

Mr. MITCHELL. As a conduit, that is correct, yes.

Representative BROCK. Now, can you envision a situation in which all the other financial institutions in the country were at a crisis point, they had no liquidity, in which the commercial banks had liquidity?

Mr. MITCHELL. Well, we would have to provide the liquidity to the commercial bank that was servicing the other institution. No, I can't, to answer your question. We all have to be in the same boat, in the situation you have postulated.

Representative BROCK. And if you are in the same situation where everybody is lacking liquidity, can you imagine a situation in which a commercial bank would want to act as a conduit to a savings and loan as opposed to a major industrial customer of theirs?

Mr. MITCHELL. Well, they would if their capacity to accommodate that savings and loan were taken care of by the Federal Reserve.

Representative BROCK. But they can take care of customers first and then the savings and loans?

Mr. MITCHELL. Well, if the lender has a continuing relationship with the borrower, he knows something about the borrower's condition and his prospects and the like, and this grows up into quite a fund of knowledge and understanding.

It is far better to keep the established borrowing-lending relationships and use them rather than to substitute a new one. I think that is all I am really saying.

Let me put it this way. The Federal Reserve has an enormous fund of day-to-day information about the operations of member banks. The Reserve banks know management policy, they know management personnel. They get daily reports on assets, on liabilities, and extremely complete reports on what is happening at every member bank, plus the regular examinations which take place once a year.

Now, that is the kind of fund of understanding which underlies the discount operation, but if you are talking about extending discounts to nonbank financial institutions, or to people who are nonmembers, you are not talking about the same kind of understanding at all.

Representative BROCK. I don't think we are arguing. I think I am just questioning the logic of your approach.

Mr. MITCHELL. I think this is essentially the logic of restricting a discounting operation pretty much to regular relationships.

Representative BROCK. All right, let's take 1966. Would you have, if you had had this available at that point, would you have made loans to savings and loans using the commercial banks as a conduit?

Mr. MITCHELL. We were prepared to. We were not asked to. We had the structure all set up at that time though it was not used.

Representative BROCK. You were prepared to do so?

Mr. MITCHELL. We were prepared to do it. We stood ready to do it, and we advised them that we would.

Representative BROCK. What would have happened if banks had been as tightly strictured as the savings and loans? You still would be prepared to make loans?

Mr. MITCHELL. Well, in fact many banks were hard pressed.

Representative BROCK. Yes I know.

Mr. MITCHELL. And in the so-called September 1 letter, which I am sure you have all heard of, we simply said, "You are entitled to discount credit, provided you indicate the nature of the steps you are taking to get back into adjustment."