STATEMENT SUBMITTED BY RICHARD T. PRATT, ... OMIST, U.S. SAVINGS AND LOAN LEAGUE

The Federal Reserve is to be commended for undertaking a reevaluation of the discount mechanism. In commenting on the proposals, two points should be made. First, the U.S. Savings Loan League has not had the benefit of all the research which Fed has had on this project. Secondly, the relationships which Fed wishes to establish with the commercial banking system do concern us except as they affect the savings and loan business its ability to provide adequate mortgage credit for American n needs.

Having made the above statement, a brief exception to it is undertaken. It is important that small commercial banks not be e from the obtaining of credit which is available to large banks. market imperfections should not prohibit small banks from reserve adjustments which can be made by the large banks. T concern for this matter is strongly endorsed. A second matte we endorse is the provision of a mechanism for evening out credit variations in local areas.

The remaining remarks are confined to the relationship of t proposals as they relate to the savings and loan business and n financing. The two topics of substantial concern are the proposal it relates directly to home financing and the effect which implementation of the Fed's proposals may have on nonbank thrift inst

FINANCIAL INTERMEDIARIES AND THE RELATIONSHIP BETWEEN D WINDOW OPERATIONS AND THE MONETARY ENVIRONMENT

The chief objective of the Fed's proposals is to liberalize privileges "for the purpose of facilitating short-term adjustments bank reserve positions."[1] This position is laudable as an expr the regulatory authority's concern for the business it regulates theless, possible direct or indirect effects from the policy on the of the economy should be carefully considered.

The liberalization of the discount window which facilitates mercial bank adjustments to monetary difficulties may aggravate adjustment difficulties of nonbank financial institutions. The for these adjustment difficulties stem from two factors inherent the proposals. The first factor is the timing of bank borrowin window. The second factor is the structural relationship betwe borrowing at the window and open-market operations required maintain a desired monetary policy.

Banks can be expected to aggressively use their basic bo privilege in periods of tightening monetary conditions and ma use of it in other periods. This behavior is almost guaranteed

[1] Report of a System Committee, "Reappraisal of the Federal Reserve Disco nism," Board of Governors of the Federal Reserve System, p. 1.