conditions, and the cost of the money was prohibitive. We submit that if the Fed had had the power to buy FHLBB debentures direct and in the open market, a more satisfactory result would have been achieved—more in keeping with the objectives of Congress. By way of illustration, we present the following statement which was made by the FHLBB to this committee:

"* * * the Federal home loan banks last year (1966) increased their outstanding loans to savings and loan associations by $938 million. As a result, the bank system provided the funds for almost one-fifth of last year's increase in association mortgage loan portfolios (net of loans in process), the largest percentage in any period in history. However, net mortgage lending by associations dropped by over $4 billion last year, when compared with 1965, even including that permitted by Federal home loan bank advances. The bank system was precluded from providing more of an offset to this decline in mortgage lending because existing statutory authority requires it to raise funds by selling securities in money and capital markets; and in periods of monetary restraint the system, like other issuers of securities, is limited in the amount of funds that it can raise in such markets in a short period of time. Moreover, even had it been possible for the bank system to raise additional funds in financial markets, the cost of such funds to the banks, and hence the rate they would have been required to charge associations for advances, would have limited their use by associations, because such rates exceeded the return that some associations could obtain on new mortgage loans" (Federal Home Loan Bank testimony, "A Study of Mortgage Credit," Subcommittee on Housing and Urban Affairs, Committee on Banking and Currency, U.S. Senate, pp. 30 and 31).

Such a change in the powers of the Fed are in order, as it carries out its responsibilities for the total monetary policy of the country. No less an authority than Professor Paul Samuelson said at a recent symposium on "Money, Interest Rates and Economic Activity":

"* * * And hence the central bank, as an important and indispensable arm of the modern state, has a responsibility in conducting overall macroeconomic activities to take into account alternative effects upon sectors. Ours is a pluralistic society and properly so. In a pluralistic society it makes no sense to set up institutions with a monistic function and then have to set up new superagencies to coordinate them. * * *"

We doubt that the commitment of the Fed would be great, but the benefits of such commitment would be substantial. This is because the mortgage market would not be starved again as it was in 1966, and thus there would be no repetition of the consequences of the mortgage credit restriction. Such consequences were:

1. Construction, particularly of housing, cut by 500,000 units, causing unemployment.
2. As construction slowed, builders were forced into bankruptcies.
3. Interest rates rose sharply to levels some couldn't pay.
4. Mortgage credit unavailable which "killed" many potential real estate transfers.
5. Caused unemployment in lending institutions, title companies, and real estate broker firms.
6. Caused increased delinquency in real estate tax payments.

We would not contend that it is going to be possible to even out and allocate perfectly the savings of this nation. But we do firmly believe that the reserve systems of the savings and loan business and the banks should do all they can to level out the swings which will occur from time to time—swings in interest rates and swings in availability of credit. Even a modest participation in the marketing of FHLBB debentures by the Federal Reserve should hold down the cost of such money. A side benefit from such back stopping of the FHLBB would be to squelch the careless scare talk about the possible "illiquidity" of the savings and loan business which did occur in 1966 and did cause some withdrawals.

Thus, we urge favorable consideration of our third amendment to permit the Fed to buy FHLBB debentures directly. It could have a most favorable effect on the stability of the mortgage market of the future.

PROPOSED AMENDMENT NO. 1

The Act of September 21, 1966 (80 Stat. 823) is hereby amended as follows:
Section 7 is hereby amended to read as follows:

"SEC. 7. The provisions of [the preceding sections] *section 1 and section 4* of this Act shall be effective only during the [two] *three* year period which begins