

Representative BROCK. Which has pretty well precluded them from competing with the savings and loans in this particular area; isn't that so?

Mr. MITCHELL. Yes. Banks have become more competitive and they have been enabled to become more competitive in this area by changes in the regulations.

Representative BROCK. When they could make, say, only a 15-year loan as opposed to 30-year loan?

Mr. MITCHELL. Yes.

Representative BROCK. It is very difficult to compete in terms of repayment.

Mr. MITCHELL. That is right.

Representative BROCK. They had trouble getting into the area just by the nature of the industry, the fact that they are a quick turn industry. They make their money by shorter term loans. Let's pursue that area of nonmember institutions that you might make loans to. Give me a couple of illustrations, would you, of the situation that might occur.

Mr. MITCHELL. Well, the first area of nonmember institutions are nonmember banks.

Representative BROCK. Let me ask you to comment, as you comment on nonmember banks, if you are going to get into this to any degree, if you are going to make loans to nonmember banks, what incentive is there for a bank to be a member.

Mr. MITCHELL. Well, there would be very little unless member banks have readier access to discount credit, at more favorable rates, than nonmembers. I don't think we should extend credit to nonmember banks on the same terms that we do to member banks, because member banks on the average have to keep nonearning assets with us in the amount of roughly 10 percent of their deposits.

Representative BROCK. You would charge maybe a quarter of a percent more or something like that?

Mr. MITCHELL. Well, the law requires us to charge at least a half a percent more on advances secured by the kind of assets you could except the borrower to pledge.

Representative BROCK. A half a percent?

Mr. MITCHELL. Yes.

Representative BROCK. Do you consider this to be a significant area, and yet you say it is not significant, so what are you saying?

Mr. MITCHELL. Member banks' total deposits are \$375 billion, and nonmember bank total deposits are \$75 billion. And that doesn't sound very large compared to member banks, but if you can keep these numbers in mind for a moment, the comparable figures are \$63 billion for mutual savings banks and \$128 billion for savings and loans and \$4 billion for credit unions. Now, these are the three or four categories of institutions that presumably might be involved. I might add insurance companies in there, but the relationships between insurance companies and commercial banks are such that I think they would find it perfectly normal and natural to turn to their commercial banks for credit, if they needed it, rather than to us.

It is true, too, that in 1966 savings and loan borrowed over a half billion dollars from commercial banks.

Representative BROCK. You are saying that you would use a commercial bank as a conduit.