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NOMINATION OF PHILIP E. COLDWELL

GOVERNMENT

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HEARING

BEFORE THE

COMMITTEE ON

BANKING, HOUSING AND URBAN AFFAIRS

UNITED STATES SENATE

NINETY-THIRD CONGRESS

SECOND SESSION

ON

THE NOMINATION OF PHILIP E. COLDWELL
TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

OCTOBER 8, 1974

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(II)

NOMINATION OF PHILIP E. COLDWELL

TUESDAY, OCTOBER 8, 1974

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING,
AND URBAN AFFAIRS,
Washington, D.C.

The committee met at 10 a.m. in room 5302, Dirksen Senate Office Building, Sen. John Sparkman, Chairman of the committee presiding.

Present: Senators Sparkman, Proxmire, and Tower.

The CHAIRMAN. Let the committee come to order.

The purpose of the meeting this morning is to consider the nomination of Mr. Philip E. Coldwell of Texas to be a member of the Board of Governors of the Federal Reserve System for the unexpired term of 14 years, from February 1, 1966, in the place of Andrew F. Brimmer, resigned.

Both Senators from Texas, Senator Tower and Senator Bentsen, have approved the nomination.

Mr. Coldwell, we have your biographical sketch, and it will be made a part of the record.

[The biographical sketch follows:]

BIOGRAPHICAL SKETCH OF PHILIP E. COLDWELL

Philip E. Coldwell has served as President of the Federal Reserve Bank of Dallas, Texas, since 1968. He has also served as a member of the Federal Open Market Committee of the Federal Reserve System—the Nation's prime monetary policy-making body.

Born in Champaign, Illinois, in 1922, Dr. Coldwell received his Bachelor's and Master's degrees from the University of Illinois and a Ph. D. in Economics from the University of Wisconsin. During World War II, he served in the U.S. Navy as a fighter pilot.

Dr. Coldwell has taught economics at the University of Illinois, the Southwestern Louisiana Institute, the University of Wisconsin, and the University of Montana. He joined the Federal Reserve Bank of Dallas in 1952 as a research officer. In 1962, he was appointed First Vice President of the Bank.

Dr. Coldwell has authored a number of articles on economic and financial subjects. He is well known throughout the southwest through appearances before many business, professional, and civic organizations in that section of the country. His memberships in professional and civic organizations include the American Economic Association, the Southern Economic Association, the Dallas Economists Club, and the Newcomen Society of North America. He is a member of the Advisory Council of Assemblies for Bank Directors at Southern Methodist University, of the Board of Trustees of the Southwestern Legal Foundation at SMU, and of the Advisory Committee of the College of Commerce and Business Administration of the University of Illinois. He is a Public Councilor of the Texas A&M Research Foundation, and a director of the Dallas Council on World Affairs. He is also a ruling elder of the Highland Park Presbyterian Church in Dallas. Dr. Coldwell is married to the former Norma Elaine Abels and they have two children.

The CHAIRMAN. We have your financial statement. It will be made available to members of the committee here in the committee room. Then it will be locked up in our safe and retained during your tenure in office plus 1 year.

Senator TOWER. Mr. Chairman, would you yield?

The CHAIRMAN. Yes, Senator Tower.

Senator TOWER. I simply would like to say I am delighted to have the opportunity to present Dr. Coldwell to the committee.

He is certainly well-known and highly regarded in my State, and I think in economic and financial circles all over the United States.

I won't make a lengthy statement. I think his biographical sketch, showing his range of experience and background speaks for itself.

He comes highly recommended to this position, which is a very sensitive one, as we all understand. And I think he will perform with sagacity and good judgment. I would urge the committee's favorable consideration.

The CHAIRMAN. Mr. Coldwell, your financial statement was made to Chairman Burns from Mr. Andrew F. Oehmann. Is he the General Counsel of the Federal Reserve Board?

Mr. COLDWELL. He is Acting General Counsel, Mr. Chairman.

The CHAIRMAN. Acting General Counsel of the Federal Reserve Board?

Mr. COLDWELL. Yes.

The CHAIRMAN. The statement certifies that he has examined your holdings, and that he finds nothing that would constitute a conflict of interest therein.

Can you tell this committee that is correct?

Mr. COLDWELL. That is correct, Mr. Chairman.

The CHAIRMAN. This is a question we must ask of all our nominees coming before this committee.

If you are confirmed in this position, will you hold yourself ready to respond to requests from this committee to appear, or any other appropriate committee of the Congress, to appear and testify without reservation?

Mr. COLDWELL. I will, Mr. Chairman.

The CHAIRMAN. Senator Proxmire?

Senator PROXMIRE. Mr. Coldwell, you have served in the Federal Reserve system in one way or another since 1952, is that right, 22 years?

Mr. COLDWELL. I have been with the Federal Reserve system since 1951, yes.

Senator PROXMIRE. You were a research officer?

Mr. COLDWELL. Yes, sir.

Senator PROXMIRE. What did you do in the 10 years before you became first vice president of the Federal Reserve Bank in Texas?

Mr. COLDWELL. I was an economist with the Federal Reserve Bank of Dallas, and a research officer of that bank.

Senator PROXMIRE. What kind of work did you do in that capacity?

Mr. COLDWELL. I worked primarily in the field of industrial economics, although I did move into the field of monetary policy and financial markets later on.

Senator PROXMIRE. You were also a member of the Federal Open Market Committee of the Federal Reserve System?

Mr. COLDWELL. Yes, sir.

Senator PROXMIRE. For how long?

Mr. COLDWELL. I have been there since I have been president of the Federal Reserve Bank of Dallas. I have been a voting member twice since that time.

Senator PROXMIRE. That is how long?

Mr. COLDWELL. Since 1968.

Senator PROXMIRE. You have been a member continuously since 1968?

Mr. COLDWELL. Well, I have been attending continuously. I have been a voting member only on rotation every third year.

Senator PROXMIRE. I see.

What do you see as the responsibility of the Federal Reserve Board to the Congress and the President?

How do you see its relationship?

Mr. COLDWELL. Well, the Federal Reserve, of course, is a creature of the Congress and responds to Congress inquiries for information. It is responsible for the delegated authority which Congress has given to it to attempt to maintain the monetary policy that will be in the best interests of the United States.

Senator PROXMIRE. How about the relationship to the President?

Mr. COLDWELL. Well, the Federal Reserve must be in sympathy with the President's overall program; it has a responsibility of its own, however, to look after monetary policy and to render an independent judgment on that policy.

Senator PROXMIRE. Independent of what?

Mr. COLDWELL. Independent in terms of pressures from either the Executive or from Congress, or other places in the sense that it ought to have its own judgments as to the direction of policy.

Senator PROXMIRE. This is precisely the point. It is my understanding, based on your first response, that the Federal Reserve Board is indeed a creature of the Congress.

Mr. COLDWELL. That is correct.

Senator PROXMIRE. We have a constitutional authority, as you know, in title I, section VIII, subparagraph 5 of the Constitution to coin money and regulate the value thereof and that is the money power we have.

We delegate some of that to the Federal Reserve Board, but we don't give it away.

So in what sense do you have an independence of the Congress?

Mr. COLDWELL. Only independence in making judgments on the policies. We are expected and do report to Congress and we would expect to be responsive when Congress raises questions on these matters. But in the delegated area, I think the Federal Reserve should have the responsibility and authority to operate.

Senator PROXMIRE. Supposing, for example, the Congress should decide to limit the rate of expansion of the money supply. We have the authority to do it. Would you conform to that?

Mr. COLDWELL. If Congress passes a piece of legislation requiring the Federal Reserve to do that, I am sure we would conform.

Senator PROXMIRE. I am somewhat disturbed about this notion of independence of the Congress. I certainly recognize the independence of the Executive. But the independence of Congress is something I don't know any basis for.

It seems to me we have a constitutional responsibility for controlling and directing and overseeing the Federal Reserve Board.

Mr. COLDWELL. I agree with that, Senator.

Senator PROXMIRE. Where is there any room for independence as far as we are concerned?

Mr. COLDWELL. Well, the only independence I see is in the day-to-day decisions on policymaking.

Senator PROXMIRE. How do you feel about having the Federal Reserve Board audited by the General Accounting Office? The General Accounting Office is an arm of the Congress. I think the Federal Reserve Board has been blessed with very able men of the highest integrity. I have great respect for Dr. Burns, Mr. Martin who preceded him, and for you and the other members, but after all, we shouldn't have any agency of Government that doesn't have some kind of close observation with respect to their operations.

Why should not the General Accounting Office do this?

Mr. COLDWELL. Well, Mr. Proxmire, I have taken a position publicly on this, and I see no reason to withhold it here.

I think action to provide the GAO authority to audit the system is duplicative of what we are already doing. We do have intense audits throughout the Federal Reserve and we report regularly to Congress.

Now you and I might differ on the result of this, but in terms of the GAO audit, it is a first step toward outside interference.

Senator PROXMIRE. I am not talking about financial audits, I am talking about economy and efficiency audits, the kind we have in every agency in the Government. All the others are subject to GAO audits. And this is a creature of the Congress, so why shouldn't it also be subject to that kind of audit?

Mr. COLDWELL. We are heavily audited already, Senator.

Senator PROXMIRE. Only with respect to financial. I am not talking about that. I am talking about efficiency.

Mr. COLDWELL. Senator, I have been in this organization for nearly a quarter of a century, and I can assure you we live under intense budget and efficiency pressures constantly.

Senator PROXMIRE. What was the total budget of the Fed last year?

Mr. COLDWELL. The total Federal Reserve, I can't give you that answer, sir.

Senator PROXMIRE. I understand it was \$496 million, is that right?

Mr. COLDWELL. I would guess in the neighborhood of a half billion dollars, yes.

Senator PROXMIRE. It is my understanding in the last 5 years the expenditures of the Federal Reserve increased twice as fast as those of the rest of the Federal Government.

Mr. COLDWELL. There have been certain things which have been assigned and certain steps which we thought were necessary to accomplish these assignments.

Senator PROXMIRE. Why shouldn't we, as the responsible overseer of the Federal Reserve, why shouldn't we know about that, have an audit, so we are on top of it and can follow it closely and determine whether or not, in our judgment—we have the responsibility, as I say, the constitutional authority and right and duty—why,

under those circumstances shouldn't we have our investigative arm give us the full information?

Mr. COLDWELL. We have given you considerable information as a result of the audits performed. They have not been performed by the GAO. But they have been performed and we have given you the results of those audits.

Senator PROXMIRE. Why are you opposed to an outside audit?

Mr. COLDWELL. Well, it is a matter, I guess, of the attempt to try to keep the separation I spoke of and to make sure that the Federal Reserve does maintain a clear independence of thinking on the monetary policy.

Senator PROXMIRE. From whom? That is the point. There is no constitutional basis for an independence from the Congress. You are our creature, as you said in the beginning. You do have an independence of the executive, rightly or wrongly. I think it is right; other people disagree. I think it is right and constitutional. But GAO is not an arm of the President, it is our arm. It is the congressional arm. So why should you maintain an independence of that?

Why shouldn't we know about the efficiency, the way you have expended this rapid increase in resources which you had under your control, a half billion dollars, twice as rapid an increase in spending as the rest of the Federal Government?

Why shouldn't we be on top of that?

Mr. COLDWELL. I think you do know that, we have given you the results of the audits.

Senator PROXMIRE. All we know from the audit we have is that the Federal Reserve Board has operated honestly. We don't question that at all. I am sure that is the case.

But there is something beyond that, whether this is a wise investment of this additional money, whether its policies are operating in the right direction, whether it should have this or that kind of priority.

Mr. COLDWELL. Well, Senator, some of these expenditures come directly from congressional mandates.

Senator PROXMIRE. I am sure they do. That is another reason why GAO should tell us whether these mandates are wise or not.

Well, reconsider it. I know you are only one member, and you are obviously very well-qualified.

I would like to ask you a couple of other questions. One relates to housing.

You are replacing Andrew Brimmer, and he was the only member of the Federal Reserve Board who believed we should have some way of providing more resources for housing, especially in the credit crunch. He favored variable reserve requirements which would encourage banks to put more money into housing. In that sense, that limited sense, provide for a little greater credit.

How do you stand on that?

Mr. COLDWELL. I do not favor allocation of credit, Mr. Proxmire.

Senator PROXMIRE. We allocate it now with the S. & L.'s. We restrict where they can invest their money, we mandate their savings largely to housing. That is allocation.

Mr. COLDWELL. That is an area in which I would propose change. I would permit them wider authorities, and permit—

Senator PROXMIRE. You mean make it worse for housing than it is now?

Mr. COLDWELL. No, I don't believe so. I think you have an imbalance in maturities and rates between the assets and liabilities of the thrift institutions.

Senator PROXMIRE. You recommend the abolishment of regulation Q?

Mr. COLDWELL. I think the raising of some of the ceilings would help, but I would not recommend the abolition of regulation Q.

Senator PROXMIRE. How much would you raise it?

Mr. COLDWELL. I think within a time frame, we could go up a small amount, but I would have to reserve judgment on that depending on the individual time frame we are talking about.

Senator PROXMIRE. Of course this is a difficult question, I realize. I think there is a lot of merit in that from the standpoint of the small saver, but we have to recognize the consequences on housing. It would be adverse, wouldn't it?

Mr. COLDWELL. Well, if other actions are taken to permit S. & L.'s to invest more broadly, and perhaps give the Federal Reserve the right to lend to banks on mortgage collateral at the basic discount rate, these are actions which might help housing.

Senator PROXMIRE. You favor the continuation of the quarter-point differential with respect to regulation Q?

Mr. COLDWELL. As long as the savings and loans are held to their current types of investments, yes. If we are going to broaden their investments into bank type investments, then I think there ought to be elimination of that.

Senator PROXMIRE. If we broaden it, I don't see how you can escape the notion that you would have less funds for housing.

You say you not only would not provide for greater incentives of one kind or another for banks or other institutions to put their money in housing——

Mr. COLDWELL. I did not say that.

Senator PROXMIRE. You would also provide for less incentive for S. & L.'s to put their money in housing?

Mr. COLDWELL. I did not say I would not provide greater incentive. I think there can be incentives to banks and savings and loans.

Senator PROXMIRE. Such as?

Mr. COLDWELL. They could come in tax form, they could come in terms of availability of credit from the Federal Reserve by way of a discount window. These are matters which could be done fairly promptly.

Senator PROXMIRE. Discount window. Would you permit the Federal Reserve Board to discount housing paper?

Mr. COLDWELL. Yes, sir, if the Congress were to permit us to. We are not authorized to do so now except at a penalty rate.

Senator PROXMIRE. Would you recommend that to the Congress?

Mr. COLDWELL. I would. I believe the Board of Governors has done that.

Senator PROXMIRE. I didn't get that last.

Mr. COLDWELL. I believe the Board of Governors has done so.

Senator PROXMIRE. Do you know if the Federal Reserve Board can buy GNMA or FNMA paper now?

Mr. COLDWELL. I believe it can and has done so in the open market.

Senator PROXMIRE. How much? To what extent have they done that?

Mr. COLDWELL. I can't give you the amount which is presently outstanding.

Senator PROXMIRE. I understand it has only been done once.

Mr. COLDWELL. I don't believe that is right, Mr. Proxmire, but I would have to check the records.

Senator PROXMIRE. Maybe you can check and put it in the record.

[The following information subsequently was furnished by Mr. Coldwell:]

The Federal Reserve first made outright purchases of government agency securities in September 1971. The latest figures for System holdings of FNMA and GNMA securities are as follows (as of October 11, 1974): FNMA—\$1,916 million and GNMA-PC's \$60 million.

How about the very uneasy situation we have today with such an enormous expansion of business loans by banks in relationship to their deposits?

I understand a few years ago it was less than 50 percent of deposits were in loans; now more than 75 percent is in loans, and in some areas almost 100 percent of deposits are in loans.

We have had a very uneasy situation not only with respect to the Franklin National Bank, but other banks. What do you think we can do to provide greater security, greater assurance that we have adequate protection for depositors?

We have an uneasy situation now in this country. As a bank regulator, as a Governor of the Federal Reserve Board, you will be one of the seven men who have the authority to act in this area as far as the Federal Reserve is concerned.

Mr. COLDWELL. Well, we have taken some actions, as you know, in attempting to protect against bank failures. We continually monitor our banks to encourage them—

Senator PROXMIRE. Somehow it is not enough, because the situation is getting worse, or it seems to be getting worse, or am I wrong? Do you think the situation now is about as safe and sound as it should be?

Mr. COLDWELL. I would not go that far, but I don't think it is an unsound situation for most of the banks. There are exceptions obviously. But I think the banking system of this country is safe and sound.

Senator PROXMIRE. I am sure most of them are. But there are thousands and thousands of banks.

Mr. COLDWELL. Right.

Senator PROXMIRE. You have a situation in which the third biggest bank in the country the other day had a massive writedown in the value of their bonds, with considerable repercussions. We had the 20th largest bank in the country on the brink of failure, and the Federal Reserve had to pour hundreds of millions of dollars into it. We had a large bank on the Pacific coast that went under.

So it is an uneasy situation. It looks as if we need some kind of change, if we are going to have the kind of sound banking situation we ought to have.

Mr. COLDWELL. Well, I would say one of the things we need to do is to make sure we have good management of these banks, because many of these problems are management problems.

Senator PROXMIRE. How do you do that?

Mr. COLDWELL. Well, it is difficult, as you know. You can't insure people against failures of their own management. If we get into that kind of situation, then you don't get any rewards for good management either. So I really think what you are saying is that we have had a few cases in which management has failed to be responsible, and to act correctly in their situations.

I don't think we have a broad-scale management problem.

Senator PROXMIRE. No, but we are moving into a situation, a very dramatic and clear shifting of resources into loans, in a big way. So that instead of just one or two or three or four big banks being in trouble, we might have a situation in which many banks will be.

Mr. COLDWELL. I don't think we are in a situation where we have a large number of unsound banks.

Senator PROXMIRE. How many officers lost their jobs in Franklin National, speaking of management?

Mr. COLDWELL. I do not know. As President of the Federal Reserve Bank of Dallas, I don't get into the President of the Federal Reserve Bank of New York's business very often.

Senator PROXMIRE. Well, as I understand it, there has been very little change, and very little improvement, although the Federal Reserve, as I said, put in an enormous amount of money, as you know, had to put it in.

Would you feel the Federal Reserve Board should stand by to provide funds for any bank that is in trouble to make sure that it doesn't go under?

Mr. COLDWELL. The Federal Reserve should act as a lender of last resort to its member banks and has done so.

Senator PROXMIRE. What does that mean?

Mr. COLDWELL. That means if they are in an illiquid, but not an insolvent situation, we should provide adjustment credit.

Senator PROXMIRE. What about a Franklin National case, where the bank has been mismanaged?

Mr. COLDWELL. We are still protecting the depositors, not the stockholders or management of the bank. That is our purpose.

Senator PROXMIRE. You seem to be taking the position that no bank can fail?

Mr. COLDWELL. No, sir, I am not.

Senator PROXMIRE. No big bank.

Mr. COLDWELL. Well, if we permit large banks, or even banks in a small community where there aren't many banks, to fail, and create a crisis of confidence in our financial institutions, we have done this country a disservice.

Senator PROXMIRE. We provide for an insurance of depositors, we just increased that in conference to \$40,000, which means that the overwhelming majority of the depositors, 99-plus percent, are fully insured.

Beyond that, I just wonder if we are going to have an efficient system if the incompetent and wasteful and extravagant speculators are allowed to continue in banking regardless of their mistakes.

Mr. COLDWELL. I would not put a blanket guarantee behind the management or stockholders of a bank.

Senator PROXMIRE. Thank you very much, Mr. Coldwell.

As I say, you are extremely well-qualified. This is a good appointment, you have a fine background. And I don't mean simply because you got your Ph. D. from the University of Wisconsin——

The CHAIRMAN. That doesn't hurt though.

Senator PROXMIRE. It doesn't hurt a bit. And you have a lifetime of fine training in the Federal Reserve system, so I think it is a most appropriate appointment and I am happy and proud to support it and we will be looking forward to seeing you from time to time.

The CHAIRMAN. Senator Tower?

Senator TOWER. No questions, Mr. Chairman.

The CHAIRMAN. I want to ask one or two follow-up questions.

I have been reading newspaper articles from time to time about the loss of member banks in the Federal Reserve system.

Is that a serious problem?

Mr. COLDWELL. It is a problem of great concern to me, Senator, because in my position, I view the Federal Reserve's monetary policy as being our prime job. And I think our base of monetary policy control is being eroded by the loss of membership. We are having to put greater pressure on the remaining number of members in the Federal Reserve. It is for this reason that the Federal Reserve Board asked Congress for universal reserve requirements.

The CHAIRMAN. Is there anything the Federal Reserve Board can do to bolster their position in this respect?

Mr. COLDWELL. Yes; we could do some things. I would be out of sympathy with some of these actions though.

We could provide a subsidy for member banks as opposed to non-member banks. We could provide some fancy services of some kind. They could be very expensive.

I don't think it is appropriate, however, that only a part of the financial institutions of this Nation contribute to the monetary policy of the Nation. I think monetary policy is made for the Nation as a whole, not for a limited group of banks.

The CHAIRMAN. I would agree with you on that. Certainly, I didn't have in mind any subsidy or any favoritism.

But do you have anything to do with the management of member banks, the selection of the management of such banks, the directors or anything of that nature?

Mr. COLDWELL. No; we have nothing to do with their selection. We do have some cease-and-desist powers which we occasionally use. But we are not a chartering agency. It is either the Comptroller of the Currency or the State banking departments which charter the banks.

The CHAIRMAN. I was very much impressed with a speech made some little time ago, not long after that the bank in California, U.S. National—what was the name of that bank?

Mr. COLDWELL. There was a San Francisco National.

The CHAIRMAN. No; the banks in San Diego in which Arnold Smith——

Mr. COLDWELL. Yes; I know the one you are talking about. I think it was Security National, but I am not sure.

The CHAIRMAN. It seems to me it was the U.S. National, but I wouldn't be certain of that.

Mr. COLDWELL. Yes. U.S. National, that is it.

The CHAIRMAN. Mr. LeMaitre, a member of the FDIC, made a speech not too long after that difficulty in which he charged directors of banks with a great deal of responsibility that they ought to pay more attention to their job?

I don't know that there is anything you can do to stimulate something of that kind, but it seemed to me it was a very good suggestion.

Mr. COLDWELL. Senator, for more than 7 years now I have been working as a part of a group in Dallas called the Bank Director Assemblies, with just exactly that in mind, to try to educate bank directors on their responsibilities.

The CHAIRMAN. Now Senator Proxmire asked you about your position with reference to purchasing the GNMA mortgages.

Senator PROXMIRE. The discounts.

The CHAIRMAN. Yes. And you said you recognized you had that authority and you had handled it.

We will probably take up in the Senate in the next few days a bill that we just reported out of this committee and in that bill we restate that authority. We hope that will be taken as a reemphasizing of what we consider to be a very important thing that the Federal Reserve can do.

By the way, in that connection, let me say that I have been greatly pleased with the steps the Federal Reserve has taken in recent years in showing an interest in housing.

I think Dr. Burns has demonstrated his interest in it in certain things that he has suggested and programs he has carried out. He did a lot in putting some points in GNMA, in the Federal Home Loan Bank system, things he urged.

I can remember back many years ago when the Federal Reserve apparently had no interest in housing at all. We had a rather difficult time ever getting the Federal Reserve interested in housing. But I think there has been a change of heart, particularly by Chairman Burns. I do hope that this interest will continue. I hope that our inserting the provision in the present housing bill that we have reported will be taken as a restatement of our interest in the Federal Reserve's participation in GNMA mortgages.

Mr. COLDWELL. I would hope also you would put in that bill the privilege of the Federal Reserve to lend on mortgages through the discount program at the basic rate.

The CHAIRMAN. Yes.

Mr. COLDWELL. Because that would be a help to us.

The CHAIRMAN. Do you mean mortgages generally? We did not provide that the bill provides a re-statement of the policy of the Federal Reserve purchasing GNMA securities.

Mr. COLDWELL. I recognize what you are saying, but I would hope you would also do the other one.

The CHAIRMAN. What is it you would recommend?

Mr. COLDWELL. The Federal Reserve does not have the authority to discount mortgages and provide discount credit on such mortgages held by commercial banks except at a penalty rate.

The CHAIRMAN. And you would recommend that they be given that authority?

Mr. COLDWELL. I certainly would.

Senator PROXMIRE. Would you use it if we gave it to you?

Mr. COLDWELL. Certainly.

The CHAIRMAN. We just might do it.

Senator PROXMIRE. I am all for it. I will be delighted to cosponsor an amendment, if the chairman will put it in. That will be great, an amendment to this bill that is moving now.

Mr. COLDWELL. This action has been recommended by the Federal Reserve in its housing study.

The CHAIRMAN. I believe that is all of the questions I have.

Senator PROXMIRE. I have one other question, if the chair will permit.

The CHAIRMAN. Yes.

Senator PROXMIRE. You say you would cover the 6,000 country banks in the reserve requirement that you have for your member banks as a way of correcting this situation in which you have been losing membership when you use reserve requirements as a way of monetary policy?

Mr. COLDWELL. There is no question but that the reserve requirement is the principal reason for the loss.

Senator PROXMIRE. And you would apply that to the country banks, too.

In an ideal system, that is what you favor?

Mr. COLDWELL. Yes, sir, universal.

Senator PROXMIRE. How about the obligations of bank holding companies, big bank holding companies? Why shouldn't they be covered when they issue commercial paper?

Why shouldn't they be required to make a deposit in the Federal Reserve as a reserve requirement?

You cover the little banks; why not cover the big ones?

Mr. COLDWELL. The holding companies are a corporate structure; Senator, and I do not believe they have any direct depository ability.

Senator PROXMIRE. But the money is channeled back to the bank?

Mr. COLDWELL. The bank has the reserve requirement.

Senator PROXMIRE. But the bank doesn't borrow, a holding company can borrow.

Mr. COLDWELL. But it is not on borrowings we place reserve requirements. We place reserve requirements on deposits.

Senator PROXMIRE. But they have gotten around it by holding company borrowing when it is available.

Mr. COLDWELL. If the moneys are available and go into the bank, the bank does maintain a reserve requirement on them. You wouldn't want duplication.

Senator PROXMIRE. Well, I understand that the bank sells loans to the holding company, which in turn uses borrowed funds and there is no reserve requirement in that process.

Mr. COLDWELL. No, the bank might sell a participation to a holding company. There are limits on this, but it might do so. The funds available might come from issuing commercial paper. But they would not be deposits in a bank, and deposits are what we place reserve requirements on.

Senator PROXMIRE. Isn't that an indirect form of making funds available to the bank?

Mr. COLDWELL. Oh, yes, but I think the limits are narrow enough that I wouldn't worry too much about it, providing we also maintain our examination and control.

Senator PROXMIRE. They expect this method to go to \$10 billion?

Mr. COLDWELL. Yes, and as long as we are maintaining close observation and scrutiny of the holding companies themselves, I think this is a safe procedure.

Senator PROXMIRE. But isn't that beyond the grasp of the reserve requirement method?

Mr. COLDWELL. Under those conditions, so are all savings and loans, all insurance companies, and every corporate treasurer.

Senator PROXMIRE. But we are talking about banks. You would require the 6,000 country banks to have reserve requirements, but not the big holding companies?

Mr. COLDWELL. Well, the holding companies are not creating deposits, Senator, and it is the deposits authority which we have for creating a reserve requirement.

Senator PROXMIRE. I am afraid we are just differing here.

Mr. COLDWELL. I think you are aiming at putting reserve requirements on other paper or on assets. And we don't have that authority. We have the authority to place reserve requirements on deposits.

Senator PROXMIRE. Do you think you ought to have that authority?

Mr. COLDWELL. I have questions about that. I would certainly look at it if the Congress thought we ought to move in that direction. But this is a thing that Governor Brimmer had recommended, if you will recall.

Senator PROXMIRE. I don't see why you are so concerned about covering the small banks, the 6,000 banks, with additional reserve requirements, but not the holding companies?

Mr. COLDWELL. Well, I am concerned because a bank has the ability to expand credit on its base. A holding company can own only what it has in the way of funds. It doesn't have any multiple expansion.

Senator PROXMIRE. Nevertheless it does seem to give an advantage to the bigger banks and would tend to result in a corresponding shortage of funds in the rural areas, the small towns, and more in the big city areas.

Mr. COLDWELL. I don't happen to agree.

Senator PROXMIRE. Thank you, Mr. Chairman.

The CHAIRMAN. I want to ask you about something along the line of what Senator Proxmire was asking you.

I am talking about securities issued by holding companies, their affiliates or subsidiaries, with variable rate interest payments.

Mr. COLDWELL. Such as the Citicorp note?

The CHAIRMAN. Exactly.

Mr. COLDWELL. What is your question, Senator, I am sorry?

The CHAIRMAN. If we give you the authority to control such issues, will you use it?

Mr. COLDWELL. I would be very careful in using that authority, Senator. We are in effect saying to banks and other financial institutions, whenever you come up with a new idea, we are going to regulate it promptly.

I don't know that this is a bad thing. There are some very good things about having notes available where the small investor can go

in and get a commensurate rate of return. Whether the holding company side of this is adverse, I think we need a little more time to look at it.

But in terms of your providing the authority to us, I have no objection to that. Of course you are our masters, I don't tell you what to provide.

But in terms of our using it, I think we would need to look at it with great care.

The CHAIRMAN. Of course it would be discretionary with the Board.

I have a feeling that Dr. Burns does support such legislation. In fact when the first stir came on the Citicorp issues, I know he was somewhat disturbed. He didn't know whether the Board had the authority to regulate it or not. And I am not sure that it was ever decided definitely. I know he did put his legal force to work on the problem. I don't know just what the situation is now.

But you do feel there ought to be some authority to control it or to regulate it?

Mr. COLDWELL. Well, I would not object to providing the authority. I would hope it would not come in a mandatory form.

The CHAIRMAN. No, it would be purely discretionary with the Board as to whether and when it would use it.

Do you support regulation Q? Do you think that ought to be encouraged?

Mr. COLDWELL. Yes, sir, I do. There are two elements to regulation Q which I think have some importance to us. There are some competitive problems between large and small banks which would be exacerbated if regulation Q were lifted entirely.

There are also of course the competitive problems between the savings and loans and the commercial banks, and this would aggravate the flow of funds for housing.

So I would support a continuation of regulation Q.

The CHAIRMAN. Certainly we are interested in the savings and loan associations, and the Home Loan Bank Board. We recognize them as being very effective tools in the field of housing. We would want to see an arrangement such that they would not be in danger of losing their savings to the extent that they couldn't continue a vigorous housing program.

Mr. COLDWELL. Right.

The CHAIRMAN. You would agree with that?

Mr. COLDWELL. I would certainly agree with that.

The CHAIRMAN. Anything further?

Senator TOWER. I have nothing further, Mr. Chairman.

The CHAIRMAN. Senator Proxmire?

Senator PROXMIRE. As I say, I am all for you, because I think you are well qualified, although I think we disagree on the notion of the way in which the Federal Reserve Board is a creature of the Congress, the fact that it ought to be audited by GAO, the fact that there is a great increase in Federal Reserve spending that ought to be accounted for from the standpoint of economy and efficiency, not just from the standpoint of whether the Board's financially honest or not.

Also I think there seems to be a lesser concern on your part, with all due respect, Mr. Coldwell, than I would hope there would be for the soundness of our banking system.

Mr. COLDWELL. Senator, I don't want to be left on the record as being unconcerned. I am concerned. We watch these bank positions very carefully, and we are constantly counseling with the individual bank managers, where we think they have gotten out of line.

Senator PROXMIRE. Thank you.

The CHAIRMAN. Thank you very much. I think we are all pleased to see you here, and to hear what you had to say this morning, and we look forward to your very able participation in the matters that are of great interest to the economic welfare of this country.

We commend you, congratulate you.

Mr. COLDWELL. Thank you, Mr. Chairman. And thank you for your courtesy.

The CHAIRMAN. I am assuming you will be confirmed.

At this time the committee will go into executive session.

[Thereupon, at 10:50 p.m. the nomination hearing was concluded.]

