

At the same time, the Corporation issued regulations prescribing a 5 percent ceiling on rates of interest or dividends payable by mutual savings banks insured by the Corporation. A 5¼ percent rate was permitted in Alaska, but that exception has since been revoked. The Federal Home Loan Bank Board simultaneously prescribed—for the first time—ceilings on dividend rates payable by insured savings and loan associations, varying the ceilings in accordance with geographical location and other differential patterns.

By the close of 1966, the disruptive rate competition between financial institutions that reached its peak in the late summer of 1966 had moderated appreciably. While the competition for savings continued active in 1967, it lacked the intensity of the savings competition of 1966.

The gain in time deposits held at commercial banks in 1967 was approximately double the increase in 1966—mostly during the first half of the year. All categories of time and savings deposits showed increases.

During 1967, mutual savings banks and savings and loan associations also experienced sizeable savings gains—about 8 percent in the case of mutual savings banks and about 9 percent in the case of savings and loan associations.

The actions taken by the regulatory agencies pursuant to the authority conferred by the Act of September 21, 1966, contributed significantly to a moderation of excessive competition between various types of financial institutions for savings. If the added authority to regulate rates paid by savings and loan associations as well as by banks and the more flexible authority with respect to bank interest rates are retained, the regulatory agencies will continue to be able to take prompt and appropriate action in this area in the future, whenever necessary. It is essential, in our opinion, that the authority not be permitted to lapse. The Corporation therefore favors the enactment of S. 3133.

The Corporation believes that the advantages of the flexible interest-rate authority have substantially been demonstrated since enactment of the original legislation and believes that consideration should be given to the need for permanent legislation and its appropriate scope or form. We understand that the Department of the Treasury has been requested to work with the other interested agencies, including the Council of Economic Advisers, toward developing a legislative proposal along these lines for possible transmittal to the Congress early next year.

The Bureau of the Budget has advised that it has no objection to the submission of this statement to the Subcommittee and that enactment of S. 3133 would be consistent with the Administration's objectives.

THE AMERICAN BANKERS ASSOCIATION,
New York, N.Y., April 3, 1968.

HON. JOHN J. SPARKMAN,
Chairman, Committee on Banking and Currency,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: We appreciate this opportunity to present the views of The American Bankers Association on S. 3133, to extend for two years the authority for flexible regulation of maximum rates of interest and dividends, higher reserve requirements, and open market operations in agency issues contained in The Interest Rate Control Act of September 21, 1966 (P.L. 89-597), as amended in 1967 (P.L. 90-87).

As you know, the Act in question was intended to prevent destabilizing interest and dividend competition which was retarding the flow of funds to the home mortgage market. The American Bankers Association has been and is in full accord with this objective, and so stated when the original bill was being discussed in 1966 and when it was extended for one year in 1967. We wish to express our support for a two-year extension; in fact, we would like to see the Act made permanent.

We believe the present flexible controls over rates payable by banks on time money and by savings and loan associations on share accounts and on savings certificates have worked reasonably well in the past. During the tight money year of 1966, the enactment of this legislation enabled the Federal agencies to act with celerity in controlling rates and limiting competition for funds that otherwise might have proved injurious in some instances. Experience tested in a difficult time bespeaks the need for extension of the legislation.