions or outlook, resorted to bank sources to provide their demands, other than temporarily?

The Council does not believe that demands for bank credit for longer-term financing needs have been increasing relative to demands for short-term purposes, and consequently there have been no adverse effects on the liquidity of bank loan and investment portfolios. The Council likewise does not believe that corporations planning capital market financing and who have deferred such financing because of adverse market conditions have resorted to bank sources other than temporarily.

President Fleming said that in the past ten days or two weeks, a number of corporations that had delayed financing plans with the thought that rates on such financings were too high had now entered the market.

Mr. Smith commented on financing for Southern Bell Telephone Company, stating that the company had considered an arrangement whereby it could obtain needed funds through American Telephone and Telegraph Company but had been advised to enter the market. He assumed that the parent company had come to the conclusion that interest rates would not likely come down from their current levels in the immediate future and, in fact, might go higher. Mr. Smith said that as a result, Southern Bell had decided to proceed with a $70 million financing program.

Messrs. Ireland and Livingston also commented on this point, stating that a number of concerns seemed to have concluded that they

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should proceed with their financing programs now. Mr. Livingston also noted that in some cases the proceeds of these capital issues would be used to repay bank loans.

In connection with this discussion, Mr. Denton noted that a number of banks had for years been active in the term loan field, that there had been some increase in loans in that field, but that in relation to the demand for total loans the increase in term loans was not large.

Mr. Massie said that he had the impression the volume of term loans in New York was no larger than a year ago, the run-off in such loans having offset new loans made. The large increase in total loans, he said, had been in short-term credits. He also called attention to the public utilities companies which historically finance their construction programs on eleven- or twelve-month notes, because they are not permitted to do long-term financing (other than equity financing) until plant construction is completed. The volume of these eleven-month notes, placed in the category of short-term financing, had increased from year to year.

Mr. Livingston cited figures for his bank showing that the increase in term loans in a given period was $20 million, compared with an increase of $160 million in ordinary short-term credits during the same period.

4. Has the total credit demand been so large that big and preferred borrowers have had their demands more readily satisfied than the legitimate demands of smaller business customers?

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At the May meeting the Council answered a similar question in part as follows:

> Regardless of the condition of the money supply at any time, credit is extended to borrowers upon the basis of credit worthiness and not upon the basis of size.

The Council has considered the matter again and finds no evidence that the legitimate demands of smaller business customers are being less readily satisfied than those of big borrowers.

President Fleming said that many banks had worked hard to make loans bankable when they were not bankable as first presented. This effort had been intensified, but some loans were just not creditworthy. President Fleming thought that this situation would always exist and would be the basis for criticism that banks were not taking care of small business.

Mr. Denton said that he had had a check made of the loans of his bank during 1955 and the first half of 1956. During that interval loans to "big business",including loans to brokers,showed a 31 per cent increase, whereas loans to small business, including home mortgages and instalment credits, showed an increase of 59.8 per cent. The dollar increase in the loans to small borrowers was greater than the dollar increase in loans to large local and national corporations. Mr. Denton said that he had no feeling that his bank had not taken care of the smaller businessman right down the line.

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Mr. Ireland said that he agreed with this general position but that he did think that outside the commercial banking business there was an area where credit, particularly in the field of mortgage money, was not as readily available to the so-called small businessman as it was in earlier years. He cited particularly the situation in New England where smaller banks might originate mortgage loans which they could sell to their correspondents. The point he was making, he said, was that outside the commercial banking business, something was taking place that made it a little more difficult for some of the small businessmen or individuals to obtain money for plant expansion through banks in the manner in which they had obtained such credit in past years.

Mr. Kemper concurred with the views expressed by Mr. Ireland, and Mr. Baird pointed out a distinction that could be drawn between small finance companies and large finance companies, the small companies having been held down by banks to lines of credit that previously had obtained, whereas the large financing companies could obtain funds by going to the market.

Chairman Martin said that the question of credit for small business in part revolved around the matter of whether money was available at any price in certain areas. He found it very difficult to deal with the question, he said, citing cases in which reports had been made to him of firms that had gotten the impression from banks that there was

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no money available to meet their needs. Inability to obtain credit at any price raised a real question, he said, whether it was a small firm or a large firm seeking the credit. In most cases the money would be obtained in some way but at an increased cost, the Chairman said, and he was not talking about rates of 9 or 10 per cent.

Mr. Denton noted that in the case of VA-guaranteed and FHA-insured mortgages, the shortage of credit was resulting in discounts on the mortgages and consequently in greater increases in cost than on conventional mortgages.

Chairman Martin said that he had received an increasing number of comments on this subject to the effect that it was not the cost but the question of availability of money. That was the problem that concerned the Board, he said, although he had not yet been persuaded that money had become totally unavailable. He described the situation as one in which savings had become a "scarce material."

Governor Mills said that the banks represented by the members of the Federal Advisory Council were, of course, large banks and that question was raised as to whether the experience of the larger banks was pertinent to the experience of almost 15,000 smaller banks around the country who deal with a different type of customer. He felt that sympathetic consideration should be given to the smaller bank and its customers that Mr. Ireland had described. He also pointed out that bank earnings

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had been generous during the past year and that there might not be as much incentive on the part of banks to direct the attention of loaning officers to the needs of the really small businessmen and individuals who might be overlooked in the rush for credit by larger firms.

Mr. Denton commented that while banks represented on the Council might be large in the aggregate of their assets, the figures that he had presented still indicated that there had been a greater number and larger dollar amount of loans to small borrowers than to large firms. The only limitation his bank had on loans to anybody desiring to borrow money was in the central loan committee that passes on large loans, the members of which were the only persons in the bank having knowledge of tight money. He emphasized that branch managers were still being praised each time they made a loan, and that their attitude continued to be one in which they felt that they had accomplished something when they made a loan.

Governor Mills responded that if there was a limited supply of credit, that supply would be allocated which meant that some potential borrowers would be counted out of the market. It was important to consider the ultimate effects on the economy of individuals and businesses who had been increasingly unable to satisfy their credit demands.

Mr. Ireland pointed out that while the banks represented on the Council were the larger ones, they had a constant flow of visitors from

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all over the country and through those visits were kept well informed of conditions among smaller banks. He could not find any evidence that there had been a substantial volume of turn-downs of people such as was indicated by some of the press stories on this subject.

Mr. Baird said that he talked with many country bankers and that he did not find any evidence in his discussions with them of credit restrictions; a good many of those banks were not conscious of what the larger banks talked about as the "tight money situation." There was some restriction at larger banks, Mr. Baird said, and city banks had been able to offer participations in larger loans to the other banks in his group.

Mr. Livingston commented on a recent loan survey made by the Chicago Reserve Bank covering Chicago and Milwaukee, which showed that 38 per cent of all loans of those banks were for $10,000 or less. With reference to Governor Mills' point, he said he would guess that the absolute number of small borrowers in larger cities was greater than the number located in rural areas. As to availability of credit, Mr. Livingston said that in the case of a large bank such as his own, the question of the bank's ability to extend the credit was not important for the man who wanted $500 or $1,000 or $10,000, assuming the risk was good; the problem of ability to grant the credit arose in the case of the borrower who wanted $5 or $10 million.

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President Fleming suggested that the members of the Federal Advisory Council could assist the Board in dealing with questions relating to credit extensions to small business if the Board could bring to the attention of a member of the Council complaints relating to his District when it looked as though a credit could have been granted and was not.

Chairman Martin said that this could be very helpful. He also said that the Board would be particularly interested during this period in hearing from members of the Advisory Council, perhaps by telephone, of any unusual situations in their Districts where individuals maintained that credit was not available.

Following additional comments by other Council members, Governor Vardaman suggested that the banks might undertake an educational program to assist small bankers in understanding the advisability of keeping themselves loaned up in their local communities, and that a program to educate financial writers on the function of banking would also be desirable. To this suggestion, President Fleming responded that the American Bankers Association and the Association of Reserve City Bankers had programs for dealing with problems of this type.

5. What are the current tendencies with regard to bank activities in consumer financing, namely, with respect to volume, down payments, and maturities?

Most districts report a moderate increase in the volume of consumer financing. In general, the terms of down payment and maturity have tightened compared to a year ago.

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President Fleming said that the foregoing statement was true in all Federal Reserve Districts excepting the Third, and he called upon Mr. Mitchell for a comment upon conditions in that area.

Mr. Mitchell said that in the Philadelphia District 61 per cent of new automobile purchases made recently were on terms having maturities ranging between 30 and 36 months, compared with some 54 per cent having such maturities in January of this year. He referred to a meeting of bankers a couple of months ago at which an effort was made to get them to cut back, if possible, to terms providing for a 25 per cent down payment and a 30-month maximum maturity instead of virtually no down payment and a 36-month maturity. Some progress had been made by a few banks, but generally speaking they were holding to the 36-month maturity and were only making feeble efforts to get back to 30, Mr. Mitchell said, because they feel they may lose business to finance companies. However, banks were not extending maturities beyond the 36-month period.

6. What are the current tendencies with regard to bank takings of residential construction loans and mortgages?

At the May meeting the Council responded to a similar question as follows:

> The Council believes that mortgage loan demand is outrunning the supply of savings available for investment in mortgages and that there is little prospect for any early change in this situation. Construction money is very tight and rates on mortgages have increased. The Council does not believe mortgage lenders are presently in a position to take care of the demands made on them for mortgage credit.

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The Council has reviewed the situation and finds that rates on conventional mortgages are now higher and that the discount on insured mortgages is greater. Currently, there is a tendency to be more selective and restrictive because of the inadequacy of the supply of loanable funds.

President Fleming called upon Mr. Kemper for comment on this topic.

Mr. Kemper stated that rates on FHA-insured and VA-guaranteed mortgages at present were totally unrealistic. He told of a request by a savings and loan association for funds in which the applicant commented that he was not concerned about the rate. Mr. Kemper also noted that a good many GI mortgages were selling at a discount down to around 92, and he cited one instance in which a mortgage had sold as low as 90. It was Mr. Kemper's view that something would have to be done in connection with the basic rates applicable to these mortgage loans if the discounts were to be kept from becoming even greater.

7. Are banks generally active in other types of construction lending?

Banks generally are active in direct lending for other types of construction. Banks also make numerous loans to commercial, industrial and utility companies, the proceeds of which loans are used for construction purposes.

There was no discussion of this topic other than a comment by President Fleming as to an interpretation of a ruling of the Office of the Comptroller of the Currency regarding loan limitations, and a comment by Mr. Denton to the effect that banks were certainly in the construction loan business.

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8. What are the views of the members of the Council with respect to the System's current credit policies and what, if any, changes might be called for now or during the period before the next meeting of the Council?

The members of the Council believe that the credit policies pursued by the System since the last meeting have been appropriate, and they believe that the same degree of credit restraint should be maintained now and during the period before the next meeting of the Council. The present policy of keeping the discount window available should be continued.

President Fleming said that the word "degree" was important in the Council's statement and that the Council realized that maintenance of the same degree of credit restraint during future weeks would require daily observation of the situation.

Chairman Martin said that maintenance of any given degree of credit restraint was a very difficult problem. He also noted the last sentence in the Council's statement to the effect that the present policy of keeping the discount window available should be continued. The Chairman then made a statement substantially as follows:

We have had lengthy discussions of this question. I think we have a meeting of the minds but we frequently get into more trouble on this than almost anything else. I don't think anybody believes that we should take away from the Reserve Banks their responsibility for administering the discount window. I think it would be most unfortunate for us to close the discount window, particularly in a period like this. But it is in a period like this that there is a need for discussion with people who come to the window in order that the Reserve Bank can see what the need is and whether there is any need. We have gone through discussions of just putting the rate up and of using a meat axe approach. The general

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policy to be followed seems to be to be fairly clear. However, some bankers seem to think that they need not even tell their local Reserve Bank why they need the money; that they just ought to be able to go in and say they need it and get it. I don't think any of us intend that, but we do want to keep the discount window open. Having discussed the problem with the immediate borrower, I would rather make an error on the liberal side. However, if a bank has been coming continually to the discount window, there is a tendency for people to think that that individual bank is borrowing for the purpose of making a profit in the investment market. I just wanted to put this out on the table. It is most unfortunate for anybody to get the impression there is any change in policy at the discount window or that the Federal Reserve is trying to clamp down on the discount window with a different policy than that it has been pursuing right along.

President Fleming said that he thought the members of the Council fully recognized the System's policy, and they recognized that banks should explain to the President or to the loan officer of the Reserve Bank their problems. However, he thought that it would not be desirable to have a repetition of an instance in which the President of a Reserve Bank called in several bankers at one time and talked to them about discounting. He described the procedure followed by the President and First Vice President of the Federal Reserve Bank of Richmond in calling upon bankers and discussing with them their problems, stating that this was an entirely proper procedure. President Fleming also said he thought Chairman Martin's speech before the Pennsylvania Bankers Association last May made the System's attitude on discount policy as clear as possible.

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Chairman Martin said that he was merely appealing to the Council to understand what the System was trying to do in administering the discount window. He also suggested that it would be helpful if the Board could be informed of any individual cases that came to the attention of the members of the Council in which they felt there was maladministration of the discount function in their Districts.

Mr. Denton stated that his concept of the last sentence in the Council's statement above was that it was intended to imply appreciation on the part of the Council for the policy being followed on the discount window.

In response to a comment by President Fleming on the influence of float in the market, Chairman Martin noted that the Federal Open Market Committee had undertaken a study of this subject under the chairmanship of Governor Robertson with Messrs. Erickson and Johns, Presidents of the Federal Reserve Banks of Boston and St. Louis, also serving as members of the committee.

9. The Board of Governors has been asked by the Senate Banking and Currency Committee to submit to the Committee by the first week in October recommendations as to desirable changes in the Federal Reserve Act and other related statutes. The Board would be pleased to have any comments that the Council might wish to make in this connection.

The Council has no comments to make at present on this subject in view of the limited opportunity it has had, as a body, to study and consider desirable changes in the Federal Reserve

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Act and other related statutes. The Council intends to study these matters and may offer recommendations of its own at a later date. If the Board believes it appropriate, the Council would be pleased to receive a copy of the Board's recommendations.

President Fleming and Mr. Miller commented on the need for change in the provisions of the Internal Revenue Code with respect to the formula for bad debts.

Chairman Martin stated that the Board was working on material that might be presented to Senator Robertson and his committee. He also noted that Congressman Wright Patman, Chairman of the Subcommittee on Economic Stabilization of the Joint Economic Committee, had asked that the members of the Board and Presidents of the Federal Reserve Banks again appear before that committee in December of this year, as they had in December 1954. With respect to Senator Robertson's committee studying legislation, the Chairman noted that this subject had been discussed with the Senator at luncheon attended by members of the Board, representatives of the Federal Deposit Insurance Corporation and the Comptroller's Office, and others. Chairman Martin also said that Senator Robertson had asked that the Board suggest language that could be used in the opening statement regarding the Committee's study, and he noted that Governor Vardaman was preparing language for consideration by the Board for this purpose.

President Fleming said that the Council would like to study the recommendations that the Board decided to submit, and if it could

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obtain copies of the documents it would be glad to submit its comments to the Board.

After outlining the time schedule that would be followed, Chairman Martin said that the Board would be glad to furnish the Council with copies of the material it submitted as promptly as possible. He noted, however, that Senator Robertson contemplated printing and distributing the material during the latter part of October. The Chairman also said in response to a comment by President Fleming that the initial recommendations of the Board would not cover major policy matters such as reserve requirements.

10. The Board would like the Council's opinion on a proposed amendment to Regulation Q. The amendment would increase from 1 to 1-1/2 per cent the maximum rate of interest payable on time deposits having a maturity of less than 90 days and would increase from 2 to 2-1/2 per cent the maximum rate payable on time deposits having a maturity of less than six months and not less than 90 days. The proposal as made does not contemplate a change in the maximum rate on savings deposits or on time deposits having a maturity of six months or more. This item of the Agenda was brought to the Council's attention by a special letter on July 20.

The Council unanimously approves the proposed amendment to Regulation Q.

President Fleming said that the Council would favor a ceiling of 2-1/2 per cent on time deposits, the same as on savings deposits. There was some feeling toward a higher rate, he said, but the Council opposed it at this time.

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Mr. Massie referred to letters that had been written by two New York City banks requesting an increase in the maximum permissible rates of interest on time deposits, noting that one of these repeated a request made last spring that the rate be increased to 2-1/2 per cent on time deposits having a maturity of more than 90 days, and that the other requested that the maximum permissible rate on time deposits having a maturity of over 90 days be increased to 2-3/4 per cent. Mr. Massie said that the occasion for these requests was related to deposits of foreign central banks and foreign commercial banks held by New York City banks and that such deposits probably were somewhere in the range of $950 million to $1 billion. The request for the increase in the permissible rate was an attempt to hold these deposits. He noted that New York City banks had been losing deposits to other parts of the country, that they were back to their 1948 levels, and that they had received cables from abroad giving 90-day withdrawal notices on these foreign deposits. While the New York banks could not be sure that an increase to 2-1/2 per cent in the interest rate paid on these deposits would hold them, they thought that there was a chance it would hold at least some of them, notwithstanding the competition of the bill market and other short-term investments. Five of the large New York City banks felt that a 2-1/2 per cent rate would be desirable, Mr. Massie said, and he urged strongly that the Board approve such a rate promptly; one other New York

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City bank that sought a 2-3/4 per cent limit would be disappointed in the 2-1/2 per cent rate but his feeling was that at the moment the 2-1/2 per cent rate would be a partial answer to the problem. An increase in the rate paid on foreign bank time deposits would also apply to some domestic deposits of States and municipalities, Mr. Massie said, but there was no thought that it would open the flood gates to corporate time deposits. The purpose of the increase would be to protect the foreign time deposits of around $950 million to a billion dollars now held by New York City banks.

Chairman Martin commented that this was a difficult problem. The Board was receiving a fairly steady stream of letters from smaller institutions on the savings deposit rate, he said, and he had hoped the Board could be ahead of this question but it found itself behind. The question the Board had been wrestling with, the Chairman said, was whether we were in a period of higher interest rates for a substantial period of time.

Governor Balderston inquired whether a change from one to 1-1/2 per cent in the maximum permissible rate for time deposits having a maturity of less than 90 days was as important as the proposed increase to 2-1/2 per cent in the maximum rate for deposits having a maturity of more than 90 days.

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Mr. Massie responded that as a general procedure the foreign banks had not gone in for the 30 to less than 90 day time deposits, nor had they gone into the six-month-and-over time deposits. The great bulk of these deposits, he said, were in the 90, 91, or 92 day maturity.

Governor Balderston then inquired as to the effects of an increase to 2-3/4 per cent in the maximum permissible rates on time deposits having a maturity of more than six months and on savings deposits.

Mr. Massie responded that this was a good question. Personally, he could take the position that the banks were perfectly prepared to meet competition if rates were made free. He believed, however, that since this would involve some 14,000 banks there might be enough competitive chiseling to cause considerable trouble. He came back to the conclusion, he said, that as of the moment he would prefer to see the rate go to 2-1/2 per cent rather than 2-3/4 per cent. In response to a further question, he said that he would be a little afraid of a 3 per cent rate on time and savings deposits although if the Board took that position the banks would take their chances of competing and see how they made out. He believed, however, that it would be preferable if the Board did not move too fast on that.

President Fleming said that at some point such an increase might come about. He stated, however, that rates at which funds could be employed could change rapidly, whereas it was his opinion that if the rate

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on savings deposits were increased to 3 per cent that could not be reduced quickly.

Mr. Livingston said that once the increase in the savings rate was made, it would become frozen and a national calamity would be required to change it. Personally, he was opposed to increasing the savings rate to 3 per cent. Banks were enduring the competition on savings deposits, Mr. Livingston said, and he would be concerned if the permissible rate were increased to 3 per cent, believing that the tendency of banks to compete would be such as to cause many to go to the 3 per cent figure when they should not do so. If the higher interest rates continue long enough, we might get to the point where the increase could be supported.

Mr. Baird said that with the prohibition against payment of any interest on demand deposits, the higher rates on time deposits were putting pressure on people to switch from demand to time accounts. Bankers resisted this, he said, but it became increasingly difficult to do so, and if the savings rate went to 3 per cent and there were a large shift of deposits from demand to time accounts, the results might be disastrous.

Governor Balderston inquired whether the ability of banks to resist this kind of a shift would be aided if the rate on time accounts having a maturity of less than 90 days were to remain at one per cent, and there was some indication that such might be the case.

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In response to a question from Governor Robertson as to the arguments for increasing to 1-1/2 per cent the rate on time deposits having a maturity of less than 90 days, Mr. Massie said that this was just a matter of keeping a relative position in the rate schedule so that there would not be too great a jump from the rate on those maturities to the rate on 91-day maturities if the latter were increased to 2-1/2 per cent. Mr. Massie did not think there was much merit to having a ceiling on interest on deposits of less than 90-day maturity, nor did he think there was any great volume of time money in that category. In response to another question from Governor Robertson as to why there should be different rates on different maturities of time deposits, Mr. Massie said that he was under the impression that this was the result of the statute upon which Regulation Q was based; unless Governor Robertson's question was directed at a legislative proposal he would question whether the Board should take too big a step at once in changing the present regulation.

Governor Robertson said that as he saw the picture, it would appear that an increase in the rate on deposits having a maturity of less than 90 days would be largely a matter of form, not of substance, to which Mr. Denton responded that in the case of some counties and cities it would also involve substance. Mr. Denton felt that if the rate on deposits having a maturity of more than 90 days were increased to 2-1/2

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per cent it would be desirable also to increase the rate on deposits having a maturity of less than 90 days to 1-1/2 per cent.

Governor Vardaman withdrew from the meeting at this point.

Mr. Mitchell said that in the Philadelphia District there was very keen competition for deposits between commercial banks and mutual savings banks. He had always thought that the maximum permissible rate should not go to 3 per cent because commercial banks could not compete with savings banks on account of the large tax differential. He also said that there was a tendency for some commercial banks to try to compete on these rates with the mutual savings banks, that this might well force them into losses, and that it would be preferable if the Board would maintain the 2-1/2 per cent rate to avoid this. Mr. Mitchell thought it unsound for commercial banks to try to compete with mutual savings banks because every time commercial banks increased the rate on savings deposits the mutual savings banks immediately raised their rate. The mutual savings banks could afford to do this. Mr. Mitchell concluded his comment with the statement that he would be very sad if either the time deposit or savings deposit maximum were set at more than 2-1/2 per cent.

Mr. Ireland said that he would avoid raising the savings rate to 3 per cent because it might start a competitive rate situation. His information indicated that savings banks in New England were agreeable to

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continuing to pay 3 per cent and at the same time set up proper reserves.

Governor Shepardson said that from the public relations standpoint an increase in the rate on time deposits would seem also to call for a corresponding increase in the rate on savings deposits, and there was agreement by Messrs. Fleming and Denton that if the rate on time deposits were to be increased to 2-3/4 per cent, it would also be necessary to increase the rate on savings deposits similarly.

> 11. The Board would like to discuss with the Council the problems relating to the classification of a savings deposit under section 1(e) of Regulation Q evidenced by a particular form of "savings certificate." Specific questions involved in this matter, together with a sample of the "savings certificate" in question, were sent to members of the Council on July 27.

> The members of the Council are of the opinion that the particular form of savings certificate submitted does not qualify as a savings deposit under section 1(e) of Regulation Q. The members of the Council will be glad to discuss this matter at its meeting with the Board.

President Fleming said that the Council was agreed that the form of savings certificate referred to did not conform with the requirements for a savings deposit. He noted that the savings certificate would provide for a definite maturity and expressed the view that use of such a certificate would be confusing. While the Council did not think that the deposit that would be covered came within the class of a savings account, President Fleming said that it could be classed as a time deposit open account.

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Mr. Baird mentioned that one of the banks in Minneapolis had been seeking an answer to a question on a savings certificate form. While the volume of such business was not large, a bank might desire to be able to use such savings certificates as a means of holding certain types of deposits.

President Fleming said that the next meeting of the Federal Advisory Council was scheduled for November 18-20, 1956, with the joint meeting with the Board to be held on the 20th, and that in the absence of objection the Council would follow that schedule. There was agreement with this suggestion.

Thereupon the meeting adjourned.

S. Carpenter
Secretary

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