

Statement of  
Chairman K. A. Randall  
Federal Deposit Insurance Corporation  
before the  
Subcommittee on Financial Institutions  
of the  
Senate Committee on Banking and Currency  
March 29, 1968

Mr. Chairman, I am pleased to have the opportunity to present to the Subcommittee the views of the Federal Deposit Insurance Corporation with respect to S. 3133, 90th Congress, a bill "To extend for two years the authority for more flexible regulation of maximum rates of interest or dividends, higher reserve requirements, and open market operations in agency issues".

Generally, the Act of September 21, 1966 (80 Stat. 823), provides, by statute, a flexible basis for regulating interest and dividend rates payable by insured banks and insured savings and loan associations on time and savings deposits or shares or withdrawable accounts, authorizes the Board of Governors of the Federal Reserve System to increase reserve requirements on time and savings deposits to a maximum of 10 percent, and authorizes open-market operations in obligations of agencies of the United States Government.

Specifically, those provisions of the Act relating to the regulation of rates of interest or dividends, with which the Corporation is primarily concerned, change from a mandatory to a standby, flexible basis the authority of the Board of Governors of the Federal Reserve System and the Board of Directors of the Federal Deposit Insurance

Corporation to limit the rates of interest or dividends that may be paid by insured banks, including mutual savings banks, on time and savings deposits. The Act gives to the Federal Home Loan Bank Board, for the first time, similar authority with respect to the rates of interest or dividends that may be paid by members of any Federal Home Loan Bank, other than those insured by the Federal Deposit Insurance Corporation, and institutions that are insured by the Federal Savings and Loan Insurance Corporation on deposits, shares, or withdrawable accounts. Under the provisions of the Act, the exercise of such authority by any of the above agencies must be preceded by consultation with all other such agencies.

The Act permits the Board of Governors of the Federal Reserve System, the Board of Directors of the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board to prescribe different interest or dividend rates for deposits, shares, or withdrawable accounts of different amounts or with different maturities or subject to different conditions respecting withdrawal or repayment, according to the nature or location of banks or institutions or their depositors or share account holders or according to such other reasonable bases as those agencies may deem desirable in the public interest.

The provisions of the Act originally were effective only for the one-year period beginning September 21, 1966, the date of enactment of the Act. The authority conferred by the Act was extended for an additional one-year period by the Act of September 21, 1967 (81 Stat. 226).

S. 3133 would extend the authority conferred by the Act for an additional two-year period -- through September 20, 1970.

Immediately upon the approval by the President of the Act of September 21, 1966, the Board of Governors of the Federal Reserve System and the Board of Directors of the Federal Deposit Insurance Corporation issued regulations designed to limit further escalation of interest rates paid by commercial banks in the competition for consumer savings. The regulations reduced from 5-1/2 percent to 5 percent the maximum permissible rate of interest payable by commercial banks on time deposits in denominations of less than \$100,000. The 5-1/2 percent maximum rate of interest then in effect for single-maturity time deposits of \$100,000 or more was maintained. The 4 percent maximum rate of interest for regular passbook savings deposits held at commercial banks also was left unchanged. Multiple maturity time deposits continued to be subject to interest-rate ceilings of 4 or 5 percent, depending upon maturity.

At the same time, the Corporation issued regulations prescribing a 5 percent ceiling on rates of interest or dividends payable by mutual savings banks insured by the Corporation. A 5-1/4 percent rate was permitted in Alaska, but that exception has since been revoked. The Federal Home Loan Bank Board simultaneously prescribed -- for the first time -- ceilings on dividend rates payable by insured savings and loan associations, varying the ceilings in accordance with geographical location and other differential patterns.

By the close of 1966, the disruptive rate competition between financial institutions that reached its peak in the late summer of 1966 had moderated appreciably. While the competition for savings continued active in 1967, it lacked the intensity of the savings competition of 1966.

The gain in time deposits held at commercial banks in 1967 was approximately double the increase in 1966 -- mostly during the first half of the year. All categories of time and savings deposits showed increases.

During 1967, mutual savings banks and savings and loan associations also experienced sizeable savings gains -- about 8 percent in the case of mutual savings banks and about 9 percent in the case of savings and loan associations.

The actions taken by the regulatory agencies pursuant to the authority conferred by the Act of September 21, 1966, contributed significantly to a moderation of excessive competition between various types of financial institutions for savings. If the added authority to regulate rates paid by savings and loan associations as well as by banks and the more flexible authority with respect to bank interest rates are retained, the regulatory agencies will continue to be able to take prompt and appropriate action in this area in the future, whenever necessary. It is essential, in our opinion, that the authority not be permitted to lapse. The Corporation therefore favors the enactment of S. 3133.

The Corporation believes that the advantages of the flexible interest-rate authority have substantially been demonstrated since enactment of the original legislation and believes that consideration should be given to the need for permanent legislation and its appropriate scope or form. We understand that the Department of the Treasury has been requested to work with the other interested agencies, including the Council of Economic Advisers, toward developing a legislative proposal along these lines for possible transmittal to the Congress early next year.

The Bureau of the Budget has advised that it has no objection to the submission of this statement to the Subcommittee and that enactment of S. 3133 would be consistent with the Administration's objectives.