

The basic purpose of the 1966 legislation, as members of the committee very well understand, was to reestablish a more typical allocation of savings flow among deposit-type institutions, by preventing undue rate escalation and by prescribing limits within which institutions could compete for funds that were consistent with both their short- and long-range purpose, and to increase the availability of funds to home buyers and home builders.

The situation that led to the need for this legislation is too recent and too familiar to require any lengthy analysis. Yet, it seems advisable to recall that during the first 9 months of 1966 the net inflow of savings to savings and loan associations dropped three-fourths from that of the same period of 1965. Indeed, associations experienced net withdrawals of funds in January, April, and July 1966, which amounted to \$1.5 billion in July alone. As a result, mortgage lending by associations fell very sharply. This development was reflected in the precipitous drop in housing starts from a seasonally adjusted annual rate of 1.4 million units in January 1966 to only 845,000 units in October 1966.

The effect of the 1966 act was almost immediate, as I indicated last year in testimony in support of the prior extension of this legislative authority. Each of the three agencies authorized to do so issued, after appropriate consultation, regulations pursuant to the act within a few hours after it was approved, and savings flow to savings and loan associations began to increase, particularly after October. While a decline in market interest rates undoubtedly contributed substantially to this, it appears in general that the better relationship between bank and savings and loan rates that resulted from the rate ceilings established by the regulatory agencies was the principal reason for the improvement I noted.

The rebound in savings flow to savings and loan associations that began in late 1966 following the establishment of these ceilings continued into 1967, and during the spring and summer months savings inflow to associations was in record or near-record volume. Mortgage lending by associations also rose sharply, although with some lag, and by summer had stabilized at a monthly volume close to that achieved in the years prior to 1966. Housing starts also rose and, while showing considerable month to month fluctuation, have averaged on an annual rate basis over 1.4 million units in recent months.

The effectiveness of this legislation, and the regulations issued pursuant to it, in reestablishing more typical allocation of funds among deposit-type institutions was evidenced by the fact that during the first 9 months of 1967, savings flow to savings and loan associations represented about one-fourth of the total flow of time money to deposit-type institutions. This was about the same share as in the first 9 months of 1965, and up sharply from the 10 percent recorded during the corresponding period of 1966.

More recent developments suggest both a limitation and the continued usefulness of the 1966 act in achieving its basic purpose. After late summer of last year, rising market interest rates and other economic and financial developments produced a marked slowdown in savings flow to associations. Indeed, in January of this year associations had a net outflow of funds for the first time since October 1966, although I should hasten to add that the February experience was rela-