

We support the proposed extension for two years, but reaffirm our support for making the flexible controls over interest rates and dividends, as applied both to commercial banks and thrift institutions, permanent legislation.

Sincerely and respectfully,

STANLEY R. BARBER,
President.

RALPH L. ZAUN,
Chairman, Federal Legislative Committee.

STATEMENT OF K. A. RANDALL, CHAIRMAN, FEDERAL DEPOSIT INSURANCE CORPORATION

Mr. Chairman, I am pleased to have the opportunity to present to the Subcommittee the views of the Federal Deposit Insurance Corporation with respect to S. 3133, 90th Congress, a bill "To extend for two years the authority for more flexible regulation of maximum rates of interest or dividends, higher reserve requirements, and open market operations in agency issues".

Generally, the Act of September 21, 1966 (80 Stat. 823), provides, by statute, a flexible basis for regulating interest and dividend rates payable by insured banks and insured savings and loan associations on time and savings deposits or shares or withdrawable accounts, authorizes the Board of Governors of the Federal Reserve System to increase reserve requirements on time and savings deposits to a maximum of 10 percent, and authorize open-market operations in obligations of agencies of the United States Government.

Specifically, those provisions of the Act relating to the regulation of rates of interest or dividends, with which the Corporation is primarily concerned, change from a mandatory to a standby, flexible basis the authority of the Board of Governors of the Federal Reserve System and the Board of Directors of the Federal Deposit Insurance Corporation to limit the rates of interest or dividends that may be paid by insured banks, including mutual savings banks, on time and savings deposits. The Act gives to the Federal Home Loan Bank Board, for the first time, similar authority with respect to the rates of interest or dividends that may be paid by members of any Federal Home Loan Bank, other than those insured by the Federal Deposit Insurance Corporation, and institutions that are insured by the Federal Savings and Loan Insurance Corporation on deposits, shares, or withdrawable accounts. Under the provisions of the Act, the exercise of such authority by any of the above agencies must be preceded by consultation with all other such agencies.

The Act permits the Board of Governors of the Federal Reserve System, the Board of Directors of the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board to prescribe different interest or dividend rates for deposits, shares, or withdrawable accounts of different amounts or with different maturities or subject to different conditions respecting withdrawal or repayment, according to the nature or location of banks or institutions or their depositors or share account holders or according to such other reasonable bases as those agencies may deem desirable in the public interest.

The provisions of the Act originally were effective only for the one-year period beginning September 21, 1966, the date of enactment of the Act. The authority conferred by the Act was extended for an additional one-year period by the Act of September 21, 1967 (81 Stat. 226). S. 3133 would extend the authority conferred by the Act for an additional two-year period—through September 20, 1970.

Immediately upon the approval by the President of the Act of September 21, 1966, the Board of Governors of the Federal Reserve System and the Board of Directors of the Federal Deposit Insurance Corporation issued regulations designed to limit further escalation of interest rates paid by commercial banks in the competition for consumer savings. The regulations reduced from 5½ percent to 5 percent the maximum permissible rate of interest payable by commercial banks on time deposits in denominations of less than \$100,000. The 5½-percent maximum rate of interest then in effect for single-maturity time deposits of \$100,000 or more was maintained. The 4 percent maximum rate of interest for regular passbook savings deposits held at commercial banks also was left unchanged. Multiple maturity time deposits continued to be subject to interest-rate ceilings of 4 or 5 percent, depending upon maturity.