In view of the central role played by mortgage-oriented savings institutions in residential mortgage financing, it is obvious, as the Council recognizes, that any program to strengthen the flow of residential mortgage credit must be anchored to a strengthened thrift and home-financing system. As noted earlier in this statement, and as indicated on pages 71–76 of the Council's report, savings institutions have found it increasingly difficult to compete for savings in the new environment that has emerged in recent years. In part, as indicated, this reflects their increased vulnerability to high and rising open market interest rates. As the Council points out on page 93 of its report in reference to the 1966 mortgage market crisis:

> Because their funds are primarily invested in mortgages with fairly long maturities and fixed interest charges, the thrift institutions were unable to raise their earnings enough to permit payment of interest rates in line with those available from [commercial] banks and open market instruments.

The Council's reference to commercial banks highlights the other major development of recent years that has adversely affected the flow of residential mortgage credit. And this, of course, is the new, intense commercial bank competition for savings as a major source of lendable funds. This revolutionary departure from past tradition and practice, underway for more than a decade now, is traceable to the 1951 Treasury-Federal Reserve "accord" and to the slowdown in commercial bank demand deposit growth that resulted from the subsequent rising trend of open market interest rates and implementation of a flexible, contracyclical monetary policy by the Federal Reserve.

Faced with this challenge, and aided by successive increases in the regulation Q ceiling on their savings and time deposits, commercial banks responded by competing vigorously for savings and time deposits through interest rate increases and effective promotion of the wide range of financial services that they are able to offer savers. As a result, they have succeeded in sharply increasing their share of savings account growth, which rose from 29 percent in the 1946–56 period to 43 percent in the 1957–67 period. As shown in the revealing table on page 73 of the Council's report, moreover, the commercial bank share has risen sharply further during the past 3 years of full employment and high interest rates, averaging well over half of total savings account flows.

The implications for housing of this diversion of savings from mortgage-oriented thrift institutions to commercial banks are obvious, in view of the fact that commercial banks channel only a fractional share of their savings gains into residential mortgages while savings banks and savings and loan associations channel almost all of their funds into housing. In this regard, it is hardly a coincidence that the share of total savings account growth absorbed by the residential mortgage market fell from more than nine-tenths in the 1946–56 period to only three-fifths in the 1957–67 period.

As the implications of the basic changes in the economic, financial, and savings market environment since the late 1950's became more fully realized, support for legislation to strengthen savings institutions and the flow of residential mortgage credit grew and became more widespread. Until 1967, this effort centered largely on Federal savings bank legislation, first introduced in the Congress in 1957. During the