Savings Interest To Rise

Fed Increases Ceiling to 5% To Stem Drain

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Federal Reserve Board officials, concerned about the drain of funds from thrift institutions, plan to raise the interest ceilings that its member banks can pay on savings accounts.

It was learned last night that after a meeting with the Federal Deposit Insurance Corp. and the Federal Home Loan Bank Board, the Fed decided to raise the passbook interest rate from 4.5 per cent to 5 per cent at the end of the week, and to raise the certificate rate by a similar amount.

The FDIC, which regulates commercial banks outside of the Federal Reserve System as well as mutual savings banks, would take comparable action.

The FRB-FDIC move will probably force the hand of the FHLBB, which controls the nation's savings and loan institutions. The FHLBB has been resisting higher ceilings, while the Fed has been convinced that the rates of interest paid to all small savers must be allowed to rise.

Money is moving out of the thrift institutions—savings and loan associations and mutual savings banks—because interest rates are higher elsewhere. For example, government ceilings limit the interest that can be paid on various kinds of "consumer-type" savings accounts to 4½ to 6 per cent.

But prodded by a steady increase in the Fed's discount rate (now at 7½ per cent) other kinds of interest rates have been soaring. Thus, the Treasury 90-day bill rate is around 8 per cent, and similar yields are available on many government and corporate bonds.

An interagency committee, including the Fed and its principal antagonist on this issue, the Federal Home Loan Bank Board, met yesterday without making any announcement.

The Fed has been pressing the FHLBB, which has jurisdiction over the S&Ls, to raise the interest ceilings payable on consumer-type deposits by as much as ½ per cent.

Thus, the current S&L passbook rate of 5 per cent would be allowed to go up to 5½ per cent. The 90-day certificate rate, now 5¼ per cent, would be raised to 5¾ per cent. Other rates, including the 6 per cent ceilings for two-year certificates over $5,000, would go up comparably.

But the FHLBB, supported by the industry, has been re-

See RATES, A12, Col. 1

RATES, From A1

sisting the move, which the Fed feels as a matter of simple equity is long overdue. The FHLBB-industry position is that paying higher interest rates would simply raise costs to the institutions without necessarily increasing the flow of funds.

Housing industry experts suggest that the institutions may be right, especially if the ceilings are raised only slightly. Someone with $10,000 to invest for 90 days would still be better off buying a Treasury bill paying around 8 per cent than an S&L 90-day certificate paying 5¾ per cent.

But the Fed felt strongly that something ought to be done for small savers.

Commercial banks' savings accounts pay a lower rate of interest than comparable accounts in S&Ls or mutual savings banks. For example, the commercial bank savings passbook rate is 4.5 per cent, compared with the S&L's 5 per cent. The competitive situation is such that higher rates paid by the banks would force higher rates in the thrift institutions. In the past, ceilings for all savings institutions have been adjusted simultaneously.

The higher interest rates available on bonds and some other forms of securities have been tempting small and large savers. As a result, the savings institutions have suffered what is called "disintermediation" — the movement of money eleswhere. In the first six months of this year, the net inflow to S&Ls totaled $13 billion, compared to $18 billion in the comparable period last year, a decline of 28 per cent. That much of a drop constitutes a threat to home-building, which relies heavily on the S&Ls for financing.

The situation has worsened progressively.

In May, the inflow of funds was $1.8 billion, down $400 million from May, 1972; in June, it was $1.5 billion, down a stunning $2.2 billion from June, 1972. And for July, the confidential estimate used by government agencies is that at best, the flow of funds will be zero, compared to $2.3 billion in July, 1972.