The original documents are located in Box C17, folder "Mitchell, George W." of the Arthur F. Burns Papers at the Gerald R. Ford Presidential Library.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date January 16, 1976

To Chairman Burns Subject:

From Robert C. Holland

This is to advise you that George Mitchell has agreed to serve as a consultant to the Board after his retirement as a Board Member and Chairman Burns has formally approved his appointment. George's primary assignment will be in the payments mechanism area and he will continue to serve as the Board's representative to the National Commission on EFTS.

In connection with George's retirement, the following activities are currently being planned:

(1) The gift from the seventeen Board Members that have served with George will be presented to him at the Burns' dinner on Friday, January 23.

(2) Tuesday, January 20 is the FOMC luncheon honoring George. This will be held on the terrace level and all FOMC staff and a number of the Board's official staff have been invited.

(3) On Thursday, January 29 we are planning an agency lunch for George. Invited guests will be Bill Simon, Steve Gardner, Jim Smith, Frank Willie, Garth Marston, Alan Greenspan, Burt Malkiel, and Rod Hills.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1976 JAN 19 AM 9:47
RECEIVED
OFFICE OF THE CHAIRMAN

GEORGE WILDER MITCHELL

Personal

Born February 23, 1904 in Richland Center, Wisconsin.

Married Grace Marion Muir (1927) - four children (divorced); married Mary Taft Petty, 1964.

Education

A.B. University of Wisconsin, 1925

Career

1925-26 Research assistant, University of Wisconsin.

1926-27 Statistical and Research assistant, United Typothetae of America.

1927-30 Part-time student, instructor, and research assistant, University of Iowa.

1930-33 Research assistant, University of Chicago.

1933-43 Illinois Tax Commission

Director of Research 1933-39 and 1941-43

Member of Commission 1939-40

1943 Department of Revenue, State of Illinois

Assistant to the Director

1944-48 Federal Reserve Bank of Chicago, Tax economist

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1949-51 Department of Finance, State of Illinois

Director (under Governor Adlai Stevenson)

1951-61 Federal Reserve Bank of Chicago

Vice President in charge of Research

(Staff included Messrs. Holland, Partee, and Baughman)

1961-76 Member of Board of Governors

Filled unexpired term from August 31, 1961 to January 31, 1962.

Appointed to full 14-year term, beginning February 1, 1962.

Vice-Chairman from May 1, 1973.

Other Career Highlights

1948 President of National Tax Association

1944-45 Tax Consultant for Civil Aeronautics

Board and director of study of multiple taxation of air commerce

1947-48 Member, advisory group appointed by Joint Committee on Internal Revenue Raxation to investigate Bureau of Internal Revenue.

Chairman and member of various System study committee during 19501's.

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1961 Member, Revenue Commission of the Governor of Illinois.

1961-65 Member, National Committee on Government Finance, Brookings Institution.

Prolific speaker: estimated 60 speeches in year before he became a Board member.

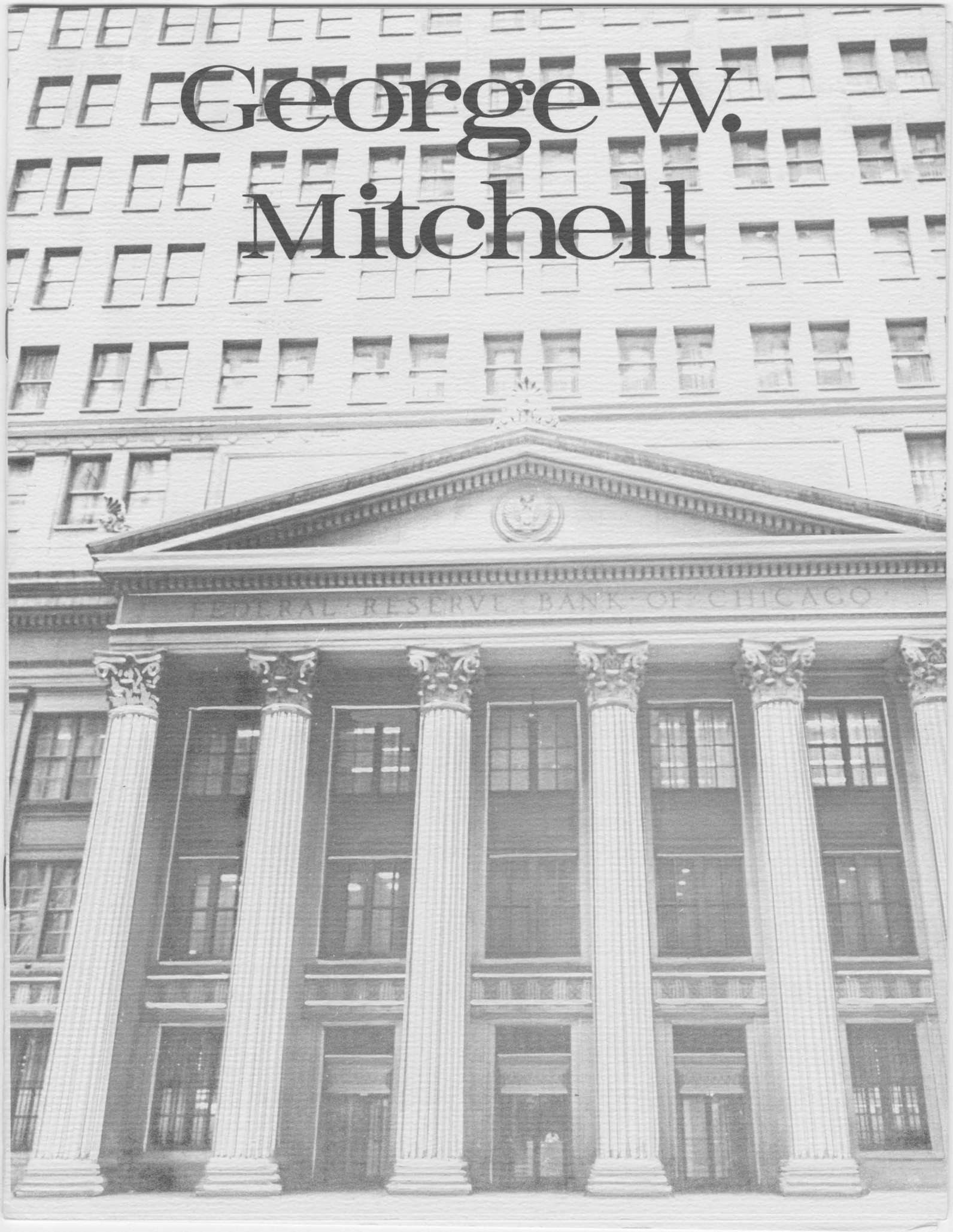
Some publications:

Editor, 8 volumes, Survey of Local Finance in Illinois (1939-40)

Co-author: Business Activity in Iowa, 1930.

Author: Assessment of Real Estate in Iowa and Other Midwestern States, 1931.

George W. Mitchell



To George W. Mitchell

Fourteen years have passed since you left our department for a larger arena. No one then foresaw the broad and deep changes that have since occurred in economics, finance, and banking—regionally, nationally, and worldwide. Your knowledge and abilities, nurtured in the nation's heartland, have helped to guide developments in a manner that would not have been possible had you stayed with us.

The gradual turnover of personnel in the Research Department of the Federal Reserve Bank of Chicago has produced a substantial majority who know you only as Governor Mitchell—a public figure. Many members of your former staff have moved on to posts of stature and influence elsewhere. But the Department continues to show your stamp through those remaining who have been marked by your dynamic personality, searching intellect, and stress on honest work of high quality.

This album of pictures and other memorabilia has been assembled as a reminder of the people and events associated with the period of your stewardship here, a time that does not seem so long ago. With it comes the very best wishes of your friends at the Chicago Fed on the occasion of your retirement from the Board of Governors.

The Research Department

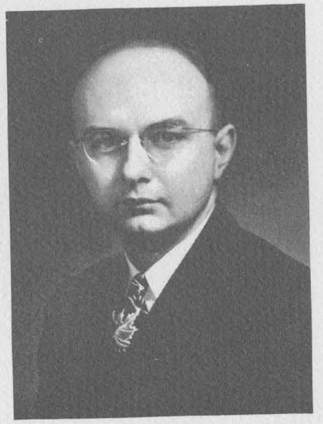
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Congratulations

Appointment of Walter B. Garver, Walter E. Hoadley, Jr., and George W. Mitchell as senior economists and officers of the Federal Reserve Bank of Chicago was announced October 23 by C. S. Young, President.



WALTER B. GARVER



WALTER E. HOADLEY, JR.



GEORGE W. MITCHELL

Mr. Mitchell Selected for Governor Stevenson's Cabinet



GEORGE W. MITCHELL

George W. Mitchell, Tax Economist of the Federal Reserve Bank of Chicago, has been appointed Director of Finance for the State of Illinois. In this new position, Mr. Mitchell will have the important role of preparing the state budgets. He will approve and account for all expenditures of agencies responsible to the governor of the state.

Mr. Mitchell has had a long career in public finance. He was Director of Research of the State Tax Commission under the late Governor Horner and he was a member of the Advisory Group appointed by the 80th Congress to investigate the operations of the Federal Bureau of Internal Revenue. At the present time, he is a consultant to the Bureau.

While serving as Tax Economist in the Research Department of the Federal Reserve Bank, he was a lecturer on economics at Northwestern University. He has just served as president of the National Tax Association.

Mr. Mitchell, a graduate of the University of Wisconsin, is nationally known as an expert on taxation and author of several volumes on the subject.

Mr. and Mrs. Mitchell live in Western Springs with their four children, Bruce, Marilyn, Judith, and Margery.

Fed Bankers At University of Wisconsin

Seminar Speaker
GEORGE W. MITCHELL



Students from Federal Reserve Bank of Chicago

Front row (*left to right*): Carl C. Welke, William G. Rickel (*Detroit Branch*), Clarence W. Kolz. Back row (*left to right*): Arthur J. Wiegandt (*Detroit Branch*), Lester A. Gohr, Gerald G. Morse, Carl E. Bierbauer, Russel A. Swaney, Harvey J. Wishart, Matt W. Malone.



George W. Mitchell to Head Research Department



George W. Mitchell

The Board of Directors has elected George W. Mitchell as Vice President of the Bank, effective April 1, 1951, it was announced by C. S. Young, President. Mr. Mitchell, presently Senior Economist on leave of absence from the Bank serving in Governor Stevenson's cabinet as Director of Finance of the State of Illinois, will be in charge of the Research Department.

One of the nation's leading tax economists, Mr. Mitchell was granted a leave of absence by the Bank to organize the most important branch of the state government. His expert knowledge of taxation and governmental finance have been of inestimable value to the people of Illinois, and his objective nonpolitical approach to state problems won the respect and confidence of legislators and the public, regardless of their political leanings.

While serving as Tax Economist in the Research Department, Mr. Mitchell was a lecturer on economics at Northwestern University. He has served as president of the National Tax Association, and has had a long career in public finance. He was Director of Research of the State Tax Commission under the late Governor Horner, and a member of the Advisory Group appointed by the 80th Congress to survey the operations of the Federal Bureau of Internal Revenue.

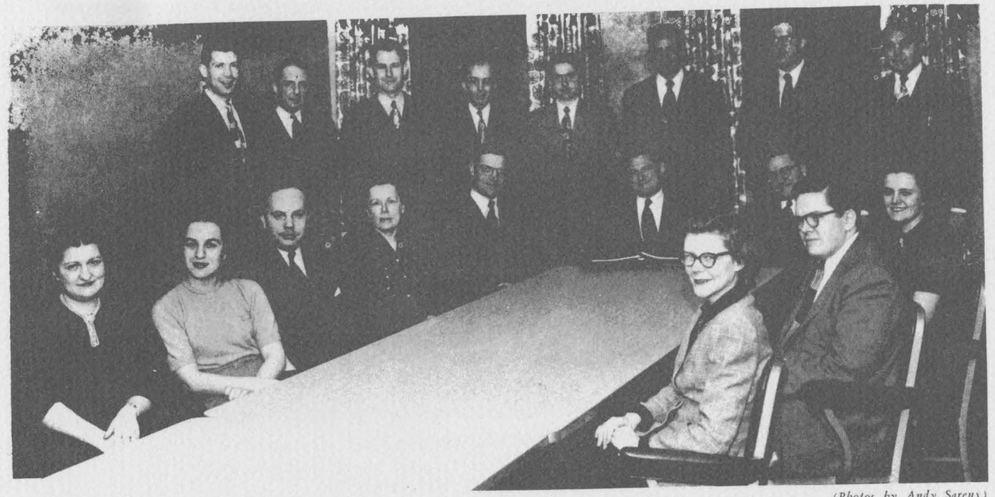
Mr. Mitchell is a graduate of the University of Wisconsin, and author of several volumes on the subject of taxation. He was an instructor at the University of Iowa, Iowa City, Iowa, and Research Assistant at the University of Chicago.

Mr. and Mrs. Mitchell live in Western Springs with their four children, Bruce, Marilyn, Judith, and Margery.

Welcome back, Mr. Mitchell!

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(*Photos by Andy Sarens*)

Conference Room . . . The Senior Staff

Seated, clockwise: Anne Lasser, Sylvia Zoller, Philip Faucett, Jr., Thelma Hughes, Ernest Baughman, George W. Mitchell, Vice President, Charles Wright, Mary Haag, Charles Partee, Patricia Warton.

Standing: Robert Holland, John Stentz, Norman Urquhart, Clarence Kolz, Charles Leven, Bill Bunkers, George Cloos, William Newport. (*Not present: Raymond Lapin, Dick Netzer*).

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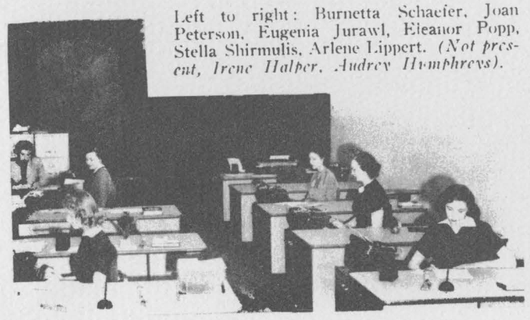
Research Moves to New Location

The Research Department under the direction of George W. Mitchell, vice president, now is installed in the modern, well-equipped and well-lighted quarters pictured on these pages. Work on the new facilities was begun last summer. In the months that followed, the Research staff watched with close attention the progress of the electricians, carpenters, painters, and janitors of the Bank's Building Department, who did a large share of the work. The new surroundings provide a much needed improvement in working conditions.

Because the principal Research functions are not tied directly to the day-to-day operations of the bank, many employees in other departments are not fully aware of the type of work done by the Research staff. In essence, the Research Department is an important clearinghouse of Seventh District economic information. Primarily, the staff serves the men who determine Federal Reserve Policy—the Board of Governors and the officers and directors of our Bank. In addition, much of the analysis and data prepared by the department is used by bankers, business executives, students, and others interested in business, finance, and agriculture. All Research personnel stand ready to answer questions of an economic or statistical nature in the fields in which they qualify as experts. Much of this activity is conducted over the telephone or through letters, but numerous visitors come to the bank in person to seek more detailed help.

Administrative Services Section

Left to right: Burnetta Schaefer, Joan Peterson, Eugenia Jurawl, Eleanor Popp, Stella Shirmulis, Arlene Lippert. (*Not present, Irene Halper, Audrey Hymphreys*).



Among the earliest and most important Research functions is the collection, tabulation, and publication of financial data obtained from member banks. This work is handled by the Financial Statistics Section under Clarence Kolz. Periodic reports are received directly from the thousand member banks or from departments of our Bank such as Bank Examination and Member Bank Accounts. This information is processed and the results are made available to the men responsible for the nation's monetary policy, to the bankers themselves, and to others who follow business and financial trends. Among the important reports issued by the Financial Statistics Section is the release which shows the principal assets and liabilities of the weekly reporting banks in leading cities. This report is watched



Financial Statistics Section

Marian Keller, Clara Kapka, Laverne Walquist, Susan Arendt, Clarence Kolz, Thomas Novakowski, Mildred Milles, Eleanor Riva, Joan Rettig.

closely as a measure of banking developments. Another release, the yearly study of member bank operating ratios, is of particular interest to bankers who wish to compare the operations of their bank with the average for others of similar size and location.

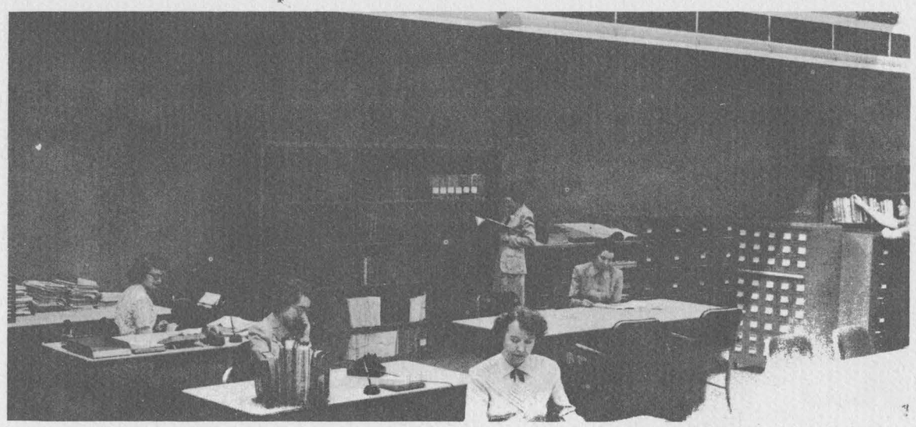
The Business Statistics Section under the supervision of Miss Thelma Hughes collects, tabulates, and publishes data on department store sales and stocks, consumer credit, and other retail trade activity. A considerable number of reports are sent out on weekly, monthly, or yearly bases. The weekly report of changes in department store sales is quoted in the financial press and is used throughout the nation as an indicator of the trend in retail sales. Detailed breakdowns of department store sales and stocks issued monthly and yearly are studied carefully by retail executives who wish to determine the trend of their business relative to the average for other stores. Bankers also use this material in judging borrowers' credit needs. Both of the Research Department statistical sections send District data to the Board of Governors where this information is used in the compilation of national totals and indexes.

The Administrative Services Section headed by John T. Stentz handles the publication of *Business Conditions* and all other releases of the department. This section maintains the mailing and distribution lists, the department files, and records relating to bank changes in the Seventh District. It also handles all chart work, and provides stenographic and numerous other services for the department.

The Research Library staff under Miss Jo Ann Aufdenkamp has charge of the 8,000 volumes and many periodicals which are found on the shelves of

The Library

Margaret Kuebel, Joan Leiner, Marjorie Koop, Jo Ann Aufdenkamp, Marion Leeberg, Mary White. (*Not present*: *Ann Herndon*).





Administrative Services Section

Elaine Timmerman, Jacqueline Valiquet, Agnes Johnson, Selma Wogstad, William Rooney, Irene Faulkner, Patricia Steele, Mildred Santini, John Stentz. (*Not present*: *Phyllis Raaf, Frances Bielawski*).

the newly enlarged library room on the fifth floor. Magazines and newspapers used throughout the bank are received and distributed by the librarians. These girls also compile reference material and search out answers to a wide range of questions.

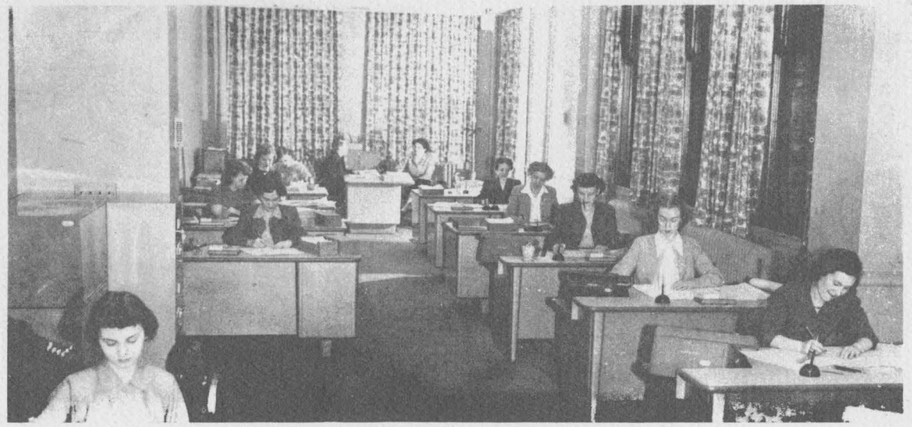
The economists and research assistants, each of whom specializes in some field of activity such as banking, agriculture, business, or public finance, keep informed on recent developments and long-term trends in their fields of interest. This is done through analysis and interpretation of the data prepared by the statistical sections, by extensive reading, and through personal contacts with informed persons.

The economists prepare a number of important publications which are read throughout the nation. These include *Business Conditions*, the monthly review which is circulated to over 13,000 subscribers; the *Agricultural Letter*, a weekly release which outlines trends of particular interest to country bankers and farmers; and special studies on areas and industries in the District. In addition, special analytical reports are prepared for the use of the officers and directors of our Bank and for the Board of Governors. Frequently, the economists are called upon to deliver speeches on business and financial matters to groups of bankers and related organizations.

Governmental and business leaders today recognize that the information provided through economic research is essential to the intelligent formation of effective policy both for individual firms and for the country as a whole. The Bank's Research Department is one of the important organizations in the nation which is devoted to gathering and interpreting information of this type.

Business Statistics Section

Florence Diluia, Katherine Waterman, Sarabelle Humphrey, Barbara Templeton, Elizabeth Ryan, Thelma Hughes, Eleanor O'Keefe, Myrtle Slawko, Aurelie Bucher, Virginia DeKnoblough, Marjory McDowell, Flora Gillies.







Clockwise (*from far left*): Mary Petty, Helen Potter, P. L. Danner, C. A. Lininger, L. Severson, W. A. Morton, G. S. Peck, W. W. Riefler, Dean Bradford (*standing*), H. C. Cheadle (*far right*), G. W. Mitchell, R. A. Weil, W. E. Alley, G. Haferbecker, and D. A. Watson.

Professors Go to School

Institute on Central Banking Techniques

at Northwestern University and the Federal Reserve Bank of Chicago

On September 13, 14, and 15 thirty teachers of money and banking from as many colleges and Universities in the Seventh District States attended an Institute on Central Banking Techniques sponsored by Northwestern University and the Federal Reserve Bank of Chicago. Dr. William Bradford, Dean at Northwestern and George W. Mitchell, Vice President in charge of research arranged the program. Some twelve sessions were held during the three days with the "students" dividing their time between the University's downtown campus and the Bank.

The purpose of the meeting was to focus attention on the tools which the Federal Reserve System can use to influence credit and on the problems involved in determining the "right" combination of tools to use under various conditions. Specific subjects under this broad heading included the various techniques used by the Federal Reserve System such as open market operations, reserve requirements, discount rate and discounting, and selective credit controls. Robert V. Roosa, Assistant Vice President of the Federal Reserve Bank of New York discussed the money market and open market operations and Messrs. Cheadle, Holland, and Partee of our staff handled the other topics.

Commanding a great deal of attention from the participants of the Conference was a review of the two and a half year period since the Treasury-Federal Reserve Accord. One of the speakers addressing the group on this subject was Mr. David M. Kennedy, Assistant to the Secretary of the Treasury. Mr. Winfield Riefler, Assistant to the Chairman of the Board of Governors, outlined the practical problems involved in devising monetary and credit policy since the Accord.

President C. S. Young, presided at one of the dinner meetings and introduced Governor M. S. Szymczak, oldest member of the Board in terms of service. The Governor pointed his remarks to the daily decisions which a member of the Board has to make.

Joining with the guests from the Universities were the officers of our Bank and members of the professional staff of the Research Department. Messrs Carroll, Dawes, Diercks, Hodge, Hopkins, Jones, Olson, Sihler, and Wilson were present at the various meetings and also answered questions relating to their particular specialized field.

One of the points of interest was a discussion of the operations of the Chicago Fed. The illustration which Abner Goldstine used for his talk was the exhibit prepared for the opening of the Detroit Branch last year

The Cover

Our cover picture shows G. W. Mitchell explaining one of the charts on Chicago Fed operations to participants in the Institute on Central Banking Techniques.

The charts are on exhibit in the Meeting Room on the fifth floor.

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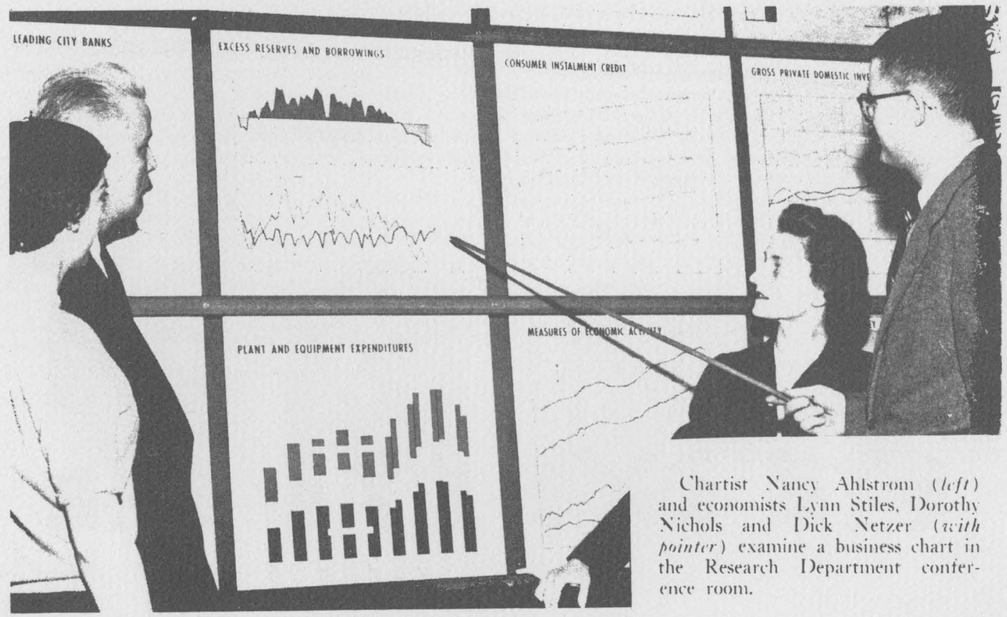
Business Conditions Goes to Press



Studying Business Conditions page proofs are (left to right) economists Sherwood Benson, George Cloos and Abner Goldstine, whose articles appeared in the April issue, together with Assistant Vice President Ernest Baughman and Patricia Warton, Chief of the Publications and Reports section.

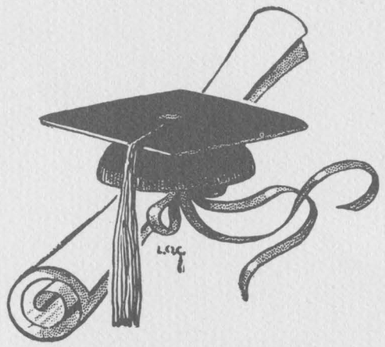
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Researchers Trace the Trend of Business



Chartist Nancy Ahlstrom (*left*) and economists Lynn Stiles, Dorothy Nichols and Dick Netzer (*with pointer*) examine a business chart in the Research Department conference room.

TWO RESEARCH FELLOWS JOIN STAFF



First Group Of Students To Complete Program

By Claire Friedland

The Research Department is "graduating" its first class of fellowship students: Theodore Eck, John McCall, Karl Scheld and Robert Snyder. These four have been participants in the two-year fellowship program, initiated here in 1957, under which qualified graduate students at Midwest universities spend two summers at the Bank engaged in individual research projects.

Bob Snyder and John McCall are Ph.D. candidates at the University of Chicago; Ted Eck's graduate work has been at Michigan State University and Karl Scheld's at the University of Iowa. During the academic year the fellows continue work on their projects at their respective universities, report to the department on their progress, and occasionally stop in to obtain additional data or consult with staff members. Karl Scheld has visited many small Iowa towns during the past summer collecting information for his analysis of the sources of income of these communities.

The research fellows also participate in the Institute of Central Banking Techniques, which the department holds each summer for college professors of economics, and in other department activities.

Following completion of their fellowships, Karl Scheld and Bob Snyder have become full-time members of the Research staff. Ted Eck plans to join the staff at the Federal Reserve Bank of Dallas at year-end, and John McCall has received a Ford Foundation grant to pursue his research project further while continuing his studies at the University of Chicago.

Karl Scheld



John McCall

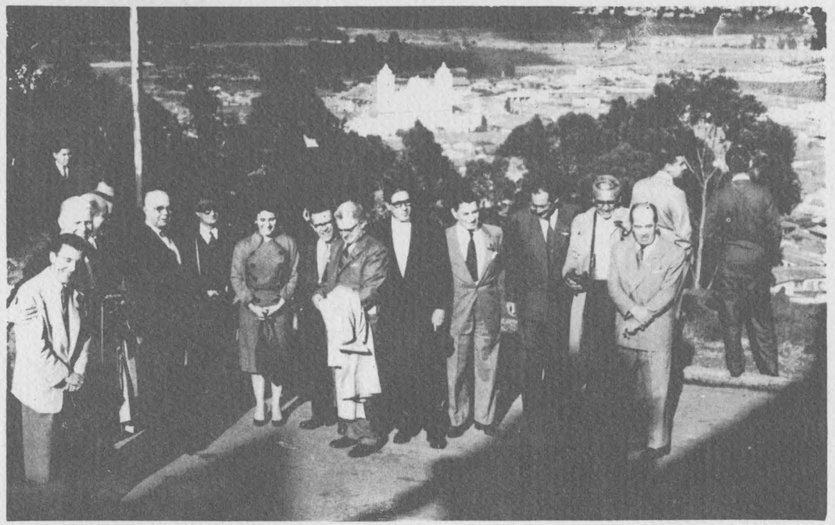


Theodore Eck



Robert Snyder





With the city of Zipaquira as a backdrop, delegates to the Conference at Bogota, Colombia, pose at the entrance to the salt mine which houses the famous Salt Cathedral. Peter Lang of the Federal Reserve Bank of New York, second from left, and George W. Mitchell, center *(holding coat)*, are two representatives of the six-man System delegation.

George Mitchell Delegate to Colombia

For the past four years *The Commentator* has carried accounts of Institutes on Central Banking Techniques sponsored by the Chicago Fed and universities of the Seventh District States. We mentioned that it is also the practice with the other Fed banks. This time we report an activity along the same line but on an international level.

During the first two weeks of November, the fifth annual conference of the Technicians of Central Banks of the American Continent was held in Bogota, Colombia. The Federal Reserve System delegation consisted of Donald C. Miller, chief of the Board of Governors' Government Finance Section and Robert L. Sammons, chief of the Latin American Section, George W. Mitchell vice president of the Federal Reserve Bank of Chicago, and George Garvy, Miroslav Kriz, and Peter Lang of the Federal Reserve Bank of New York. Nineteen other countries were represented by seventy technicians, including governors, heads of research, and a sprinkling of administrators.

Mr. Mitchell presented a paper entitled "Exploring Changes in Money Use' which described research now in progress at the Chicago Fed on the behavior of money. In addition, he was president of the Commission on Methods of Credit Control and Capital Markets which was one of three organized to carry on the conference agenda.

At the December meeting of our senior bank personnel, Mr. Mitchell reported on the business of the conference and on his observations of the Latin-American economies.

Mitchell to Washington September 1

George W. Mitchell, vice president in charge of research, will assume his duties as a Governor of the Federal Reserve System September 1 in Washington, D. C. Swearing-in ceremonies and a luncheon honoring him will be held August 31 at the Chicago Bank.

Mitchell joined the Bank as a tax economist in 1944. After spending two years as director of state finance on Gov. Adlai Stevenson's cabinet, he returned to the Bank as a vice president in 1951. From 1930-42 he worked with the Illinois Tax Commission and was assistant to the director of the Illinois Dept. of Revenue in 1943.

A native of Wisconsin, Mitchell received his A.B. from the University of Wisconsin and did graduate work and taught at the University of Iowa and the University of Chicago. He likes to teach through seminar discussions "where I may be as puzzled as everyone else."

Mitchell is a popular speaker on the Federal Reserve System and money matters. He estimated that he gave "about 60" speeches last year on those topics.



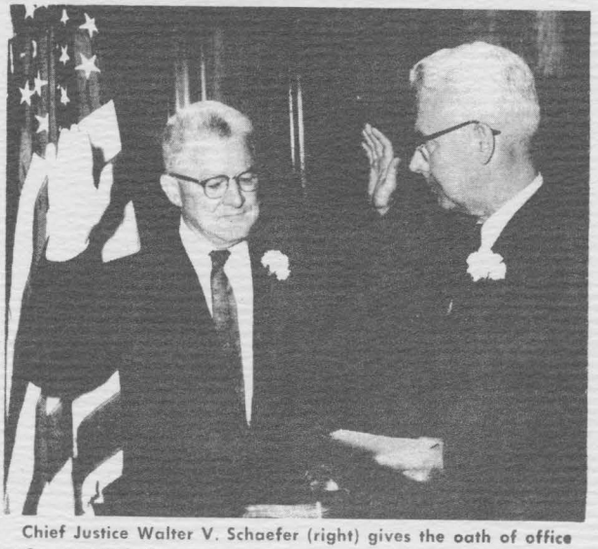
George W. Mitchell

The term of office for a Federal Reserve Governor is a long one—14 years. Mitchell explained that as a Governor, each man contributes his independent views on issues. The members of the Board have access to information provided by a large economic advisory staff. Each Governor can use his own methods to develop opinions and seek others' opinions, he added.

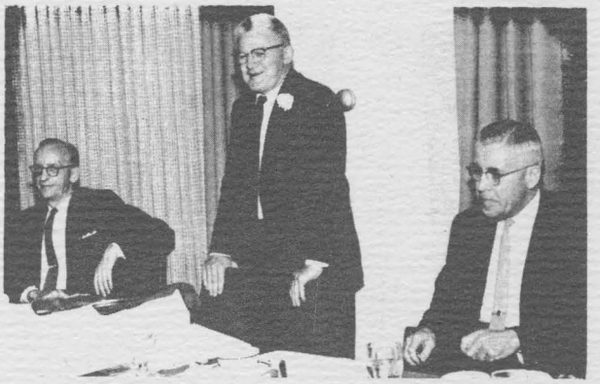
Mitchell Honored at Bank Luncheon

August 31 was the day that Mr. George Mitchell became Governor Mitchell, member of the Board of Governors of the Federal Reserve System.

Mitchell, former vice president and head of our Research Department, was sworn into office at the Bank by Walter V. Schaefer, chief justice of the Illinois Supreme Court. Following the ceremonies,



Chief Justice Walter V. Schaefer (right) gives the oath of office to George Mitchell.



"My regrets at leaving . . . come from knowing where you stand with people — what you can depend upon. This is what I'll miss," commented Mitchell at the luncheon. Listening are (left) Carl Allen and Robert Briggs.

Mitchell was honored at a luncheon in the officers' dining room.

Carl E. Allen, president of the Bank; Robert P. Briggs, chairman of the Board of Directors and Chicago Mayor Richard J. Daley spoke briefly at the luncheon. Mitchell was presented a framed resolution expressing appreciation for his service from the Board of Directors and a silver tray from the Chicago Bank and the Detroit Branch. Members of the Mitchell family and friends attended the luncheon.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date January 8, 1976

To Chairman Burns

From Robert C. Holland

Subject:

I am attaching a revised memorandum regarding the consulting arrangements for George. The memo reflects a further conversation I had with George on Wednesday. There is one substantial change, George would prefer that his appointment be based on one primary assignment, that of payments mechanism and the membership on the EFTS Commission. He is, of course, willing to offer any advice, particularly to you, as requested, in connection with the areas of international and domestic banking regulation.

I also talked to George again about the possibility of an office move. I believe he is beginning to warm to the idea of moving within the near future to the Martin Building. We are prepared to accommodate him very quickly should he decide to make that transition.

Attachment

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date January 8, 1976

To Chairman Burns

Subject: Consulting Arrangements for Governor Mitchell

From Robert C. Holland

~~STRICTLY CONFIDENTIAL~~

To follow up on our recent conversation with George Mitchell regarding his proposed service as a Consultant to the Board after his retirement, I am outlining below the proposed arrangements and actions necessary to affect the action.

1. You have the authority to approve the appointment of George as a Consultant to the Board, to be effective at the conclusion of his service as a Board Member, for the remainder of 1976. His consulting contract could be renewed at the end of the year. He would be paid at a daily rate of $145 (the Board's maximum consultant rate.)

2. There is no age limit on individuals serving as consultants to the Board.

3. Based on a formula involving his retired annuity, George could work a total of about 153 days during 1976. In addition, he would, of course, be eligible for all cost-of-living increases associated with his retirement plan.

4. George's primary consulting assignment would be in the area where his expertise and background would be most valuable to the Board, namely, the payments mechanism. He would continue to serve as the Board's representative to the National Commission on EFTS. In this capacity, he would work with members of the Board's staff -- particularly Jim Kudlinski and the Payments Mechanism Section --- and attend Board meetings when EFTS matters are discussed.

In addition, George might be helpful, particularly to you, in providing advice concerning several other subjects with which he has had long experience, such as international and domestic banking regulation.

5. It should also be understood, of course, that George can at any time review his consulting relationship and propose termination of his contract.

DECLASSIFIED
AUTHORITY Federal Reserve System Letter, 11/16/82
BY JPS NARA DATE 3/7/2013

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6. Whenever George desires, there are, I believe, several suitable office space alternatives available to him - particularly on the fourth floor of the Martin Building where he would be in close proximity to the payments mechanism staff. As you are aware, all Board Members and related second floor staff will be relocating about the middle of 1976 due to the renovation activities. I see no problem with George remaining in his present office, if he would like and if that is agreeable with the other Governor or Governors involved.

7. George has expressed a desire to continue with the services of Mrs. Davian, his secretary, and I believe this is appropriate and can be accommodated.

8. George's current use of the Board's factilities such as dining rooms, cars, and garage space will continue unchanged.

cc: Governor Mitchell

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date November 26, 1975

To Board of Governors

Subject: Call Report revision.

From George W. Mitchell

At a meeting this morning of Mr. James Smith, Comptroller of the Currency and Mr. Frank Wille, Chairman of the FDIC, with me and Governors Coldwell, Holland and Wallich, the following decisions were reached concerning proposed call report revisions:

1. The revised income report will be made applicable only prospectively, i.e., to 1976 and future years.

2. The proposed detailed large bank supplements to the call will be made effective with the first quarterly 1976 call, on March 31, subject to further refinement of their contents as noted below.

3. The set of proposed revisions in the universal call report will be made effective with the first quarterly 1976 call on March 31, subject to further refinement of its contents as noted below:

4. However, the proposed Schedule B for the universal call, covering a maturity breakdown of investment security holdings, will be required beginning December 31, 1975.

5. In addition, Comptroller Smith will consider (and tell the other agencies by Monday, December 1) whether any of the other call report changes are needed so urgently that he would require them as a special supplement to the call for some or all national banks. The other agencies will then consider whether to require similar information from any or all of their banks.

6. The results of these first five points should be announced to commercial banks promptly, along with a statement that the agencies are committed to the thrust of the proposed new call but have deferred the first reporting date to refine definitions and to allow adequate time for banks to prepare for such reporting.

7. With respect to the proposed revisions to be made effective in the March 31, 1976 universal call, the respective agency staffs shall submit the necessary materials to their principals by December 8, 1975 and approved and ready to be announced publicly by January 2, 1976.

8. With respect to the proposed revisions in the large bank supplement to the call effective March 31, 1976, the respective agency staffs shall submit the necessary materials to their principals by January 9; the bank agency principals shall reach their decision by January 15; thereafter, following whatever decisions are needed with the SEC, the final revisions in these schedules should be decided and announced by February 2, 1976.

9. The three bank agency staffs should work closely together, and should convene a group of knowledgeable bankers selected through the Bank Administration Institute to meet with them to achieve the most effective and workable call report contents and instructions designed to achieve the objectives desired by the agencies. This banker group should concentrate its attention on the proposed large bank supplements. To facilitate the workings of the banker group, each agency staff shall prepare a list of issues and questions to which it should address itself in discussions with the staffs.

cc: Comptroller Smith
Chairman Wille

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date November 24, 1975

To Governor Mitchell

From Theodore Allison and
Stanley J. Sigel SJS

Subject: Agreements reached on changes to the proposed revision of the "universal" Reports of Condition and Income.

The attached is a statement of the agreements reached on November 21 at the meeting of the Board and the subsequent joint meeting of the Committee on Bank Regulatory and Supervisory Policy and the Committee on Financial Statistics. Since this statement was requested to serve as a basis for discussion with the other agencies, a note has been added at the end indicating which of the recommendations contained in the staff memorandum were not adopted by the Board.

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The Board has approved the following changes to be made to the "universal" reports part of the October 1 proposals of revisions in the Reports of Condition and Income and recommends that they be adopted by the three agencies. These are stated in terms of changes from the October 1 proposals. Any revisions proposed in that document not referred to here are recommended for final adoption.

1. Date of implementation. The revised universal reports to be made effective as of January 1, 1976 rather than December 31, 1975 so that the first reports under the revised formats will be the Call Report for March 31, 1976 and the Income Report for the first quarter of 1976. However, banks would be required to submit at the same time estimates for December 31, 1975 of certain of the new items in the revised Report of Condition. These submissions of back data would probably be limited to the revisions in Schedule A.

2. Consultation with banks. The agencies are to assemble a small advisory group of bankers to go over a revised draft of the reports, including agreed-on drafts of the relevant changes in definitions and instructions, and to give technical advice and reactions to certain questions to be posed, before the final version of the reports and instructions are approved by the agencies for printing and distribution.

3. Level of consolidation of the Reports of Condition and Income. The level of consolidation with respect to domestic and foreign offices to remain the same as present practice and as in the October 1 proposals. However, serious consideration should be given

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next year to the question of appropriate level of foreign/domestic consolidation in the various reports. This issue to be discussed with the banking advisory group referred to in point 2.

4. Date of filing for the Report of Condition. The date of filing for the Report of Condition to be temporarily and informally extended to 30 days after the end of the quarter. Beginning with the reports for December 31, 1976, this would revert back to present standards. (We have been advised that the wording of the statutory provisions would not preclude this.)

5. Frequency of reporting for the Report of Income. Banks with total assets of less than $25 million would submit a Report of Income only annually as at present. (Banks between $25 and $300 million would submit semi-annually; banks over $300 million would submit quarterly.)

6. Form of quarterly and semi-annual reporting for the Report of Income. For quarterly and semi-annual income reports, both current period and year-to-date to be reported (the report form would have a double column).

7. Fixed calendar date reporting. Calendar end-of-quarter dates to be used as proposed, but banks to be given more assurance that these dates would be departed from only in unusual circumstances (but not to be given absolute guarantee that this would never be done).

8. Daily averages. Daily averages to be proposed for an extended list of items from the face of the call and the schedules, to be implemented sometime in 1976 (but not for the March 31 call). A suggested list for such averages will be submitted for interagency consideration. An agreed-on agency list would be submitted to the bank advisory group (see point 2) for its reactions.

9. Disclosure. The Board will act at a later time on the question of whether the Schedules of the Report of Condition that are not currently subject to disclosure--Maturity of investment securities; Federal funds and Security RP's; and trading account securities by type of security--should or should not be subject to disclosure as was provided in the October 1 proposals.

10. Calculation of capital base for supervisory measurement of capital adequacy. Stronger reassurances to be given banks on the treatment of the parts of the current "loan reserves" under the new requirements and reference to be made to proposals outstanding--by Board press release of July 2, 1975--with respect to subordinated debt.

11. Memo items on the face of the Call--15-day averages. Banks to be given the option of reporting a 15-day or 30-day (or calendar month) average for the required memo items (which would remain as proposed in the October 1 presentation) until the December 31 1976 Call. For that Call, and after, banks would report a 30-day average. As long as the option was available, a box would be provided in the memorandum section of the face of the Call for banks to indicate which

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average they were using; banks would stick with the option chosen until the switch to a required 30-day average. When daily average reporting for the more extensive list of items referred to in point 8 is implemented, reporting of the present memo items would be merged with the format adopted for the extended list. As indicated in point 8, all aspects of the question of averaging would be referred to the advisory group discussed in point 2.

12. Schedule A reporting. Schedule A to be reported in full by all banks only twice a year--June 30 and December 31. On March 31 and September 30, all banks to report selected items only. The selected items are to be specific items or totals in the full Schedule so as to cause no definitional confusion and to minimize reporting burden by banks and processing burden at the agencies. Schedule A itself may require some redesign in order to facilitate this. Any bank finding it easier to report the full Schedule four times a year would be permitted to do so. A tentative list of items for the mini-schedule is as follows:

line 1. Real estate loans

line 1a. Construction and land development loans

line 2. Loans to financial institutions

line 2a. Loans to REITS and mortgage companies

line 5. Commercial and industrial loans

line 6. Loans to individuals

Amendments to this list may be added on further analysis.

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11/29 decision OS

13. Schedule A: FHA-VA detail. The FHA and VA details for 1-4 family real estate loans to be combined, leaving a two-way breakdown--line C(1) Insured by FHA or guaranteed by VA, and line C(2) Conventional.

14. Time deposits over $100,000 - memo item on face of call and interest expense item on Income Report. The difficulties of reporting the income report item for all time deposits over $100,000 to be discussed with the bank advisory group. (See point 2). If it is found that it is much less burdensome to report interest expenses for CD's over $100,000, we would change the income statement line to that coverage. However, in that case, since we need the balance sheet item for all time deposits over $100,000, which is a memo item on the face of the call, that item would have appropriate detail added to it, as follows:

"Memoranda

:

3. Time deposits in amounts of $100,000 or more

   a. CD's in denominations of $100,000 or more

   b. Other time deposits in amounts of $100,000 or more"

15. Report of Income: net income concepts and treatment of taxes. The proposed treatment (lines 3-7 of the October 1 statement) to be abandoned and the current presentation to be restored. This may also require some adjustment to be made in the proposals in order to pick up the breakdown between Federal and State and local taxes.

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16. Report of Income: interest on U.S. Government obligations. "Interest on U.S. Government Obligations" (line 1c) to be divided into two lines--"Interest on U.S. Treasury Securities" and "Interest on Obligations of Other U.S. Government Agencies and Corporations."

17. Report of Income: instructions for provision for loan loss. In accordance with the Comptroller's recommendation, the instructions on the provision for loan loss to be changed to delete the formula-based minimum provision for loan loss requirement and to leave to management's discretion the determination of an adequate provision. However, some reference should be made in the instructions to past loan loss experience as one of the factors to be examined in management's development of provisions for loan losses that would provide an adequate valuation reserve for future write-offs of loans.

18. Writing of instructions. It is not feasible to attempt the comprehensive rewriting and reconsideration of questionable detailed treatments required for the Instructions to the Report of Condition if the revised reports and the instructions for the changes made in the revision are to be issued to banks with an adequate lead time for the March 31, 1976 reports. However, in addition to the minimum changes in instructions appropriate for the changes in reporting, there should also be included revisions of selected instructions that are now

confusing, inadequate, or in error. The more comprehensive rewriting task should be scheduled for next year.

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NOTE: Some of the Board staff's recommendations for change that were contained in a memorandum to the Board dated November 14, information copies of which were given to Comptroller staff and FDIC staff, were not approved by the Board. These are:

(a) Addition to the memorandum section of the Face of the Call of 15-day averages for "Fed funds purchased and securities sold under RP". (Item 14 of the November 14 memo). This has been made part of a broader future provision of a more extended list of daily averages (see point 8 above).

(b) Separation of loans to mortgage companies from loans to REITS in Schedule A (Item 17 of the November 14 memo). The line for "REITS and mortgage companies" would be left as proposed in the October 1 document.

(c) Addition of memo line on "interest bearing deposits" to Schedule C - cash and due from banks (Item 20 of the November 14 memo). This was not adopted.

(d) Addition of a total column to Schedule F and elimination of separate line for mutual savings banks in that Schedule (Item 21 of the November 14 memo). This was not adopted.

(e) Elimination of requirement to report interest expense on time deposits over $100,000 for banks under $25 million in assets. (Part of item 24 of the November 14 memo.) This has not been approved, but see point 14 above.

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OCT 16 1975

Vice Chairman Mitchell

Arthur F. Burns

Public Law 93-495 provides that the Chairman of the Board of Governors of the Federal Reserve System or his designee shall serve as a member of the National Commission on Electronic Fund Transfers. In view of your long-standing interest and involvement in this area and the expertise you have acquired during your service on the Board of Governors, I am designating you to serve in my place as a member of the Commission.

TEA:red
10/10/75

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

October 8, 1975

TO: Chairman Burns

From: Robert C. Holland

I have gently raised with George Mitchell the possibility of his being appointed a consultant to the Board, for purposes of serving as our representative on the EFTS and other assignments. He is flattered, but he also has one or two other possibilities that are intriguing him. I think it would be a good idea if you could talk to him yourself about this shortly to try to nail him down.

Attached are two memoranda for your information.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date October 3, 1975

To Governor Holland

Subject:

From Keith D. Engstrom

The following is in response to your memorandum of September 18, 1975 regarding the possible appointment of Governor Mitchell as a consultant to the Board upon the expiration of his term of office.

Question (a): "When would be the appropriate time?"

Assuming (1) Governor Mitchell's successor is confirmed by the time the present term of office expires, i.e., January 31, 1976 and (2) Governor Mitchell is not planning to take an extended vacation immediately thereafter, it would appear that any time after January 31, 1976 would be appropriate.

Question (c): "Would his length of service as consultant be limited by the mandatory retirement provisions under Civil Service?"

No. You may recall that former Governor Shepardson, who retired on April 30, 1967, prior to the expiration of his term of office due to the mandatory retirement requirement, was appointed as a consultant to the Board effective the following day. He "worked" as a consultant on a full-time basis at an annual salary--not per diem--of $22,000, which represented the difference between his salary as a Board Member at the time of retirement ($28,500) and his annual annuity ($6,500).

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OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date May 29, 1975

To Chairman Burns

Subject:

From Robert C. Holland

DECLASSIFIED
AUTHORITY Federal Reserve System Letter 11116182 ~~STRICTLY CONFIDENTIAL~~
BY JPS NARA, DATE 3/7/2013

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The following information is supplied in connection with your question concerning the possibility of George Mitchell being retained as a Board consultant after expiration of his term in January of 1976.

George could be formally appointed by the Board to serve as a consultant, effective February 2, 1976. Under the Board's consultant policy, he would be paid a daily rate of $138 (the maximum consultant rate). Based on a formula involving his retired annuity -- a combination of both his Civil Service and Reserve Bank retirement plans -- he could work a total of about 155 days during 1976. There is no age maximum for Board consultants.

A consultant arrangement with George could cover several important areas where his expertise and background would continue to be very valuable to the Board:

(1) Payments mechanism and particularly continuation as the Board's representative to the National Commission on EFTS;

(2) Banking regulations - both domestic and international; and

(3) Problem banks.

Merritt Sherman is currently preparing a memorandum to you that will discuss in detail George's specific retirement plan problems. He will forward that directly to you within the next few days.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 26, 1975

To Chairman Burns

Subject: George W. Mitchell's Retirement Arrangements

From Merritt Sherman

~~STRICTLY CONFIDENTIAL~~

This memorandum regarding Governor Mitchell's retirement arrangements is addressed to you at Governor Holland's request. Its substance is similar to material given Governor Bucher in response to an inquiry from him in February of this year.

Existing Retirement Arrangements

In addition to Social Security, Governor Mitchell has a two-unit pension program based on his Federal Reserve service. Unit #1 is provided under the Reserve Bank Plan for Chicago Bank service from January 1, 1944 to August 31, 1961. Unit #2 derives from Civil Service Retirement participation since August 31, 1961, when he became a Board member. Governor Mitchell elected a Bank Plan deferred annuity when he joined the Board under which a pension has been paid since March 1, 1969, with 1975 payments approximating $9,300.

	1976 Annual Pension rates (approximate)
Unit No. 1 -- Bank Plan of F.R. Retirement System	
Service at Chicago Reserve Bank 1-1-44 to 8-31-61. Pension payments since March 1, 1969; 1976 rate assumes a cost-of-living adjustment of about 6% January 1, 1976.	$ 9,800.
Note: Under this Unit, Governor Mitchell will have received payments of about $54,500 by the end of his Board term.	
Unit No. 2 -- Civil Service Retirement System	
Service as Board Member 8-31-61 to 1-31-76. Pension payable effective 2-1-76	$10,000.
Combined 1976 annual rate, Units 1 and 2	$19,800.

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DECLASSIFIED
AUTHORITY Federal Reserve System letter, 11/16/82
BY JPS NARA, DATE 3/7/2013

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Social Security

Based on covered service at Chicago from 1-1-51 to 8-31-61. Annual benefit payable after age 72 without regard to earned income. (Social Security estimate) $ 2,880.

Background of present arrangements

In 1968, Governor Mitchell raised the question whether a rearrangement could be made in his retirement program that would benefit him financially. The Board had just acted to permit Governor Daane to become a participating member in the Board Plan of the Federal Reserve Retirement System -- a change from previous policy -- thus permitting Mr. Daane to consolidate his Richmond Bank, Minneapolis Bank, Treasury, and Board Member service under a single continuous program beginning in June 1939. There were significant differences in Governor Mitchell's situation resulting mainly from his age, and the effect of a similar transfer to the Board Plan in his case would have necessitated conditions that were not acceptable to him. Specifically, under the rules and regulations of the Federal Reserve Retirement Plan Governor Mitchell would have needed Board authorization to continue to serve year by year from age 65 to age 70; more importantly, he would have found it necessary to retire on reaching age 70 in February 1974 rather than serving to the end of his term as a Board Member, January 31, 1976.

In the end, Governor Mitchell requested the Federal Reserve Retirement Office to start payments under his deferred annuity based on his Chicago Bank service totalling 17-8/12 years. As indicated above,

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payments under that annuity will have totalled approximately $54,500 by the end of his Board term.

Governor Mitchell from time to time inquired whether some different treatment of his pension program might be to his advantage. One suggestion, made in 1969 before commencement of his deferred annuity payments under the Bank Plan, was that that annuity be structured so that payments would not start until he in fact retired as a member of the Board (presumably January 31, 1976); in the interim, he desired that the annuity be given the gains based on mortality factors and interest on reserve resulting from the increase in his age.

Such a rearrangement of the deferred annuity was not possible under the rules and regulations of the Retirement System then in effect, and it could have been permitted only by an amendment of general applicability to all members. An amendment would have required approval of the Board of Trustees of the Retirement Plan, the Board of Governors, and the Internal Revenue Service. Counsel for the Retirement Plan had some doubts as to whether Internal Revenue would look with favor on permitting a broadly based qualified pension plan such as ours to have indefinite deferment of payments, feeling that IRS might object on the grounds that it would encourage estate building under the tax deferral provisions accorded the plan. The actuary advised that such a provision in our pension plan would be unusual; in addition, he pointed out that it would open the possibility for adverse selection with consequent increases in the costs of the Retirement Plan if a significant number of members chose to defer payment of their annuities in order to obtain the higher benefits.

From the policy standpoint, the Trustees and the Board members serving on the joint committee then studying the Retirement Plan were not persuaded that an amendment that would have permitted general application of the arrangement suggested by Governor Mitchell would be desirable even if it were feasible. Thus, no such amendment was officially proposed, and early in 1970 he was informed that this alternative was not open to him because no special benefit for a single member could be granted either as a matter of equity or under Internal Revenue rules, which prohibit discrimination in favor of a more highly paid or senior official.

In 1973, at the request of Governors Sheehan and Bucher, a further review of Governor Mitchell's pension program was made with the assistance of the Retirement Plan's actuary. The indication then was that Governor Mitchell could expect the benefits under his deferred annuity from the Bank Plan and the prospective payments from Civil Service after January 1976 to be greater than he would obtain if he had transferred to the Board Plan in 1969 and terminated his service at age 70.

Governor Bucher asked me in February of this year to review the Mitchell case again, and the results were essentially the same as the April 1973 review. Within the past few weeks, in accordance with Governor Holland's recent request, I have again reviewed the matter in depth and there are set forth below a number of comments based on this latest examination. In these comments, I have attempted to point up considerations in answering three questions:

Has there been inequity?
Were there errors of judgment?
If so, what if anything can now be done?

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1. In 1961, when Governor Mitchell came onto the Board, he was not given an option regarding retirement arrangements here but was routinely placed under the Civil Service Retirement System. I cannot recall any question being raised at the time by Governor Mitchell or by any other individual as to this procedure. It was the unbroken rule and had been applied to all Board members since their positions were first covered by a pension plan in 1946. I doubt that any great thought was given to the long run effect of splitting his pension program into two units, especially since the Civil Service and Board Plans were about the same as to benefits and cost to the employee-member. The Board of Governors had traditionally felt that Board members preferably should not be in a plan under which the scale of benefits was determined by the Board, but no member with long creditable service at a Reserve Bank had previously come onto the Board. I can see no "inequity" in the procedure then accorded Governor Mitchell. I can argue, however, that there was oversight in not going carefully into all aspects of the effect on ultimate pension benefits for a Board member who had Reserve Bank service (which was not portable to the Civil Service plan) and for whom the result would be a two-unit pension if he stayed on the Board long enough to vest Civil Service benefits.

2. In 1968, Governor Mitchell quite understandably raised the question of his pension arrangements after the Board (with only three members voting) agreed to permit Governor Daane to become a member of the

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Board Plan. If consolidation of service credit under one plan was to Daane's advantage, why not the same for Mitchell? This could be done only by transferring him to the Board Plan since Civil Service would not -- could not -- give credit for Reserve Bank service because Reserve Bank employees are not Federal employees. Governor Mitchell was informed by the Personnel Division that a technicality precluded transferring his contributions from Civil Service into the Board Plan because his age (64) entitled him to an immediate annuity under Civil Service. At his request, I discussed this matter with the Director of the Bureau of Retirement at Civil Service, and in due course the Director informed me that there would be no problem in releasing Governor Mitchell's contributions to Civil Service since 1961 if the Board found that he had been entitled to Board Plan membership when he came on the Board.

3. In January 1969 there was presented to the Board on Governor Mitchell's behalf a question whether there would be objection to his transferring to the Board Plan, as had been permitted for Governor Daane in April of 1968. The record of the Board's discussion with six members present (Governor Mitchell was not present) appears in the attached excerpt from the minutes of the Board meeting of February 19, 1969. In essence, the Board agreed unanimously that it would not object to Governor Mitchell's transferring to the Board Plan provided he was willing to do so under the rules and regulations generally applicable to all

participants in the Plan. The Board also agreed unanimously that no action should be taken to breach the maximum age of 70 for retention of personnel at the Reserve Banks or the Board except for the statutory provision under Civil Service permitting a member of that plan to continue in active status until he had fifteen years of creditable service, at which point he would be automatically retired if he had reached age 70. The Board was prepared to request that Governor Mitchell remain in the Board Plan until age 70 if he decided to transfer.

When Governor Mitchell was informed of the Board's actions, he indicated that he was not prepared to transfer to the Board Plan under the rules and regulations applicable to all members. He decided to delay requesting the retirement office to start payments under his deferred Bank Plan annuity on March 1, 1969, as such a delay was permitted for two years before the member forfeited his rights to an annuity. Presumably he took this course in the hope that his suggestion for deferment of the Bank Plan annuity until he actually retired from the Board (presumably January 31, 1976) could be permitted and that he also could be given the actuarial gains from mortality factors and interest allowances on reserves between age 65 and his actual subsequent retirement date. For reasons indicated earlier in this memorandum, approximately a year elapsed before it was made clear to Governor Mitchell that the Bank Plan would not be amended to incorporate a generally applicable provision for accomplishing what he desired. He understood, of course, that no special


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benefit could be granted him that was not available to other members of the Plan. A few months later, after several further discussions of his options, Governor Mitchell requested the Retirement Office to start payments under his Bank Plan annuity. The amounts credited to his account since he reached age 65 on were paid in a lump sum, and he has since received a monthly pension from the Bank Plan. The pension has been increased each year by the cost of living supplements that have been provided other Bank Plan retirees.

4. Governor Mitchell's request in 1970 for payment of his Bank Plan pension was made with some reluctance because he was still hoping for an arrangement more to his liking than the one available within the limits of the Plan. He resolved doubts on the side of requesting the Bank Plan pension payments because it appeared that such payments from age 65, plus receipts from his Civil Service annuity after retirement from the Board, might well produce benefits as great as under the available alternative of transferring to the Board Plan and retiring at age 70. This may or may not prove to have been an error of judgment, but it hardly can be regarded as an inequitable arrangement.

As to whether failure in 1969 or 1970 to transfer to the Board Plan when that option was available represented an error of judgment, we can look at what his benefit today would have been had he made such transfer.

Hypothetical Annual Pension Rates
Retirement date - March 1, 1974

(Assumes transfer to Board Plan in 1969/70
with consolidation of creditable service from 1-1-44)

Final 3-year average salary -- $40,000.

Annual pension rate as of 12-31-73	$ 22,500
Cost of living increase effective 1-1-74, 5.5% (See Public Law 93-136 approved 10-24-73)	1,238
Pension payable 3-1-74	23,738
C.O.L. increase 7-1-74, 6.4%	1,519
Pension rate effective 7-1-74	25,257
C.O.L. increase 1-1-75, 7.3%	1,844
Pension rate effective 1-1-75	27,101
C.O.L. increase due 8-1-75, 5.1%	1,382
Prospective pension rate 8-1-75	$ 28,483

At first glance, the foregoing hypothetical Board Plan annual pension rate of more than $28,000 beginning in August this year looks much better than the combined Bank Plan/Civil Service annual total of $19,800 that will become effective next February. Much of the reason is that the hypothetical pension includes the four large cost-of-living increases since December 31, 1973, and they are applied cumulatively to a base pension that rests on a final average salary rate of $40,000, whereas the Bank Plan pension paid since 1969 is based on Governor Mitchell's best five-year average salary at the Chicago Bank, plus cost-of-living increases granted Bank Plan retirees since the end of 1969.

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A true comparison of long run financial benefits between the alternatives open to Governor Mitchell in 1969 will depend, of course, on how long he lives to draw a pension. Such a comparison would have to include allowance for the fact that he will have received over $54,000 from his Bank Plan pension by his retirement next January, as well as the fact that his Board salary payments from March 1974 through January 1976 will total nearly $77,000.

5. I can find nothing that can fairly be called inequitable in the consideration or treatment accorded Governor Mitchell over the past several years in trying to arrive at the best available and feasible rearrangement of pension benefits earned in Federal Reserve service. In retrospect, one might jump to the conclusion that he should have transferred to the Board Plan in 1969 and accepted retirement at age 70, but who anticipated the high rate of inflation and cost-of-living adjustments under the very liberal Civil Service Plan formula with the rise of almost $6,000 per year in the hypothetical pension since the beginning of 1974? His conclusion that payment of his Bank Plan pension be started as of March 1, 1969, would not have looked bad if the rapid inflation of the past few years had not occurred with its dramatic cumulative gains for those actually on retirement because of their cost-of-living increases under Civil Service or Board Plans.

6. As to what, if anything, could be done at this time to improve Governor Mitchell's benefits, I think it extremely unlikely that Civil Service would now permit him to withdraw his contributions from that Plan and

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transfer them to the Board Plan, even if he wished to do so. If Civil Service were to release these contributions, there would be a difficult problem in having him legally enter the Board Plan at his present age, although this might be solvable. There would then be the question, among others, of when his retirement date should start. All payments made under the Bank Plan pension since 1969 would have to be recovered in some manner, since the Retirement Plan in no circumstances could pay two benefits for the same period of service.

Frankly, I doubt the feasibility of trying to transfer him to the Board Plan at this late date, but the matter could be taken up with Civil Service, our Retirement Plan counsel and the actuary, if he desired to reopen the question.

All Board members present
except Governor Mitchell

Excerpt from minutes of Board meeting on February 19, 1969

Retirement System--Board member participation. Reference was made to a memorandum from Mr. Sherman dated February 5, 1969, regarding the arrangements under which Governor Mitchell retired in 1961 under the Bank Plan of the Retirement System of the Federal Reserve Banks, at which time he assumed his duties as a member of the Board of Governors and enrolled in the Civil Service Retirement and Disability Fund. In retiring from the Bank Plan, he elected a deferred annuity option with certain conversion privileges to be exercised upon attainment of age 65. Governor Mitchell's present term as a member of the Board runs until January 31, 1976. However, he would reach age 65 later during the current month, and for reasons cited in the memorandum dated February 5 had raised the question whether the Board would object to his transferring from the Civil Service Retirement System to the Board Plan if such a transfer could be effected on a basis satisfactory to Governor Mitchell and under the Rules and Regulations of the Retirement System of the Federal Reserve Banks.

In considering the question presented on behalf of Governor Mitchell, it was noted that his transfer to the Board Plan would differ in certain material respects from that effected by Governor Daane in April 1968. Specifically, because he would reach age 65 later this month, Governor Mitchell would be required under the Rules and

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Regulations of the Retirement System of the Federal Reserve Banks to obtain from the Board an annual request to the Retirement System that he continue in service for a total of not more than five years following attainment of age 65. As an alternative to making such annual requests of the Retirement System, the Board might seek a waiver of the provision in Section 3(1) of the Rules and Regulations for a period of five years or until Governor Mitchell ceased to serve as a member of the Board, no later than January 31, 1976. (Governor Mitchell had indicated his view that an annual request in the case of a Board member serving under Presidential appointment would not be appropriate and would not be acceptable to him.) Any extension of more than five years beyond age 65 would also involve an amendment to the Retirement System provision fixing 70 as a maximum age for any Federal Reserve employee.

In response to a question from Chairman Martin as to the age limitation applicable to Reserve Bank Presidents, reference was made to the Board's letter of January 6, 1966, to the Chairmen of all Federal Reserve Banks. In that letter the Board expressed the belief that in the absence of exceptional circumstances the principle of retirement upon attainment of age 65 should be extended to Presidents and First Vice Presidents. Previously the Board's general view had been that the statutory terms provided in the Federal Reserve Act should govern the date for retirement of Presidents or First Vice Presidents unless some other arrangement was made at the time of the Board's approval of the

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appointment. It was also noted that in the case of members of the Board of Governors who were members of the Civil Service Retirement System a different situation existed. That is, a Board member could serve until the end of the term for which he had been appointed unless he reached age 70 and in addition had completed 15 years or more of creditable service in the Civil Service Retirement System, in which event, he was subject to the mandatory retirement provision of Section 8335 of Title 5 of the U. S. Code.

Following a discussion of the differences between Governor Mitchell's situation and that of Governor Daane, there was unanimous agreement on the part of the members of the Board (all of whom were present excepting Governor Mitchell) that the Board would not request the Retirement System to waive that provision in the Rules and Regulations specifying that a member may be retained in service only on a year-to-year basis for a maximum of five years following the attainment of age 65, nor would it look favorably on making an annual request for extension of service by a member of the Board in view of the nature of a Presidential appointment. The Board also unanimously agreed that it would not seek in any way to have the maximum age limitation for service under the Retirement System of the Federal Reserve Banks extended beyond age 70.

The foregoing decision reflected a unanimous view that (1) no special benefits should be asked for any Board member under the

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Retirement System, and (2) there should be no provision for extension past age 70 of service by an officer or employee under the Rules and Regulations of the Retirement System of the Federal Reserve Banks, and (3) if the Board or any Reserve Bank desired to retain a member of its organization belonging to either the Bank Plan or the Board Plan past the normal retirement age of 65, this should be done in accordance with the provision in Section 3(1) of the Rules and Regulations requiring that such extension be requested one year at a time. The view was also expressed that, in the case of a Board member serving under a Presidential appointment, it would not be appropriate for the Board to pass upon the question from time to time as to whether the member should in fact continue to serve under such appointment.

There was also further reference to the applicability of Section 8335 of Title 5 of the U. S. Code providing that an employee who is a member of the Civil Service Retirement System and who becomes 70 years of age and has completed 15 years of service shall be automatically separated from the service unless extended by the President by Executive Order. Some Board members felt that members of the Board should comply with the spirit of that provision of the law applicable to members of the Civil Service Retirement System, which would mean that if a member of the Board had become a member of the Board Plan of the Retirement System of the Federal Reserve Banks he should be automatically retired when he had acquired 15 years or more of creditable service under the Board Plan and had attained age 70.

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In the course of the discussion, question was raised as to why the Rules and Regulations of the Retirement System of the Federal Reserve Banks should not be amended to permit a member who so desired to defer his annuity to any date he might elect up to age 70, whether he retired or continued beyond age 65 as an employee in extended service. It was noted that no service credit in the Bank Plan of the Federal Reserve Retirement System could be obtained for any employment beyond age 65 and that instances in which an employee or retiree might wish to defer the start of his annuity past age 65 would no doubt be rare. It was also felt that both for administrative purposes and in the light of Treasury Department regulations, consideration should not be given to deferring the start of annuities beyond the attainment of age 70 by the member. However, there appeared to be no disadvantage to the Retirement System in permitting a deferred annuity to become payable at an age up to a maximum of 70, rather than the present normal retirement age of 65. On the contrary, the view was expressed that a provision along these lines would increase the flexibility of the Retirement System without adding appreciably if at all to its costs. Such an option would offer a partial solution to the problems visualized by Governor Mitchell, who for various reasons wished to delay receipt of his annuity under the Bank Plan until he ceased to be a member of the Board.

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After discussion, there was unanimous agreement on the part of the members of the Board that Governor Maisel as the Board's representative on the Board of Trustees of the Retirement System should cause the Retirement System to look into an amendment of the Rules and Regulations that would permit any member of the Retirement System who might otherwise select a deferred annuity to have that annuity commence not later than age 70.

Mr Sherman
will be away
July 28 – Sept. 2

GERALD R. FORD LIBRARY

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date February 3, 1975

To Chairman Burns

Subject: Conference of Foreign Bank Supervisory Officials

From G. W. Mitchell GWM

As you know, a conference of foreign bank supervisory officials has been in the works for some time and will be held here at the Board February 27 through March 1. I see the conference as providing an excellent forum for a frank and informal exchange of views on national bank supervisory systems and current problems in this area. The tentative agenda includes discussions of capital standards, examination practices, reporting systems as a means of surveillance and finally how future consultations might proceed.

We will be hosting a dinner on February 28 and think it essential that the Board indicate to the participants the importance we attach to the usefulness of such meetings and continuing discussions on the subject of bank supervision.

In this connection I believe it highly desirable if you could attend the dinner or at least stop by to meet the participants.

GERALD R. FORD LIBRARY

called 2/10/75
accepted

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date September 12, 1974

To Chairman Burns

From George W. Mitchell

Subject: Surveillance of international banking operations: cooperation with foreign authorities.

During my talks earlier this year with foreign central banks and foreign banking authorities, I had occasion to speak about some of the problems of adequate surveillance of international banking operations. I was struck by the common interests of all in this problem and in improving existing methods of surveillance. Also, I learned of existing informal arrangements among the Common Market countries for the officials concerned to meet periodically to discuss problems in this area.

It does seem to me that if there is to be improved surveillance of multinational banks, it calls for cooperative arrangements among the authorities concerned. In particular, if the Board is to exercise effective supervision of the overseas operations of American banks, there should be established some form of consultation with the foreign authorities involved.

The problem of working out a program of this kind is complicated by the fact that the responsibility for surveillance of banks is split among government agencies both here and abroad. Generally the central banks and/or the ministers of finance are involved but in Switzerland, for example, the Banking Commission plays an important role. Moreover, jurisdictional lines abroad, as well as here, are somewhat hazy leading to a certain "touchiness" in establishing the appropriate agency to contact. Nonetheless, I think we are well enough posted to initiate some action.

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As a means of attaining such cooperative arrangements, I think it would be highly useful for the Board to sponsor a conference of the working officials in this area that represents the major industrial countries. What I have in mind is a conference of about three days here in Washington sometime in November to which representatives from the nine EEC countries, Canada, Japan, and Switzerland would be invited. The object of the meeting would be to start a dialogue on national surveillance systems, and exchanges of information.

Tentatively, I have thought of the following items as candidates for the agenda of such a conference:

General

1. Reporting systems as a means of surveillance.
2. Examination practices.
3. Capital requirements.
4. Deposit insurance.

Specific

1. Control of foreign exchange positions.
2. Control of intermediation exposures.
3. Supervision of foreign offices.
4. Arrangements for clearances on international offices.

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The topics would obviously have to be refined further and modified in consultation with the invitees. However, I think a conference that would broadly discuss these problem areas would be a good beginning to a functioning multinational surveillance system.

I believe it highly desirable to have such a conference at the earliest practical time, which is the reason for suggesting November. To hold the conference then does require almost immediate initiation of the preparatory steps in arranging the meeting.

Mrs. Mallardi

June 8, 1973

DELIVERED BY MESSENGER, 1 p.m., June 8, 1973.

Dear Mr. President:

I greatly appreciate the opportunity you have given me to serve as Vice Chairman of the Federal Reserve Board.

With the honor and recognition goes, in my mind, the responsibility of easing Chairman Burns' burden and relieving him of various internal responsibilities. His great talents in the formulation and exposition of economic, credit and monetary policy ought not be diluted by extended attention to problems others can handle expeditiously. While little really escapes his attention and probing interest, much of the energy he devotes to follow-up could be diverted to better use.

This note is a belated acknowledgement because I have been ill.

Sincerely,

(Signed) George W. Mitchell

George W. Mitchell

The President
The White House
Washington, D. C.

GWM:cbd

GERALD R. FORD LIBRARY

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

GEORGE W. MITCHELL
MEMBER OF THE BOARD

May 7, 1973

Fred F. Fielding, Esq.
Deputy Counsel to the President
The White House
Washington, D. C.

Dear Mr. Fielding:

This refers to your recent memorandum request of me that I provide you with personal data in the form of answers to specific questions set forth in your memorandum. You advise that the information thus sought would be received on a confidential basis.

Responding to the 19 questions in your memorandum in the order of their appearance, my answers are as follow:

1. For most of the period 1944 to August, 1961, I was, respectively, staff member and Vice President in Charge of the Research Department of the Federal Reserve Bank of Chicago, Chicago, Illinois. I resigned from the Chicago Reserve Bank on August 31, 1961. (See answer to question 5., infra.)

2. I am the owner of shares of stock of (a) Standard Oil Company of Indiana*; (b) Standard Oil Company of New Jersey*; (c) United States Steel Corporation*; and (d) Combined Insurance Company of America, State of Illinois*. I owned stock in each of the named companies on the date of my entry on duty as a member of the Board of Governors (August 31, 1961). Any additional stock acquired since that date has been the consequence either of stock dividends or exercise of pre-emptive rights.

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3. None.

4. Joint owner (together with my wife, Mary) as joint tenants with rights of survivorship of an undivided one-half interest in an unimproved tract of land consisting of 15 acres located in Taos County, New Mexico.

5. Commencing in December 1970 and continuing through current date, I have been the recipient of a monthly pension payment under the Retirement Plan for Employees of the Federal Reserve System. This pension results from my service as an employee and officer at the Federal Reserve Bank of Chicago. I will receive this pension until my death.

6. None.

7. None.

8. No.

9. No.

10. No.

11. No.

12. No.

13. From January 1949 to April 1951 I served as Director of Finance, State of Illinois.

14. No.

15. No.

16. No.

17. No.

18. No.

19. No additional information to provide.

The foregoing constitutes a full and accurate disclosure with respect to all questions tendered for response by your memorandum.

Very truly yours,

George W. Mitchell

George W. Mitchell

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THE WHITE HOUSE

WASHINGTON

GERALD R. FORD LIBRARY

MEMORANDUM FOR: GEORGE W. MITCHELL

FROM: FRED F. FIELDING
DEPUTY COUNSEL TO THE PRESIDENT

SUBJECT: Personal Data Statement

As part of the clearance procedures relating to your proposed appointment, it is requested that you answer the following questions and supply the following information to us on a confidential basis. Please note that federal law and regulations governing conflicts of interest require the disclosure of the information requested in questions 1-5, inclusive, as it pertains to you, your spouse and any relatives living in your immediate household. In addition, you are requested to supply any information you deem to be relevant with regard to your spouse or such relatives when responding to any of the other questions.

In order that we might complete all necessary reviews as soon as possible, it is requested that you supply this information at your very earliest convenience.

If you have any questions or if this office can be of assistance, please do not hesitate to contact me or Joseph Adams of our staff.

1. The names of all corporations, firms, or other business enterprises, partnerships, nonprofit organizations, and educational or other institutions with which you are now or have ever been in the past connected as an officer, owner, director, trustee, partner, advisor, or consultant. Those organizational affiliations which you wish to continue during the term of your appointment should be noted with an asterisk. (Please note that in the case of an attorney's client listing, it is only necessary to provide the names of major clients and those which might present a potential conflict or appearance of conflict with your proposed appointment).

as of Aug 71 change as would of stock dem Bank + partnership shares

2. The names of all corporations, partnerships or other institutions in which you have any financial interests through the ownership of stock, stock options, bonds, or other arrangements, including trusts. Any interests you wish to retain during your period of government service should be noted with an asterisk.

None

3. The names of any creditors (other than those to whom you may be indebted by reason of a mortgage on property used as a personal residence or to whom you may be indebted for current and ordinary living expenses), setting forth the amount of such debt, and any additional information deemed relevant to explain the transaction.

none

4. All your interests in real property, other than a personal residence, setting forth the nature of your interest, the type of property, and the address.

Retirement est in 1005

1/2 int in 15a

5. The names of all corporations, firms, or other business enterprises, partnerships, nonprofit organizations, and educational or other institutions, with which you have any continuing financial interests through present employment or by reason of a pension or retirement plan, stock bonus, profit-sharing, or other arrangement as a result of any current or prior employment or business or professional association. Also, supply such details as are necessary for a thorough understanding of such continuing financial interests.

FRB ch.

6. Any employee fringe benefits you are now receiving and would desire to retain during your government service.

none

7. The details of any contractual or informal arrangement you may have with any business enterprise in regard to future employment.

none

8. Have you ever been arrested, charged or held by federal, state, or other law enforcement authorities for violation of any federal, state, county or municipal law, regulation or ordinance? If so, please give full details (do not include traffic violations for which a fine of $25.00 or less was imposed).

none

9. Are you currently under federal, state , or local investigation for a possible violation of a criminal statute? If so, please give full details.

no

10. Has a tax lien or other collection procedure ever been instituted against you by federal, state or local authorities? If so, please give full details. NO

11. Have you ever been disciplined or cited for a breach of ethics or unprofessional conduct by, or been the subject of a complaint to, any court, administrative agency, professional association, disciplinary committee, or other professional group? If so, please give full details. NO

12. Have you ever been involved in civil litigation, or administrative or legislative proceedings of any kind, either as plaintiff, defendant, respondent, witness, or party in interest? If so, please give full details. NO

13. Have you ever run for political office, served on a political committee, or been identified in a public way with a particular political organization, candidate or issue? If so, please describe. NO ?

Dir of Finance, State of Illinois

14. Have you ever been publicly identified, in person or by organizational membership, with a particularly controversial* national or local issue? If so, please describe. NO

15. Have you ever submitted oral or written views to any government authority (executive or legislative) or the news media, on any particularly controversial* issue other than in an official governmental capacity? If so, please describe. NO

16. Have you ever written any particularly controversial* books or articles? If so, please list them, giving the citations, titles and dates. NO

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*/ Reference to "particularly controversial" is intended to focus on issues that could be used, even unfairly, against you.

17. Have you ever had any association with any person or group or business venture which could be used, even unfairly, to impune or attack your character and qualification for this position? NO

18. Do you know anyone who might take any steps, overtly or covertly, to make your confirmation by the Senate more difficult or seek to attack your appointment. NO

19. Please provide any other information which you regard as pertinent or which could be the possible source of embarrassment to you, or to the President, if publicly known.

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GEORGE WILDER MITCHELL

MITCHELL, George Wilder, economist; born Richland Center, Wisconsin, February 23, 1904; son of George Ray and Minnie (German) Mitchell. Married Grace Marion Muir, August 30, 1927 (div.); children--Marilyn Anne (Hagberg), Bruce William, Judith Nancy (Rediehs), Margery Grace (Curtiss), m. 2nd, Mary Toft Petty, November 14, 1964.

A.B., University of Wisconsin, 1925; student (part-time) University of Iowa, 1927-30, University of Chicago, 1930-33.

Research assistant, University of Wisconsin, 1925-26, statistical and research assistant, United Typothetae of America, 1926-27; instructor and research assistant, University of Iowa, 1927-30; research assistant, University of Chicago, 1930-33; director of research, Illinois Tax Commission, 1933-39, 1941-43 (member of Commission, 1939-40); assistant to Director, Department of Revenue, State of Illinois, 1943; Director, Department of Finance, State of Illinois, 1949-51; tax economist, Federal Reserve Bank of Chicago, 1944-48; vice president, 1951-61; took oath of office as a member of the Board of Governors, Federal Reserve System, August 31, 1961, to serve an unexpired term ending January 31, 1962; reappointed member for 14-year term, beginning February 1, 1962.

Tax consultant for Civil Aeronautics Board and director of study of multiple taxation of air commerce, 1944-45; member of advisory group appointed by Joint Committee on Internal Revenue Taxation to Investigate the Bureau of Internal Revenue, 80th Congress; Chairman of Federal Reserve Committee which prepared Automobile Instalment Credit Terms and Practices, supplement III, Federal Reserve System, Consumer Instalment Credit, Part I, Vol. 2, 1957; Chairman of Federal Reserve Committee on Surveys of Credit and Capital Sources, U.S. Congress, Financing Small Business, Part 2, 1958; member of Illinois Governor's Revenue Commission, 1961; member of National Committee on Government Finance, Brookings Institution, 1961-65.

Member of American Economic Association, American Finance Association, National Tax Association (president, 1948), Institut International de Finances Publiques, Regional Science Association, Delta Sigma Rho, Phi Kappa Phi.
Member of Unitarian Church.

Additional publications: editor of 8 volumes, Survey of Local Finance in Illinois, 1939-40; co-author of Business Activity in Iowa, 1930; Assessment of Real Estate in Iowa and Other Midwestern States, 1931.
Political Affiliation: Democrat
Resides in Arlington, Virginia.

GERALD R. FORD LIBRARY

Mr. Chairman -

Note especially the last 2 pages. That is a letter on Commitments which is the chief action called for herein.

Bob

March 19, 1973.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS:

Attached for your confidential information is a copy of a memorandum and attachment on "Documented Discount Notes and Bank Loan Commitments," which Governor Mitchell has presented to the Interagency Coordinating Committee on Bank Regulation for its further consideration.

Robert C. Holland

Attachment

GERALD R. FORD LIBRARY

DATE: March 19, 1973.

TO: Governor Mitchell

FROM: The Staff

SUBJECT: Documented Discount Notes and Bank Loan Commitments.

There are two areas of bank activity which we believe warrant serious attention by the bank regulatory agencies. They are, first, a practice which has recently assumed increased importance; namely, the issuance of what are sometimes called documented discount notes--notes created when a bank attaches its letter of credit to a customer's commercial paper, thereby providing the buyer of this paper a guarantee that the bank will repay the note in event of the customer's default. Second, we believe that the long-standing bank practice of extending loan commitments (either formally or informally) to their business customers also deserves careful review at this time, since it appears that a heavy volume of such commitments are already outstanding and that banks are continuing to add to this volume daily.

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We are recommending that these activities be scrutinized, partly because they can complicate the execution of counter-cyclical credit policy, but primarily because we think that each introduces serious questions regarding the prudence being exercised by bank management in carrying out their duty of insuring the soundness of their institutions.

Documented Discount Notes

Documented discount notes have apparently been assuming increased importance recently. Some well placed financial market observers, for example, have estimated that the obligations currently outstanding may amount to as much as $1 billion and have also reached the conclusion that

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there is great potential for rapid growth in the future. This outlook should be a particularly disturbing one for bank regulatory authorities, for at least three reasons. First, it appears that some banks may be attaching their letters of credit to commercial paper which in some cases is of questionable quality. In particular, there are reports that banks are guaranteeing the documented discount notes of undercapitalized service corporations which have been established to help finance the inventory positions of their large, parent firms. Second, we have received reports which indicate that some banks have provided such "guarantees" on the paper of single borrowers in amounts which substantially exceed the maximum volume of loans the bank would be able to extend to these borrowers under the prevailing limitations on loans to one borrower. And finally, there is some indication that the total volume of such guarantees made by some banks could possibly exceed prudent bounds in the not too distant future.

It should be stressed that these comments are necessarily based upon fragmentary information, because banks are presently not required to supply reports to the regulatory authorities on their activities in this area. However, even though these assertions cannot be fully documented, their citation serves to emphasize that at the present time the only factors exercising a restraint on bank issuance of these notes are (a) the judgment of individual bank management--perhaps bolstered by the counsel of a bank supervisor--as to the amount of risk exposure they are willing to assume in this area; and (b) the willingness of investors to absorb the volume of issues sold into the market. While the constraining power of these influences should not be minimized, past experience strongly suggests that, to insure sound practices by all banking institutions in

GERALD R. FORD LIBRARY

this area, it is necessary for the banking authorities to offer more specific guidance than has been provided up to now.

While there might be considerable agreement on the proposition that greater regulatory guidance should be prescribed in the area of documented discount notes, there may possibly be differences of opinion as to the rules to be applied. There are, for example, some well respected authorities that consider these instruments illegal--on the grounds that banks are prohibited from making guarantees--and would, therefore, prohibit their further issuance. Other authorities, on the other hand, believe that such instruments are quite similar in legal and economic function to acceptances and would, therefore, make them subject to the same quantitative restrictions as those imposed on acceptances. Still other authorities would treat these instruments as loans and make them subject to limitations that apply to bank lending to a single borrower--the "guarantee" extended on commercial paper would be considered to count toward the total volume of loans that the bank could extend to a single customer. The problem is further complicated by differences between the statutes that apply to national banks and those that apply, under Federal and various State laws, to State banks. Hopefully, discussion of this question will help to reduce, if not eliminate, differences of opinion with regard to these points of view.

Assuming for the moment it is concluded that bank issuance of these documents is not illegal, then, whatever the type of regulation imposed, it may be advisable to require banks to make a disclosure of the volume of their exposure in this area on their call reports. There are

GERALD R. FORD LIBRARY

several alternative ways that this might be done. If it is decided to make the notes subject to regulations applicable to acceptances, the volume of such obligations could be reflected in the acceptance category, either as an addition to the total or as a sub-category of the total. On the other hand, if made subject to regulations applicable to loans, the total note volume could be added to the total of loans outstanding and also reported as a separate sub-category of this total. There is, of course, also a third possibility that might be adopted: these instruments could be reported in a separate category in the memorandum section of the call report.

Loan Commitment Activity

The burgeoning of bank commitments to lend to customers in recent years also points to the need for greater involvement of the regulatory authorities with this activity. There is no question, of course, that extension of loan commitments is a legitimate banking practice, but, as with all other important banking activities, supervisory authorities have the obligation of encouraging banks to exercise prudent judgment in entering into these agreements.

While definitions of terms in this field are not clear-cut, meaningful magnitudes to focus upon are the amounts of banks' official promises to lend which have been expressly conveyed to would-be borrowers, typically by means of either a formally executed commitment agreement or a letter signed by a bank officer confirming the availability of a line of credit of specified size.

GERALD R. FORD LIBRARY

There may be some difference of opinion as to the full definition of what constitutes prudent practice in this area, but, we believe, that all might agree that the following two conditions should be met. First, a bank should be able to demonstrate that it has a reasonably accurate measure of the extent of its commitments to lend, and, perhaps, just as important, that it has endeavored to reach a reasoned judgment as to the potential rate of takedown of these commitments. Second, a bank should give adequate consideration to the question of how it will meet takedowns of its commitments when they occur, including in this appraisal some anticipatory planning for emergency conditions which might arise in connection with developments such as the Penn Central crisis.

We believe the bank supervisory authorities could make a major contribution in encouraging banks to adopt procedures necessary to insure compliance with these requirements for prudent decision-making. This could be done, if the bank regulatory authorities were to require each bank to demonstrate to examiners its awareness of its aggregate commitment volume and its contingent plans for meeting takedowns of these commitments. At the least, this might involve having a bank maintain a journal showing the current volume of its loan commitments, categorized perhaps according to how the commitments were extended and how binding they are thought to be. It might even be possible to require banks also to show how the current volume of commitments compares with that outstanding at some key prior periods of time. Finally, bank management might be required to give at least a rough outline of their expectations on the rate of takedown on these commitments in environments of normal and abnormal economic and

financial conditions, and to indicate how they would intend to meet these takedowns under these circumstances.

In addition to imposing these requirements, it might also be advisable to require banks to publish information on their loan commitments volume on their call reports--perhaps as a memo item on this report. Moreover, it might be advisable to have all large banks submit reports more frequently (monthly, for example) to supervisory authorities on the volume of their commitments activity. As you know, at the present time about 45 banks are voluntarily providing the Federal Reserve with such reports on a quarterly basis.

In order to introduce these new requirements and to give emphasis to the concern of bank regulatory authorities in this matter, consideration could be given to the possibility of the Federal bank supervisors sending a letter to the presidents of all (or at least the larger) banks to inform them of these concerns and requirements. A draft of a letter that might serve the purpose is attached for your consideration.

Attachment

GERALD R. FORD LIBRARY

DRAFT
3/19/73

GERALD R. FORD LIBRARY

Dear Sir:

I am writing to you about a matter of concern to all members of the Board--the heavy volume of loan commitments outstanding in the banking system. Banks supervised by other Federal banking agencies are receiving similar letters, so that the attention of all the nation's banks will be drawn to the need for prudent loan commitment policies.

By loan commitments we refer to all of your bank's official promises to lend which have been expressly conveyed to your customers, typically by means of either a formally executed commitment agreement or a letter signed by one of your officers confirming the availability of a line of credit of specified size.

There is no question as to the legitimacy of--and the need for--bank loan commitments. They serve the purposes of sound business planning, both for banks and their customers. It is the intention of the Federal bank supervisors that this practice continue, but that it be based on careful and prudent judgment, in the interests of a sound banking system and healthy economic expansion. The apparent large volume of bank commitments currently outstanding and sharply increased takedowns thereunder are indicative of the need for special attention to this subject at this time.

Each bank should maintain a reasonable record of the aggregate volume of its commitments to lend. Furthermore, it should make, and periodically reassess, a careful judgment as to the potential volume of

takedowns of these commitments under reasonably foreseeable circumstances, including periods of strong as well as weak loan demand, and the appropriateness of the credit risks involved to its overall capital position. Finally, it should give adequate consideration as to how it would obtain the funds to meet such takedowns in sound and timely fashion, giving due allowance to the possibilities for changing conditions in the local and national economy and in the central money markets.

Federal Reserve examiners will henceforth ask the management of each bank they examine to demonstrate that it is giving adequate attention to the above principles. Additionally, in recognition of the public interest in this aspect of the financial position of banks, on future calls for reports of condition, banks with deposits in excess of $100 million--in which the practice of making loan commitments is most common--will be requested to publish the total of their commitments as a memorandum item. Finally, banks with deposits in excess of $1 billion will be requested to report to their appropriate Federal supervisor the volume of their commitments as of the end of each month, beginning with April, 1973.

We confidently expect that banks of all sizes will cooperate in this program to help insure that bank loan commitments play a sound and useful role in the financing of business activity.

Yours Sincerely,

GERALD R. FORD LIBRARY

Arthur F. Burns

April 25, 1972

GOVERNOR MITCHELL
GOVERNOR DAANE

Discussions with

Arthur F. Burns

foreign central banks

I am acting to designate you herewith as Board members with responsibility for carrying forward discussions with appropriate foreign central banks concerning possible changes in the statutory or regulatory status of branches, agencies, and similar affiliates of foreign banks in the United States.

Your discussions should follow the lines agreed to by the Board at its meeting of April 17, 1972, with the additional background provided by previous Board discussions of this general question.

I leave it to you to decide the appropriate number, order and timing of such discussions, but a convenient beginning might be made in connection with the next monthly meeting of the BIS in Basle.

I suggest you report to the Board periodically on such discussions.

cc: Mr. Tynan Smith

bc: Mrs. Mallardi (2)
Mr. Gemmill
Mr. Holland

GERALD R. FORD LIBRARY

RCH:lg

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date March 1, 1972

To Chairman Burns

Subject: Governor Mitchell - term of service

From Robert C. Holland

~~CONFIDENTIAL (FR)~~

Merritt Sherman and I, after studying the matter, conclude that there is no legal or technical barrier to Governor Mitchell serving out his full term to its termination date on January 31, 1976.

cc: Governor Mitchell
Governor Sheehan

DECLASSIFIED
AUTHORITY Federal Reserve System Letter, 11/16/82
BY JPS NARA, DATE 3/7/2013

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NATIONAL ARCHIVES AND RECORDS ADMINISTRATION **NA FORM 1429 (1-98)**

Statement of George W. Mitchell

Member, Board of Governors of the Federal Reserve System

to the

Subcommittee on Rural Development

of the

Senate Committee on Agriculture and Forestry

September 24, 1971

GERALD R. FORD LIBRARY

I am pleased to appear today in response to your request that a representative of the Federal Reserve Board discuss the relationships between general monetary policy and expansion of Federally-sponsored credit programs in rural areas, such as that proposed in S.2223.

At the outset, I would like to note that the Federal Reserve recognizes a need to accelerate the pace of rural development. It is well known that average personal income of rural residents continues significantly below that of urban dwellers, and that educational, medical, and social service facilities are more limited in rural communities. Growth in rural job opportunities has for many years fallen far short of providing employment to all the young adults raised in rural areas, and consequently we have been experiencing both massive migration to cities and underemployment of those who chose to remain in the country. The inability of rural communities to provide more of the jobs and the amenities of modern life desired by their young people continues to aggravate the problems being experienced by our larger cities. Thus, we are all well advised to devote some of our energies to improvement of the pace and quality of rural development.

Acceleration of economic development in rural areas encounters problems other than those of adequate and reasonably-priced credit--problems such as lack of nonfarm resources and distance from consumer markets. Case studies of rural communities

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have concluded that local initiative and leadership plays a vital role in successful development in the face of these inherent disadvantages. This element should be recognized in the design of credit programs intended to foster rural development. The credit program can be a catalyst that spurs local action.

One role of a credit program can be to help equalize the access of various economic sectors or areas to the nation's flow of capital funds. A portion of our national savings, in the form of retained earnings of farm, industrial, and commercial enterprises, is directly employed by the saver. Another portion is moved from savers to investment uses in the same community by local banks and other depository institutions. But a substantial portion is gathered by large insurance companies, pension funds, large banks, and like institutions, and is made available in national capital and money markets. In these markets, these funds are used to purchase credit instruments offered in sizable blocks by well-known firms and public and private institutions. Smaller users of credit, and those not known nationally, thus are not ordinarily able to compete directly for these funds. They may, however, obtain indirect access either through private arrangements with larger institutions, or through a Federal credit program. A prominent example of the latter route is the Federally-sponsored cooperative Farm Credit System, which lends to farmers those funds that it raises through sale of credit

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instruments in the national capital markets. The bill you are considering would provide similar Federally-sponsored indirect access to capital markets to other rural residents, firms, and governments, probably thereby improving upon such indirect access as these groups may already have achieved through existing private or public arrangements.

The addition of another economic sector--in this case, rural nonfarm business and governments--to those for whom Federal credit programs have already been provided would not, in my opinion, significantly handicap the capability of the Federal Reserve to administer monetary policy. It would, however, affect the distribution of the impact of restrictive policy among sectors, and would tend to increase the cost of funds raised through all Federal credit programs. The significance of these effects would be directly related to the size of the added program.

Distribution of the impact of restrictive monetary policy would be affected because Federally-sponsored programs have demonstrated their ability to raise substantial amounts of funds even during periods of tight money. But with restrictive policy holding down the overall volume of funds available, the funds raised by an additional Federal program, beyond those that the sector served would have otherwise obtained, must necessarily be balanced by a reduction in funds raised by other sectors. Among the sectors that appear especially vulnerable to this effect are those that do not have access to capital markets.

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Although, as just noted, the ability to raise a substantial volume of funds is achieved by access to the market in periods of monetary restraint, the cost of these funds is likely to be rapidly and significantly affected both by policy actions and by economic developments in general. Rural borrowers from Federally-sponsored agencies are thus likely to encounter more rapid and sizable variations in interest cost than other rural borrowers who are obtaining their loans from typical rural banks. Because rural banks obtain most of their loanable funds through local deposits rather than in money markets, the rates of interest they charge their borrowers have not generally responded rapidly to changes in rates in national markets. The rural borrowers given market access through a credit program are likely to find funds available during periods of restraint, but probably at a relatively high price. Some may postpone their projects until interest rates fall. In other words, if rural development is stimulated by improving rural access to national capital markets, the degree of stimulus would be related to the prevailing degree of monetary ease or restraint and its effect on interest rate levels.

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The impact of likely fluctuations in interest rates may be reduced or eliminated for some borrowers by providing a subsidy such as that proposed in S.2223. More generally, subsidies may be provided in a Federal credit program as a further stimulus to the activity being promoted. In this event,

it is desirable that the element of subsidy be provided in a form that is readily evident and quantifiable, as is done in S.2223, and that the continued need for and amount of such subsidy be subject to periodic Congressional review. On this topic, as well as on the design of Federal credit programs in general, the recommendations made in 1963 by the Committee on Federal Credit Programs (Dillon, Bell, Heller, and Martin) continue to provide sound guidance.

I have mentioned the Federal Reserve interest in rural development. Our studies of regional and agricultural lending indicate that for many years after World War II most rural banks had funds in excess of local loan demands. Some years ago, however, this situation began to change. Banks in many rural areas, such as areas in which the livestock industry has been rapidly expanding, have exhausted accumulations of liquidity and still continue to face loan demands that are increasing faster than their local deposits. To participate better in meeting the credit demands of their communities, rural banks in this position need improved access to nonlocal sources of funds, through development of markets for their assets and liabilities, through banking structure change that would bring the services of larger banks to rural areas, or through improved credit services via correspondent banking, the Federal Intermediate Credit Banks, or the Federal Reserve discount mechanism. Federal Reserve

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staff work undertaken in the course of our reappraisal of the discount mechanism, and since published, noted in detail and at length the disadvantages faced by small rural banks in attempting to develop nonlocal sources of funds. Consequently, the Board has under consideration a proposal that would expand and routinize the availability of funds at our discount window for the seasonal needs faced by these banks.

As a further outgrowth of that work, a System committee is conducting a program of research into the possibilities afforded by the other sources of nonlocal funds that I have mentioned. Our principal focus in this work is on mechanisms through which rural banks could raise funds in financial markets. These markets presently do not accommodate the small sizes and amounts of securities that each rural bank has to offer. Therefore we are examining ways in which such instruments could be pooled into larger lots, or endorsed by larger banks, or in other ways be made more attractive to investors in central markets. Other phases of the research program are examining (1) how well correspondent banking relationships are currently functioning in terms of supplying funds to rural banks, (2) the effect that bank branching and holding company activity has had on farm lending by banks in several States where the law has recently permitted such structure changes, and (3) the reasons why the mechanism which permits commercial banks to discount

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farm loans at Federal Intermediate Credit Banks has not been used to a significant extent. We hope that our studies and findings will be helpful in efforts to maintain the role of rural banks as a credit source for agricultural and other rural development.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date February 18, 1971

To Members of the Board

Subject: Nassau branches

From George W. Mitchell

Mr. Gemmill's memorandum (attached), in my opinion, deals satisfactorily with constraints that might be properly imposed on Nassau branches in order to minimize exposure to banking practices that may become inimical to U.S. financial, credit, and banking policies.

It does not deal with the tax avoidance issue directly. I would take the position, however, that if tax advantages are an incident to a banking practice that serves a public interest it is not the System's responsibility to deviate from its banking regulation objective. In practice, a shell branch, wherever located, operating as the sole own-office access to foreign Eurodollars would be approved. But offices established solely or primarily as tax shelters or havens could be approved or disapproved according to each Board member's predisposition without entangling banking and tax issues.

The prohibition on the acceptance of interest-bearing deposits by nonbank depositors at Nassau branches would require banks seeking such latitude in their operation to acquire full service branches or affiliates. Such an activity is not presently constrained in those offices. I believe the Board should look into the exposure U.S. banks may incur in their foreign operation with respect to loss, illiquidity, and the thwarting of domestic money and credit policy. Since safety and liquidity of U.S. institutions is in considerable measure due to the Federal Reserve and U.S. banking regulation the System may properly devise guidelines, constraints (if necessary) and reporting requirements which measure the exposures that the Nation might incur as a result of foreign banking activities.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Chairman Burns

Office Correspondence

Date September 7, 1971

To Governor Mitchell

From Banking Section

Subject: Not seasonally adjusted bank credit data

At last Friday's briefing, you indicated on interest in not seasonally adjusted bank credit data. The attached table shows not seasonally adjusted changes in various components of bank credit for the months of July and August for each of the past six years. Data for the first six months of the year are being prepared and will be sent to you as soon as they are available.

As the table shows, business loans in August are very strong seasonally. The $0.8 billion estimated rise is the only increase recorded in this component during August in the past six years. On this basis, the over 30 per cent annual rate of increased derived from the seasonally adjusted series seems to be supported by the not seasonally adjusted data as well.

I would point out that in using the not seasonally adjusted data one must consider the ending date of each month. A day or two difference in relation to the end of the month can have a large impact on the not seasonally adjusted series. The seasonally adjusted series currently used has an adjustment for the end-of-month date. Consequently, direct comparison of the seasonally adjusted and not seasonally adjusted data may not be possible.

cc: Chairman Burns ✓
Gov. Brimmer
Gov. Daane
Gov. Robertson
Gov. Maisel
Gov. Sherrill
Mr. Partee
Mr. Axilrod
Mr. Gramley
Mr. Chase

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BANK CREDIT

Not Adjusted for Seasonal

Period	1 Total 1/ Loans and Investments	Investments		4 Total Loans 1/	Selected Loan Components			
		2 U.S. Gov't.	3 Others		5 Business 1/	6 Real Estate	7 Security	8 Nonbank Financial
	ALL COMMERCIAL BANKS							
	Changes in Billions of Dollars							
July--1966	-3.2	-0.8	-0.2	-2.3	-0.1	0.4	-1.4	-1.1
1967	2.3	2.9	--	-0.6	-0.5	0.5	0.3	-0.8
1968	4.6	1.9	0.2	2.5	-0.2	0.5	1.9	-0.2
1969	-2.9	0.7	-1.1	-2.4	-0.5	0.4	-0.6	-1.3
1970	2.7	1.9	0.1	0.6	-1.3	0.3	0.5	0.5
1971 p	-1.3	-1.0	1.0	-1.3	-0.6	0.9	-0.8	-1.0
August--1966	0.5	1.0	-0.2	-0.4	-0.4	0.5	0.5	-0.8
1967	2.4	2.0	1.1	-0.7	-1.5	0.6	0.6	-0.2
1968	1.9	1.0	1.4	-0.5	-1.0	0.6	--	-0.6
1969	-2.5	-0.4	-0.4	-1.8	-0.8	0.5	-1.6	-0.3
1970	2.6	1.5	1.4	-0.4	-0.7	0.3	0.5	-0.5
1971 e	2.5	-0.3	-0.1	2.8	0.8	0.9	0.7	-0.1

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NOTE: Figures for all commercial banks are for the last Wednesday of the month. e - Estimated. 1/Adjusted for outstanding amount of loans sold to affiliates.

Proposed regulation of Nassau shell branches

Because Nassau shell branches are in many respects legal fictions, the Board has always reserved the possibility of imposing special restrictions on those branches that would not apply to full service branches. All operating decisions regarding the shell branches are made at head offices, and the shell branch is in fact nothing more than an extension of the head office. For all practical purposes, one may say that the Nassau facility consists of nothing more than a duplicate set of books, showing certain transactions that originate at the head office. The special character of these branches was recognized at the outset by the Board which, in granting approval for the first applications for Nassau branches, stated that "operations of the branch facilities are to be subject to continuing special surveillance and review and, after due notice, the Board's approval may be withdrawn or modified." (Emphasis added.)

The rapid growth both in number and volume of operations of these branches over the past two years and, in particular, the prospects for further growth have focussed attention on possible methods by which the Board could ensure that these branches would not (1) compete with domestic offices for corporate or individual deposits by offering more favorable terms than are available in the United States, or (2) make loans in the United States that would otherwise be made by head offices.

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The development of either situation could have serious implications. There is, as yet, no substantial evidence that Nassau shell branches are facilitating the shift of deposit or loan business from domestic offices, but the threat that they may come to do so is sufficient to raise a question whether the Board should deny further applications and revoke previous authorizations for shell branches, or attach additional conditions to the operations of these branches.

The principal justification for authorization of Nassau shell branches is the greater measure of equity that derives from the increased ability that such branches give to banks without full service foreign branches or affiliates (a) to obtain foreign funds for their customers' foreign business without the substantial cost involved in a full-service branch and (b) to bid for Euro-dollar deposits for use in the United States, subject to the Board's Euro-dollar reserve requirements.

A decision by the Board to revoke authorization of Nassau branches would worsen the competitive position of the smaller banks without full service branches, relative to that of the larger banks with international branch systems; it would also tend to make more difficult the use of foreign-source funds in provision of foreign credits.

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Most of the advantages obtained by small banks from shell branches could be preserved, and at the same time the risk of adverse effects on domestic banking practice could be substantially reduced, if the Board were to adopt the following regulations for all shell branches:

A) Require that shell branches accept no interest-bearing deposits from nonbank customers; and

B) Require that the parent bank file monthly with its Federal Reserve Bank on behalf of its shell branch a list of all branch loans made to U.S. residents.[1/]

Prohibition on acceptance of interest-bearing deposits from nonbanks

The prohibition of acceptance of interest-bearing deposits would eliminate competition by those branches for deposits by nonbank customers that might otherwise be placed in the United States. Time deposits of foreign commercial banks in member banks are quite small, and the potential shifts of such deposits to Nassau shell branches do not appear to pose a significant problem.

1/ For banks with only a Nassau shell branch, considerable information is obtained on branch transactions with head offices; gross head office liabilities to foreign branches are reported weekly for balance-of-payments purposes, and net head office liabilities to branches are reported every four weeks under the Board's Euro-dollar reserve requirement (Regulation M). For the few banks with both a Nassau shell branch and another foreign branch, the above reports show only a combined total; if it were desirable to obtain separate information on transactions of these shell branches with parent banks, a special report might be instituted.

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The prohibition would thus effectively prevent shell branches from being used in a way that might undermine domestic banking regulations regarding deposits (notably Regulations D and Q), and it would also prevent shell branches from being used to attract foreign non-bank deposits that the owners might be tempted to withdraw from U.S. banks when the Foreign Investors Tax Act comes into effect in 1975; such a use of shell branches by foreigners might be regarded as a circumvention of Congressional intent.

Shell branches would still be free to establish non-interest-bearing demand deposits for customers--for example, when providing a credit to a foreign customer, or as a compensating balance under a credit (if the practice of requiring such balances were to develop).

Prohibition on acceptance of interest-bearing deposits from nonbank customers would restrict the shell branch in two important respects. The branch would be able to provide credits to the domestic financing subsidiaries of U.S. direct investors, but would be unable to compete for the time deposits of these customers. (These financing subsidiaries are obliged to obtain the bulk of their income from foreign sources, and have frequently temporarily invested the proceeds of borrowings with the London branches of U.S. banks. A few have also invested funds with Nassau shell branches, but that practice would be foreclosed by the proposed regulation.)

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Shell branches would also be unable to accept interest-bearing deposits from foreign corporate and individual customers. These customers would be able to place deposits with the head offices, but such deposits would be subject both to reserve requirements and to Regulation Q ceilings.

These restrictions might make it difficult for banks with shell branches to compete on an even footing for international business with other banks that have full service banks. However they should be regarded as necessary costs that banks would bear in order to obtain the benefits from shell branch operations.

Evidence indicates that at present less than a dozen banks would be significantly adversely affected by adoption of a prohibition on acceptance of interest bearing deposits; for most shell branches, deposits of non-bank customers are small both in absolute amount and in relation to total liabilities.

Surveillance of foreign branch loans to U.S. residents

Requirement of a monthly report from all Nassau shell branches on their outstanding loans to U.S. residents would enable the Board to measure the extent to which these branches were becoming increasingly engaged in U.S. credit activity.

Foreign branch loans to U.S. residents, and foreign branches' net claims on the parent bank, are subject to reserve requirements under Regulation M to the extent that the daily average amounts outstanding in

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any reserve computation period exceed the requirement-free bases. However, foreign branch loans to enable borrowers to comply with the regulations of the Office of Foreign Direct Investment, Department of Commerce are exempt from reserve requirements, and from the reporting obligation (as are loans to U.S. residents made by foreign branches that on no day in a computation period had outstanding as much as $5 million of such loans.) Thus, the proposed surveillance system for Nassau branches would be more complete than that afforded by reporting under the Board's Euro-dollar reserve requirements.

Moreover, under the Euro-dollar reserve requirements, reports are filed for all foreign branches combined, with no distinction made among individual branches; thus, in cases where a bank has more than one foreign branch, the proposed surveillance system would be necessary to obtain a clear picture of the U.S. credit activity undertaken by the Nassau shell branches.

By emphasizing the particular interest of the Board in U.S. credit activity conducted through Nassau branches, the surveillance system would assist in obtaining conformance with the Board's objective of ensuring that the shell branches were operated "for the purpose of developing new international business and not as a means of shifting loans or deposits from offices in the United States." (Press Release February 20, 1969).

The surveillance system would appear to have no significant disadvantages. Foreign branches already compile data on the amounts of their loans to U.S. residents.

GERALD R. FORD LIBRARY

For release on
Tuesday, Oct. 13, 1970
at 2 p.m. EDT

Federal Reserve Policy and the Liquidity Squeeze

Remarks of George W. Mitchell

Member, Board of Governors of the Federal Reserve System

at the

Banking and Financial Research Committee Workshop

of

The American Bankers Association

Miami, Florida

October 13, 1970

GERALD R. FORD LIBRARY

Federal Reserve Policy and the Liquidity Squeeze

In the postwar years we have become conditioned to expect that the sequel to periods of excessive economic activity will be counter-acting policies of monetary restraint. Such monetary shifts may promptly induce precautionary cutbacks in commitments and spending by some sectors of the economy, but the usual sequence of events includes enforced reductions in the liquidity positions of those sectors of the economy where an attempt is made to continue "business as usual." The period 1967-1970 is illustrative; households cut back early on their spending and commitments but financial institutions and businesses responded to restraint only after their liquidity positions had been significantly curtailed. In fact, the extent of the deterioration in liquidity was much greater in these sectors than it had been in comparable previous cyclical periods, partly because monetary restraint was maintained for a longer period of time in order to successfully combat inflationary pressures as well as expectations of further inflation.

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Not the least of the influences extending the period of restraint was the credibility gap so prevalent for a time in banking, business and investment circles. Many believed that inflation could not be brought under control or that the Federal Reserve would not persevere in its policies. Another retarding factor was the widespread attempt throughout the various sectors of the economy to avoid the impact of public policies of restraint.

While these avoidance techniques took a variety of forms--some new and some old, as you know--they nevertheless quite clearly represented judgments of both borrowers and lenders as to how far and how long to run down liquidity positions in order to finance an unabated level of activities and commitments.

In the nonfinancial corporate sector, liquidity--conventionally measured by the ratio of cash and U. S. Government security holdings to total current liabilities--has been trending down throughout the postwar period, almost without interruption. This appears to reflect a deliberate policy on the part of corporate treasurers to tap other sources of liquidity or to seek greater profits from their cash positions, even at the risk of greater exposure to liquidity risk. In any event, the erosion of conventional liquidity accelerated sharply in 1969 and continued into at least the early part of 1970.

The limited availability and sharply higher cost of credit in 1969-70, in conjunction with heavy capital spending programs and enlarged working capital needs, virtually forced corporate managements to further economize on liquid asset holdings. Doubt that a restrictive monetary posture would persevere and euphoric attitudes about inflationary trends seemed to generate a willingness to erode financial flexibility much more than would have been viewed as prudent only a few years ago. Although there is really no way of knowing what

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level of liquidity is critical for the corporate sector as a whole, or for various industries and firms, the early 1970 liquidity position over-all did not, by historical standards, leave much flexibility for an adverse change in economic prospects. The 1969-70 experience, mirroring the consequences of a move toward more monetary stability, must be causing some reappraisal of corporate liquidity requirements today.

Much earlier in the period of restraint, but in a similar way, commercial banks with a much less plausible credibility attitude considering their sophistication in monetary matters had also constrained their flexibility by very rapidly running off liquid asset holdings to meet deposit drains, loan commitments, and other obligations. By mid-1969, the general level of liquidity in the banking system was below that reached in 1966, the previous year of similar circumstances, and it was still declining through the spring of this year. Standard liquidity measures, however, do not reflect the degree to which banks placed increased reliance on non-deposit sources of funds and on foreign and domestic pools of relatively "hot" money. In the process, the rules of money position management were changed, liquidity no longer depended on run-off flows or on portfolios that could be sold outright but on what could be contingently sold, transitorily borrowed or collaterally arranged.

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Other financial sectors were not immune to the liquidity squeeze. Savings and loan associations and mutual savings banks reduced liquid assets to meet outstanding mortgage commitments when deposit inflows slowed, but mainly the savings and loan associations borrowed heavily from the Federal Home Loan Bank System. Life insurance companies experienced liquidity pressures from a rapid expansion in policy loans, although their relatively cautious commitment behavior earlier did not leave them as exposed as was the case in 1966.

The liquidity position of the household sector--in contrast to that of the corporate and financial sectors of the economy--did not decline significantly during 1969 and has improved appreciably this year. In part, this performance is accounted for by moderation in spending and the unusually high savings rate in the economy during a period of strong gains in personal incomes. The income side not only reflects maintenance of relatively high levels of economic activity, but also large wage increases and special income supplements including retroactive Social Security benefits. Households have acquired a large volume of liquid assets, particularly claims at commercial banks and the nonbank thrift institutions this year. Moreover, growth in consumer debt outstanding has been modest, as consumer willingness to assume additional debt has eroded with the apparent increase in uncertainty over the economic outlook. Hence, the liquidity squeeze evident in other sectors of the economy has not occurred in the household sector.

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With liquidity limited throughout the financial and nonfinancial business sectors, there was a danger that the slowdown in economic activity that accompanied efforts to curb inflation would be associated with relatively widespread liquidity problems. In light of the widespread and strongly held views of many business managements as to the certainty of continued inflation, liquidity problems for their concerns became more and more critical as the economy cooled. But it was essential that a widespread loss of confidence due to general illiquidity be averted in the transition from a period of inflationary growth to one of non-inflationary growth.

The Federal Reserve in 1970 acted in a variety of ways to ensure that this could not happen. As early as January, the Federal Reserve Board, in coordination with the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board, moved to limit the pressures on depositary institutions by raising the maximum rates payable on consumer-type claims at commercial banks and on deposits at savings and loan associations and mutual savings banks. By permitting these institutions to better compete against the attractiveness of yields on market securities, it was hoped that an improvement in their fund inflows

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would strengthen liquidity positions and provide a framework for an expansion in the commitment of funds to the mortgage market. To a significant degree, this goal was achieved and the nonbank savings institutions were insulated from the liquidity squeeze that emerged later.

As the outlook for corporate profits became more consistent with an effective anti-inflationary policy, securities markets came under unusual pressures in the spring. Bond yields began to rise and stock prices plunged. While the disturbing nature of domestic and international developments at the time were no doubt deeply related to the crisis of confidence, investors and lenders, nontheless, began to reflect more carefully upon the quality of various credits.

In this atmosphere, it was made clear that the Federal Reserve's policy stance had been changed and that it was now moving toward a resumption of moderate monetary growth. The directive to the Manager of the System Open Market Account was revised to be more responsive to the change in attitudes and avert an all-out scramble for funds. Excessive pressures on financial markets were moderated by the System's more liberal provision of reserves, without generating sustained rapid growth in the monetary aggregates that would have been inconsistent with longer run objectives.

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The April-May period of unsettling events was followed by the filing of bankruptcy proceedings by the Penn Central in late June. This event showed just how fragile confidence was and called for immediate, convincing action by the central bank. Interest rate ceilings on large denomination negotiable certificates of deposit with maturities of less than 90 days were suspended so as to enable banks to attract funds in volume, and thereby accommodate the expected surge in loan demands by those industrial and finance company borrowers who could not obtain funds in the commercial paper market. As it turned out, bank credit demands by such borrowers amounted to more than $2-1/2 billion.

Not all of these funds were provided by sale of CD's. Some came, temporarily, from a liberalization of Federal Reserve discount policy that was designed to insure the availability of funds to firms imperiled by temporary circumstances. Borrowings at the discount window rose 90 per cent as banks necessitously turned to the lender of last resort or probed the extent of its resolution. System open market operations were geared to ensuring that financial conditions remained stable and recognized that more money supply and bank credit growth might have to be permitted for a time than would be desired over the longer run. In addition, the



Federal Reserve prepared stand-by procedures to make credit available to worthy borrowers facing unusual liquidity requirements that could not be met by obtaining funds from other sources. The last step proved to be superfluous. The commercial banking system, given the System assurances, dealt promptly and expertly with emergency liquidity needs that had arisen.

It appears that we have successfully weathered the liquidity squeeze and, barring any further disturbances to financial and business confidence, can look forward to more tranquil markets. Some individual problems may still remain to be worked out, but the risk of a cumulative general problem of illiquidity seems behind us. Indeed, short-term and long-term interest rates have declined substantially on balance over the past few months. Major attention may now be devoted to the goal of attaining stable economic growth without inflation.

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FR 373

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date Aug. 21, 1970

To Chairman Burns

From Chas. Molony

Governor Mitchell, reached by phone at 6:30 p.m., said this:

"I have no recollection of seeing Senator Tydings at the hearing. I am not at all sure that I would have recognized him if I had seen him. I am not aware that he was there."

Governor Mitchell was reached at the home of his son-in-law, Nelson Hagbert, at Waukesha, Wisconsin, Area Code 414, No. 547-7151.

Further copies on your desk, and Mrs Mallardi's.

I can be reached at FE 8-0046 if you have further need.

Chas

For release on
Wednesday, August 12, 1970
at 2:00 p.m. EDT

Forecasting Economic Activity in 1970

Remarks of George W. Mitchell

Member, Board of Governors of the Federal Reserve System

at the

Denver Economics Club

Denver, Colorado

August 12, 1970

GERALD R. FORD LIBRARY

Forecasting Economic Activity in 1970

Economic prospects today are more shrouded than usual in uncertainty and apprehensiveness. Uncertainties are manifest in the violently fluctuating expectations of investors; they are also evident in the relatively low rates of spending by consumers. Apprehensiveness is apparent in the widespread doubts within business, political and financial circles as to the efficacy of monetary and fiscal restraints in bringing prices and costs under control without inducing a serious recession.

The present environment, in contrast with that prevailing in the Sixties, has some unfamiliar patterns--while the "go-go" is no longer with us, the aura of a Fifties-type recession has not returned either. We are living in a kind of surrealist stillness, in which the economy respires but does not otherwise move--a dangerous state in which to linger too long.

What has happened to cause consumers to break their long-established peacetime consumption patterns? Vietnam did not divert much, if any, production from consumer output but Vietnam did alter consumer attitudes toward spending and saving. The extreme posture of anti-consumerism--so much in the news lately--is held by only a very small part of the population, but the environment which produced it has, in a less spectacular way, weakened consumer demands on a much broader front. Consumer concern about inflation seems to have had an adverse effect on spending over and beyond necessitous retrenchment by those living

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on fixed incomes. Recently, concern about income prospects also appears to have brought about more conservative spending attitudes. Our youth have shown no more inclination to spend freely than their elders. Disenchantment with the ultimate goals and the structure of society has not stimulated their consumption, either; neither their concern nor their protest appears in our calculation of the gross national product.

Attitudes generally have been buffeted by non-economic forces--the ups and downs in our progress toward disengagement in Vietnam, the tensions introduced by social and student unrest, and the uneasiness of so much questioning of our society's goals and the establishment's institutional arrangements for meeting them. One might epitomize the worrisome mix of economic and non-economic trends in the past few months by observing it's been a tough time for both ticker tape and girl watchers with plunging stock prices and hemlines.

Uncertainties of the type I have been mentioning, by altering the psychology and attitudes of consumers and investors, influence their spending and investment decisions. But since the underlying forces are essentially non-quantifiable, directly or through proxies, the timing, duration and magnitude of these influences are not readily incorporated into econometric models on which we have become dependent.

Dependence on the models is not misplaced. Their capacity for internal consistency, for bracketing the forecast

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range, for policy simulations, and for objectivity are invaluable aids to economic forecasters. Edward Gramlich, an econometrician on the Board's staff, put it well recently:

> "Judgmental forecasts may be consistent in the sense that all identities add up correctly, but they are not always consistent in the economic sense that consumption patterns may not be consistent with inventory patterns, or that flow-of-funds projections imply interest rate patterns which are consistent with the patterns of final demand. Model forecasts, whatever their defects, insure this consistency automatically." Within, I would add, the range of past experience.
>
> "Secondly, model forecasts can increase the mechanical advantage of judgmental forecasters. Rather than having to appraise major economic relationships and specific factors simultaneously, models can take care of the major economic relationships and allow judgmental forecasters to worry exclusively about specific developments. Thirdly, a close study of the residuals might itself be instructive because it acts as an early warning device in noting instances of structural change in economic relationships. Fourthly, models provide a technological advance in that once a forecaster has adjusted residuals to give reasonable predictions, he can at zero cost extend his forecast further into the future and alter policy variables to examine the

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effects of policy changes. And, finally, the model gives the forecaster an independent and completely honest check on his judgment."

Mr. Gramlich stresses the strengths of the econometric approach but the prestige of this technique can be misused. For example, there is some tendency for sorcerers' apprentices to use simplistic models to simulate nightmares for policy makers, by projecting intolerable levels of inflation or unemployment, or even both! In the hands of the master economist, models greatly extend insight and usefulness. A master does not hesitate to adjust judgmentally the model's workings and findings in light of known weaknesses or those that come to light, and he does not needlessly stir up policy makers.

In the current environment the greatest difficulty of the model user seems to me to be found in evaluating consumer demand, appraising the effect of the recent large decline in equity values on consumer demand, housing, and business investment. Models in use are not adequately equipped to deal with the abnormally large changes that have occurred in financial asset values or with the historically unprecedented level of interest rates at which funds must be obtained.

Under the circumstances, I find it difficult to achieve a high degree of confidence of forecasts within the range of projections that are offered for GNP, real GNP, the unemployment ratio, the GNP deflator and other stripped down indicators of the economy's performance. No do I sleep much better at night knowing that the money supply in the first half of the year grew at the

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magic rate of 4.0 per cent, since it may well be that demands for cash balances in a time of uncertainty changed by much more than this. But some people do.

Money supply watchers these days are almost as numerous as ticker tape and girl watchers. As a technique of business forecasting it supports a broad range of applications and devotees. It is simple enough for dilettantes and can be made complex enough for erudition or darkly obscure mysticism. And it can also be adapted to policy making or to second guessing the decisions of policy makers.

The basic difference between the econometrician and the money supply watcher is that the former seeks an explanation of the process by which changes in the various sectors of the economy occur. The money supply watcher, on the other hand, professes little or no interest in that process--it may be too complicated to unravel or it may simply be irrelevant to the purpose. The relationship of changes in money and changes in economic activity in the past demonstrates--the dogma goes--that with a lag, the changes in business activity will respond to changes in the rate of growth of money. But in this simplistic approach lies the danger that the past relationships may not hold, or that the sub-structure of the relationship will hide economically meaningful differences. Even if a change in current dollar GNP lags predictably behind money supply developments, for example, the share of the GNP that is real and the share that reflects price increases may well shift with economic attitudes.



While my preference is for econometric analysis of the more substantive variety, I fully agree that the relevance of monetary and credit aggregates as proxies, responders or generators must not be ignored. Monetary policy making is better for giving more attention to the monetary and credit aggregates. But without some theory of relationship between money, however defined, and the economy, confidence in a particular regression result tends to become an act of faith in light of the unlimited possibilities of alternative regression findings derived from alternate definitions of money, varying time periods of lag, and different paths through which the monetary influences may work themselves out in different economic circumstances.

Another limitation money supply watchers should bear in mind is that no single aggregate merits consistent allegiance as the economy's financial needs and practices change, or as bankings' share of credit flows change. This fact is well illustrated by the 1969-70 experience with the use of Regulation Q ceilings, constraints on repurchase agreements and other devices adopted by the Federal Reserve to limit if not sever bankings' connection with money and capital markets. These measures made M_2 and the credit proxy, in my opinion, inappropriate measures of monetary conditions. Their relevance, even with the adjustment of the proxy for Euro-dollar use, loan sales and the like, requires the assumption that limiting the impact of monetary restraint to the banking system while leaving funds to flow more

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freely in direct credit market channels, somehow administers the monetary coup de grace. Bankings' share of the market declined dramatically during this period but because of extensive disintermediation comparable restraint was not applied to the economy as a whole. Most of the proponents of M_2 as a significant monetary variable discontinued reliance on it during the period in which banks were forced to limit their access to U. S. money markets.

Under those circumstances, M_1 has recently been the focus of most money supply watchers. And it has put on quite a pyrotechnic display for them--particularly those who believe that a week or month of rapid rise or decline, measured in terms of annual rates of change, presages more of the same. To a significant degree these explosive changes have been due to imperfections in the basic statistics obtained in the course of estimating net IPC demand deposits. But if this limitation had been overcome there still would have been an irregular growth in the money stock on a month-to-month basis and some money supply watchers would have been able to view developments with great alarm by peak-to-trough or trough-to-peak measurements. Considering the data problems and the System operational techniques money supply watchers would do better to take another look before reaching a judgment they must shortly reverse.

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In the record of the past 12 months the monetarist would--in my judgment--have had little to disturb him had he taken a longer look and a more discriminating one at the actual data:

		Annual rates of change	
		Monthly	Quarterly
1969----	July	1.8	
	August	-1.8	0.0
	September	.0	
	October	.6	
	November	1.2	1.2
	December	1.8	
1970----	January	9.0	
	February	-10.7	3.8
	March	13.2	
	April	10.7	
	May	3.5	4.2p
	June	1.8	
	July	4.1p	

My judgment over the year as manifested in my voting record was that, with one exception, the money supply aggregates have been appropriate to actual conditions. In the late summer of 1969, however, monetary conditions were getting too tight as evidenced by the behavior of M_1, as well as by the further rise in long-term interest rates at a stage that was obviously very late in the cycle. A majority of the FOMC did not agree that these trends indicated further tightening and stated in the directive the intent to maintain "prevailing firm conditions in money and short-term credit markets." Governor Maisel and I were the only members of the Committee at the meetings of August 12 and September 9 to contend that a "no change" directive in terms

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of money market conditions would, in fact, be a tightening directive.

Short-run money supply trends in January, March and April of 1970 were not indicative of longer run M_1 trends, as subsequent developments have indicated.

In recent weeks, liquidity stresses in the economy have been eased without any great change in M_1 or its components. But there has been a great increase in intermediation at commercial banks and savings and loan associations. Large denomination CD's, freed of ceiling restraints in the important maturity ranges, rose about $1 billion per week for five successive weeks. Total time and savings deposits at commercial banks rose at an estimated annual rate of 35 per cent in July and re-intermediation, along with discount window accommodation, made funds available to banks who, in turn, accommodated those sectors of the economy under liquidity stresses.

In June-July some observers thought that liquidity demands of the economy would require large changes in M_1 which, on the basis of some model projections, would lead to resurgence of inflation. It now appears that the liquidity crisis was not a problem of the economy as a whole but only of limited sectors. Nor do data available up to this time indicate much net effect on M_1. The most recent evidence of behavior of money holders shows them exhibiting a strong preference for the convenience, safety and liquidity of near monies--high quality, short-term securities or interest-bearing time deposits.

These shifts seem to be at the expense of equity holdings, riskier investments and consumer expenditures.

The cooling-off process initiated by a combination of monetary policies nearly two years ago was described at the time as "gradualism." The gradualist approach was derided by some as ineffectual but, with some fortuitous assists, it has turned out to look pretty good. It has slowly but spectacularly altered economic expectations and business prospects. It has set in train a sequence of events which will, given still more time, bring inflation under control. It has uncovered weaknesses and abuses in credit practices and financial structures that are characteristic of an inflationary environment. These are now undergoing correction and modification, but in an orderly way and without aspects of cumulative over-reaction by lenders and investors.

The processes set in motion have yet to run their course in the effects on prices and costs. But the policy issues of the moment are not those of sustaining restraint until the last ripples of earlier inflationary programs and policies have died away. Rather, the issue is one of timing action to stimulate those sectors of the economy on whose activity we will be dependent for jobs and opportunities six to nine months hence. Since we have limited experience with the conjunction of a dramatic decline in wealth, a widening recognition of the continuing burden of high interest rates and an economy greatly concerned with

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non-economic issues, we can easily underestimate the economic contraction that has been set in process, and will need to be reversed. The dimensions of the problem are difficult to bracket and the forecasting complexities in an environment with so many cross currents present are formidable. The experience of the past year or more convinces me, however, that above all we will need a greater awareness of the limitations in our projection techniques if we are to avoid being impaled by doctrinaire monetarist or non-monetarist models of sorcerers' apprentices.

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For release on delivery
Friday, April 10, 1970
at 12 Noon PST (3 p.m.,EST)

The Intent and the Letter of Bank Regulation

Remarks of George W. Mitchell

Member, Board of Governors of the Federal Reserve System

at the

Annual Legal Seminar

of the

California Bankers Association

Santa Barbara, California

April 10, 1970

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The Intent and the Letter of Bank Regulation

Banking regulations, like any formal body of rules sanctified by observance or enforcement and serving as a means to an end, can, over time, be transformed from means to ends. Then regulation exists to preserve regulations. If the original purpose in public policy has been spent or eroded by environmental or institutional changes, allegiance to over-age regulations gives rise to unnecessary and frustrating operating obstacles. Under such circumstances, obsolete regulations can stunt banking growth and divert the fruits of progress and innovation to non-regulated institutions. They can retard or even smother adaptation in the entire financial sector of the economy.

Banking regulations of substance, therefore, need periodic reappraisal in terms of their need and applicability to present-day problems and environment. While uninhibited reappraisals are always possible, inertia and the precedents of ways of thought are intractable barriers to timely and objective reviews of the status quo.

When your program chairman invited me to address you today on the problems of bank regulation he specifically said he would have to disqualify a regulatory or legal technician. I am neither of those, never having examined a bank nor drafted a rule. I could not, therefore, assume either such hat on this occasion.

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In my remarks today I will not attempt to trace the evolution and the present appropriateness or inappropriateness of banking regulation generally. The field is too vast, too entangled, and too encrusted with prejudices for a post-prandial occasion. Neither am I prepared to generalize the grievances experienced by the regulators and the regulated in resolving conflicts between the public and private interest. Though it might be expected, I will not touch on "truth in lending" or "bank safety" regulations because both are implementations of explicit Congressional policies adopted very recently. The agencies have given a great deal of attention to both of these regulations and while you may fault their need or our interpretation of Congressional intent I can only say that we have done our best and that neither regulation is obsolete.

It is tempting to deal with regulatory constraints on banking structure, as this is a fertile field for the general thesis that regulations tend to outlive their usefulness. I abandon this opportunity because, with the exception of required Federal approvals for mergers or combinations, and for holding company formations or acquisitions, there is no uniform Federal regulatory policy on banking structure. Policy in this regard has been delegated to the States, and among the States there is great diversity. Attitudes in many States toward structure are constructive and forward

looking: but in others, stagnant and seemingly impervious to changes in our economic and social environment.

I will be concerned with regulations affecting bankers' management of assets, liabilities and equity positions, banking's ability to intermediate and maintain contact with money and credit markets, and the U. S. banking system's ability to participate in international banking, credit and equity markets.

Management of Asset, Liability and Equity Positions

The economic shock of bank failures in the Twenties and Thirties generated an overwhelming public demand for the protection of deposits. The Congressional solution was threefold: insurance protection for small depositors, constraints on asset and liability management by bankers, and the delegation to Federal regulatory agencies of a general overlooking concern in behalf of depositors.

But there seems to have been no clear, forceful statement of Congressional intent from which a genealogy of regulations leading to the present regulatory apparatus could be derived. The Bank Conservation Act, Title II of the Emergency Banking Act of 1933, authorized the appointment of conservators "necessary in order to conserve the assets of any bank for the benefit of the depositors or any other creditors." The preamble of the Banking Act of 1933 states that the act was intended "To provide for safer and more effective use of assets of banks, to regulate interbank control, to prevent undue diversion of funds into speculative operations and for other purposes."

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The preamble of the Banking Act of 1935 states that the act was intended "To provide for the sound, effective and uninterrupted operation of the banking system and for other purposes."

Section 9 of the Federal Reserve Act states "No applying bank shall be admitted to System membership unless it possesses capital stock and surplus which, in the judgment of the Board of Governors of the Federal Reserve System, are adequate in relation to the character and condition of its assets and to its existing and prospective deposit liabilities and other corporate responsibilities."

The Federal Deposit Insurance Act authorizes the issuance of a cease and desist order if a particular violation or practice "is likely to cause insolvency or substantial dissipation of assets or earnings of the bank, or is likely to otherwise seriously prejudice the interests of its depositors."

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The more recent legislative pronouncements have shown concern for the advantages of competitive banking facilities and the need to serve community convenience and need. For example, the Bank Merger Act and the Bank Holding Company Act provide that no proposed merger (holding company acquisition) shall be approved "whose effect in any section of the country may be substantially to lessen competition....unless it (the responsible regulatory agency) finds that the anticompetitive effects of the proposed

transaction are clearly outweighed in the public interest by the probable effect of the transaction in meeting the conveniences and needs of the community to be served."

These statutory excerpts indicate the very general nature of earlier Congressional direction to the regulatory authorities, a concern for banking institutions as well as depositors and a growing specificity as to the nature of conflicts in the public and private interest.

The successful experience with deposit insurance has undoubtedly greatly reduced public concern about the safety of bank money and the stability of banking institutions.

Insurance now fully protects nearly 99 per cent of the accounts in commercial banks although the coverage in terms of deposit aggregates is another matter. According to the 1968 Survey of Deposits coverage ranged from 11.1 per cent of the dollar total of deposits of State and political subdivisions to 90.6 per cent for savings accounts and 52 per cent for demand deposits IPC.[1/]

Another way of assessing the coverage is by size of bank. In banks with less than $5 million in total deposits, coverage was 86 per cent of total deposits; in banks with $5 to $25 million, 79 per cent. In the largest banks, those over $500 million in

1/ According to the National Summary of Accounts and Deposits as of January 29, 1968, 98.5 per cent of 78.8 million demand deposit accounts; 99 per cent of 69.8 million savings accounts; 98 per cent of 22.7 million other time accounts, and 69.7 per cent of 516 thousand State and political subdivision accounts were fully protected. At that time the ceiling coverage was $15,000, it has subsequently been increased to $20,000.

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deposits, coverage drops to 39 per cent. Since deposits of the U. S. Government and of State and local governments in most States are fully collateralized, and since such deposits are of the order of 10 per cent of total deposits, it can be inferred that depositor protection by insurance or collateralization is nearly complete in banks with less than $25 million in deposits. Eighty-five per cent of the nation's banks are in this size group and they have 20 per cent of the nation's deposits.

According to the 1968 Annual Report of the Federal Deposit Insurance Corporation, losses sustained and expenses incurred in liquidation or assumption operations from 1933 to the end of 1968 have been only $55 million. The present insurance fund aggregates $3.75 billion. The Corporation's record of liquidation and assumption is impressive but so is the record of banking's limited exposure to economic vicissitudes which must be credited primarily to 35 years of reasonably sustained economic growth and -- alas -- to three war-induced inflationary surges.

In light of this record and in light of the fact that 99 per cent of the deposit accounts in U. S. banks are shielded by an insurance fund of $3.75 billion, one may question how much of the essentially pre-war superstructure of regulatory restraint and supervision of asset, liability and equity positions is needed. Detailed verification of accounts, and the item-by-item

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evaluation of certain assets characteristic of older examination practices seems out of place with the in-bank standards and policies that the present generation of bank managers and owners are impelled to adopt in their own interest.

As a non-professional regulator, it seems to me that in our present-day banking environment the public concern for depositor safety and institutional stability would be adequately and even better served than it is now by something along the lines of the following program, which, so far as I can see, would be appropriate for all financial intermediaries as well as banks:

1. There is a need in every financial institution for an internal accounting system capable of protecting the integrity of the accounts and, so far as practicable, guarding against defalcation. It should be reinforced, of course, by bonding requirements similar to those generally in effect now. It should take into account size of bank and the role of owners as managers. Bank owners, if ownership and management are separated, have at least as much interest as regulators in these security measures.
2. Periodic outside audits are essential. Because of the costs involved, many financial institutions do not have independent audits, or they do not have professional audits or the audits are too infrequent. To the extent cost is



a real barrier, some subsidy from regulatory agencies for audits of suitable quality and scope would be appropriate. Since auditing techniques are becoming more efficient this objection is losing force if, in fact, it ever had validity. It is, of course, well known that a bank examination is not a substitute for an audit.

3. As a basis for explicit supervisory action a new periodic reporting system tied into a continuing computerized analysis is needed. For larger banks, weekly--or, for some types of information, even daily--reports of condition and gross flows in selected asset and liability categories would promptly reveal overexposure to liquidity stresses, undue asset concentrations or equity deterioration. Such a revelation of individual banking operation against a modal pattern for similarly situated institutions would provide regulators with such leads as they would need for swift and specific investigation. For the smaller banks monthly, or even quarterly, reports would probably suffice.

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Former Chairman Randall of the Federal Deposit Insurance Corporation, writing in The Supervisor and Banker Review for July 1968, describes other techniques by which computer technology could be used to expedite and extend the effectiveness of bank examination and supervision.

4. The final component in such a plan would include those inspections that Congress may directly require and such policing as is needed to check the validity and integrity of the preceding programs and to guard against conflict-of-interest situations. These inspections, imaginatively treated, probably would not require large regulatory staffs. The banking institutions themselves should not require much prodding to adopt management policies aimed at avoiding legal penalties for statutory violations.

The trend in accounting and audit supervision today is, generally, strongly toward establishing techniques and practices for the future rather than holding post-mortems on past transactions. Bank supervision has always been primarily concerned with future practices but it has interpreted the public interest with more "don'ts" than "dos" and with more emphasis on specific episodes in the past than better systems for the future. As in tax audit and inspection, bank examination, because of its unexpected timing, has had an important therapeutic effect on marginal banking practices involving conflicts of interest, over-exposure to risk, and illiquidity. But these effects can and should be retained with more or less continuous informational scrutiny of the areas most sensitive to the public concern.

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Regulating the International Operations of U. S. Banks

For over 50 years, the Federal Reserve Act has permitted member banks to operate foreign branches and to establish domestic subsidiaries which can compete with foreign institutions in international and foreign banking and finance. These domestic subsidiaries of U. S. banks, primarily Edge corporations, are empowered to do certain things in their foreign operations that their parent commercial banks are precluded, by law, from doing in their domestic operations. The most notable exception is the power to make equity investments. Conversely, the Edge corporations are prohibited from engaging in any operations in the United States not incidental to their foreign business.

Since the revision in Regulation K in 1963, most of the regulatory limitations on foreign activities of Edge Act corporations are simply those contained in the statute. However, in exercising its delegated responsibility to construe what is a usual activity for competing foreign institutions, the Board of Governors has taken a rather narrow approach to equity acquisitions or participations in joint ventures.

In approving acquisitions by Edge corporations involving a majority of shares in a company or otherwise involving effective control of a company, the Board has insisted that the acquired company confine its activities to those permissible to an Edge corporation. With regard to determining the activities that would be

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permissible for an Edge corporation, the Board has said that such functions must be confined to the area of banking and financing and that it is inappropriate for an Edge corporation to acquire control of a company engaged in a nonfinancial business.

In accordance with this policy, the Board last year withheld authorizations for the Edge corporation of a New York bank to acquire a Taiwan life insurance company. Life insurance, it appeared, fell outside what normally would be considered financial. Again, the Edge corporation of another U. S. bank, a few weeks ago, was denied permission to acquire, indirectly, effective control of a Caribbean company engaged in real estate development even though the investment was intended to have been liquidated after the development was well along. It was believed that this form of equity investment, involving incidental management responsibility, was also sufficiently outside the bounds of financing to be inappropriate. The Board, for the same reason, also recently required a partial disinvestment of interest in a cattle feeding operation in Argentina.

What, you may ask, is the benefit of construing "financial" narrowly? The Board has been guided by the overall purpose of the statute, which is to encourage U. S. participation in activities related to international or foreign banking and financial operations. Serving that objective does not entail the right of Edge Act companies, or those in which they have a

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large or controlling interest, to acquire substantial non-financial interests. Of course, the line between financial and nonfinancial is not easily drawn nor readily discerned in prevailing foreign banking mores. Both the degree and nature of nonfinancial participation are at issue in most cases, and the Board has been approaching the problem on a case-by-case basis. Looking at approvals since the relaxing revision in Regulation K in 1963, it appears to me the trend has been slowly toward somewhat increased permissiveness.

Bank Intermediation and Contact with Financial Markets

By far the most interesting and widely discussed regulatory action in recent years was the attempt to restrict the banking system's ability to expand credit in 1969 by limiting its access to money, credit, and time deposit markets. Experience with monetary restraint in 1966 had demonstrated that whenever market interest rates rose above those that could be paid for time money, banks were soon forced into a rationing posture. The efficiency of the process was noted in the Federal Reserve.

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This relatively brief but poignant episode also impressed bankers. They foresaw a necessity to develop methods for shifting some of the monetary impact as Regulation Q ceilings closed in. Consequently, they were prepared when monetary restraint was renewed in 1969 with a determination not to be an entirely passive victim of Regulation Q ceilings. They had readied a panoply of

devices which would help them to pass on to the financial markets at least a portion of the restraint which Q ceilings initially imposed on them. As these devices--Euro-dollar borrowings, repurchase agreements, subordinated notes, commercial paper sales by holding company affiliates and banking subsidiaries--came into significant use, the Federal Reserve countered with additional regulations defining liability alternatives as deposits or increasing their cost or limiting their availability. In the process, an adequate measure of overall monetary restraint emerged--although that result is extraneous to the point of the present discussion.

We have been concerned with the effects of regulatory escalation and proliferation and how they may have affected the efficiency of the existing financial system. No doubt costs and frictions in its functioning have been a significant by-product of the 1969 type of credit control. But the longer run effects on the banking system and the implications for future banking operations, services and structure are more interesting and potentially more far reaching. These may not be altogether non-productive.

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To consider these implications briefly, we can start with the well known fact of a persistingly declining trend in the role of demand deposits as a source of loanable funds, a trend, incidentally, that is not likely to be reversed. Between January 30, 1961 and June 30, 1969, net demand deposits grew only

38 per cent while GNP rose 85 per cent. Banks compensated for lagging demand deposit growth by aggressive intermediation efforts; as a result, time and saving deposits in the banking system rose 153 per cent in the 1960's.

Another well established fact is that Congress has created the machinery for limiting rate competition between banks and thrift institutions. There may be varying judgments as to who is the gainer from this procedure in the long run--banks or thrift institutions. In all probability it is neither, as the advantage is likely to go to the market and non-regulated intermediaries. However this may be, banks cannot expect to make direct inroads via rate competition on savings and loan associations' and mutual savings banks' market shares without incurring exposure to regulatory intervention.

Finally, as I indicated earlier, in 1969 banks attempted to establish a variety of links with the financial markets which would enable them to sell assets conditionally, borrow abroad or participate at home in the commercial paper market through affiliates or subsidiaries. These steps were hampered or obstructed by Federal Reserve regulations promulgated with the rationale that such steps were necessary to achieve monetary restraint. The fact that this judgment was widely contested--and in my opinion properly so--does not change the impact it must have had on corporate planning in banks. Where does banking's future lie if demand deposit growth persistently

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lags the economy's growth and if banking's efforts to compete with other intermediaries and the market are stifled?

This is the question bankers have to answer. Some of the larger banks have turned to expanded foreign operations. Others have been trying, within the limitation of State laws, to extend their domestic markets, mainly through registered holding companies. Many institutions are obviously probing the possibility of significantly extending the character of their services. The evidence of the seriousness with which the approach is being pursued is evident in the controversy over the one-bank holding company bill, and particularly over the blank, white, and dirty laundry lists.

Overall, these developments seem to be pointing to a significant change in banking's corporate organization: a corporate splintering of activities; the isolation of demand deposit banking and its regulatory impedimenta; the substitution of a community of stockholders for wholly owned subsidiaries and affiliates so that customers can be retained or gained by the use of viable market practices.

Regulation alone has not brought this corporate soul searching to pass but it has tested the innovative capacity of bankers, causing them to reappraise the future of this corporate existence, to reappraise the way in which traditional commercial banking should be carried on and to reappraise the possible scope of diversification and new lines of service products.

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This brief discussion of three regulatory areas points to the complexity of "doing something about"--that is, reconciling--conflicts in the public and private interest in banking by improved regulatory practices.

Clearly the line of conflict needs to be under continuous scrutiny as it changes with the times and the attitudes of the community. Allegiance to obsolete requirements and objectives are hard to overcome or replace as they become embedded in institutions and organizations. In the broadest sense, the interests of the regulators and the regulated are not always opposed or even usually so. They sometimes appear to be opposed because of the attitudes and views of extremists in both camps.

Finally, it is apparent that some regulatory conflicts and differences stimulate both parties to achieve a better solution to a particular problem. Beyond that, such conflicts may move both parties toward innovations in practices and techniques which will result in the substitution of market disciplines for regulatory supervision in the protection of the public interest.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
SPECIAL
Chairman Burns

For release at 6:00 p.m. EST,
March 19, 1970

THE NEEDLE IN THE PAPER STACK

Remarks of George W. Mitchell

Member, Board of Governors of the Federal Reserve System

at the

Senior Banking Forum

of the

American Institute of Banking

Kansas City, Missouri

March 19, 1970

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THE NEEDLE IN THE PAPER STACK

Progress toward an electronic payments system in the Sixties was steady, if not spectacular. Checks and drafts, ledgers and journals, securities and passbooks are in the process of giving way to electronic recording, transmission, manipulation, storage, and access. But the most important development may well have been the beginnings of the psychological adjustment of bankers and their customers toward the concept of handling money without moving paper. Since much of the historical business of banking has been built around the inefficiency of its customers and the aged mechanics of traditional money transfer and security, it is hardly surprising that resistance to a change in transfer mechanics is inherent in the very structure and operations of banking.

The role of banking and the adaptive capacity of bankers has, of course, been subject to other fundamental changes in the 1960's. By now it is widely recognized that earlier fears of a reduction in the industry's credit role due to lagging demand deposit growth underestimated the resourcefulness of bankers. As their customers became more efficient in their use of money, bankers became more inventive in their use of other intermediation devices and techniques. They were so successful in this that banking's share of credit markets actually rose significantly in the decade of the 1960's. This more innovative mood of bankers has been demonstrated in the resourcefulness with which banks

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managed by means of liability instruments and arrangements to disperse some of the monetary restraint recently administered through Regulation Q ceilings. It has also been reflected in their use of affiliates, subsidiaries, and one-bank holding companies to hold their existing customers, to penetrate new markets, and to offer new services. Thus, the record clearly shows that in these areas bankers did innovate successfully in the Sixties, given a sufficient incentive.

In light of this track record, bankers might also have been expected by now to have made much more progress in dealing with another of their major challenges--the huge stacks of paper piling up as product of their money transfer operations. The reasons for laggard bank progress in this area are not entirely obvious--they involve the subtle interlacing relationship of currency, checks, securities, and ledgers to banking's traditional services, structure, and rationale.

To be sure, there have been desirable improvements in check processing effected in the Sixties, but these do not begin to solve the basic problem. It is not enough that virtually all of the 30 million checks written daily should be processed (i.e., added and sorted) on electronic equipment. The savings from efficiency and speed of that process are swamped by the burdensome practice of coincidental check handling: the sorting, batching, proofing, shipping, resorting, rebatching, reproofing, reshipping, and so on that continues until the document itself is repatriated for the drawer's final proofing and filing.

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Electronic technology now available and of proven capability can provide a vastly more efficient functional performance if permitted to slough off paper tracers and by-products. The needle in our paper stack that we need to find is the requisite incentive to motivate banks and others to install and accept the economies and conveniences of an electronic settlement system. Basically, we know the nature of the problem and we know how to solve it--what is lacking is enough motivation to act.

Before pursuing further the incentives and altered attitudes prerequisite to an all-electronic system, let me point to some recent developments in money settlement techniques that underline our rapidly improving capabilities in this field.

The most important of these, in my opinion, are those which will help to eliminate, or eliminate after an initial input, all subsequent paper handling, sorting, storing, or referencing. The term "paperless entries" has been used to describe electronic record-keeping systems. Once initial inputs have been converted into electronic terms, all subsequent operations can be performed electronically, with, of course, visual or print-out access.

There are elements of a "paperless entry" system in many present practices. The long-established Federal Reserve wire transfer facility is one such example. These interbank transfers of funds involve no shipment of currency or checks and no further processing of the

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original instruction or authorization. While this facility is not now a wholly "paperless" system, it is capable of becoming one since it has recently been modernized and greatly expanded. With the expectation that there will be a very rapid growth of money movements by wire during the next several years, a new Federal Reserve communications system has been designed that can take care of at least a twelve-fold increase in transactions. It can be expanded to accommodate perhaps as much as 100 times present volumes.

The switching gear for this new system has been installed at Culpeper, Virginia, and is now in the process of checkout. It will accommodate transfer rates varying from the relatively slow teletype rates to the higher speeds of magnetic tape transceivers and of computers. The transmission equipment used will depend on the type and volume of traffic between the different points in the Federal Reserve System. The types of messages flowing between the Federal Reserve Banks and between the Banks and the Board of Governors include not only transfers of funds, but also a variety of textual, accounting, and statistical messages. However, the predominant and most valuable use of the new communications system will be the transfer of funds.

The communications switch, called the M1000, is a specially designed computer system which works on the store-and-forward principle. It presently will allow a transfer rate of up to 4,000 characters per second, and this is expandable to 8,000 characters per second or possibly

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more by providing additional memory and processing units. All Federal Reserve offices will be connected directly to the central switch. As volume expands, plans call for use of secondary collector facilities to speed traffic along a smaller number of trunk lines. Initially there will be over 120 terminals including those located at the Treasury Department and at the Commodity Credit Corporation.

Each of the twelve Federal Reserve Banks and the Board of Governors will have magnetic tape equipment which will be used for transferring accounting and statistical research data at medium transmission speeds over 2400 baud lines. Computer-to-computer communication will allow data transfer at much higher rates of speed, and this capability is now in the planning stage.

Switching of messages will be handled automatically for messages between Federal Reserve Banks, and with this capability it is envisioned that a wire transfer originating at a member bank or clearing center may be routed through the Federal Reserve network and automatically switched to the receiving bank. The Chicago Federal Reserve Bank will install a M1000 switch this summer which will enable it to route messages among all of the midwestern banks linked to its facility and also to any other Federal Reserve Bank or commercial bank similarly linked to a Federal Reserve Bank. Plans for similar installations at New York and some of the other Federal Reserve Banks are under way. Such services will provide a communications network that can support a paperless payments system in the 1970's.

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Another element of "paperless entry" coming into general use substitutes some form of automated or electronic input for pay checks. Since a large proportion of payments made by corporations and governments are for salaries and wages, a significant improvement in the payments mechanism would be achieved if electronic processing were adopted in this one field alone. The Federal government uses a procedure of this kind for making payments to employees, retirees, and pensioners. Additional applications are under study. The response of payees has not been very enthusiastic: 10 percent of Government civilian personnel elect to receive their pay in this manner, 28 percent of military personnel. The Federal Reserve System offers a similar program for its employees, and at the Board in Washington 35 percent of our employees have opted for this arrangement.

Withholding sums from pay checks for tax and other payments is another common payment practice which has important elements of a paperless system. One of these elements is the agreement by the employee (enforced by law for taxes) to have payments made on his behalf by his employer. This agreement also fixes the time of payment and, where practicable, a uniform amount for each pay period. Given this authorization, the employer can combine and accumulate payments to a common payee. Withheld taxes, union dues, group insurance premiums, charity contributions, etc., are made as a single payment in lieu of scores, hundreds, or thousands of monthly checks from individuals.

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Many efforts have been made to extend the withholding principle to utility payments, rents, insurance premiums, mortgage payments, and the like. Such plans work best if the payees are entities having a large number of customers in a given area, if the payments are at regular intervals, and if the amounts are identical or can be made so by averaging over some given period. While pre-authorized payment plans have yet to become popular, some have hopes they can be packaged to gain broad acceptance.

The Home Loan Bank Board, for example, has recently published a proposed change in its regulations which would give savings and loan associations the authority to pay, at the shareholder's request, amounts from savings accounts to third parties. The language of the proposal conforms to the wording of Section 1716 of the Housing and Urban Development Act of 1968; it specifies that the payment orders be nonnegotiable and nontransferable.

The authorizations could either designate payment of a single obligation or they could instruct the association to pay a member's periodic obligations, such as utility bills, and could be honored even if the amounts to be paid were not specified. The payment orders could effect a direct transfer to a savings account of the third party if the third party agreed to the arrangement.

It would be possible, for example, for a shareholder to authorize his association to pay each month the minimum balance due on

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his revolving charge account at a department store. A shareholder could have his pay deposited directly with his association.

A successful implementation of this proposal would have a significant impact on the payments system of this country. Savings and loan associations, by internal transfers of funds into the accounts of utilities companies, insurance companies, and other large receivers of payments, would displace a very large volume of individual checks.

The credit card is another accumulating and combining device for payments. The clientele of the card issuer, however, is not a captive group as are employees subject to withholding. Card holders must be won over by promotion, credit access, convenience, and some day, no doubt, discounts for cash. Credit cards make it possible for the purchaser to write a single check to settle many obligations, and they, therefore, take a considerable burden off of the currency circulating and check-clearing systems. Credit card systems still produce large numbers of sales slips which must be cumulated in preparation of final settlement. But in this case, the accumulator--the card issuer--has enough economic incentive to install the kind of electronic systems to handle large volumes of transactions economically and expeditiously.

Finally, mention should be made of the recent introduction of book entry procedures as a substitute for the issuance and safekeeping of Government securities held by the Federal Reserve. As this practice is extended--and it inevitably must be because of its



overwhelming cost and convenience advantages--to securities of other issuers, the service of safekeeping on the scale to which we have become accustomed will give way to still another application of paperless accounting; it will be none too soon, either, considering the paper blockades in the security business.

I could go on with further illustrations, but those advanced should suffice to demonstrate our rapidly evolving potential to effectuate a full-blown electronic-payment and record-keeping mechanism.

This brings me back to the need to find-or apply-the motivational needle. No doubt an important factor inhibiting more rapid progress is the disinclination to change on the part of many bankers. This is more than a matter of inertia and the apparent security of the status quo. The innovative bankers of the 1960's who grappled with the problems of that decade are not likely to dodge the implications of a paperless technology. No better example of this attitude can be found than in the organization by the San Francisco and Los Angeles clearing house associations of a committee called SCOPE (Special Committee on Paperless Entries) to study and recommend arrangements for exchanging paperless credits and debits between banks. The committee has included among its objectives the development of uniform standards and procedures for exchanging automatic credits and debits via magnetic tape, punch cards or deposit tickets, and also functioning the accounting entries for normal check clearings by means of magnetic tape.

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The implications of such developments lead to policy alternatives that challenge the basic structure and operation of the banking industry. They extend well beyond the repercussions of the inevitable reduction in float implicit in simultaneous charge and credit. Float, after all, is a credit extension that has to be supplied by someone and, in an economic environment, paid for by the beneficiary in one form or another. All Float, that is, except the average of $2.5-3.0 billion supplied by the Federal Reserve to promote a more economical and convenient settlement system. This accommodation, obviously, should not become an impediment to the evolution of an electronic settlement system. The principal problems for the industry are much more basic. What happens, for example, to the elaborate facilities and arrangements for security when the paper they exist to protect no longer exists--having been replaced by electronic storage? What happens to banking office networks which accommodate customers' deposit and withdrawal convenience when money moves by wire? What new services can be offered at these branch offices as old services are phased out?

As we come closer to the "paperless" era, we become more perceptive of the adaptations required in our institutions and in our ways of doing business. There can be no turning back. But neither can we move forward so precipitously as to commit ourselves to a blind alley in development.

The banking industry and the Federal Reserve have the major responsibility for achieving steady progress toward an electronic payments mechanism. I suspect an outsider would judge that neither of us is working at full capacity to do so.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

GEORGE W. MITCHELL
MEMBER OF THE BOARD

October 20, 1969

Dear Arthur:

I am especially pleased that the President has decided to appoint you to the Chairmanship. We will benefit from your wisdom in many ways as you will surely find the assignment interesting and challenging.

I am looking forward to working with you.

Cordially,

George W. Mitchell

Dr. Arthur F. Burns,
Counsellor to the President,
Executive Office Building,
Washington, D. C. 20501

Called 11/4/69