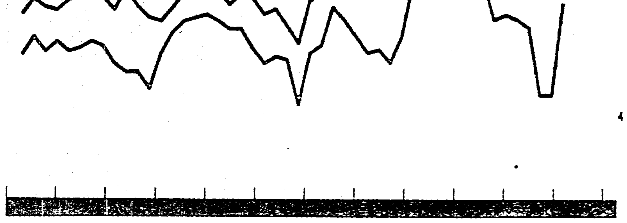
individual member banks were raised, first from 4 to 5 per cent, and then to 6 per cent. Finally, in late September, pursuant to new legislative authority, the Board of Governors reduced the maximum rate member banks may pay on time deposits with denominations of less than $100,000 from 5½ per cent to 5 per cent. This action—taken simultaneously with restrictions by the Federal Deposit Insurance Corporation on maximum rates paid by mutual savings banks and by the Federal Home Loan Bank Board on maximum rates paid by member savings and loan associations—aimed to reduce the competitive escalation of rates among financial institutions.

While these regulatory changes made it more difficult and costly for banks to attract time deposits, increasing market yields were also working in the same direction. Since mid-1966 most short-term market yields have exceeded the new 5 per cent ceiling on time deposits in denominations of less than $100,000, and many were above the 5½ per cent ceiling on larger negotiable CD's during much of the late summer and autumn. With the resultant reduction in the relative attractiveness of bank time deposits,

MARKET YIELDS rise above Regulation Q ceilings in late summer of '66

CHART 6



Bill rates are for offering side of market and have been converted to an investment basis (differs from discount-basis rate in that it gives the return on the amount invested rather than on the face amount of the bill at maturity and expresses this return in terms of a 365-day rather than a 360-day year; the investment yield corrects a downward bias of the discount-basis yield). Latest week shown December 9.