STATEMENT SUBMITTED BY WESLEY LINDOW, OF THE AMERICAN BANKERS ASSOCIATION

Earlier this year the Banking and Financial Research Comı the American Bankers Association conducted a study of the mechanism. In recent years member banks have tended, for a of reasons, to avoid using the discount window, and we conclu there were areas where distinct improvements could be made. Now special subcommittee has reviewed the steering committee re] we feel that the proposals represent constructive steps in the rection. We, therefore, hope that the system will proceed to them, subject to such modifications as may seem desirable af able review by bankers and others.

The provision for a "basic borrowing privilege" should rer many banks the uncertainty which they now feel about the u discount window. The member banks will now know how much for how long they can be in debt to their Federal Reserve Banks. importance of this "right" is that it will enable the member adjust their reserve positions to offset stresses resulting from unpredictable, and temporary swings in both loans and deposits. the basic borrowing privilege will undoubtedly be sufficient i many cases, the steering committee has indicated that additional justment credit will be available to assist the banks on appro the same basis that credit is now available. In short, the mechanism will acquire as a result of these proposals a great deal flexibility and the member banks will be able to rely upon it greater assurance than in the past.

The steering committee also recognized the need for p "seasonal adjustment credit" to member banks and it has advanced formula which will accomplish this objective. This type of cr be most useful to the member banks in agricultural and reso While it may be used only by a few banks, it should provide them an extremely useful way of meeting their seasonal needs.

Obviously, the discount rate at which these types of credit will made available to the member banks will determine in great use of the discount window. The steering committee has indic the discount rate will be maintained reasonably close to the rates for alternative money market instruments and that it is to be changed more frequently than it has in the past. We bel this approach represents an improvement and will enable the window to function more effectively.

In general, it seems to us that the steering committee is proı modernize the discount mechanism and thereby to enhance its tiveness as an instrument of monetary policy. If the new prop adopted, the discount window will almost certainly become an tive operational instrument. It is likely to be of most help to t banks, but it will undoubtedly be used by the large banks as well.