MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

May 17, 1965

The second statutory meeting of the Federal Advisory Council for 1965 was convened in Room 932 of the Mayflower Hotel, Washington, D.C., on May 17, 1965, at 9:40 A.M.

Present:

Lawrence H. Martin	District No. 1
William H. Moore	District No. 2
William L. Day	District No. 3
L. A. Stoner	District No. 4
John F. Watlington, Jr.	District No. 5
Sam M. Fleming	District No. 6
Edward B. Smith	District No. 7
James P. Hickok	District No. 8
John A. Moorhead	District No. 9
Roger D. Knight, Jr.	District No. 10
James W. Aston	District No. 11
Ransom M. Cook	District No. 12
Herbert V. Prochnow	Secretary
William J. Korsvik	Assistant Secretary

On motion duly made and seconded, the mimeographed notes of the meeting held on February 15-16, 1965, were approved.

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 of the Federal Advisory Council,* which follows on pages 15, 16, 17 and 18.

The meeting adjourned at 12:10 P.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

May 17, 1965

At 2:30 P.M., the Federal Advisory Council convened in the Board Room of the Federal Reserve Building, Washington, D.C.

Present: Mr. John A. Moorhead, President; Messrs. Lawrence H. Martin, William H. Moore, William L. Day, L. A. Stoner, John F. Watlington, Jr., Sam M. Fleming, Edward B. Smith, James P. Hickok, Roger D. Knight, Jr., James W. Aston, and Ransom M. Cook.

Members of the Board's staff, Guy E. Noyes, Adviser to the Board, Robert C. Holland, Associate Director, Division of Research and Statistics, and A. B. Hersey, Adviser, Division of International Finance, spoke on business conditions and the balance of payments.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

May 17, 1965

At 9:20 P.M., the Federal Advisory Council reconvened in Room 932 of the Mayflower Hotel, Washington, D.C.

Present: Mr. John A. Moorhead, President; Messrs. Lawrence H. Martin, William H. Moore, William L. Day, L. A. Stoner, John F. Watlington, Jr., Sam M. Fleming, Edward B. Smith, James P. Hickok, Roger D. Knight, Jr., James W. Aston, Ransom M. Cook, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

The Council reviewed its conclusions regarding the items on the Agenda, and sent to the office of the Secretary of the Board of Governors the *Confidential Memorandum* which follows on pages 15, 16, 17 and 18, listing the Agenda items with the conclusions reached by the Council. The *Memorandum* was delivered to the Federal Reserve Building at 11:45 P.M. on May 17, 1965.

The meeting adjourned at 10:45 P.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant Secretary

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS

FROM THE

FEDERAL ADVISORY COUNCIL RELATIVE TO THE AGENDA FOR THE JOINT MEETING ON MAY 18, 1965

1. Economic conditions and prospects.

   A. How does the Council appraise the general outlook for the U.S. economy during the remainder of the current year?

The Council believes the general outlook for the U.S. economy during the remainder of the current year is favorable. While some adjustments in steel and auto production and in the rate of inventory accumulation are probable, these are not likely to have a significant effect on business activity before the end of the year.

   B. What are the implications of the extension of the steel labor contract for inventory accumulation, industrial activity, prices, and wage settlements in other industries?

The full implications of the extension of the steel labor contract cannot be forecast. However, a number of members of the Council believe that some further inventory accumulation is likely by those firms which were unable to accumulate the stocks they desired prior to May 1. Furthermore, as it is unlikely that steel users will begin to pare down their previously accumulated stocks until the threat of a strike is eliminated, a continuation of a high level of steel production and industrial activity in general is anticipated. This chain of events enhances the prospects of some further strengthening of industrial prices. The Council is uncertain as to the implications of the extension on wage settlements in other industries. To the extent, however, that the decline in steel production, and possibly industrial activity in general, is pushed into the future, wage settlements probably will be more generous than they might otherwise have been.

   C. Are businesses becoming uncomfortable with present inventory levels relative to sales?

There is no evidence to date that businesses are becoming uncomfortable with present inventory levels relative to sales. Although inventory accumulation has been substantial in recent months, the continued increase in sales has held down inventory-sales ratios.

2. Banking developments.

   A. After expanding vigorously in the first quarter, business loans appear to have moved erratically in April. Does the Council feel that the peak may have been reached for this year, or are demands likely to persist or even intensify? To what extent do recent credit demands represent temporary borrowing for inventory needs, as contrasted with longer-run needs to finance plant and equipment expenditures?

In view of the probability that business activity will continue to rise, although less rapidly, the members of the Council believe that the peak in business loans for the year has not yet been reached. With expanding business activity, inventories and receivables are likely to continue to rise, requiring further increases in bank credit.

Although the evidence is not conclusive, most members of the Council believe that recent credit demands have been broadly based. This has included borrowing to carry accounts receivable, term loan financing of plant and equipment, an expansion of consumer credit, and borrowing for inventory needs.

B. According to the March quarterly interest rate survey, bank lending rates were generally stable. However, another survey indicated considerable firming in lending policies and practices among larger banks, particularly with respect to interest rates and compensating balances. Would the Council care to comment on the reasons for this seeming inconsistency?

Most members of the Council report little evidence of any firming of lending policies with respect to interest rates, terms and compensating balance requirements. There has been no firming of rates for prime customers, and an increasing number of them are finding it necessary to borrow. The few increases in rate that have occurred have been highly selective. In several districts members report some firming of lending policies and practices.

C. The dollar volume of negotiable certificates of deposit outstanding at banks outside New York City has recently shown little net change. To what extent does this reflect inability to sell certificates under Regulation Q ceilings, and to what extent unwillingness to issue them?

The change the dollar volume of negotiable certificates of deposit outstanding at banks outside New York City reflects largely the unwillingness on the part of many banks to issue them at the present market, in view of current lending rates to prime borrowers, rather than to the ceilings imposed by Regulation Q. An additional factor is probably at work, namely, the increased hesitancy on the part of many corporate treasurers to place deposits in smaller banks. Other limitations are the 4 per cent interest ceilings in a number of states and the regulation restricting the amount of S & L C/D holdings in a single bank.

D. Does the recent trend in city bank mortgage acquisitions reflect more a reduced availability of mortgages or a changed attitude toward mortgage loans?

The members of the Council believe that the recent trend in city bank mortgage acquisitions reflects largely less willingness on the part of banks because mortgage rates and terms are not as attractive as previously.

E. To what extent has reduced bank liquidity associated with the substantial reduction in Government security portfolios become a factor that might inhibit accommodation of future loan demand?

The members of the Council believe that the reduced bank liquidity associated with substantial reduction in government security portfolios is becoming a more important factor inhibiting the accommodation of borrowers. However, this may be a somewhat less limiting factor than in the past, inasmuch as many commercial bankers feel they can continue to obtain funds to accommodate borrowing customers by use of the C/D and/or short-term notes. There is no evidence currently of any general increase in rates or of the rationing of credit.

3. How does the Council appraise the results of the voluntary foreign credit restraint effort to date? Does it appear that the priority credit needs – for financing exports and less-developed countries – are being reasonably met? Are there any substantial changes in the guidelines, either for banks or for nonbank financial institutions, that the Council would recommend? Is there any evidence that the program is having a seriously detrimental effect on the ability of U.S. banks to attract or retain foreign deposits, or to perform other banking services for foreign clients? Are there any other views or suggestions the Council would like to offer regarding the future administration of the program?

The members of the Council believe that the voluntary credit restraint program has tended to reduce the outflow of funds. It is doubtful that the priority credit needs – for financing exports and less-developed countries – are being fully met because of prior commitments and the 105 per cent ceiling. Accordingly, it is suggested that consideration be given to the problem of the financing of exports.

As loans guaranteed by the Export-Import Bank or FCIA are exempt from the 105 per cent limitation, some loans which would have been made without such guarantees are being routed through these agencies with delays and higher costs to the purchasers of American goods.

In general, U.S. banks are retaining foreign deposits, although this may become more difficult as the program becomes increasingly effective.

The Council believes it is inappropriate to request the banks to administer the revision of Guideline 13, circulated on April 29. The Council would welcome the opportunity to discuss this matter with the Board.

The Council would be interested in any comments the Board would care to make as to the steps that are being undertaken to meet the balance of payments problem after the voluntary restraint program ends.

4. What are the Council's views on monetary and credit policy under current circumstances?

In general, the Council believes that monetary and credit policy has been appropriate under current circumstances, although there was some discussion about the continued rapid expansion of bank credit and the growth in required reserves.

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

May 18, 1965

At 10:30 A.M. the Federal Advisory Council held a joint meeting with the Board of Governors of the Federal Reserve System in 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 J. L. Robertson, Chas. N. Shepardson, J. Dewey Daane and Sherman J. Maisel; also Mr. Merritt Sherman, Secretary, and Mr. Kenneth A. Kenyon, Assistant Secretary, of the Board of Governors.

Present: Members of the Federal Advisory Council:

Mr. John A. Moorhead, President; Messrs. Lawrence H. Martin, William H. Moore, William L. Day, L. A. Stoner, John F. Watlington, Jr., Sam M. Fleming, Edward B. Smith, James P. Hickok, Roger D. Knight, Jr., James W. Aston, Ransom M. Cook, Herbert V. Prochnow, Secretary, and William J. Korsvik, Assistant Secretary.

President Moorhead read the first item on the Agenda and the conclusions of the Council as expressed in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council* as printed on pages 15, 16, 17 and 18. A brief discussion followed.

The President of the Council then read the second item. An extended discussion followed. In response to a query on the probable financing of the projected increase in plant and equipment expenditures, President Moorhead stated that the Council believed that banks were advancing a disproportionate amount of the funds required to finance plant and equipment.

Governor Robertson inquired whether the time was not coming when there would no longer be a prime rate. Although the members of the Council did not agree, Governor Robertson said that in his opinion the prime rate concept had become obsolete.

In the discussion on bank liquidity, President Moorhead reported that the Council believes there are some bankers who are relying too heavily on their municipal portfolios for liquidity.

Vice Chairman Balderston observed that since 1962 commercial banks had taken about 80 per cent of the net addition to municipal securities outstanding. He asked whether the Council foresaw a significant problem deserving of study by the Board relating to the possibility of commercial banks having to sell municipals in quantity at some later date. Several members of the Council acknowledged that if there should be a very substantial increase in loan demand, some banks could have a serious liquidity problem.

The third item and the Council's conclusions were then read by President Moorhead.

During the ensuing discussion, Mr. Moore observed that while he was completely in favor of the voluntary credit restraint program, he cautioned that it was unlikely to be as effective in the future as it had been thus far.

In response to comments from several members of the Council as to the difficulties of operating under the program, Governor Robertson stated that there could be no effective program if it did not pinch and create problems. It was necessary, he added, to look at the over-all picture to determine if the effort was worthwhile. He also emphasized that the voluntary program was not designed as a permanent solution to the balance of payment problem. It was a matter of "buying time" during which other means could be devised to bring about equilibrium in the balance of payments.

In response to a query about the public sector, Chairman Martin said that he could state categorically that President Johnson was acutely concerned about the balance of payments problem.

President Moorhead then read the fourth item on the Agenda and the conclusions of the Council. A brief discussion followed.

The meeting adjourned at 12:30 P.M.

HERBERT V. PROCHNOW
Secretary

WILLIAM J. KORSVIK
Assistant 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.

H.V.P.
W.J.K.

The Secretary's notes of the meeting of the Federal Advisory Council on May 17, 1965, at 9:40 A.M. in Room 932 of the Mayflower Hotel, Washington, D. C. All members of the Federal Advisory Council were present.

The Council approved the Secretary's notes for the meeting of February 15-16, 1965.

ITEM I

ECONOMIC CONDITIONS AND PROSPECTS.

A. HOW DOES THE COUNCIL APPRAISE THE GENERAL OUTLOOK FOR THE U. S. ECONOMY DURING THE REMAINDER OF THE CURRENT YEAR?

B. WHAT ARE THE IMPLICATIONS OF THE EXTENSION OF THE STEEL LABOR CONTRACT FOR INVENTORY ACCUMULATION, INDUSTRIAL ACTIVITY, PRICES, AND WAGE SETTLEMENTS IN OTHER INDUSTRIES?

C. ARE BUSINESSES BECOMING UNCOMFORTABLE WITH PRESENT INVENTORY LEVELS RELATIVE TO SALES?

President Moorhead read Item I. An extended discussion followed in which all members of the Council participated and described conditions in their respective districts. It was generally agreed that the outlook for the U. S. economy during the remainder of the current year was favorable. While some adjustments in steel and auto production and in the rate of inventory accumulation are anticipated, these are not likely to have a significant effect on business activity before the end of the year.

The members of the Council are uncertain as to the full implications of the extension of the steel labor contract. Several of them believe that some further inventory accumulation is likely by those firms which were unable to acquire the stocks they desired prior to May 1. Furthermore, it is unlikely that steel users will begin to pare down their previously accumulated stocks until the threat of a strike is eliminated. As a consequence, the Council anticipates a continuation of a high level of steel production and industrial activity. These developments enhance the prospects of some further strengthening of industrial prices. The implications of the extension of the steel labor contract on wage settlements in other industries is uncertain. To the extent, however, that the decline in steel production and industrial activity is postponed, wage settlements in the immediate future probably will be more generous than they might otherwise have been.

Although inventory accumulation has been substantial in recent months, the increase in sales has held down inventory sales ratios and there is no evidence that businessmen are becoming uncomfortable with present inventory levels.

ITEM II A

BANKING DEVELOPMENTS

A. AFTER EXPANDING VIGOROUSLY IN THE FIRST QUARTER, BUSINESS LOANS APPEAR TO HAVE MOVED ERRATICALLY IN APRIL. DOES THE COUNCIL FEEL THAT THE PEAK MAY HAVE BEEN REACHED FOR THIS YEAR, OR ARE DEMANDS LIKELY TO PERSIST OR EVEN INTENSIFY? TO WHAT EXTENT DO RECENT CREDIT DEMANDS REPRESENT TEMPORARY BORROWING FOR INVENTORY NEEDS, AS CONTRASTED WITH LONGER-RUN NEEDS TO FINANCE PLANT AND EQUIPMENT EXPENDITURES?

President Moorhead read Item II A. In the discussion which followed, the members of the Council indicated that they believe that the peak for business loans this year has not yet been reached. With the anticipated expansion in business activity, inventories and receivables are likely to continue to rise, requiring further increases in bank credit. Although the evidence is not conclusive, most members of the Council believe that recent credit demands have been broadly based. These have included borrowings to carry accounts receivable, term-loan financing of plant and equipment, expansion of consumer credit, and borrowing for inventory needs.

ITEM II B

B. ACCORDING TO THE MARCH QUARTERLY INTEREST RATE SURVEY, BANK LENDING RATES WERE GENERALLY STABLE. HOWEVER, ANOTHER SURVEY INDICATED CONSIDERABLE FIRMING IN LENDING POLICIES AND PRACTICES AMONG LARGER BANKS, PARTICULARLY WITH RESPECT TO INTEREST RATES AND COMPENSATING BALANCES. WOULD THE COUNCIL CARE TO COMMENT ON THE REASONS FOR THIS SEEMING INCONSISTENCY?

President Moorhead then read Item II B.

An extended discussion followed. Several members of the Council stated that they are making a consciencious effort to firm their lending policies with respect to interest rates, terms and compensating balances. The success of these efforts have been somewhat obscured as an increasing number of prime customers are finding it necessary to borrow. There was unanimous opinion that there has been no firming of rates for prime customers. The members of the Council from the larger money centers reported little evidence of any firming of lending policies and practices.

ITEM II C

C. THE DOLLAR VOLUME OF NEGOTIABLE CERTIFICATES OF DEPOSIT OUTSTANDING AT BANKS OUTSIDE NEW YORK CITY HAS RECENTLY SHOWN LITTLE NET CHANGE. TO WHAT EXTENT DOES THIS REFLECT INABILITY TO SELL CERTIFICATES UNDER REGULATION Q CEILINGS, AND TO WHAT EXTENT UNWILLINGNESS TO ISSUE THEM?

The President of the Council then read Item II C.

In the discussion which followed, it was concluded that the change in the dollar volume of negotiable Certificates of Deposit outstanding at banks outside New York City largely reflects the unwillingness of many banks to issue them rather than to the ceiling imposed by Regulation Q. It was acknowledged that an additional factor probably was the increased hesitancy on the part of many corporate treasurers to place deposits in smaller banks. A 4 per cent interest ceiling in a number of states and the regulation restricting the amount of C/D's a S and L may have in a single bank also are limiting factors.

ITEM II D

D. DOES THE RECENT TREND IN CITY BANK MORTGAGE ACQUISITIONS REFLECT MORE A REDUCED AVAILABILITY OF MORTGAGES OR A CHANGED ATTITUDE TOWARD MORTGAGE LOANS?

President Moorhead read Item II D.

The members of the Council indicated in their discussion that the recent trend in city bank mortgage acquisitions reflects a changed attitude toward mortgage loans as rates and terms are not as attractive as previously.

ITEM II E

E. TO WHAT EXTENT HAS REDUCED BANK LIQUIDITY ASSOCIATED WITH THE SUBSTANTIAL REDUCTION IN GOVERNMENT SECURITY PORTFOLIOS BECOME A FACTOR THAT MIGHT INHIBIT ACCOMMODATION OF FUTURE LOAN DEMAND?

The President of the Council read Item II E.

In the brief discussion which followed the members stated that the reduction in bank liquidity as a result of the substantial decline in government security holdings is becoming a more important factor inhibiting the accommodation of borrowers. Several members indicated, however, that they believe this would be a somewhat less limiting factor than in the past inasmuch as many commercial bankers feel they can continue to obtain funds to accommodate borrowing customers by use of the C/D and/or short-term notes.

ITEM III

HOW DOES THE COUNCIL APPRAISE THE RESULTS OF THE VOLUNTARY FOREIGN CREDIT RESTRAINT EFFORT TO DATE? DOES IT APPEAR THAT THE PRIORITY CREDIT NEEDS -- FOR FINANCING EXPORTS AND LESS-DEVELOPED COUNTRIES -- ARE BEING REASONABLY MET? ARE THERE ANY SUBSTANTIAL CHANGES IN THE GUIDELINES, EITHER FOR BANKS OR FOR NON-BANK FINANCIAL INSTITUTIONS, THAT THE COUNCIL WOULD RECOMMEND? IS THERE ANY EVIDENCE THAT THE PROGRAM IS HAVING A SERIOUSLY DETRIMENTAL EFFECT ON THE ABILITY OF U. S. BANKS TO ATTRACT OR RETAIN FOREIGN DEPOSITS, OR TO PERFORM OTHER BANKING SERVICES FOR FOREIGN CLIENTS? ARE THERE ANY OTHER VIEWS OR SUGGESTIONS THE COUNCIL WOULD LIKE TO OFFER REGARDING THE FUTURE ADMINISTRATION OF THE PROGRAM?

The President read Item III.

It was acknowledged in the discussion that the voluntary credit restraint program has tended to reduce the outflow of funds. Doubts were expressed, however, that the priority credit needs -- for financing exports and less developed countries -- are being fully met because of prior commitments and the 105 per cent ceiling. Several members said they believe some loans which would have been made without Export-Import Bank or FCIA guarantees are being routed through these agencies as such loans are exempt from the 105 per cent limitation. Accordingly, the Council suggested that consideration should be given to the problem of financing exports.

While U. S. banks are retaining foreign deposits, several members stated that they felt this would be more difficult to do in the future as the program becomes increasingly effective. There followed a somewhat extended discussion on the revision of Guideline 13. Several members felt very strongly that it is inappropriate to request the banks to administer the Guideline as revised April 29. It was agreed to invite comments from the Board about the steps being undertaken now to meet the balance of payments deficit after the voluntary restraint program ends.

ITEM IV

WHAT ARE THE COUNCIL'S VIEWS ON MONETARY AND CREDIT POLICY UNDER CURRENT CIRCUMSTANCES?

President Moorhead then read Item IV.

The discussion disclosed that in general the Council believes that monetary and credit policy has been appropriate although the continued rapid expansion of bank credit and the growth in required reserves were mentioned several times.

The meeting adjourned at 12:10 P.M.

THE COUNCIL CONVENED IN THE BOARD ROOM OF THE FEDERAL RESERVE BUILDING, WASHINGTON, D. C., AT 2:30 P.M., ON MAY 17, 1965. ALL MEMBERS OF THE COUNCIL WERE PRESENT.

Members of the Board's staff, Guy E. Noyes, Adviser to the Board, Robert C. Holland, Associate Director, Division of Research and Statistics, and A. B. Hersey, Adviser, Division of International Finance, spoke on business conditions and the balance of payments.

* * * *

THE COUNCIL RECONVENED AT 9:20 P.M. ON MAY 17, 1965, IN ROOM 932 OF THE MAYFLOWER HOTEL. ALL MEMBERS OF THE COUNCIL WERE PRESENT.

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 May 18, 1965. The Memorandum was delivered to the Federal Reserve Building at 11:45 P.M. on May 17, 1965.

The meeting adjourned at 10:45 P.M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS

FROM THE

FEDERAL ADVISORY COUNCIL
RELATIVE TO THE AGENDA FOR THE JOINT MEETING
ON MAY 18, 1965

1. Economic conditions and prospects.

   A. How does the Council appraise the general outlook for the U.S. economy during the remainder of the current year?

The Council believes the general outlook for the U.S. economy during the remainder of the current year is favorable. While some adjustments in steel and auto production and in the rate of inventory accumulation are probable, these are not likely to have a significant effect on business activity before the end of the year.

   B. What are the implications of the extension of the steel labor contract for inventory accumulation, industrial activity, prices, and wage settlements in other industries?

The full implications of the extension of the steel labor contract cannot be forecast. However, a number of members of the Council believe that some further inventory accumulation is likely by those firms which were unable to accumulate the stocks they desired prior to May 1. Furthermore, as it is unlikely that steel users will begin to pare down their previously accumulated stocks until the threat of a strike is eliminated, a continuation of a high level of steel production and industrial activity in general is anticipated. This chain of events enhances the prospects of some further strengthening of industrial prices. The Council is uncertain as to the implications of the extension on wage settlements in other industries. To the extent, however, that the decline in steel production, and possibly industrial activity in general, is pushed into the future, wage settlements probably will be more generous than they might otherwise have been.

C. Are businesses becoming uncomfortable with present inventory levels relative to sales?

There is no evidence to date that businesses are becoming uncomfortable with present inventory levels relative to sales. Although inventory accumulation has been substantial in recent months, the continued increase in sales has held down inventory-sales ratios.

2. Banking developments.

A. After expanding vigorously in the first quarter, business loans appear to have moved erratically in April. Does the Council feel that the peak may have been reached for this year, or are demands likely to persist or even intensify? To what extent do recent credit demands represent temporary borrowing for inventory needs, as contrasted with longer-run needs to finance plant and equipment expenditures?

In view of the probability that business activity will continue to rise, although less rapidly, the members of the Council believe that the peak in business loans for the year has not yet been reached. With expanding business activity, inventories and receivables are likely to continue to rise, requiring further increases in bank credit.

Although the evidence is not conclusive, most members of the Council believe that recent credit demands have been broadly based. This has included borrowing to carry accounts receivable, term loan financing of plant and equipment, an expansion of consumer credit, and borrowing for inventory needs.

B. According to the March quarterly interest rate survey, bank lending rates were generally stable. However, another survey indicated considerable firming in lending policies and practices among larger banks, particularly with respect to interest rates and compensating balances. Would the Council care to comment on the reasons for this seeming inconsistency?

Most members of the Council report little evidence of any firming of lending policies with respect to interest rates, terms and compensating balance requirements. There has been no firming of rates for prime customers, and an increasing number of them are finding it necessary to borrow. The few increases in rate that have occurred have been highly selective. In several districts members report some firming of lending policies and practices.

C. The dollar volume of negotiable certificates of deposit outstanding at banks outside New York City has recently shown little net change. To what extent does this reflect

> inability to sell certificates under Regulation Q ceilings, and to what extent unwillingness to issue them?

The change the dollar volume of negotiable certificates of deposit outstanding at banks outside New York City reflects largely the unwillingness on the part of many banks to issue them at the present market, in view of current lending rates to prime borrowers, rather than to the ceilings imposed by Regulation Q. An additional factor is probably at work, namely, the increased hesitancy on the part of many corporate treasurers to place deposits in smaller banks. Other limitations are the 4 per cent interest ceilings in a number of states and the regulation restricting the amount of S & L C/D holdings in a single bank.

D. Does the recent trend in city bank mortgage acquisitions reflect more a reduced availability of mortgages or a changed attitude toward mortgage loans?

The members of the Council believe that the recent trend in city bank mortgage acquisitions reflects largely less willingness on the part of banks because mortgage rates and terms are not as attractive as previously.

E. To what extent has reduced bank liquidity associated with the substantial reduction in Government security portfolios become a factor that might inhibit accommodation of future loan demand?

The members of the Council believe that the reduced bank liquidity associated with the substantial reduction in government security portfolios is becoming a more important factor inhibiting the accommodation of borrowers. However, this may be a somewhat less limiting factor than in the past, inasmuch as many commercial bankers feel they can continue to obtain funds to accommodate borrowing customers by use of the C/D and/or short-term notes. There is no evidence currently of any general increase in rates or of the rationing of credit.

3. How does the Council appraise the results of the voluntary foreign credit restraint effort to date? Does it appear that the priority credit needs--for financing exports and less-developed countries--are being reasonably met? Are there any substantial changes in the guidelines, either for banks or for nonbank financial institutions, that the Council would recommend? Is there any evidence that the program is having a seriously detrimental effect on the ability of U.S. banks to attract or retain foreign deposits, or to perform other banking services for foreign clients? Are there any other views or suggestions the Council would like to offer regarding the future administration of the program?

The members of the Council believe that the voluntary credit restraint program has tended to reduce the outflow of funds. It is doubtful that the priority credit needs--for financing exports and less-developed countries--are being fully met because of prior commitments and the 105 per cent ceiling. Accordingly, it is suggested that consideration be given to the problem of the financing of exports.

As loans guaranteed by the Export-Import Bank or FCIA are exempt from the 105 per cent limitation, some loans which would have been made without such guarantees are being routed through these agencies with delays and higher costs to the purchasers of American goods.

In general, U.S. banks are retaining foreign deposits, although this may become more difficult as the program becomes increasingly effective.

The Council believes it is inappropriate to request the banks to administer the revision of Guideline 13, circulated on April 29. The Council would welcome the opportunity to discuss this matter with the Board.

The Council would be interested in any comments the Board would care to make as to the steps that are being undertaken to meet the balance of payments problem after the voluntary restraint program ends.

4. What are the Council's views on monetary and credit policy under current circumstances?

In general, the Council believes that monetary and credit policy has been appropriate under current circumstances, although there was some discussion about the continued rapid expansion of bank credit and the growth in required reserves.

ON MAY 18, 1965, AT 10:30 A.M., THE FEDERAL ADVISORY COUNCIL HELD A JOINT MEETING WITH THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM IN THE FEDERAL RESERVE BUILDING, WASHINGTON, D. C. ALL MEMBERS OF THE COUNCIL WERE PRESENT.

THE FOLLOWING MEMBERS OF THE BOARD OF GOVERNORS WERE PRESENT: CHAIRMAN MARTIN, VICE CHAIRMAN BALDERSTON, GOVERNORS ROBERTSON, SHEPARDSON, DAANE AND MAISEL. MR. SHERMAN, SECRETARY, AND MR. KENYON, ASSISTANT SECRETARY, OF THE BOARD OF GOVERNORS ALSO WERE PRESENT.

The minutes of the joint meeting are being prepared in the office of the Secretary of the Board of Governors of the Federal Reserve System. Their content will be compared with the notes of the Secretary of the Council. Assuming they are in substantial agreement, they will be reproduced and distributed to the members of the Council.

The meeting adjourned at 12:30 P.M.

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The next meeting of the Council will be held on September 20-21, 1965.