

associations should be free to pay the dividend rate which is consistent with their earning power and the necessity to attract savings.

While the League fully supports the proposed extension of the interest-dividend rate control law, it would like to take this opportunity to bring to the attention of your Subcommittee certain closely related matters. Commercial banks issue savings certificates for periods much longer than one year. Once the CD is issued at a fixed rate, any changes in the rate control percent by the Federal Reserve Board cannot affect those outstanding CD's. This, of course, would mean that rate control would be ineffective on these certificates. We therefore recommend that the bill be amended to prohibit commercial banks from guaranteeing rates on their time deposits for more than one year.

At the same time, we urge that Federally-chartered savings and loan associations be permitted to guarantee rates up to one year in order to channel a fair amount of savings into this type of financial institution. The need for Federal associations to be able to declare rates in advance up to one year is a necessary competitive tool to match the guaranteed rates of banks for a similar period of time.

The rate control law also contains a provision authorizing Federal Reserve Banks to trade in a wider range of agency securities on the open market, including bonds and notes issued or guaranteed by the Federal Home Loan Bank System and the Federal National Mortgage Association. We believe this authority should be expanded to allow Federal Reserve Banks to deal directly with these agencies in the purchase and sale of their obligations. We therefore recommend that you consider amending the bill to give Federal Reserve Banks the authority to buy or sell Federal Home Loan Bank and other agency obligations directly from or to the agencies.

In short, we support an extension of the rate control law for two years, while asking for two amendments to allow thrift institutions to compete more effectively with commercial banks in the issuance of consumer CD's, and a third amendment to give the Federal Reserve the needed authority and flexibility to play an expanded role in supporting the housing industry.

Sincerely,

NORMAN STRUNK,
Executive Vice President.

(Thereupon, at 11:40 a.m., the subcommittee was adjourned.)

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