Senator PROXMIRE. Isn't it possible for some mutual savings banks which are not insured by the Federal Government to circumvent ceilings on savings deposits?

Mr. HORNE. That is true as regards mutual savings banks, that neither have FDIC insurance nor belong to our System. You can have FDIC insurance or you can belong to the Federal Home Loan Bank System. Quite a few don't have either. So they do escape the ceiling. By the same token there are quite a few savings and loan associations that are State chartered that do not have our insurance.

Senator PROXMIRE. This looks like a real loophole. Can you recommend legislation or an amendment that would help us cover that so that all institutions would be treated alike?

Mr. HORNE. I will be glad to try to provide you with what we think would be appropriate legislation for this purpose.

Senator PROXMIRE. Very good.

I would like to ask Mr. Deming: I have an ad here from the Wall Street Journal: "Earn an unbeatable 6.5 percent with 5 percent savings bonds." I would like to ask in that connection, the 6.5 percent is apparently derived from the fact that cumulative interest payments are also reinvested at 5 percent. Do you think that kind of advertising is appropriate?

Mr. DEMING. Mr. Chairman, I think that kind of advertising is misleading.

Senator PROXMIRE. Does the Treasury quote the yield on its securities on the assumption that periodic interest payments will be reinvested?

Mr. DEMING. No, sir; we don't quote on the basis used in the advertisement.

Senator PROXMIRE. Why should the savings public be treated any different? They shouldn't, I take it, on the basis of what you say?

Mr. DEMING. That is right.

Senator PROXMIRE. The advertisement also indicates the payment of 5 percent is guaranteed for 5 years. I would like to ask Governor Robertson, is there anything in the law which prevents you changing the regulation to reduce the maximum rate which banks may pay on outstanding obligations below 5 percent so that the guarantee in that event would be meaningless?

Mr. ROBERTSON. Under the regulations which the Board has issued since 1933, we have taken the position that there are no limits upon the time in which they can continue to pay any given rates to meet their contractual obligations. Even if we change the rate from say 4 down to 3½, they could still on outstanding contracts continue to pay. Consequently, there is nothing in the law as we see it——

Senator PROXMIRE. Nothing in the regulations?

Mr. ROBERTSON. Nothing in the regulations.

Senator PROXMIRE. You have the legal authority to change the regulations, do you not?

Mr. ROBERTON. We have authority to change the regulations. We don't have authority to change the law.

Senator PROXMIRE. Do you have legal authority to change regulations so that you could reduce below 5 percent on outstanding CD's?

Mr. ROBERTSON. Yes; we do. There is a question about this in the minds of lawyers who have explored this as to whether we really have the right in view of the legislative history of the statute enacted in the first instance.