

On page 7 you state, Mr. Patman, that in two sets of studies, one for 25 banks and one for 50 banks, the break-even point for these banks was 3.89 percent interest.

Mr. PATMAN. That is the banks' own figures, Mr. Quie. I just took their figures for it.

Now this $5\frac{1}{2}$ percent, my dear sir, is not a correct figure. You divide that by two. You know, half of their deposits are free. Under their franchise with the Federal Government they have a very lucrative franchise. They don't have to pay any interest at all on demand deposit.

When you say $5\frac{1}{2}$ that means time deposits they are paying interest on. When you divide that by two it is $2\frac{3}{4}$, of course.

Mr. QUIE. Is it a rule of thumb that a bank has half of its money in demand deposits and half that it is paying interest on?

Mr. PATMAN. Considering the past, I guess you could call it a rule of the thumb. It has been that way the last decade or two. I don't see any reason why it should change. It is just like on demand deposits. You see, a bank can make loans like the old goldsmith did, \$10 to every \$1 of reserves. But time deposits as you mentioned, $5\frac{1}{2}$ percent, they can make $33\frac{1}{3}$ times as many loans for \$1.

Mr. QUIE. What would you estimate would be the interest charge that a bank should make to break even over and above the cost of the money?

You said the 75 banks but did not indicate that is really the figure for all the banks.

Mr. PATMAN. I am in no position to give you all the information. I am no expert. But the very fact that the banks' profits are going up all the time is pretty good evidence that they are not losing money.

Mr. QUIE. Do you estimate, then, that some banks are actually realizing a profit of 2 percent on the student loans?

Mr. PATMAN. I am in no position to give you the accurate figures on that because I don't know. But why should they not make money on a 6-percent loan. The money cost them nothing. They use the Government's credit absolutely free.

Mr. QUIE. But, you can't say all their money costs them nothing.

Mr. PATMAN. Well, the time deposits cost them some money.

As you say, regulation Q permits $5\frac{1}{2}$ percent. That is what they have been paying. Remember this, on time deposits banks can make loans or investments equal $33\frac{1}{3}$ to 1 on time deposits. So that is a pretty lucrative deal, itself.

Mr. QUIE. What about when they make long-term loans, for example, when the banks get into the housing business. Are they then paying the same amount for that money as the savings and loan associations do for their deposits?

Mr. PATMAN. They are paying less on balance than average. They are paying much less.

Mr. QUIE. If they secured additional money to make those loans, the additional money would be the same as they paid for money that was not on demand deposit, would it not?

Mr. PATMAN. It all depends on the situation at the bank. You would have to know more about that before you could evaluate it.

Mr. QUIE. That is all.

Mrs. GREEN. Congressman Brademas.