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financial assets in the form of short term commercial notes, and banks as a consequence have tended to finance longer term demands by advancing funds under this form with the understanding that these short term notes would be renewed on maturity. Another example of inadvertent influence is afforded in the field of real estate finance. Legislative preference for short maturity paper was probably a factor in the evolution of the practice of financing long term transactions through the use of three and five year mortgage instruments. A comprehensive survey of the whole field of public supervision of credit, showing the extent to which financial institutions are subject to legal regulation in this country and the part that such regulation has played in the evolution of the credit structure, is badly needed. It should be conducted separately from the comprehensive survey of the structure of finance outlined above, in the sense that it should use a different type of personnel with different training and background. It would be advantageous, however, for the two studies to go forward simultaneously. They have many points in common and in many instances one inquiry would provide material for both.

Review of Credit Standards

The studies outlined above should indicate the sources of various demands for credit and the competitive agencies through which these demands are now being met. They should also indicate whether the existing agencies are those best fitted to supply the various types of credit and whether the present financial superstructure should be modified in the interest of a more stable financial system. For example, they should help provide the data to answer the question, 'Is it desirable for a commercial bank to make instalment consumer loans?' They will not, how-

ever, throw light on financial repercussions that arise from faulty credit procedures rather than from points of tension in the structure and organization of credit. They will not answer the question, 'By what means can we distinguish, in the case of instalment consumer credit, between a sound and an unsound loan?' The following three studies recommended by the Committee are designed to meet this type of deficiency—in instalment financing, mortgage financing and investment financing. They are not concerned with the suitability of various types of financial institution to specialize in loans in these fields, but concentrate instead on the procedures and standards required to raise the quality of credit granted irrespective of the lending agency involved.

1. STANDARDS OF CONSUMER CREDIT

Instalment financing of consumer purchasers withstood the strain of the depression so well and showed such relatively small losses throughout the crisis as compared with many other types of credit instrument that banks and other financial agencies, pushed to find outlets for surplus funds, are now expanding rapidly in this field. This expansion, moreover, is assuming a competitive form, with respect not only to interest rates and other financial charges, but also to the down payment, the term of loan, the security, and the amount extended in relation to the income of the borrower. As a result, pressure is being brought to bear to relax the strictness of the procedures that tended to safeguard instalment financing during the depression. The Committee feels that, in view of its potentialities, this situation deserves careful analysis. At present, it is impossible to decide with any confidence whether these modifications of procedure are justified or whether they constitute introduction of credit standards which

are far too lax and which may have serious repercussions. In the present state of knowledge, such judgments cannot be based on data drawn from broad experience, they must be largely expressions of opinion. It is essential, the Committee holds, that an effort be made to gather all the available data on this type of financing for the purpose of identifying those credit standards which are sound and have stood the test of experience.

2. STANDARDS OF REAL ESTATE CREDIT

A similar study is needed in the field of real estate credit. The financing of real estate constitutes one of the most basic and essential financial activities in our economy. It is widely felt, however, that the real estate mortgage was subjected to more abuse and over-extension during the expansion of the 'twenties than any other credit instrument. During the depression the real estate mortgage market was probably more completely frozen than any other domestic financial market. Stimulated by recent legislative changes designed to remedy the most conspicuous abuses in this type of financing, banks and other financial institutions are again expanding their mortgage loans. The recent crisis made material available for a broad analysis of our experience with mortgage financing and for a formulation of fundamental credit standards designed to maintain sound conditions in the mortgage market. Immediate analysis of this material would be of incalculable value to our national economy as a whole as well as to the specific institutions that specialize in mortgage financing.

3. STANDARDS OF INVESTMENT CREDIT

The Committee recommends a third study along similar lines in the field of investment securities, especially those which are finding their way in increasing quantity into

bank portfolios. Banks in this country hold large aggregates of savings deposits and have become accustomed, in consequence, to maintain investment portfolios of considerable size. At present, however, under the impetus of a large supply of loanable funds and a small demand for commercial loans, investment securities are fast becoming the predominant category among bank assets. This development has given rise to a considerable degree of apprehension on a variety of grounds. It is feared, for example, that an increase in the long term rate of interest may cause heavy depreciation in the market value of these portfolios, that the smooth functioning of the bond market may be upset by heavy sales by banks and other institutional investors in their desire to avoid this depreciation, and that banks in search of yields sufficient to meet operating costs are tending to lower the quality of their investment holdings. A comprehensive analysis of the extent to which these fears are justified is urgently needed. Information should be made available showing the quality of bonds in bank portfolios, and the extent to which these portfolios consist of long term bonds, whose market value would depreciate in a period of rising long term interest rates, as compared with bonds that are already close to their dates of maturity. In addition to information of this sort the behavior of various types and qualities of investment securities under diverse business and money market conditions should be analyzed. The data for such an analysis are ample, but they are in the portfolios of large institutional investors and in the files of organizations devoted to investment research. A penetrating study designed to reveal fundamental relationships in this area necessitates, consequently, the intimate cooperation of officials from both kinds of institution.