

PURCHASE OF TREASURY SECURITIES AND INTEREST ON SAVINGS DEPOSITS

WEDNESDAY, APRIL 3, 1968

**UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS,
Washington, D.C.**

The subcommittee met at 10:05 a.m., pursuant to notice, in room 5302, New Senate Office Building, Senator William Proxmire, chairman of the subcommittee, presiding.

Present: Senators Proxmire and Brooke.

Senator PROXMIRE. Today, the Subcommittee on Financial Institutions will hold hearings on S. 3133 and S. 2923. S. 3133 extends for 2 years the authority for more flexible regulation of maximum rates of interest on dividends, higher reserve requirements, and open market operations in agency issues. S. 2923 extends for 2 years the authority of Federal Reserve banks to purchase U.S. obligations directly from the Treasury.

One of the main issues in S. 3133 deals not with the authority to regulate interest ceilings on savings deposits, but rather with the authority of the Federal Reserve Board to purchase the obligations of Federal agencies such as the Federal National Mortgage Association (FNMA) or the Federal home loan banks. The aim of this authority was to require the Federal Reserve Board to support the mortgage market during periods of severe monetary restriction.

A considerable controversy has ensued over the manner in which the Board has carried out this authority. There are some in Congress who have been extremely critical over the Board's failure to utilize more substantially its authority to purchase agency issues. The 1968 report of the Joint Economic Committee said that:

We recommend renewal of the authority given to the Federal Reserve to purchase and hold obligations of the Federal National Mortgage Association and the Federal Home Loan Banks and strongly urge that the Federal Reserve use this authority consistent with congressional intent.

In responding to this criticism, the Federal Reserve Board has argued that there was no clear congressional intent to use the authority to deliberately peg interest rates on mortgages or to provide any fixed flow of funds into housing. Moreover, the Board points out that they only have the authority to purchase Federal agency obligations in the open market. There is no guarantee, according to the Board, that a purchase of a Federal agency obligation from a bank or other investor will necessarily channel funds into the mortgage market.

The Board also argues it is inappropriate for the central bank to attempt to influence the structure of interest rates in the conduct of