

of 1966 they had gone up to \$19.8 billion. So that it looks as if you have in way or another a situation, even without this kind of provision, to make it easier for the banks to secure funds.

You are right, in the long run they have to iron this out but it is easier for banks to adjust to monetary policies. You have, absent this, a record showing that banks were able to adjust in such a way that their business customers were able to expand at a very rapid rate, even at an unhealthy rate, during the period of monetary restraint.

Mr. MITCHELL. Well, banks did take care of their business customers as long as they could, but in the summer of 1966 corporations were forced into the capital markets, and the funds for a continuation of the expansion of plant and equipment and in inventories came more from that source than from bank loans, once banks shut down on the expansion in their total credit. I think it is perfectly true that the banking system has a large amount of allegiance to the business community, because that generates a very substantial part of their deposits. But also it has a very substantial allegiance to consumer credit and to mortgage credit. It holds a lot of both of these. And it serves a very diversified area. It finances the U.S. Government. In fact, the banking system is the underwriter for U.S. Government securities.

Chairman PROXMIRE That is true. Of course, the banking community, the banking institutions perform an absolutely essential service outside of business.

Mr. MITCHELL. Yes.

Chairman PROXMIRE. But I think most of us feel, at least I feel that their prime customers are business.

Mr. MITCHELL. The large banks—that is true.

Chairman PROXMIRE. The large bank with a large amount of loanable funds; and for obvious reasons, if I were in banking, I would feel the same way. You take care of your biggest and most important customers.

Mr. MITCHELL. Yes.

Chairman PROXMIRE. You have to do it. Either that or you don't succeed.

Mr. MITCHELL. But I want to say that the changes in the discount mechanisms that are proposed here, are oriented more toward the small- and medium-sized banks than they are toward the large banks.

Chairman PROXMIRE. My time is up. I will be back.

Congressman Brock?

Representative BROCK. Just to pursue that for a moment, isn't it true that banks more and more are getting into consumer credit?

Mr. MITCHELL. Yes.

Representative BROCK. In a larger percentage of their business which is going that way, and also there is more emphasis on homeownership.

Mr. MITCHELL. Yes.

Representative BROCK. They are getting into this field. Now they have been limited by regulation?

Mr. MITCHELL. Yes.

Representative BROCK. Primarily in terms of the length of the loan.

Mr. MITCHELL. Yes.