

laws are one of them. You can't lend above the State usury limits and in some States the limit is low. However, the request for the rate control in the first place was made because some savings and loan associations were offering higher rates even than the banks. I think sincerely that our main problem came not from the banks but from the higher competitive yields, higher competitive interest rates that came to pass on the Government obligations.

Senator PROXMIRE. You seem to indicate you would take the ceiling off everything.

Mr. McKENNA. As far as savings and loan associations go I would be happy to go back to the situation before 1966, sir, where the banks had mandatory regulations and we did not.

Senator PROXMIRE. Thank you very much.

Our next witness is Dr. Preston Martin, who could not be here. He has an excellent statement. He is the commissioner of savings and loan for the State of California. His statement will be inserted in the record.

Before we adjourn I want to place in the record a statement by Mr. Stanley Barber, president, and Ralph Zaun, chairman, of the Independent Bankers Association of America, a statement by Chairman K. A. Randall, Federal Deposit Insurance Corporation, and a statement by the American Bankers Association.

(The statements follow :)

STATEMENT OF PRESTON MARTIN, SAVINGS AND LOAN COMMISSIONER,
STATE OF CALIFORNIA

Mr. Chairman and members of the committee, March 1968 is a particularly appropriate period to consider a measure to bring housing credit policy into the mainstream of monetary policy. The acute stress on money and capital markets which characterized the last half of 1966 remains in the future. The signs of some impending tightness in money supply, availability, and cost are unmistakable. Action now by this committee and by the Federal Reserve Board can head off the extreme cutoff of housing which occurred in 1966. Both the savings and loan industry and the Federal Home Loan Bank System have ample liquidity for the moment, yet net savings flows into the Nation's savings and loan associations are dropping sharply. The January-February 1968 gain of \$365 million was down 66.2 percent from 1967. The U.S. Savings & Loan League has indicated the probable results of the first quarter as follows:

"The first quarter gain will be the smallest for any January to March period since the current business expansion got under way in 1961. It would require a record gain in savings to produce a more favorable result at associations."¹

Almost every leading indicator in the money and capital markets points toward a continuation of relatively unfavorable savings experience for the Nation's primary mortgage lenders—the savings and loan associations. The money supply is presently growing at a rate of 3.1 percent, compared to perhaps 8 percent per year for the gross national product. At times during March 1968 the excess free reserves in the Nation's commercial banks has dropped to the neighborhood of minus \$353 million. Future availability of funds is cast into grave doubt thereby.

Present increases in the cost of money point out the possibility of disintermediation, commencing with the April 1968 reinvestment period for savings and loan associations which is now under way. FNMA participation certificates at 6.4 percent, U.S. Treasury new 1-year bills at 5.475 percent, and Union Electric's AA-rated 7-percent bonds due in 30 years at 6.91 percent, all during the week of March 27, point toward high money market instrument rates. Under savings rate control, savings and loan associations cannot adjust to this competition.

¹ U.S. Savings & Loan League, Savings and Mortgage Lending Trends, March 1968.