

and those dealing with savings and loan associations be kept temporary. And we support continuation of the temporary rate controls on our business because some of the symptoms which were present in late 1965 and 1966 are with us again, and we would hope that controls over rates paid by banks and savings and loan associations can avoid the excessive bidding for savings, which occurred in 1966 and which only raised interest rates and didn't produce more savings.

The dislocations of the mortgage market are still fresh in our memories. These dislocations were caused when the Fed let banks raise the rates on CDs from 4½% to 5½%, while the FHLBB was pressuring savings and loan associations to hold the line. The inability of the Fed to classify deposits and the unwillingness of the Fed to take the mortgage market into consideration caused the outflow of savings from thrift institutions. The 1966 rate control legislation corrected these two causes of dislocation in the savings market. These provisions of the 1966 legislation, therefore, should remain permanent.

Our purpose in continuing the sections dealing with savings and loan rate control on a year to year basis, is to assure that Congress keeps ultimate control of the actions of the Federal rate regulators. Once these provisions become permanent, the Federal agencies are less responsive to the overall objectives of Congress on housing and mortgage credit. The banking interests were served over the interest of the mortgage market in 1965, and only action by the Congress changed the situation.

A proposal has been advanced for rate control of savings and loan associations to be made permanent, but on a stand-by basis. We reject this because we don't know what would trigger the imposition or release of rate control and for what purpose. We would suspect that the decision would be in the hands of the Federal agencies who need not be responsive to the concerns of Congress.

We have an additional reason for wanting Congress to keep control of savings and loan rates. The power to fix ceilings on rates is very substantial and carries with it the responsibility for accurately assessing the financial market. If the judgments rendered result in rate ceilings that are too low, either for all the savings and loan business or a substantial part of it, then "nonintermediation" occurs as well as "disintermediation." "Nonintermediation" is a concern of K. A. Randall who recently posed the problem of the public circumventing the banks and savings institutions which supply the bulk of the mortgage credit of this nation. If the judgments result in one type of savings institution having a practical advantage over the other or intermediaries in one part of the country being at a disadvantage to those in other areas, the mortgage market can suffer. We are convinced that the Congress wants no repetition of 1966. We are convinced that Congress recognizes the need for a differential in rate ceilings as between banks and savings and loan associations as long as there is such a wide difference in the functions of these financial institutions—particularly, their interest in the mortgage market. We point out that in the consultative process specified in the rate control law, there are three bank-oriented agencies and only one identified with savings and loan.

It should be perfectly clear why we want Congress to maintain its interest in the administration of rate control.

Our second amendment comes as a result of studying what the banks have done to attract savings under rate controls established in September, 1966.

In testimony given by Undersecretary Barr and others in 1966, the purposes of the rate control legislation were twofold: one, to curb the unhealthy escalation of interest rates; and two, to carve out of the financial structure a small segment for the thrift institutions which are the backbone of the mortgage market.

Congress was given assurances that the CD was used principally by large corporations and government bodies and that it would not become an important part of the time deposit structure. The 4% ceiling was retained on bank savings accounts and no fear was expressed about CDs as it was indicated that a 5% ceiling would be imposed on so called "consumer" CDs of under \$100,000. The inference was clear that banks which offered consumer CDs would require maturities of 6 to 12 months and in large denominations. Thus, it was clear that there was to be a difference between regular passbooks and CDs as to availability and return.

In the following table the record is clear as to the use of consumer CDs by banks to circumvent the 4% ceiling on passbook savings. Consumer CDs grew \$18½ billion from December of 1965 to October of 1967. From December 31, 1965 to October 31, 1967, savings and loan associations increased their savings by \$12 billion.