

fact that "related market rates would move higher relative to the discount rate in periods of restraint and lower relative to the discount rate during periods of ease."²

This means that significant surges would exist in lending activity at the discount window in times of credit restraint. Similarly, substantial repayments would occur during periods of reduced monetary restraint. If the escape hatch offered commercial banks affected no other sectors of the economy, little objection could be raised other than the perhaps minor point of the Fed's subsidizing the bank system by lending at below market rates. The complicating fact is that the expanded use of the window may further complicate a difficult monetary environment for nonbank financial intermediaries.

THE LIBERALIZED WINDOW AND THE PROVISION OF ADDITIONAL HOUSING CREDIT

Any suggestion that the proposed liberalization of the discount privilege would be a substantial boon to housing in times of monetary difficulty must be rejected. The reasons for this rejection are as follow.

1. The Fed has proposed that it provide credit to nonbank financial institutions only when "other sources of credit have been exhausted and failure of the troubled institutions would have a significant impact on the economy's financial structure."³ Housing markets may be depressed, homebuilding activity reduced and serious housing shortages develop without threat to the "economy's general financial structure." Such criteria as the Fed suggests is inadequate and nebulously defined.

2. The Fed's desire to channel emergency credit to nonbank institutions through member banks is both inequitable and unrealistic. It is unlikely that an effective borrower-lender relationship can be attained between the commercial banking system and the savings and loan business when natural competitive pressures are apt to be at a peak. It is inequitable to give commercial banks control over the ability of their members to do business and to provide the community with mortgage credit. It is unlikely that commercial banks will use additional funds to supply mortgage credit when demand for other better yielding loans is at a peak. If commercial banks are forced to supply mortgage credit, they would naturally tend to do so as direct lenders, rather than as lenders to the savings and loan business.

3. The Federal Reserve has announced that credit to nonmembers can only be provided at a "significant penalty rate vis-a-vis that member banks".⁴ This means that housing and home financing which is most sensitive to changing interest rates will have a second penalty levied against it by having to pay more for credit than the other seriously affected sectors surrounding it.

4. The mechanics of providing greater access to the discount window for member banks during periods of monetary tightness may actually reduce the amount of mortgage credit available in the economy. The following section treats this question at some length.

² Ibid., p. 20.

³ George W. Mitchell, statement before the Joint Economic Committee on the "Reapportionment of Federal Reserve Discount Mechanism," Sept. 11, 1968, p. 9.

⁴ Report of a System Committee, p. 19.