TIME AND SAVINGS DEPOSITS OF INDIVIDUALS, PARTNERSHIPS, AND CORPORATIONS HELD BY FEDERAL RESERVE MEMBER BANKS

[In millions of dollars]

Type of instrument	Amount outstanding		
	Dec. 3, 1965	Jan. 31, 1967	Oct. 31, 1967
Business-type deposits:			
5½ percent:			
Negotiable CD's, $100,000 and over	$13,141	$13,018	$14,119
Nonnegotiable CD's, $100,000 and over	(1)	2,814	3,582
Time deposits, open accounts, $100,000 and over	1,767	1,826	1,681
Subtotal	14,908	17,658	19,382
Consumer-type deposits:			
5 percent:			
Time deposits, open accounts under $100,000	(1)	1,856	3,246
Negotiable CD's, under $100,000	2,539	4,381	4,746
Other nonnegotiable CD's under $100,000	3,359	9,402	11,866
Savings certificates	6,790	8,033	9,866
Savings bonds	402	1,409	1,866
Subtotal	13,090	25,081	31,590
4 percent:			
Passbook savings deposits	74,089	70,701	74,210
Christmas and special accounts	3,285	3,450	4,404
Total, time and savings deposits	105,372	116,890	129,586

[1] Not available.

Sources: Federal Reserve Bulletin, August 1966, p. 1103; January 1968, p. 42.

Consumer CDs generally are being paid 5%. Savings and loan associations in most of the country can pay no more than 4¾% on savings; in California and several western states 5% is the ceiling on savings. CDs are being offered as "Golden Passbooks" to perform as much like savings accounts as possible—yet circumvent the 4% ceiling. But this is not the full story. Consumer CDs are offered in small denominations and for terms as short as 90 days. The competitive tool for savings and loan associations is a six month certificate with $1,000 minimum for 5¼% in the East. In California, associations have to go to a 36 month bonus plan to pay 5¼%.

But even this is not the full story. Banks have been guaranteeing the 5% CD rate for five years, some longer than ten years, and banking authorities have permitted advertisements showing the effect of compound interest for these long periods. At the same time, savings and loan associations have been precluded from advertising rates for more than one year.

Thus, our second amendment is to bring parity to savings and loan associations by prohibiting banks from guaranteeing rates beyond one year and permitting associations to fix definite rates up to one year. Considering the wide, sudden swings of interest rates, this amendment would guard against improvident guarantees of high rates for long periods of time. If there was any validity last year to the argument for controlling rates of savings and loan associations to gain control over *all* time deposits, then this amendment must be supported for the same reason. If any portion of the time deposit has rates guaranteed for long periods, the rate control mechanism has lost control over them.

Our third amendment deals with the ultimate liquidity of our financial system. Provision was made in the 1966 rate control legislation for the Federal Reserve to buy and sell debentures of the FHLBB, as well as the obligations of other U.S. government agencies, in the open market. We are proposing that the Fed have, in addition, the power to buy FHLBB debentures direct when necessary.

The credit crunch of 1966 was very real, affecting not only thrift institutions but the banks as well. Governor Robertson of the Federal Reserve Board told this committee on August 4, 1966, that the liquidity of banks was low, and they were "not in a position to meet a sudden withdrawal of from $18 to $25 billion." Presumably, the Fed would have had to supply the money if the withdrawals had occurred, and the Fed should have and could have, in my judgment. Our FHLBB went into the money market in 1966 and raised $1.6 billion in new money and rolled over $4.6 billion. But our agency was at the mercy of market