

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

September 16, 1956

The third statutory meeting of the Federal Advisory Council for 1956 was convened in Room 932 of the Mayflower Hotel, Washington, D. C., on September 16, 1956, at 2:10 P.M., the President, Mr. Fleming, in the Chair.

Present:

William D. Ireland	District No. 1
Adrian M. Massie	District No. 2
William R. K. Mitchell	District No. 3
Frank R. Denton	District No. 4
Robert V. Fleming	District No. 5
Edward D. Smith, Alternate for Comer J. Kimball	District No. 6
Homer J. Livingston	District No. 7
Lee P. Miller	District No. 8
Julian B. Baird	District No. 9
R. Crosby Kemper	District No. 10
George G. Matkin	District No. 11
William J. Korsvik	Acting Secretary

Absent:

Comer J. Kimball	District No. 6
Frank L. King	District No. 12

On motion duly made and seconded, the mimeographed notes of the meeting of the Council held on May 20, 21 and 22, 1956, copies of which had been sent previously to the members of the Council, were approved.

Inquiry of the members present disclosed that district alternates to the Federal Advisory Council are seldom named in advance by the respective Federal Reserve banks. It was suggested that it might be helpful if alternates were so named and were advised of the Council's proceedings. Thereupon it was decided that this matter be mentioned at the Council's meeting with the Board.

A complete list of the items on the agenda for the meeting and the conclusions of the Council are to be found in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council*, which follows on pages 22, 23 and 24 of these minutes.

The meeting adjourned at 6:35 P.M.

WILLIAM J. KORSVIK
Acting Secretary

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

September 17, 1956

At 10:10 A.M., the Federal Advisory Council reconvened in Room 932 of the Mayflower Hotel, Washington, D. C.

Present: Mr. Robert V. Fleming, President; Messrs. William D. Ireland, Adrian M. Massie, William R. K. Mitchell, Frank R. Denton, Edward D. Smith, alternate for Comer J. Kimball; Messrs. Homer J. Livingston, Lee P. Miller, Julian B. Baird, R. Crosby Kemper, George G. Matkin, and William J. Korsvik, Acting Secretary.

Absent: Messrs. Comer J. Kimball and Frank L. King.

The Council reviewed its conclusions of the previous day regarding the items on the agenda and sent to the Secretary of the Board of Governors the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council*, which follows on pages 22, 23 and 24, listing the agenda items with the conclusions reached by the Council. The *Memorandum* was delivered to the Secretary of the Board of Governors at 12:35 P.M. on September 17, 1956.

The meeting adjourned at 12:15 P.M.

WILLIAM J. KORSVIK
Acting Secretary

MEMORANDUM TO THE BOARD OF GOVERNORS FROM THE FEDERAL
ADVISORY COUNCIL RELATIVE TO THE AGENDA FOR
THE JOINT MEETING ON SEPTEMBER 18, 1956

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

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.

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.

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

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?

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.

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.

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 out-running 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.

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.

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.

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.

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 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.

10. The Board would like the Council's opinion on a proposed amendment to Regulation Q. The amendment would increase from 1 to 1½ per cent the maxi-

mum rate of interest payable on time deposits having a maturity of less than 90 days and would increase from 2 to 2½ 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.

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 their meeting with the Board.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

September 17, 1956

At 2:20 P.M., the Federal Advisory Council convened in the Board Room of the Federal Reserve Building, Washington, D. C., the President Mr. Fleming, in the Chair.

Present: Mr. Robert V. Fleming, President; Messrs. William D. Ireland, Adrian M. Massie, William R. K. Mitchell, Frank R. Denton, Edward D. Smith, alternate for Mr. Comer J. Kimball; Messrs. Lee P. Miller, Julian B. Baird, R. Crosby Kemper, George G. Matkin, and William J. Korsvik, Acting Secretary.

Absent: Messrs. Comer J. Kimball, Homer J. Livingston and Frank L. King.

Dr. Woodlief Thomas, Economic Adviser to the Board of Governors of the Federal Reserve System, spoke on the likely credit demands of the final quarter of the year and some of the consequences. Dr. Thomas' remarks were off-the-record.

The meeting adjourned at 4:00 P.M.

WILLIAM J. KORSVIK
Acting Secretary

MINUTES OF JOINT CONFERENCE OF THE FEDERAL ADVISORY COUNCIL
AND THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

September 18, 1956

At 10:20 A.M., a joint conference of the Federal Advisory Council and the Board of Governors of the Federal Reserve System was held in the Board Room of the Federal Reserve Building, Washington, D. C.

Present: Members of the Board of Governors of the Federal Reserve System.

Chairman Wm. McC. Martin, Jr.; Vice Chairman C. Canby Balderston; Governors M. S. Szymczak, James K. Vardaman, Jr., A. L. Mills, Jr., J. L. Robertson and Chas .N. Shepardson; also Mr. S. R. Carpenter, Secretary, and Mr. Merritt Sherman, Assistant Secretary of the Board of Governors.

Present: Members of the Federal Advisory Council:

Mr. Robert V. Fleming, President; Messrs. William D. Ireland, Adrian M. Massie, William R. K. Mitchell, Frank E. Denton, Edward D. Smith, Alternate for Mr. Comer J. Kimball; Messrs. Homer J. Livingston, Lee P. Miller, Julian B. Baird, R. Crosby Kemper, George G. Matkin, and William J. Korsvik, Acting Secretary.

Absent: Messrs. Comer J. Kimball and Frank L. King.

President Fleming stated that inquiry of the Council members present disclosed that district alternates to the Federal Advisory Council are seldom named in advance by the respective Federal Reserve banks. It has been suggested that it might be helpful if alternates were so named and were informed of the Council's proceedings.

Chairman Martin replied that the naming of alternates would contribute to the efficient functioning of the Council and that the Board would mention the matter at the Chairmen's Conference scheduled for the end of the year.

The President of the Council read the first item on the agenda and the conclusions of the Council as given in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council* as printed on pages 22, 23 and 24 of these minutes. A discussion followed in which the individual members of the Council recited on conditions in their districts.

President Fleming read the second item on the agenda, and the conclusions reached by the Council, as expressed in the *Confidential Memorandum*, previously mentioned.

The third item on the agenda and the conclusions of the Council as expressed in the attached *Confidential Memorandum* to the Board were then read by President Fleming.

The President of the Council read the fourth item, and the conclusions of the Council as expressed in the *Confidential Memorandum* to the Board.

President Fleming observed that banks constantly are having demands made upon them by businessmen for what amounts to equity financing. When money is tight, these individuals are likely to voice their disappointment rather loudly and the Board may have heard from some of them.

Chairman Martin acknowledged that the Board had been the recipient of such comment. Chairman Martin added that he is not concerned with the cost but with the availability of credit. He is not persuaded that money is unavailable.

President Fleming then read the fifth, sixth and seventh items, and the conclusions of the Council.

The eighth item, and the conclusions of the Council were then read by President Fleming.

Chairman Martin stated that determining the degree of restraint appropriate for any given situation is the most difficult problem facing the Board of Governors.

President Fleming then read the ninth item, and the conclusions of the Council.

Chairman Martin reported that it had been mutually agreed by Senator Robertson and the various Federal agencies involved that their recommendations would be limited to noncontroversial items.

The President of the Council then read the tenth item, and the conclusions of the Council and added that the Council probably would oppose an increase in the rate. A brief discussion followed in which members of the Board and the Council participated.

The eleventh item, and the conclusions of the Council were then read by President Fleming.

The meeting adjourned at 1:00 P.M.

WILLIAM J. KORSVIK
Acting Secretary

NOTE: This transcript of the Secretary's notes is not to be regarded as complete or necessarily entirely accurate. The transcript is for the sole use of the members of the Federal Advisory Council. The concise official minutes for the entire year are printed and distributed later.

W. J. K.

The Secretary's notes of the meeting of the Federal Advisory Council on September 16, 1956, at 2:10 P.M., in Room 932 of the Mayflower Hotel, Washington, D.C. All members of the Federal Advisory Council were present except Mr. Kimball and Mr. King. Mr. Edward D. Smith attended as alternate for Mr. Kimball.

Inquiry of the members present disclosed that in all but the fifth district alternates to the Federal Advisory Council are not named by the respective Federal Reserve Banks. President Fleming suggested that it might be helpful if alternates were so named and were advised of the Council's proceedings. It also might be helpful if they could attend one meeting to become familiar with the work of the Council. It was decided that the matter be mentioned at the Council's meeting with the Board.

President Fleming also outlined his testimony on behalf of the Federal Advisory Council urging salary increases for the Chairman and the members of the Board of Governors. Under the Act, which finally was passed, members receive a salary of \$20,000 a year, while the Chairman of the Board receives \$20,500. President Fleming noted that while this was considerably less than the Council hoped to obtain, it was a step in the right direction.

The Council approved the Secretary's notes for the meeting of May 20-22, 1956.

ITEM I

WHAT ARE THE VIEWS OF THE COUNCIL WITH RESPECT TO THE PROSPECTIVE BUSINESS SITUATION FOR THE BALANCE OF THE YEAR?

Fleming reads Item I and asks Ireland to comment.

Ireland. Textiles are the only soft spot in the New England economy and this seems to be a perennial situation. Aside from this one industry, all indicators are up. Employment is the highest in the history of New England. Non-durable industries are extremely active. Department store sales are up as is construction. Automobile registrations are showing an increase. Business is at a high level and there is nothing to change the outlook for the balance of the year. The effects of the steel strike were minimized because of the accumulation of inventories prior to the halt in production. The effects of the production of the new model automobiles are beginning to be felt in the district.

Massie. Employment in the second district is at a new all-time high and unemployment is down. There was some unemployment in the Buffalo area as the

result of the steel strike and the cut in auto production, but this is being alleviated. The garment and rug industries have picked up in volume but not in profit margin. Housing is down but is offset by industrial construction. Farm income is up. Profit margins have been cut. The demands for credit continue to rise and the banks are having difficulty because of the loss of deposits. Massie can see nothing to upset the picture before the end of the year. Steel and the production of the new model automobiles will push the fourth quarter up to new high totals.

Mitchell. Conditions in his district are much the same as in the previous two. While steel production in July dropped 15 per cent, industrial production in the district declined only 4 per cent. All businesses except textile and synthetic fibers report an increase in new orders. Residential construction is off although the dollar volume has not declined as much as physical units because of the increase in construction costs and the tendency toward higher priced houses. Other building is at a record rate. Employment figures generally have improved, although there are a few areas that report labor surpluses. Wages have increased and prices are rising. The steel and auto inventory situations are improved. Other than building, business activity in the district expects to touch an all-time record in the fourth quarter. Demands for credit are strong and deposits are off.

Denton states that a high level of business activity is almost a certainty for the balance of 1956. The reduction of steel inventories during the steel strike created a condition favorable to a high rate of operation in the steel industry. The introduction of new automobile models embodying many changes should be a stimulating influence. Business inventories generally are not yet excessive and probably will expand further during the remainder of the year. Residential construction is likely to continue declining but this probably will be more than offset by other favorable factors.

Fleming. The situation in the fifth district is mixed. Residential construction is down, offset in part by other segments of the construction industry which is off in total about 10 per cent against the same quarter last year. Department store sales in the district for the first six months are up about 2 per cent compared to the national average increase of 3.6 per cent. Coal production is up about 13 per cent as a result of increased exports. Textile production has declined. Some areas in Maryland report a labor shortage. Agricultural prices are somewhat higher. Fleming agrees with the views previously expressed that business will continue at its present high level.

Smith. The business situation in the sixth district falls in line with that described by the preceding members of the Council. Business is good and is expected to continue. The index of non-farm employment is down slightly as a result of a prolonged strike at a steel plant in the area. The number of housing starts has slackened, although dollar volume has risen as the result of increased costs and larger units. Industrial building is almost twice as high as last year. Bank deposits have increased in the district, particularly in Florida. The outlook for agriculture is good, especially in Georgia, and farm income there may permit some reduction in debt. Good business prevails and is expected to continue. It may be, Smith added, that business activity may increase between now and the end of the year.

Livingston. The economy in the seventh district is a combination of agriculture and manufacturing. Business is at a high level and is expected to continue for the rest of the year. Livestock prices are up. The packers after a good first half, have had a poor third quarter. They expect some improvement in the final quarter of the year. The farm equipment industry is doing poorly. The steel strike had little effect outside of the industry with the exception of the Caterpillar plant in Peoria which was closed because of the lack of steel. The farm income outlook is bright. The automobile industry apparently has a two year cycle, and as a consequence, the outlook is for an excellent year. There has been a good cleanup of auto inventories. Excellent business is expected in the last quarter.

Miller. Department store sales in the eighth district are up better than the national average. The banks have not been able to increase their deposits but have been holding their own after the tax dip (the State levies a tax on balances in banks on the last day of August). Business generally is at a high level. The used car market is tight and dealers have fewer new cars on hand than at any time in the recent past. Housing starts are down, although industrial construction and road building have more than taken up the slack. The agricultural outlook has improved. The coal industry in Kentucky also has improved. The banks in the district anticipate an increased demand for loans as a result of the usual seasonal increase which started about thirty days ago. Mortgage money is scarce and is discouraging speculative building. Miller believes all legitimate demands are being cared for. He is optimistic about the level of business for the balance of the year.

Kemper. The tenth district is in the grip of the greatest drought seen in some time. It has impaired the wheat crop and it is getting worse. Certain areas have not had a good rain for four or five years. Farm marketings have been reduced about 11 per cent. Department store sales are showing some effect of the reduction in farm marketings. Automobile dealers have improved their inventory situations as in the other districts. Pasture conditions are bad and rain is necessary if there is to be winter grazing. Loans continue to increase. Country banks are sending CCC loans to their city correspondents and the larger banks have been obliged to ration this sort of correspondent credit. Mortgage rates are high. Banks in the district, although selling their short-term securities, have been borrowing more heavily from the Federal Reserve. The sales of savings bonds are down. The high yield on corporate bonds has forced mortgage rates up. Business looks good for the rest of the year despite the drought. As deposits have declined and loan demand continues strong, the banks are having difficulties. Cattle prices have risen. Kemper believes business will continue very strong, although he looks for residential construction to decline as he believes some areas in the district are overbuilt.

Matkin. Because of the drought which prevails in part of the eleventh district, the farmer and the cattlemen are not sharing in the general prosperity of the country. Business, however, is good and Matkin expects it to continue to be good for the balance of the year. Department store sales are up 5 per cent. Automobile demand is still poor but healthier than it was. The oil business is showing some increase. Non-agricultural employment is at a record level. Construction continues about at last year's level. Agricultural products are not selling as high as previously. The cotton crop is below 1955 production but not seriously. Deposits are up slightly and credit demand is very strong.

Baird. General business in the ninth district is good. Crops are good and prices are somewhat better despite a drought in the western part of the district. Money is tight, and as a result borrowing from the Federal Reserve when related to member bank resources was heaviest in the Minneapolis district. This situation has been remedied to some extent by the city banks which sold their intermediate governments. Country banks in the district have borrowed negligible amounts and there has been no borrowing from the city correspondent by the country bank. Retail business is good. Baird expects business to be strong and if anything, a little better in the fourth quarter.

Fleming suggests that the Board be advised that all districts present report a high level of business which they expect to continue for the balance of the year. The exceptions to this generalization are certain agricultural areas which have suffered from the drought and the textile industry. All districts report a strong demand for credit.

ITEM II

IN VIEW OF THE TAX DEDUCTIBILITY OF INTEREST COSTS, ARE HIGHER INTEREST RATES OPERATING AS AN EFFECTIVE DETERRENT ON DEMANDS FOR BANK CREDIT?

Fleming reads Item II and asks the members of the Council to comment.

Ireland does not believe the higher interest rates have deterred demands for bank credit.

Massie believes that the higher interest rates are just beginning to be effective. He does not believe higher rates to date have deterred demands for bank credit.

Mitchell believes higher rates have been effective in reducing demands for real estate loans and for loans to carry securities. He suggests that demand would have been greater if money had been easier and rates had been lower. Higher rates have not affected consumer credit. Mitchell believes that the higher rates and tight money are forcing commercial borrowers to review their commitments. Mitchell believes that the demand for bank credit would have been much greater if we had not had higher rates.

Fleming. Mortgage rates and the shortage of mortgage funds have had an effect on construction. Fleming does not believe it has deterred the commercial borrower.

Kemper asks if it does not depend on the area. He believes it has slowed down construction and public works.

Massie. The high rates have been very effective with the security dealers.

Denton suggests that the Board be advised that the Council believes higher rates have been effective in deterring certain residential and municipal borrowers and that the security dealers also have been affected. The Council could add that they believe it had little effect on over-all demand and that it has not discouraged the consumer.

Livingston suggests that in the mortgage field the problem is one of unavailability, not of cost.

Smith agrees with Livingston. The higher interest rates have had no material effect on loan demand. It is the unavailability of money - all lenders being short of funds - that has been felt. The effectiveness of higher interest rates as an effective deterrent on demand is minor. Smith states that the recent rate increase was the easiest to make effective.

Miller states that the recent increase was generally accepted in his area but that the demand persists.

Fleming. The Council is unanimous in its opinion that the lack of mortgage funds and rate have been effective in the area of home construction but that industrial borrowers have not resisted the recent increase in rates.

Livingston. While higher interest rates have undoubtedly acted to deter the demands for certain types of credit, the Council believes that in general higher interest rates have not acted as an effective deterrent on the demand for credit.

ITEM III

HAVE BANK CREDIT DEMANDS FOR LONGER-TERM FINANCING NEEDS BEEN INCREASING RELATIVE TO DEMANDS FOR SHORT-TERM PURPOSES WITH ADVERSE EFFECTS ON THE 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?

After a brief discussion, the following reply was suggested. 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.

ITEM IV

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?

Fleming reads Item IV and mentions that a similar question was on the May agenda. He suggests that perhaps the Council should consider the response it made in May when writing the answer to the present question.

Denton reports of an analysis made in his bank covering 1955 and the first six months in 1956. The results showed that 31 per cent of the increase in loans had gone to big business, including the national corporations, while small business had received 59.8 per cent of the increase in loans in the period under review. Small business also received more in terms of dollar volume than did big business.

Fleming states that the smaller business customer has not suffered because of the demands of the larger corporations. He reports that in his bank they have worked even harder to accommodate the small borrower.

Smith states that banks are being criticised by financial writers because the financial writers do not know the difference between capital loans and bankable loans.

Fleming suggests that the Council answer this question by quoting the response they made in May to a similar item. The Council could then add it has resurveyed the situation and finds no evidence that the legitimate demands of smaller business customers are being less readily satisfied than the demands of the large borrowers.

ITEM V

WHAT ARE THE CURRENT TENDENCIES WITH REGARD TO BANK ACTIVITIES IN CONSUMER FINANCING, NAMELY, WITH RESPECT TO VOLUME, DOWN PAYMENTS, AND MATURITIES?

Fleming reads Item V and reports that his bank has not altered their consumer credit terms.

Denton states that their bank has not changed terms either.

Matkin reports that in his district there is less tendency to go to longer terms.

Mitchell states that a recent survey in the third district disclosed that terms have deteriorated slightly and that 61 per cent of consumer paper has a maturity of 30 to 36 months. He reports there is little effort to cut back to 30 months in Philadelphia because of prevailing competitive conditions.

Kemper. Because of the rise in interest rates, finance companies have been going into used car paper.

Ireland reports some deterioration in terms in the first district.

Smith reports that volume has not increased in the sixth district. Down payments tend to be larger. Smith adds that the district never participated in the runaway terms that were experienced in other districts.

Livingston states that consumer finance terms have been more conservative in the middle-west and that terms have been most lax in the East. In general, he believes that there is an effort to increase the down payment and shorten the maturity.

Matkin reports that banks in his district are making an effort to increase the down payment and shorten terms.

Miller reports that volume is up a little but that terms have not been extended. Their experience has been very good.

Kemper states that he is surprised at the prevalence of 36 months. He was under the impression that terms had settled at about 33-1/3 down with payments running thirty months.

Massie states that terms in his district are slightly tighter than they were a year or so ago.

Fleming suggests that the Council advise the Board that most districts report a moderate increase in volume but that in general, the terms of down payment and maturity have tightened, compared to a year ago.

ITEM VI

WHAT ARE THE CURRENT TENDENCIES WITH REGARD TO BANK TAKINGS OF RESIDENTIAL CONSTRUCTION LOANS AND MORTGAGES?

Fleming reads Item VI.

Denton reports that residential loans and mortgages are increasing but at a slower rate.

Matkin describes his experiences last week with a bank examiner. (Off-the-record discussion)

Mitchell. Residential construction loans and mortgages have been sharply curtailed in his district.

Massie. Generally speaking, with housing down, there is a tendency for fewer construction loans. Commercial construction loans, however, have gone wild.

Fleming reports that his bank has reduced materially the number of houses they finance on a construction loan basis.

Smith believes that the banks are trying to meet legitimate demands for construction credit. They are keeping speculative building down. Before agreeing to a construction loan, the builder must have a firm "takeout".

Denton agrees that the legitimate demands are being taken care of but at a higher rate.

Ireland reports that banks in his district are more selective and that rates are higher.

Kemper and Miller agree.

Fleming suggests that the Council respond to this item by quoting its answer to a similar item which was on the May agenda and add that the Council has reviewed the situation and finds that rates are now higher and that there is a tendency to be more selective and restrictive, due to the lack of loanable funds.

ITEM VII

ARE BANKS GENERALLY ACTIVE IN OTHER TYPES OF CONSTRUCTION LENDING?

Fleming reads Item VII and, after a brief discussion, suggests that the Council respond by stating that banks generally are active in direct lending for other types of construction. In addition, banks also make numerous loans to commercial, industrial and utilities companies, the proceeds of which loans are used for construction purposes.

ITEM VIII

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?

Fleming reads Item VIII and reports his conversation with Mr. Burgess. It appears that the Treasury will need \$1.5 billion of new money early in October and that the market seems to dictate a tax certificate auction. Fleming adds that he believes this has some bearing on the Council's discussion of the present item. (Off-the-record comments).

Mitchell. The recent market behavior of bonds may add to the Treasury's marketing difficulties. Reserves should be added to permit the banks to carry seasonal credit demands.

Fleming reads the reply the Council made to a similar item on the May agenda.

"The members of the Council approve the credit policies presently being pursued by the System. In view of the mixed business outlook the current degree of restraint should be maintained but not increased. However, additional reserves may be required for the June tax needs, Federal fiscal requirements in the early summer months and other seasonal factors. Should indications of a general slowing down in the economy appear, the Council believes action to lessen credit restraints would be necessary. The present situation underscores the necessity for keeping the discount window continuously available."

Mitchell states that if the Council believes that the economy is going up, shouldn't it suggest that the Fed increase the pressure on the money market?

Livingston (Off-the-record comments on Fed borrowing.)

Massie notes that the money supply will grow tighter if the Fed does not add reserves because of seasonal credit demands, which will be made upon the banks.

Fleming suggests that the Council reply by stating that the System's credit policies pursued since the last meeting have been appropriate and

that the same degree of credit restraint should be maintained. This requires that the Federal Reserve watch credit developments on a day by day basis, as we know they do, and by either supplying or decreasing reserves as required, maintain the present degree of restraint.

ITEM IX

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.

Fleming reads Item IX and adds his congratulations to Mr. Livingston on his appointment to Senator Robertson's Advisory Committee.

Livingston reports on a conversation he had with Senator Robertson in Chicago during the Democratic National Convention. Robertson at that time had rather ambitious plans for the Committee.

Fleming. (Off-the-record comments on Robertson). Fleming adds he does not believe Robertson fully appreciates the magnitude of the job he has undertaken or the time required to do it. Fleming states that the Council could ask the Federal Reserve for the recommendations they plan to submit. He comments on the allowable additions banks are permitted to make to bad debt reserves and states that he does not believe that the Treasury will act on this matter without legislation.

Miller outlines certain inequities in the law.

Matkin states that there are inequities in the bad debt reserve procedures and between banks that are subject to regulation by the Comptroller of the Currency as against those accountable to the F.D.I.C.

Livingston states that the Council, as a statutory body, should come up with suggestions of their own.

Miller states that the Council should work through the Board, as it is an arm of the Federal Reserve System.

Denton states that the Council can go to the Committees of Congress.

Fleming suggests that while the Council has done this in the past, normally, it would channel its suggestions through the Board and go to Congress only in support of a measure, or in the event the Board disagreed with the Council's suggestion. Fleming suggests that the Council advise the Board that it has no comments to make at present but that it intends to study these matters and to be as helpful as possible. It may be that the Council, at a later date, may offer suggestions of its own. The Council would also be pleased to have a copy of the Board's recommendations if the Board believes it appropriate.

ITEM X

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.

Fleming reads Item X and asks Massie to comment.

Massie. In April two large New York banks advanced the proposal contained in this item of the agenda. In August they again wrote the Board but, at that writing, one of the banks also suggested that the rate be increased to 2-3/4 per cent. Because of the rise in the general level of interest rates, the New York banks are in danger of losing the balances of foreign central banks and certain foreign agencies or corporations unless the New York banks are permitted to increase the rate at least to the 2-1/2 per cent level suggested in the agenda.

Massie reports the New York banks contemplate only using this time deposit arrangement as they have in the past, namely, for foreign central banks and foreign corporations. He reports that the situation is urgent as the New York banks do not wish to lose these deposits.

Miller asks if it will cause the treasurers of domestic corporations to seek interest on their deposits.

Massie does not believe it will.

Kemper asks if New York banks would pay interest on corporate time deposits.

Massie replies they do not plan to.

Livingston remarks that if there is a tendency for corporate treasurers to shift deposits from demand to time, the change contemplated here would not make any difference.

Mitchell asks if it would be possible to make the change applicable only to foreign banks.

Fleming. No.

Mitchell states his district would approve the agenda item.

Massie says Martin may ask about the 2-3/4 per cent rate.

Kemper believes there is danger of corporate treasurers switching their funds, especially if the bond market changes.

Massie. The suggested change is urgently requested by the New York banks.

Fleming asks for an expression of the opinion of the Council and all approve the agenda item as submitted.

ITEM XI

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.

Fleming reads Item XI.

Denton states that the certificate submitted does not qualify.

Livingston agrees.

Fleming suggests that the Board be advised that the members of the Council do not believe that the certificate qualifies as a savings deposit and that the Council may wish to discuss it orally with the Board.

The meeting adjourned at 6:35 P.M.

THE COUNCIL RECONVENED AT 10:10 A.M. ON SEPTEMBER 17, 1956
IN ROOM 932 OF THE MAYFLOWER HOTEL, WASHINGTON, D. C. ALL
MEMBERS WERE PRESENT EXCEPT MR. KIMBALL AND MR. KING.
MR. EDWARD D. SMITH ATTENDED AS ALTERNATE FOR MR. KIMBALL.

The Council prepared and approved the attached Confidential Memorandum to be sent to the Board of Governors relative to the Agenda for the joint meeting of the Council and the Board on September 18, 1956. The Memorandum was delivered to Mr. Carpenter, Secretary of the Board of Governors, at 12:35 on September 17, 1956. It will be noted that each item of the Agenda is listed together with the comments of the Council.

There was an extended discussion on Senator Robertson's Advisory Committee. Mr. Livingston reported that the members of the Committee are to receive certain material from Senator Robertson. This would include the recommendations of the various Federal agencies who have responded to Senator Robertson's Sub-committee's request. Upon its receipt, Mr. Livingston would seek permission to have the same material distributed to members of the Council. It was informally agreed that the members of the Council would attempt to review it, and that the subject would be included on the Agenda of the November meeting.

The meeting adjourned at 12:15 P.M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS
FROM THE
FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON SEPTEMBER 18, 1956

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

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.

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.

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

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?

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.

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.

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 out-running 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.

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.

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.

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.

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 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.

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.

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.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D.C., AT 2:20 P. M. ON SEPTEMBER 17, 1956. ALL MEMBERS OF THE COUNCIL WERE PRESENT EXCEPT MESSERS. LIVINGSTON, KIMBALL AND KING. MR. EDWARD D. SMITH SERVED AS AN ALTERNATE FOR MR. KIMBALL WHO WAS ILL.

Dr. Woodlief Thomas, Economic Advisor to the Board of Governors, spoke on the likely credit demands of the final quarter of the year and some of the consequences. In attempting to determine these demands, Dr. Thomas described the current business and economic situation. It is characterized he said, by a large and expanding demand for goods and services at a time when our resources and productive facilities are fully employed. The demand for funds to finance the capital expansion program is in excess of available savings, and as a consequence demand is spilling over into the banking system. The result, Dr. Thomas indicated, was inflationary pressures.

Furthermore, rising wages and rising prices were intensifying demand pressures for credit. He suggested that this posed the following question: Should credit policy succumb to these pressures, or should they be resisted, and secondly, how effectively can they be resisted?

In considering the financial markets in particular, Dr. Thomas said that we had crossed the threshold of Fall seasonal demands, which were now being added to previous credit demands. He described the present interest rate structure as appropriate for an economy operating at a high level. The three per cent discount rate was a manifestation of the strong demand for credit, but added, that historically it was a low rate. In his judgment there is no evidence that restraints have been too severe. On the contrary, in recent weeks they may not have been severe enough, because prices have risen.

The current policy question facing the Board is how much restraint is appropriate in the period ahead when seasonal demands are being felt, and related to it, how shall credit restraint be applied.

For the balance of the year Dr. Thomas suggested that currency in circulation would probably increase three quarters of a billion by the time it reached the Christmas peak. Demand deposits of the weekly reporting member banks, in the same period are likely to expand four or five billion dollars. This will necessitate an increase of about \$1½ billion in additional reserves, some of which probably would be supplied by Open Market operations. He suggested that the alternative to such operations would be increased borrowings from the Fed, with the resultant additional pressure on the banking system. Because of the reduced liquidity of the banks, there is some question as to whether there is the need to put the banks under as much pressure as in 1953. He described the objective of Fed policy as one to permit growth and the full employment of the nation's resources, but to keep sufficient pressure on the system so as to prevent price increases.

The meeting adjourned at 4:00 P.M.