of the rates. It is the sharp, rapid changes in level of rates. This is what hurts.

Chairman PROXMIRE. It is the rapidity of the rise?

Mr. GIES. That is all that it is.

Now, to take care of that point, what should we do? I think we have got to make it absolutely clear to the managers of the savings and loan industry that they are not guaranteed a profit in every single quarter in which they are operating. This is what they have come to believe for 20 some years, that they are supposed to make a profit every year, that the market is supposed to guarantee the investments they have made in the past will continue to yield them a favorable difference between the rate they pay for savings and the rate they get on mortgages.

The reason they have capital in their organization, the reason they have reserves, is to meet those occasions when they are not making a profit and when they are going to run at a loss. This is what everybody else in the market does. This is basically a matter of private management and the savings and loan people have not been forced to confront that fact. I think Congress would be making a vast mistake if they offered them a new shelter so that they could continue to feel that they are never going to feel the abrasive effects of changes in price.

Chairman PROXMIRE. New shelter. But what do they do—they had the funds so that they can turn around and loan to the housing industry.

Mr. GIES. Let it bid for the funds. It means they are going to take a licking if they are going to pay 7 percent on the share accounts whereas the mortgage portfolio is 5 or 6 percent.

Chairman PROXMIRE. On faith.

Mr. GIES. Just what the rest of us work on, faith. We know in the long run we will make out in this economy. This is a magnificent economy for any kind of private business.

Chairman PROXMIRE. But the banks are in a much stronger position. In the first place, they can sell their Treasury obligations which the savings and loans do not have.

Mr. GIES. Not so.

Chairman PROXMIRE. In the second place, they are in a much stronger position as far as the CD's. In the third place, they have got Eurodollars, and in the fourth place, they are going to get access to the discount window on a bigger and broader basis.

Mr. GIES. All those things are fine, but the real thing is whether there is equity capital in the savings and loan rate which permits them to ride through an unfavorable period and the answer is simply take a look at the numbers. They have 6- to 7-percent-ratio capital to deposits like banks.

Chairman PROXMIRE. They have been losing ground to banks in the last 10 years.

Mr. GIES. Last three or four. In the last 20 they have made out beautifully and they have grown and prospered and so have the banks, and to the extent that the savings and loan people and bankers have not done as well as, say, the auto industry, I think this is not because there was not opportunity. I think it is apathetic management on the part of both these institutions. There are very few bankers around. Many more banks than there are bankers. There are many