



**Savings and Loan**

**ANNALS**

**1956**

**UNITED STATES SAVINGS AND LOAN LEAGUE  
CHICAGO 1, ILLINOIS**

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United States Savings and Loan League  
Chicago, Illinois



*Walter H. Davis*

PRESIDENT

## FOREWORD

WHILE THIS VOLUME of *The Annals* contains—as has its shelf of predecessors—the addresses before the General Sessions of the Annual Convention of the United States Savings and Loan League and the reports of its committees and officers for 1956, there were other notable features of this convention marking the 125th anniversary of the birth of the savings and loan idea in America which need recording to complete the picture of the League's 64th Annual Meeting.

To mark the homecoming of the business to Philadelphia, where the first "building and loan" was organized, the Host Committee, representing both the Savings and Loan Council of Philadelphia and the Pennsylvania Savings and Loan League, held a reception for all delegates and guests who were in town on Sunday, November 11, the evening preceding the opening of the convention.

The 125th Anniversary Pageant, presented Thursday evening, was built around a script written especially for the occasion. And distributed at the convention were two commemorative booklets, authored by U. S. League staff members: *As It Was in the Beginning*, dealing with the early days of the first association and its management; and *Your Philadelphia Heritage*, a guide to modern Philadelphia as well as its historical sites. Also not to be overlooked were the Gray Lines tours to the Comly Rich house in the Frankford area.

A programming innovation of the 1956 convention was the "Association Directors' Conference" on Tuesday afternoon. This session, planned especially to permit directors, who are attending our conventions in ever-increasing numbers, to discuss the opportunities and responsibilities that confront them was enthusiastically attended.

Because of the concern expressed by the members at our Miami Beach convention, held late in 1955, regarding the operation of the Federal Home Loan Bank System, I appointed a special committee to study the reshaping of the Bank System to better serve the long-range welfare of the savings and loan business and our overall economy as well. A thorough and thoughtful report was developed and distributed to the membership shortly before our Philadelphia convention.

At one of its General Sessions, Ralph R. Crosby, a past president of the U. S. League who was the committee's chairman, summarized the recommendations of the committee and the thinking of its members in reaching the conclusions. That summary is reproduced in this volume, beginning on page 17, and managers will find it worth reviewing.

The same advice applies to the reports of the League's various committees, all of which are included. Managers will be interested particularly in reading the reports of those committees whose meetings they were unable to attend because of the concurrent scheduling of these meetings. Several committees, which had similar concerns, met in joint sessions this year, and as a result, several committees are being merged in the new year.

It is, I think, particularly significant that in this year when the savings and loan business was looking backward to its modest beginnings a century and a quarter ago, it was also looking forward with eagerness to increasing its service to the American people and to the American economy—a characteristic of American business that has made it the most productive in the world.

WALTER H. DREIER

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**SAVINGS AND LOAN**

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## THE YEAR IN RETROSPECT

by WALTER H. DREIER, *President*

*United States Savings and Loan League*

*Evansville, Indiana*

IT IS NOT ONLY the implied duty but the very great privilege of the President of the United States Savings and Loan League each year to welcome savings and loan and co-operative bank men and women to the annual convention of the League. As the years have passed and this business has progressed in stature, strength and service to American families, I know I share what must be the feeling of my predecessors in the presidency—the feeling of pride in having had the opportunity to be the elected leader of such a great organization as this and having had the opportunity to become so well acquainted with association executives and staff from one end of the country to the other.

It is obviously impossible for me adequately to express my appreciation for the many kind and thoughtful things that have been done for Mrs. Dreier and me this year by so many of you. We have found the year in office to be a thrilling and rewarding experience.

It was perhaps my good fortune to be president during a year which was not the most quiet year, in terms of problems and responsibilities involved, or the most difficult year in the modern history of the League. It was, however, a year of tremendous accomplishments on the part of the United States League in behalf of the business. It was a year, too, of forward movement on the part of the business in terms of increased strength and stature. And it was a year when the League itself moved to new high ground in membership and in the confidence and respect for it on the part of savings and loan people everywhere.

Our growth in the past year affords additional evidence that the 1950s will go down in American financial history as the "savings and loan decade"—the decade when our institutions rose to outstanding prominence and assumed the lead as the preferred savings medium of the American people, and as the dominant source of home financing. Inevitably, as we have assumed this unquestioned leadership in the fields of savings

and home financing, we also have assumed the responsibilities and burden of this leadership. On public matters and issues affecting the welfare of the saver, we now stand as the first line of defense—before the banks and the insurance companies. Similarly, on these matters affecting the improvement of the housing standards of the American people, we stand charged with the challenge to take the initiative and to assume leadership.

#### GROWING RESPONSIBILITY

Thus, our spectacular growth has not only made the day-to-day operations of our institutions much more complex, but our growing responsibility to the public also has magnified greatly the responsibility of the United States League for giving leadership and direction to this vast enterprise that is ours. The paramount task of the United States League, as your national trade organization, is to remind constantly all of us of the awesome responsibilities that have accompanied our spectacular growth and to provide us with the kind of specialized service that will enable us individually, and as a group, to meet these responsibilities in the best manner possible.

In the past year, the League has accepted the challenge of these responsibilities and has met them in a consistently effective manner. It is my purpose this morning to take a few moments to review how this was done.

The single most compelling responsibility all of us have in our institutions is the safeguarding of the savings placed with us. In this connection, one fact cannot be emphasized often enough, namely, that our institutions accept money from the public with the understanding that it will be available to the savers when they want it. Let us never lose sight of the fact that much of the present popularity of our associations derives from the knowledge that our savers can get their money when they want it and need it—without delay.

#### FHL BANK SYSTEM STUDY

This was one of the major considerations that motivated the thorough and comprehensive study of the Federal Home Loan Bank System that was completed recently.

Last year at this time there was considerable unhappiness on your part and my part as to the operation of the Bank System. We were particularly unhappy with what generally was felt by our people to be an overnight cutoff of bank credit. We were concerned greatly because the record in the fall months of 1955 indicated that the Bank System would not be able to properly serve the business if any major liquidity problem developed, and it would not be a positive source of funds in the future when

almost fantastic sums of money will be needed in the home mortgage field.

I think it is fortunate that we did not yield to the temptation last year at this time to rush ahead with hasty recommendations for revamping the Bank System. We knew that the subject was an extremely technical and complex one that should not be dealt with in the mood of a crisis and that Bank System decisions could not be carefully conceived and developed at a mass meeting. Our approach was the only one possible to an organization conscious of its responsibilities to the business and the nation.

As you know, we appointed a relatively small committee comprised of able and experienced savings and loan executives and three FHLB presidents. We gave them the assistance of the very best technical brains and put them to work on the problem.

You are familiar with the high quality of the work of the committee under the chairmanship of Past President Ralph Crosby. I can assure you that the conclusions and recommendations of the committee were arrived at only after most careful, mature study and deliberation. The members of the committee focused their attention exclusively on how the Bank System can best be reshaped to serve the long-range welfare of the entire savings and loan business and the American economy in general.

Frankly, I personally am proud to have taken an active part in an organization that produced the kind of report as that developed by Ralph Crosby's committee. Over the years, I am confident that this report will be recognized as a major milestone in the progress of our business.

While the ready availability of funds is of tremendous importance, our obligation to the saver does not end here. When we accept the trusteeship of these funds we accept not only the obligation to make them readily available, but we also incur the responsibility to do everything in our power to make sure that these savings have the same value at the time of withdrawal as when they were placed with us originally.

#### CONSCIOUS OF INFLATION PERIL

During the postwar period, when inflation has been a chronic peril and threat to our economy, your United States League has been acutely conscious of this obligation. We have believed that inflation is among the most dangerous enemies of the free economic system and that it is an issue that cannot be compromised. There has not been a group in the entire financial fraternity that has fought more vigorously or consistently for sound money than has the United States League.

This fight has represented not only a service to our customers but, indeed, to the whole country, and I feel privileged to be part of an organization that has waged it.

During the past year the subject of "tight money" became and remained one of the nation's biggest news stories. The policy of tight money is simply an attempt to stabilize the cost of living through use of monetary and credit controls in the face of rising incomes, rising employment and a record volume of new capital expenditures.

There is no doubt, of course, that the tight money policy has been inconvenient for some groups. Home building volume has dropped, mainly because of a slackening of interest on the part of insurance companies in FHA and GI loans. Among our institutions many opportunities for improving our loan portfolios have had to be passed by. The fact that our institutions will have made approximately 10% fewer loans this year than in 1955 certainly indicates that tight money policies have affected us as they have other types of financial institutions.

#### FAR BETTER TO PRESERVE VALUE

This reduction in loan volume has been understandably annoying to some of our people. It is my firm conviction, however, that it is far better for us to give up a few loans and to sacrifice a few dollars in earnings than for this country to undergo inflation during which the savings entrusted to us would deteriorate in value, and much of the American public's incentive for thrift be dissipated.

The issue of tight money—(and, incidentally, past President Charles Clements thinks "tight money" should be called "honest money")—was of interest not only to businessmen in the past year; it also became an important issue during the recent political campaign and was a subject of repeated front page news coverage.

Since it was an issue in the campaign, the results of the election must be viewed, in part, as a vote of approval of honest money. The election guarantees that the policies of the past four years will continue to be the policies for the next four years and that the laudable objectives of avoiding inflation and deficit financing will continue to largely determine these policies. Certainly, the election represents a vindication of the skillful, courageous and cooperative program developed and carried out by Treasury Secretary Humphrey, Federal Reserve Bank Chairman Martin and Treasury Undersecretary Burgess, whom we are pleased and privileged to have with us at this convention.

Purely from the competitive standpoint there is another consideration. Many of us have been concerned about money that has gone into the stock market—money that would better have remained in our institutions or come to us. Inflation breeds speculative fever and investment in the stock market by those who cannot assume the risks involved. Without a stable dollar, therefore, we cannot expect to get our share of the total dollars that are saved and invested by the American people.

I am confident that the savings and loan business, through the United States Savings and Loan League, will continue to place the welfare of its savers and the maintenance of the value of the saver's dollar ahead of other more popular and expedient considerations.

#### UPGRADING HOUSING STANDARDS

While the League has worked during the past year to protect the best interests of our savers by laying the groundwork for greater liquidity for our institutions and through our support of honest money, we also have devoted much attention and effort to increasing the housing standards of the American people.

It is obvious to all that we have been in a period of significant transition in American housing in the last several years. Changes have come slowly and have been somewhat subtle, but they have been real nevertheless. One can get some insight into these changes by reading the recently published Bureau of the Census figures on the annual increase in the number of households. Although these figures must be read with the recognition that there is involved a shift of farm families to the cities and a demand created by rising family incomes, it is important to note that in the years 1945-1947 there was a great increase in the number of households formed. The average for these three years was 1,525,000. That tremendous increase following World War II gave rise to the tremendous postwar housing shortage and the thrilling record of home builders and home financing institutions in meeting it.

From 1950 on through 1955 the number of households formed each year decreased. The average for those five years was down to an annual increase of 833,000. Household or family formation this past year has been at its postwar low and there is every indication that household formation will be at a low annual rate for the next several years.

As a result of a lower number of households created and the tremendous production of the home building industry, it is literally true that the housing shortage spawned by World War II is behind us.

We still face, of course, a tremendous challenge in eliminating the blight of slums and inadequate housing from the face of America. That problem is being attacked on many fronts with the greatest hope for success lying in the rising levels of income. The fact remains, however, that the demand for new homes has fallen off from what we experienced in the five years immediately after the war. This factor, plus the expected relatively low rate of family formation until the middle 1960s, gives everyone connected with the housing industry a wonderful chance to concentrate on quality and improved construction methods.

#### THE LENDER CAN INFLUENCE STANDARDS

We felt that, as the nation's No. 1 group of home financing institutions, we could make a tremendous contribution toward better housing by becoming more aware of the proper standards for neighborhood and subdivision planning, construction methods and materials, architectural appearance and floor plans. We believe that there is much that the mortgage lender can do in working with borrowers and individual contractors to eliminate jerry building and encourage high quality home building without appreciably raising the cost of new housing. Purely from the selfish standpoint and looking at the security behind our loans, we also feel that it would strengthen our institutions if our loan departments would devote more attention to those features of new neighborhoods and new houses which will help preserve the value of the security behind our loans.

In view of these considerations, the League this past year has engaged in a careful, extensive program of "Financing Better Communities." We made the question of better quality housing one of the major features of United States League publicity and membership service program, and the program became one of the major public relations efforts of our 125th anniversary year. I was privileged to make a major address on the subject early this year, and the League staff produced two of the most outstanding technical publications that have ever been developed by a trade organization, one on land planning and one on design. To influence all mortgage lending practices we made these booklets available to our competitors and to builders, architects and land planners who requested them. Some of you have seen the complimentary statements made about these booklets in the "Across Headquarters Desk" section of *Savings and Loan News*.

As another part of this program, the United States League also devoted its annual late summer workshop to construction lending. I feel that the United States Savings and Loan League literally has covered itself with glory in this broad program during 1956, and I hope it will be continued through the years and followed carefully by the loan officers of each of our institutions.

#### REORGANIZATION PLAN NO. 2

The past year has been an eventful one for us on the legislative front in Washington.

All of us were surprised and amazed last May when we learned that the White House was sending a reorganization plan to the Congress which would have meant a major realignment of the agencies in Washington serving our business. I refer, of course, to Reorganization Plan No. 2, which would have split off the

Federal Savings and Loan Insurance Corporation from the Federal Home Loan Bank Board. Everyone, including representatives of the Administration, now admits that the plan was poorly drawn and full of loopholes. In its haste to present the plan, the White House held no advance discussions with the agencies involved, or with representatives of our business, or even with the key personnel of the committees of Congress who are responsible for handling savings and loan legislation and reorganization plans. It did not take long to reach the obvious conclusion that the plan had to be opposed in view of the obvious disadvantages the plan would have entailed for our savings and loan institutions.

It might be of interest to you to know that the proposal to split off the Insurance Corporation from the Federal Home Loan Bank Board was not a new proposal. As late as the 1940s, the General Accounting Office consistently had made the recommendation in its annual reports to Congress. The Second Hoover Commission in its report filed in early 1955 recommended independent status for the FSLIC. At no time when publicity was given to these recommendations did anyone in the business come forward with vocal support for the proposal.

One point about the fight on Reorganization Plan No. 2 that may not be clearly understood by all of the League members is that, from the outset, we made it clear to Congressional leaders and to Washington officials that our business was as much or even more interested in the proper organization of the Federal Home Loan Bank Board and the Insurance Corporation than any other group in the country. Several times during and after the Congressional debate on Reorganization Plan No. 2, your League representatives assured the White House and the Congress that we would pursue an objective study of this entire question after Congress adjourned. We, of course, fulfilled this commitment. This study was assigned to the Past Presidents of the League who had the benefit of a great deal of research information on the organization and operation of the bank supervisory agencies in Washington, as well as the operation of the Home Loan Bank Board. The position of the League on this question was developed at a joint meeting of the Past Presidents and the Executive Committee last Saturday afternoon.

#### LEGISLATIVE WORK OUTSTANDING

The outcome of the fight on Reorganization Plan No. 2 is known to all of you. The work of the League staff and the Legislative Committee, with valuable assistance from the leadership of our state leagues, was a real testimony to the standing of our business in Congress. I also believe it indicated that the viewpoints of the people in our business are a force to be recognized

whenever questions vital to the savings and loan business are considered.

The success of our fight on Reorganization Plan No. 2 illustrates once again that an excellent foundation has been established concerning the relations of this business with Congress. This has been particularly true in the past few years since the League decided to expand and improve its Washington operation, and really mobilize and organize all those in the business with some legislative know-how.

For the past three years, a legislative conference has been held each January in Washington, which is attended by 300 of our key people across the country. There we have the privilege of meeting with the top ranking members of Congressional committees that handle savings and loan legislation, and with various high Administration officials. One of the main events of this conference has been a reception and buffet dinner for members of Congress and officials of the national administration. I doubt, frankly, that any organization has ever enjoyed a finer turnout of Congressional figures and Washington officials than attended the League reception the past year.

#### EVER EXPANDING SERVICES

There are many other services of the League's program that, except for lack of time, I would like to review with you, but I will only recall some of them.

There was, for example, the 125th Anniversary promotion program, particularly the materials provided all of our members for use last April. We were gratified extremely by the use made of these materials by our members, the results of the program and the added prestige the program brought to the business.

I feel that we have, without question, the outstanding public relations and publicity program of any national trade organization, encompassing as it does so many activities. Included among these activities are our two movies which each month are seen by nearly one million people on television, in the schools and in church and club groups; our Quarterly Letter and *Fact Book* which are most valuable public relation tools; our publicity releases and work with the schools, using, for example, the new text book written by the League staff for junior and senior high schools, *Thrift and Home Ownership*.

We have a group of outstanding publications that provide a practical means of keeping savings and loan executives up to date on developments in the business and serve as a clearing house of "how-to-do" type articles. In fact, I am sure that we have the best and most complete publication program of any trade association in the country, just as I am sure we have the best program of legal service, research and data collection, ad-

vertising service and educational program of any trade association in the country.

For this trade association operation the people in the business can take the major share of the credit because you have been willing to provide adequate financing for your national organization, as well as for most of our state organizations. You have been willing to have developed a career trade association staff for our offices in Chicago and Washington, composed of men and women with pride and belief in their work and the contribution that our business makes to a better America.

#### THE WORK OF THE STAFF

In the job of providing leadership and coordinating the efforts of our institutions, the work of the League's Staff is indispensable. Until the past year, I don't think I fully appreciated how fortunate the League is to have such a loyal, competent, versatile and hard-working staff. Under the thoughtful leadership and guidance of Norman Strunk, the talents and efforts of the League staff have reached the point of greatest usefulness and effectiveness. As your President, it was my privilege to be closely associated with Norman, and I cannot imagine anyone possessed of a greater understanding of the needs of this business or possessing greater ability to manage the League in a manner best designed to meet these needs.

I would be remiss, too, if I did not mention the consistently outstanding work and representation in Washington by Vice President Steve Slipper; the intelligent assistance given me by Public Relations Counsel William O'Connell in defining and explaining the League's position on many issues; the practical and imaginative ideas for merchandising our business that have come from Robert Perrin; the always learned and incisive legal advice and opinion that has been supplied by General Counsel Horace Russell; the efficient and skillful direction and programming of our many meetings and conferences by Vice President Don Geyer; the competence and knowledge of Vice President Wyn Warman; the contribution over the years of Merle Smith to our fine membership relations; and the outstanding management of our Publications Department by Don Coenen. We welcome to the League staff as our Washington Counsel a man that already has made an outstanding record in Washington, the former director of the Loan Guaranty Division of the Veterans Administration, Bert King.

These men, and the other men and women who are associated with them in the League offices in Chicago and Washington, constitute a staff second to none among national trade organizations. Day-in and day-out, these people display the kind of teamwork and cooperation that is a tribute to Norman Strunk and

the people around him and that has enabled the League to serve our institutions with an ever-increasing degree of usefulness and effectiveness.

I would like to conclude this message with a few brief remarks on the future.

Our business has come a long and proud way in a very few years. In the postwar period, our institutions have been the vehicle through which 10,000,000 American families have become home owners.

Truly, we have accomplished much, but much more awaits to be done.

Now we have time to catch our breath, to consolidate our gains of the past decade, and to strengthen our institutions for the days a decade hence when millions of new families will want their place in the sun and homes of their own.

If we prepare now, we shall be ready then.

## A STAUNCH CONGRESSIONAL FRIEND PROMISES FAIR TREATMENT

by THE HON. BRENT SPENCE, *Chairman*  
*House Banking and Currency Committee*  
*Washington, D. C.*



I THINK the Lord had His hand on my shoulder in November. I have not only been reelected but I think by fortuitous circumstances I am still chairman of the Banking and Currency Committee for this next year. And I come not to give you any advice, but I come to felicitate with you and congratulate you and rejoice with you for the great accomplishments you have made since the first building and loan association was founded here 125 years ago.

They say, I read, that the first loan was made to a lamplighter who lighted the way of the people to their homes. But the people who founded that organization lighted a lamp that has grown brighter as the years have gone by. It has led the feet of the men and women into ways where they could acquire their own homes, which is one of the greatest accomplishments that can be made for the American citizens.

The hope of our country and the strength of our country—as the strength of Sampson was in his hair and when he was shorn of it he had lost it—is in the middle income group, the men who work every work day to provide their daily bread. Those are the men that we have got to help see well clad, well fed and adequately housed. And what you have accomplished for this purpose cannot be estimated.

I did say, as my good friend, Steve Slipher, who represents you so ably, said, that the savings and loan associations are American institutions. They are as American as the Declaration of Independence, as the Bill of Rights, or as the dome on the Capitol. And it was exceedingly significant that the first building and loan association should be founded and organized in this Cradle of Liberty: Philadelphia.

Now, I want to say to you that I am going to pledge to you my conduct as far as your business is concerned in the future as it has been in the past. I want to see that you get full justice, and I want to give you every opportunity to be heard when you come before our committee.

#### HOLDING COMPANIES A THREAT

In the last session of Congress, the Independent Bankers of America wanted a bill to regulate the holding companies of banks whose centralized control had brought about a concentration of economic power that was dangerous. They controlled not only money and credit but unrelated businesses.

You haven't any holding companies but one or two now in the savings and loan associations. But the organization of those companies is a lure. The men that organize them receive great compensation and great reward for their efforts. There will be others that will be organized. And again I say that the centralization of these organizations, the centralized control, takes away from the savings and loan associations that great quality of local ownership and community interest. I don't think we want that to happen to these associations.

I know how you love your independence, how you fought for the independence of the Federal Home Loan Bank Board, and I am sure you love just as much the independence of your savings and loan associations. And if we are going to have a legislation on that subject, we ought to have it now before they get so big that you can't control them. That's just a suggestion to you, but I hope it meets with your approval.

#### REORGANIZATION PLAN NO. 2

Then there has been some talk about Reorganization Plan No. 2. Your organization showed its influence in the destruction of that plan which would have cut the Federal Savings and Loan Insurance Corporation away from the Federal Home Loan Bank Board and set it adrift with two (of three) trustees to be appointed without term and without qualification and with a fat salary. It required a two-thirds vote to beat it in the House. And after you had done your work, and I did a little work myself—and the Speaker put the vote, I didn't hear one vote in favor of it. He didn't call the roll. He said two-thirds, and two-thirds voted against it; so your verdict in that respect was sustained.

The character of the security on which you lend seems to me to be emphasized by the experience of the Home Owners Loan Corporation. Organized to lend to the people in distress in the deepest period of depression of '33, it loaned about \$3.5 billion to home owners who were about to be deprived of their prop-

erty, and this helped unfreeze the assets of the lending organizations which held their mortgages. It made 1,018,000 loans, and in 1951 it was liquidated. The Home Owners Loan Corporation didn't cost the government a cent. On the contrary, it put \$14 million into the Treasury. That indicates to me the character of the security behind a loan on a man's home.

The home has always had a distinctive standing in the common law and in our law. "A man's home is his castle. The winds may blow through it, the rains may enter it, but the king cannot." And that's the law today. The home has the same sanctity now that it had then, and the individual who owns it may use the same force to protect it that the man did who had the castle, had the moat and the drawbridge to protect him, for the law throws the moat and the drawbridge around the home of each of us today.

I know that you have a bright future before you. I know that you are going to continue to use the influence you had in the past for the welfare of all our people, and nothing could be finer than to help the average American citizen obtain a home.

I have traveled in South America and I have traveled somewhat abroad. The weakness of all those nations is that there are the very rich and the very poor. There is no middle income group. There is no middle income group that has decent, respectable homes. That's the characteristic that has made us great. That's the characteristic that makes us stable. And the lack of that is what has made unstable most of the governments of our neighbors to the south and many of the governments abroad.

We must preserve these things that mean so much for the future of our nation and the preservation of our institutions and of our liberty. I hope, before long, that a spirit may come over the nation so there will be not only peace inside the home but also that the homes will not be disturbed by things whose occurrence is destructive of their interests and their welfare.

I hope before long that we can hear the war drums beat no longer, that the battle flags will be furled, and that there will be a parliament of men in the federation of the world. When that comes the nations will beat their swords into plowshares and their spears into pruning hooks, nation will not raise its sword against nation nor will they learn war any more. For they shall sit, every man, under his vine and fig tree, and none shall make them afraid. That's what we hope will come and that's what will bring peaceful homes to our American people. That will be the fruition of our ambition and our desires; and when it comes, the savings and loan association will have played an important part in its accomplishment.

I want to thank you for the privilege of being with you this morning, and I want to pledge you that my interest in your institutions is not abated, and that when you come before the

Banking and Currency Committee, I know you will receive treatment that at least will be fair.

Twenty-five years ago when I went to Congress there was no Federal Home Loan Bank Board. There was no Federal Savings and Loan Insurance Corporation. There were no federal savings and loan associations. They have all grown up while I have been a member of the Banking and Currency Committee.

I voted for your insurance and I voted to increase the coverage and decrease the premiums; and I hope in the future the premium may again be reduced. The banks pay less than you do now because they get a credit based upon favorable underwriting experience from the Federal Deposit Insurance Corporation. Certainly when the Federal Savings and Loan Insurance Corporation has the necessary strength you ought to get such credits too.

In conclusion, I want to say it has been a pleasure to be here; it will be a pleasure to continue to serve you as best I can, and I wish you all health, happiness and success.

## IT'S TIME TO RESHAPE THE FEDERAL HOME LOAN BANK SYSTEM

by RALPH R. CROSBY, *Chairman*

*Special Committee to Study*

*the Federal Home Loan Bank System*

*Providence, Rhode Island*



IT WAS MY VERY great privilege this past year to be chairman of the special committee appointed by your president to make an intensive study of the Federal Home Loan Bank System. The report and recommendations of the committee were approved at a joint meeting of our committee and the Executive Committee of the League toward the end of August and some weeks ago every member of the League received a printed copy of the final report.

It is my purpose here today to call your attention to some of the highlights of it and to outline a desired course of action for the months ahead.

You are acquainted with the personnel of the committee and the fact that we had on it the presidents of three Federal Home Loan Banks. They were of particular help in that at all times we had intimate knowledge of the operation of the Banks and were able to keep our recommendations on the wholly practical side.

The Federal Home Loan Banks are central banks and deal constantly in the money market. For that reason we had two consultants who were thoroughly acquainted with central banking and the money market, as well as the practicalities of the day-by-day operations of savings and loan associations.

The committee worked very hard. They were in session at five different meetings for a total of at least 50 hours not counting the time spent by two special subcommittees.

Debate on some points was long and vigorous and it is, of course, impossible to go into detail on many of the recommendations or to give you fully the thinking behind them. If you have not yet read the report, particularly the last 16 pages that com-

prise the detailed recommendations, I urge that you do so. Certainly this is one of the most significant documents produced by the League in many years, and it deserves the study of every one of our members.

The particular occasion of this study is well known to all of you—the disappointments of 1955 in the operations of the Federal Home Loan Bank system that uncovered a number of underlying problems which required thorough study. Frankly, I think the cause of what has been labelled the failure of the Bank System to serve adequately its members last year was basically the fact that those responsible for the operation of the Bank System had not made the kind of study, on a continuing basis, that was made this past year by the United States League's committee.

#### A COMPLETE CHANGE SINCE 1932

Since the beginning of the Bank System in 1932 the savings and loan business and American finance have undergone a tremendous change—virtually a complete revolution. In the last six years the philosophy as to the role of the Federal Reserve System and the federal government in the economy, and the use of monetary means to stabilize prices and business activity, have changed radically.

The Federal Home Loan Bank System obviously had not kept abreast of these changes and had not adjusted its thinking and program to them. Particularly had the Bank System not kept pace with the growth and changes in the savings and loan business.

For example, during the four and a half years from 1951 to the middle of 1955 when the resources of the savings and loan business doubled, the size of the Bank System actually decreased. In each of those four and one-half years the dollar volume of Federal Home Loan Bank obligations steadily decreased to the point that by May of 1955 there were outstanding only \$141 million in Home Loan Bank obligations—and that, mind you, for a business that was then \$35 billion in size.

I think we all share some of the responsibility. All but one of the savings and loan executives on our special committee have served on the board of directors of their regional Bank. I have been a director of the Federal Home Loan Bank of Boston for several years. The truth was that we all had become complacent with respect to Bank operations, had failed to realize that times and conditions had changed and that the operations of the Federal Home Loan Bank System called for more than routine type of thinking and decision making.

So much for the background of the committee work. Now we will take a look at what the committee actually hoped to achieve.

#### THREE BASIC OBJECTIVES

The recommendations of the special committee attack three fundamental problems, one of which was particularly vivid last year. The basic objectives of our study were:

First, to assure that there never again would be a repetition of the experience of last fall so far as Home Loan Bank operations are concerned, when almost overnight Home Loan Bank credit was virtually cut off.

We wanted to make certain that insofar as humanly possible through the establishment of careful procedures, the Home Loan Bank System will be able to operate to serve anticipated credit needs of its members as a central credit bank should, consistent, of course, with the proper operation of a savings and loan association in terms of liquidity and its lending policies.

The committee recommendations dealing with savings and loan liquidity, Federal Home Loan Bank liquidity and especially the commitment procedure recommended for Home Loan Bank lending were designed to prevent a repetition of our 1955 experiences. We feared that unless some basic changes are made in the operations of the Bank System we might face a repetition of 1955. If this should come at a time when the savings and loan business were faced with very high withdrawal requests, the business could be placed in unspeakable jeopardy. Certainly "The time to fix the roof is while the sun is shining." Our committee outlined the repairs needed on our roof.

#### NEED A POSITIVE SOURCE OF MONEY

Second, the committee also had the conviction that the Federal Home Loan Bank System should become a vital, positive aid to our business. Over the past number of years, including years of a great housing shortage when everyone in government and business was straining to produce more housing for the American people, the Federal Home Loan Bank System actually has been taking more money out of the business than it has provided. For the past many years, except for late last fall and early this year, the total advances to member associations have been less than the money the Bank System has taken from the business in the form of deposits and stock.

At the end of June this year, for example, total stock and deposits of members were \$1.34 billion while advances were only \$1.173 billion. We are convinced that over the next decade the Bank System must be so operated as to become a *positive* source of money to our institutions, if we are to meet the tremendous mortgage demands which will be made upon us and if we are to keep home financing in this country on a private enterprise, non-government lending basis.

The recommendations of the committee report dealing with the types of obligations sold in the money market by the Banks, particularly our insistence that the Bank System begin to secure longer term money so it can make longer term loans to members, are designed to permit the Bank System to serve a vital role in developing more money for mortgage lending through our institutions; this in addition to serving as a liquidity backstop and a source of funds for seasonal purposes.

When we realized that such similar instrumentalities as the Federal Land Banks typically have been in the long-term bond market and their bonds have won general investment consideration, it spurred our determination to insist that the Federal Home Loan Bank recast its money acquisition and its money lending policies. In May of this year the Land Banks sold \$60 million of 15-year bonds at a rate of 3½%, and in late August they sold \$110 million of 16-year bonds at a rate of 3⅞%.

In my view, there is no better money for us to have in our institutions than some long-term advances from the Federal Home Loan Bank, money that can be safely invested in mortgages and money for which we need no tellers, no bookkeeping machines and the due date of which is known definitely or does not depend upon the attractiveness of the new automobiles or employment conditions in our cities. Definite, careful procedures can be worked for long term advances to protect the Banks, the members and the savers, and our committee report points the way in that direction.

#### WHO SHOULD PAY THE BILL?

As to our third objective, it has been obvious for a number of years that there have been some inequities in the operations of the Bank System in terms of who pays the bill for Home Loan Bank operations. The committee, therefore, felt it desirable to develop a somewhat more equitable basis for dividing the cost of the operations of the Federal Home Loan Bank, especially the cost of the added liquidity which almost everyone feels is needed. The committee report points the way to a better balance in the sharing of the cost of Bank operations between the borrower and the non-borrower, the association which carries adequate liquidity and the one which does not, the association whose management actually forecasts and plans ahead for its cash needs and the association whose management relies entirely on the Bank System as a cash safety valve when money inflow does not equal cash disbursements.

The committee recommendations dealing with liquidity, the suggested commitment procedure for Bank advances and the recommendation that associations which maintain adequate liquidity be able to borrow money at the Bank's "prime" rate—

all these deal with the question of a more equitable sharing of the cost of Bank operations.

With that background information, I would next like to discuss some of the committee recommendations, specifically the recommendations dealing with the size of the Bank system and the volume of obligations outstanding, the practices of the Bank System in selling securities, the role of the Bank System in preserving the value of the saver's dollar, liquidity and Bank lending practices.

#### BUSINESS NOW NEEDS LARGER SYSTEM

In general, these recommendations all lead to a larger Federal Home Loan Bank System—Banks that have larger footings and particularly a larger volume of obligations constantly outstanding; in a word, a Bank System consistent with the size and responsibilities of the savings and loan business.

The biggest protection from the standpoint of liquidity that the business has or can have is the ability of the Federal Home Loan Banks to sell notes and bonds in the money market. While it is literally true that anything can be sold at a price, we should not have to pay an outrageous price to bond buyers when the obligation is as strong as that of the Federal Home Loan Bank System. It is also true that as strong as the Bank System is, its obligations cannot necessarily be sold overnight.

It frequently takes time to prepare the market for a new issue. There are good times to go into the market and there are poor times; there are times when the market is so very tight because of certain moves that the Federal Reserve or the Treasury might be making that it is extremely difficult to sell a large, new issue.

The biggest protection we can have as to liquidity is a money market that is thoroughly acquainted with our Bank obligations, a market that is accustomed to holding our obligations in their investment portfolios. The buyers of bonds are tough and cold-blooded people and will not buy anything they don't know about. The best way to acquaint them with Bank obligations is to keep selling them bonds so that they have them in their hands as a matter of normal practice.

#### SHOULD BE IN MARKET CONSTANTLY

Thus, the Bank System should be constantly in the market, rolling over its securities regularly. The Bank System should reach all types of investors and, most important of all, the obligations of the Bank System must be marketed much more aggressively and with more imagination than has been the practice to date.

If there are to be more obligations outstanding in the market than has been the normal practice, and we are convinced that there must be if we are to be able to sell bonds when we most need money, then somebody will have to pay for the money we secure. That's why we definitely encourage borrowing from the Federal Home Loan Banks particularly when credit expansion is called for because, if the Bank System makes loans only during a time of liquidity crisis, frankly there would be no assurance that the Banks could raise the money at the time.

The concept that the Banks should make loans only for emergency liquidity purposes is misleading as to the real ability of the Bank System to raise the money when we most need it. That is why the committee in its liquidity formula deliberately provided that associations could borrow some of their liquidity, preferably, of course, on longer-term notes from the Bank and on loans the maturity of which is at least 90 days in the future.

Those associations which do not borrow from the Federal Home Loan Banks should not be critical of those which do—because borrowing in normal periods helps make the market for Home Loan Bank obligations when the market is most needed. The recommendations along this line will not lead to any wild expansion or danger to those who prefer to use the Bank System only in withdrawal emergencies. Furthermore, remember that under the recommendations in this report those who use the Bank System will pay the main share of its operating costs.

#### OTHER DEVICE FOR PAYING COST

The other device we have provided for paying for the added volume of notes which the Banks should have outstanding is the commitment fee and/or, alternatively, the higher rate charged associations which come into the Bank for money at the last minute.

These recommendations, together with the proposal for a commitment fee and that dealing with liquidity, all will produce a larger amount of obligations outstanding and fit together in accomplishing the objective of having a more dependable and useful Bank System.

There has been a great deal of discussion as to the role of the Bank System in connection with the efforts of the federal government to preserve our economy on a sound basis.

Our committee gave a lot of attention to this and we firmly believe that the Federal Home Loan Bank System will be expected by the top people in Washington—the White House, the Treasury, the Federal Reserve and, of course, Congress whose views must as a matter of vital necessity be considered—to play a constructive role in efforts to keep the American economy on an even keel, efforts to preserve the value of the dollar and ef-

orts to assure a sound, steady growth for our economy. Whether we like it or not and, even though we own the Bank System, we cannot expect the Bank System to serve merely the savings and loan business. Rather, it must act as part of our nation's set of financial institutions serving the entire country, particularly the interests of our savers and borrowers.

#### PRESERVATION OF DOLLAR VALUE

There will, of necessity, be times when national monetary and fiscal policy might dictate policies on the part of the Federal Home Loan Bank System which run counter to the desires at the moment of our people. In such cases we must expect that the Bank System will temper its program to reflect the fact that it can play a constructive role in the preservation of the value of the dollar.

Mortgage credit and the role of the savings and loan business in the economy is too important and the stake that our business has in preserving the purchasing power of the saver's dollar is too great for the leadership of the Federal Home Loan Bank System to ignore its responsibilities in the overall program of the federal government to eliminate the wide swings in employment, family incomes and prices.

Certainly this business, each of us, and especially the millions of savers we serve will be better off if the booms and busts can be avoided and the dollar stabilized. We should be thankful that the Bank System can be equipped to serve a vital role in this connection.

Much has been said about the significance of the size and the maturity of the savings and loan business. Certainly here is one place where we can exercise statesmanship and responsibility consistent with our size and maturity.

We have only one reservation in respect to credit controls and economic stabilization: That is that the Federal Home Loan Banks must be brought into the policy-making circles in the federal government and that there be proper appreciation on the part of the White House, Treasury and Federal Reserve staffs of the nature of mortgage credit and the differences between commercial bank credit and that extended by our institutions. Furthermore, we must insist, that in any program of the federal government to tighten up on credit for purposes of economic stabilization in which the Federal Home Loan Bank System plays a part our institutions are not discriminated against, compared to other lenders. Home Loan Bank credit must not be restrained during periods when other mortgage programs of the federal government do not change their practices in favor of tighter credit.

Certainly it is unwise and unfair for the federal government

to restrain institutions making 70 and 80% loans while the government promotes, purchases and guarantees 90, 95 and 100% FHA and GI loans.

#### A POSITION OF LIQUIDITY

The recommendations of the study committee that have received greatest attention by the savings and loan people are, of course, those which deal with liquidity. This is a question on which there is no final or perfect answer, and our committee does not pretend that it has the only good and workable formula. We were convinced, however, that some clear and courageous position on the subject of liquidity was called for, and I think our recommendations on this subject reflect more concentrated thinking on the part of the informed people than the subject ever has had before.

Fundamental to the thinking of our committee on liquidity was the conviction that the responsibility for the maintenance of adequate *primary* liquidity lies with the management of each institution and that the entire burden for the liquidity of our institutions cannot and must not be thrown on the Federal Home Loan Banks.

It seems that everybody in the business has, at one time or another, developed a "perfect" liquidity formula—perfect at least for his institution. In the view of many, any liquidity formula is all right provided it doesn't require his institution to carry more cash and governments than he would otherwise desire.

While our proposal would, according to end of 1955 figures, affect by this test some 60% of the members of the Federal Home Loan Bank System, it should be noted that, in addition to being able to obtain the liquidity from the Home Loan Bank with advances due in not more than 90 days, the proposal of the committee also gives the member the complete option of not carrying more than the present, legally required liquidity of 4 to 8%. Under our proposal it only would mean it could not borrow from the Federal Home Loan Bank at the best lending rate available from the Bank.

It should be noted that this is another phase of the program to share more equitably the cost of carrying Bank operations between those institutions which maintain adequate liquidity and those which do not.

#### NOT A COMPLICATED FORMULA

The formula for liquidity is not complicated. It is clearly stated in the report. The formula addresses itself to the three major areas of the need for cash, namely, cash to meet unusual withdrawal situations, cash to meet borrowed money which is coming

due and cash to meet unusually large commitments for loans not otherwise protected by take-out commitments or agreements to sell loans, or specific arrangements to borrow money to meet the commitments.

The committee felt that management must be given complete discretion as to the nature of liquid assets held and the places in which they are maintained. We felt that there should be no deduction from an association's liquidity computation for borrowed money if the maturity of the borrowed money is pushed at least 90 days ahead, because we do not think associations should be discouraged from borrowing money. We felt that in most cases there was no need to complicate the liquidity computation by deducting usual or routine amounts of loans-in-process, or commitments to make loans or deducting other relatively minor cash requirements, such as money for taxes and insurance, payroll and the like.

We were convinced that the thing we must avoid if at all possible is a frozen liquidity or a liquidity arrangement that would cause associations in times of heavy withdrawals to have to drop completely out of the lending market. The cessation of lending at certain times in the business cycle can only aggravate the withdrawal picture.

Above all, if associations are to carry more liquidity than the presently required 6%, they should be able to use it for the purposes for which it is maintained. Most of the proposals we have heard, and particularly some of the recent thinking of the Federal Home Loan Bank Board on liquidity formulas, would create, in effect, frozen liquidity or penalties for failure to maintain it. These proposals are completely unrealistic in terms of the conditions in which associations find themselves during times of depression.

#### LIQUIDITY WHEN MOST NEEDED

Experts on central banking who have studied our recommendations have told us that the liquidity proposal in our report represents an advance in thinking over any other present liquidity requirement or liquidity reserve rules in the banking system, or elsewhere. It is an improvement precisely because the liquidity proposals in our report will not provide for a frozen liquidity just at the time when liquidity is most needed.

Liquidity is one area of association operation which should be left as much as possible to management's discretion and should reflect the differences between the operations of institutions in smaller cities and larger cities, associations with a high turnover of their savings and those with a low turnover, and the big institution and the little one.

We think all of these desirable attributes of a so-called

"liquidity formula" are reflected in the liquidity recommendations of the report.

Briefly, the committee recommends a liquidity formula as follows:

Associations maintain cash and government securities in an amount equal to the sum of the first half of the institution's gross cash withdrawals for the previous 12 months but not in excess of 15%,

**PLUS**

An amount equal to all borrowed money due within three months,

**PLUS**

An amount equal to loans-in-process and legal commitments to make or buy mortgage loans to the extent that loans-in-process and commitments are in excess of 10% of savings and are not protected by unused commitments to borrow from the Federal Home Loan Bank, takeout commitments or confirmed lines of credit from commercial banks.

The only penalty for failing to maintain this liquidity would be the fact that the association would not be able to borrow from the Bank at the Bank's lowest rate. It would pay a higher rate when it comes to the Bank for money and, except in times of a substantial withdrawal situation, would be able to borrow only on a 90-day basis from the Bank.

The committee studied at great length the question of the liquidity of the Federal Home Loan Banks and made some specific recommendations as to the liquidity policies of the Banks, all with the view to assuring that the Banks would carry cash and securities sufficient so that they would never be *compelled* to go to the market for new funds within any 30-day period.

Again in connection with the liquidity of the Banks themselves the recommendations provide a substantial degree of flexibility.

Let me say that we have the responsibility for the proper handling of about \$40 billion of the people's savings and there is no question more fundamental than our ability to meet the withdrawal requests of our savers without delay. I hope you will read carefully the section on liquidity in the committee report.

The specific recommendations of the committee with respect to Federal Home Loan Bank lending are rather detailed. The significant ones deal with the necessity of the Bank, during periods when credit expansion is called for, to make long-term loans to members from money secured essentially from obligations of two- or three-year maturity or longer.

A DEFINITE COMMITMENT PROCEDURE

Except for the so-called 2% "automatic" advance at the lowest rate and without securing a commitment for the advance, the committee felt that it was highly desirable for the Banks to begin to make most of their loans on the basis of commitments to member institutions. The commitment procedure involves the payment by an association of a nominal commitment fee. It would assure the borrowing association that the Bank would have the money when it wanted it. It would permit the Bank to know more accurately ahead of time what its cash needs would be and give the Bank time to go into the market to secure funds to meet, without question, the demands of its members for funds.

By charging the best rate on the loans arranged for ahead of time, associations would be encouraged to do the necessary planning as to their cash flow and make the regular cash forecasts so vital in the operation of any financial institution, with money rolling in and out as rapidly as it does in our modern-day institutions. Thus, according to the committee's recommendation, the regular advance would be that which would be arranged for through the payment of a commitment fee. It could be for either a short- or long-term maturity. The "special" advance would be that not arranged for ahead of time and would carry a higher rate than that for the regular advance.

The committee report specifically suggested that "until such time as the Banks demonstrate increased ability to raise funds in the capital markets, the overall limitation on borrowing should be set by Board policy at 25% of savings, except in the case of loans to meet withdrawal emergencies. Within this overall limitation there should be set, preferably by action of the regional Banks, limitations on borrowing on long-term notes."

The committee report was quite specific in recommending that whenever national credit and fiscal policies suggest some restraint in the credit and mortgage field, Federal Home Loan Banks should discourage borrowing by increasing the borrowing rate, keyed to the state of the capital markets and secondly, if necessary, limiting the total of long-term advances to any one member in terms of a percentage of such loans to total savings capital.

WHAT MUST BE DONE TO IMPLEMENT REPORT

With that picture of the recommendations and key parts of the committee report, I would now like to outline briefly our thoughts as to what must be done to implement the report—what each of us can do to assure the business of a better Federal Home Loan Bank System.

I think it is extremely significant that only one of the many recommendations made by the committee would require any

Congressional action, and we will ask Congress, in its next session, to make that change. It would be to make the short-term Federal Home Loan Bank obligations eligible for rediscount at the Federal Reserve Banks and eligible for purchase in the market by the Federal Reserve Banks. A precedent for this is provided by the Federal Reserve Banks' authority relative to the obligations of the Federal Intermediate Credit Banks.

With only one of the recommendations involving legislation, there is no reason why the program, as envisaged by the League's Special Committee to Study the Federal Home Loan Bank System, cannot be put into effect promptly. Some of the recommendations can be put into practice by the boards of directors of the district Banks even without approval or direction of the Federal Home Loan Bank Board. Others would require initiative in this direction on the part of the Board.

To facilitate implementing the report, the League staff currently is in the process of drafting proposed policy statements for Board consideration and proposed changes in the regulations of the Board governing the operations of the 11 regional Banks.

The Committee report is detailed; the recommendations are amply supported by statistics and logic.

It should not require many months of study by the Federal Home Loan Bank or by the officers of the district Banks to implement this report and begin to take concrete steps to reshape the Bank System along the lines so urgently needed. We hope that without delay the Board and the presidents of the regional Banks will meet in joint session for a several day period to discuss and study the recommendations of the committee. We hope that the boards of directors of the regional Banks will begin to insist on some action along the lines of this report.

The power to improve the Bank System is in the hands of the Board's regional Banks, the officers of the Banks and the members of the Federal Home Loan Bank Board. Certainly we should not have to go through another credit crisis such as we had in 1955 before specific action is taken by those responsible for the operation of the Bank System to make certain that the roof is repaired.

I hope all of you will exercise your influence to see that the roof is repaired while the sun is still shining.

## RECODIFICATION OF FEDERAL FINANCIAL LAWS

by HENRY A. BUBB, *Chairman*

*United States League Legislative Committee*

*Topeka, Kansas*



MY APPEARANCE ON THE PROGRAM today was not planned until a few days ago. But when I reported to your officers and to your Legislative Committee the events of the last week, they urged that I come before the convention and lay the cards right on the table as to where we stand on the widely discussed recodification of the federal financial laws. That is exactly what I intend to do.

In doing so, I speak for the Legislative Committee, the Executive Committee and the Board of Directors who have devoted much of their convention sessions to this vital subject.

First, let me take a few minutes to give you just a little background.

In recent years the problem of our relations with the commercial banking fraternity has become increasingly important. At different times and in different places, there have been instances of friction between our institutions and commercial banks, chiefly as a result of provocative action taken by a few shortsighted banks and bankers, who have distributed misleading literature, sponsored unethical advertising, or supported the unfair and inflammatory activities of such groups as the National Tax Equality Association.

I say "few bankers" because only a small minority of bankers have taken part in such activities. Many of us, of course, have close business and personal friends among commercial bankers. For example, along with many of the rest of you, I have the pleasure of serving as a director of a bank.

Throughout these years, your League has deliberately followed—and has urged you to follow—a policy of refusing to air

our competitive differences before the public. We believe that a public display of bitter dissension between two types of financial institutions hurts all financial institutions, and plays into the hands of those elements hostile to a private, free enterprise system of financing and banking in the United States.

I have explained all of this because I want everyone here to clearly understand how we have bent over backwards trying to avoid any alley fights with the commercial banks in the press and before the public.

#### CRAVENS ADVISORY COMMITTEE CREATED

This brings us down to last year when the United States Senate adopted a resolution authorizing the Senate Banking Committee, with Senator Willis Robertson of Virginia acting as Chairman, to undertake a recodification of all the financial statutes. The Committee requested each of the affected federal agencies to submit their recommendations for revisions of the respective laws. The highlights of those suggestions were mailed to all of our members. Then Senator Robertson appointed a 27-man advisory committee headed by Kent Cravens, a St. Louis commercial banker, to evaluate the agency recommendations and to advise the Senate Committee on the proposals. That committee consists of 20 bankers, two savings and loan executives, and five others.

In view of the fact that most of the proposals related to banks, at first glance this preponderance of bankers did not appear too surprising. The full committee was subsequently divided into five subcommittees, one of which handled the Federal Home Loan Bank System and savings and loan matters. We had assumed that each subcommittee on the advisory committee would work on, and largely influence, the recommendations of the full committee in relation to its specialized field. In other words, we thought that the advisory committee's position on savings and loan legislation would be guided largely by the subcommittee on savings and loan matters of which I am chairman.

#### SUBCOMMITTEES MAY HAVE MINOR INFLUENCE

Without going into details, I have found that the situation may be quite different. In effect all the members are going to have a voice on all of the recommendations which means that on savings and loan questions the decision could ultimately be made by 20 bankers and two savings and loan men.

I will say frankly that if the situation were reversed and 20 savings and loan men and two bankers were rewriting the banking law, it would be totally unfair to the banks. I am sure you agree with me that it is inappropriate for a committee of this

ratio—20 bankers and two savings and loan men—to determine policy on savings and loan law no matter how fair-minded the bankers might try to be. It just doesn't make sense.

#### SITUATION COULD PROVOKE BANKER ATTACKS

There is no doubt that some bankers regard the recent request of the Federal Home Loan Bank Board for additional powers as an opportunity to restrict our institutions and an opportunity to air and publicize all their old grievances against us. As you know, the Federal Home Loan Bank Board has requested broad legislative authority to regulate and examine affiliates, to remove officers or directors of federal associations, and to subject state chartered bank member institutions to full examination and regulation regardless of whether or not such institutions are insured. In addition to apparently endorsing each of the Board's requests for additional authority, several bankers at the Senate hearing last week complained about our tax situation, they complained about reserves, they complained about dividend rates, they complained about lax supervision.

Let me make the record straight: The United States League is in favor of good supervision, careful examination and firm prosecution of those who break the law and regulations or who engage in self-dealing or illegal profiteering. I will never defend any offenders and neither will the League. But this does not mean that the United States League is going to agree to broad, vague and unascertainable authority of the Board or any other agency which would deprive management of fair hearings and a fair opportunity to correct abuses.

In short, we demand due process of law.

This is, of course, no reflection on the present three members of the Board for whom we have the highest regard. We wouldn't want the three wisest men in the world to have this authority.

The members of the Board are aware, of course, of our views on these matters. We have asked the Board, and the Board has cheerfully agreed to sit down with our representatives to work out a careful and well balanced authority so that the Board can effectively carry out its supervisory functions.

We can work this out with the Board without the guidance and assistance of our competitors who, as Congressman Spence stated, are always so generous in offering advice on savings and loan legislation.

I would like to say something about the role of the American Bankers Association. For the most part through the postwar years, the ABA has been reluctant to air our competitive differences publicly for many of the same reasons that have guided the course of the United States League. However, in the recent Advisory Committee discussions, there has been substantial

reason to believe that the ABA has made at least a partial surrender to some of the anti-savings and loan extremists among their members. We hope this surrender will be short-lived.

#### U. S. LEAGUE WILL KEEP ON THE ALERT

Frankly, I am not sure what recommendations will eventually come out of the Cravens Advisory Committee. It may well be that the cooler and wiser heads among the commercial bankers will prevail and will block any attempts of extremists in their midst and in the ABA to hamper our progress. On the other hand, if the Cravens Advisory Committee does decide to adopt recommendations contrary to the interests of our business, the committee will be advised in no uncertain terms that the members of this League will fight these recommendations.

I emphasize: We will fight and we will win.

The members of the Senate and House Banking and Currency Committees are fine, outstanding, fair-minded men. These men, together with their fine staffs, are well aware that we are the largest source of credit for home building in this country and that our associations comprise the institutions where the working man and woman can invest their dollar safely and get a fair return.

My appearance has been made in order to keep you fully informed, in keeping with League policy. The situation we face is, potentially, quite dangerous. We still hope these problems will be settled in a fair and satisfactory manner.

On the other hand, it is also possible that in another few months we may be in another all-out legislative fight, and I wanted you to be fully apprised of this possibility.

I will close with this pledge to you:

If we have to fight, I guarantee you we will fight hard, and we will win.

## THE NEED FOR SAVINGS MEANS TOUGHER COMPETITION

by NORMAN STRUNK, *Executive Vice President*

*United States Savings and Loan League*

*Chicago, Illinois*



IT IS FITTING that we pay tribute at this convention to those whose labors through 125 years have given us the business which is the common bond between us. We salute the leaders of every period and thank them for the contribution they have made to the savings and loan and co-operative bank business and, as a result, to a better America.

But no group in our past has done more to build this business than you in the audience today. Succeeding generations will thank the present generation of savings association executives for what they have done much more than those who have gone before you. It has been those who have been active in the business the past 25 years who have contributed most to building the business we know today.

I know that I am expressing your feelings as well as my own in thanking the League officers, President Dreier and Vice President Marr, along with the other elected and appointed leaders of the League for the job they have done for all of us.

It has been a particular pleasure and privilege for me to work closely with men of the stature of those who have served our business as the United States League presidents. The leadership of the League has been in very good hands through the years. We know our great leadership tradition will continue, which gives us assurance that the savings and loan business will continue to go forward.

#### TODAY'S APPRAISAL OF OUR BUSINESS

The things I shall discuss with you today have been suggested by my day-to-day working experiences of the last year and the

years preceding. One sitting at my desk and mingling with savings and loan and co-operative bank people throughout the country has an unusual opportunity to feel the pulse of our great business; to see its gains and setbacks; to sense its opportunities for service and its problems.

One thing that we on the League staff have observed, for example, is that in 1956 savings association executives have been consolidating the gains made in the last ten years.

There are exceptions, of course—some will say too many—but it is a fact that the liquidity position of most of our institutions is better today than it was 12 months ago. Our reserve ratios have been maintained and in many instances strengthened. Internal operations are more efficient. It is apparent that at least nine out of 10 of the savings associations of the country are improving the quality of their assets, trying hard to strengthen their reserves, improving their office facilities and toning-up operations in general.

Let me assure you, however, that I do not want to appear complacent or leave the impression that everything is rosy. For we do have our problems. I feel sure, however, that we have fewer problems than most businesses. But it is possible to become so deeply absorbed in worry over them that we lose sight of the fact that 90% or so of our institutions are sound, strong, well managed and doing an honorable and superb job of promoting thrift and home ownership in their communities.

A friend of mine is employed as collection manager of a small loan company. He sees only the bad loans and talks only to chronically delinquent borrowers. He sometimes gets the impression that the American people are all "dead beats"—whereas 95% to 98% of the borrowers from his company pay on schedule. He is not in a position to see the whole picture and must stop from time to time to get a proper perspective. We, too, must keep our proper perspective.

By any measure of the past, our business is now at its peak of influence and service to American communities. Management and staff are certainly more able than at any time in the 125-year history of our business, of which we are so conscious during this convention. Our loan portfolios are strong, our earnings are good, loan arrearages are virtually non-existent, our reserves are growing at a steady rate, savings competition is keen but our business is faring far better in attracting money than others, and we have excellent office facilities.

We enjoy the admiration and envy of competing types of financial institutions on the one hand and we have the confidence of the American people, on the other.

The growth of our business in the last decade truly has been remarkable. This growth has brought criticism and created most of the problems we have, but it has also been vitally important

to the preservation of free-enterprise home financing in America. If our institutions had not grown as they have grown, and provided the funds for home financing in the volume they have, the postwar period might well have seen the United States launched on a vast socialistic experiment in housing instead of the tremendous surge toward private home ownership we have enjoyed and in which we have played such an important part.

The best proof of the success of our efforts in this regard is that public enthusiasm and support for the programs of the "public housers" appear to be on the wane, and that the proponents of these programs today are struggling desperately to keep their ideas and plans alive.

We face a new challenge to private enterprise in housing, however. I refer to the threat of direct lending by the federal government. But with the same vigor we have shown in the past, we can keep the "direct lenders" on the defensive just as we now have the "public housers" on the defensive.

The savings and loan business in the past decade has made \$67 billion of loans, financed 7 million people towards home ownership, and provided funds for the construction of 2½ million new homes. This record stands in answer to our critics and competitors who complain about our competition, to those who express alarm over the rapid growth of our business, and to those who set up the cry for public housing and direct lending by the federal government.

It seems to me that, as a business, we have two big objectives: First, to preserve the gains we have already made; second, to continue to make progress in the promotion of thrift and the financing of home ownership.

The achievement of Objective No. 1, to preserve what we have, is essentially a job of good, careful and efficient management, taking our trusteeship seriously and conscientiously, and the execution of thoughtful programs of public and customer relations.

The second objective of continued progress and growth, while it is inter-related with the task of preserving our gains, is much more complex. It involves an understanding of the challenges and obstacles to our progress, and then the development of programs designed to meet the challenges as they arise.

#### THE CHANGING CHARACTER OF COMPETITION

Today I want to explore one of the major challenges, that pertaining to competition—competition which, incidentally, promises to become not less intense, but much more intense in the period just ahead.

Someone once said, "The dog that has the bone is in danger." And the fact is that insofar as the flow of money is concerned

(the money we need to finance American homes), we have the "bone," because our institutions are getting the money.

The past year has been one of tight money, a year when the flow of funds to our institutions has not been adequate in terms of the good lending opportunities available. Despite this fact, we have literally made other types of financial institutions green with envy.

Our gain in savings for the calendar year 1956 will be in the neighborhood of \$5½ billion; about a 12% gain in our savings balances. Percentagewise, this is a lower rate of growth than we have experienced in the last several years, but in comparison with other financial organizations offering thrift services, it is a wonderful record. During 1956, it is estimated that the time deposits of commercial banks will increase by about \$1⅔ billion or 3% (compared to our \$5½ billion, a 12% gain). Mutual savings banks will also gain about \$1⅔ billion. Credit unions and mutual investment funds, two relatively new forms of savings competition about which we hear so much, will show combined gains in assets of only one-fifth what we will gain this year.

For the second year in a row, we will have gained more in savings than the commercial and mutual savings banks combined, and we have continued to march far ahead of the credit unions and investment funds.

This record, in a year of tight money, on top of the tremendous relative progress of our business in the last decade, clearly puts us in the "danger zone" insofar as efforts to take the "bone" away from us are concerned!

There is another phase of competition for savings that has become increasingly important in recent years. I am referring to strong competition between savings and loan associations. This increased intra-business competition illustrates once again how different the competitive situation for any one of our institutions is today as compared with 10 years ago.

In 1946, the savings and loan associations in any typical city had only one-fourth the amount of savings of the commercial banks in that city. By today's standards, our institutions then were small, loaded with cash and government bonds, occupied small offices, and were struggling for recognition. Few other institutions in the community were doing much to attract funds. The operations of any one association had little effect upon the other associations in the community.

#### SHORTAGE OF SAVINGS IS KEY TO COMPETITIVE SITUATION

The big competition for any savings and loan association at that time was the savings department of the commercial bank down the street. In the typical city, that bank was not doing much for savers and doing little or nothing to promote its savings depart-

ment. We had not become important enough for the banker to worry about us and there were enough savings to go around to do the job that then needed to be done. By today's standards there was no competition at all.

Today, however, instead of a plentiful supply of savings, the demand for accumulated savings far exceeds the supply now available.

The basic money shortage in the country today is a shortage of savings. Savings are required to build the new factories, the new schools, the new highways, the new houses and the new machines needed to produce new automobiles, automatic washers and dryers, television sets, and all of the things we associate with a higher standard of living. Because there are just not enough savings to meet the demand, there is a big money "pinch" today. Competition for savings literally is fierce, and we feel it.

The typical savings and loan association today has as much or more in savings than does the savings department of the typical commercial bank. In many cities, our institutions have considerably more in savings than do the banks. Our institutions are now big, well housed, and have modern and aggressive savings promotion programs. These programs, and similar programs by the banks, have not only made the public rate-conscious, but they have made the public aware of the identity of many of our institutions.

What any one savings and loan association does in its community today inevitably affects the others. For example, a dividend rate increase by one association now tends to spread like wildfire to all others in the city, and more than that, has repercussions on associations in distant cities.

Seen in this light, the competition of any one of our institutions, from the practical standpoint of day-to-day operations, is not so much the bank down the street but the other savings and loan associations in its city.

Thus, these are the two forms of competition: First, competition with other types of financial organizations which we face as a result of the fact that our business today is the dominant savings business in the nation, coupled with the fact that for the first time in decades the commercial banks need more money than they have and we are getting more money than they are; and the second, what we might term "intra-business" competition—the competition of one savings and loan association with the other associations in its community.

It is important that we spell this out in some detail as I have done, because it may help to explain the direction and nature of the problems we are going to face in this business in the next five to ten years.

Let's talk first about the competition between savings and loan

associations, see how it has affected us in the last several years, and consider what its future effect may be.

In the first place, we must remember that competition is good—it is the heart and soul of the American business system. Any thinking businessman would be foolish to want anything else. Not all, but a great deal of the progress of our business in the last few years has resulted from the competitive urge, the incentive for progress provided by others in the area.

All of us can recall more than one example of an association that suddenly started to do a much better job as a result of a breath of life having been breathed into a neighboring association—or in some instances by a new charter, or some new branches in the area.

#### WHAT SHOULD BE OUR ATTITUDE TOWARD REGULATION

Along with its advantages, competition also creates problems. For example, it has been the basic cause of what we sometimes refer to as "dividend rate wars" and, until a few months ago, "give-away wars." Competition has also clearly been the basic cause for some of the new and proposed regulations. Trying to do something about the problems resulting from competition caused the \$2.50 limitation on give-aways. Competition was one of the reasons for the Board's proposed regulation relative to brokers. Other regulations growing out of competition have been discussed, including one relating to advertising dividend rate outside the association's area. The idea even has been advanced in some quarters for a ceiling on dividend rates or supervisory control of dividend rates.

There was little unhappiness in our business over the give-away regulation because practices here had clearly gone beyond the bounds of reason and good taste and there was no apparent answer other than federal regulation. This is the type of restriction that, were it not for the anti-trust laws and other legal complexities, our business might have willingly imposed upon itself. Even some of the associations engaged in the practice were happy to see it outlawed.

With respect to the proposed regulation affecting brokers, the United States League officially and vigorously has supported the Board's position because here, again, the evils attending brokerage practices clearly seemed to outweigh the value of brokers and the distaste of the business for more regulation and control by the Federal Home Loan Bank Board. Here again, the only means by which the will of a clear and overwhelming majority of the business can be implemented is by the adoption of a regulation.

In light of regulatory proposals and discussions in recent months, certainly one of the key issues confronting this business

is: How far are we going to go in asking for regulation to curb or restrict competition between savings and loan associations?

It seems to me we have two alternatives. On the one hand, we can have a whole series of regulations which will keep competition closely within bounds, restricting ourselves to painless methods of business development. That, however, can go so far as to deprive us of our ability to compete effectively with other types of organizations that are after the saver's dollar. If this approach is allowed to go too far, it can result in holding everybody back to the pace of the slow and the mediocre.

The second alternative is to let competition be controlled only by the laws and regulations which set certain minimum standards for the soundness of our institutions, such as those with which we have become familiar—dealing with the type and caliber of our assets and providing for basic minimum reserves and reserve allocations, and liquidity. This frankly would result in strong competition such as we have experienced lately, with maybe some of the more exasperating and ruinous phases removed, such as excessive give-aways and brokerage. Under such competitive conditions, some institutions will not be able to maintain the pace and will either fall behind others in their rate of growth or be caught on the horns of the dilemma of trying to keep up with others in the community or failing to maintain their reserves and liquidity above the minimums provided by statute. This course can lead to the passing from the picture of some managements and in some cases the merging of weak institutions with strong ones.

It is not my purpose today to recommend one approach over the other. Rather I suggest it as one of the basic questions that everyone in our business has to consider and to which answers must be developed over the next few years.

It seems to me, however, that whatever answers are arrived at should be based on certain fundamentals, such as that competition is good in our business, as in others, and must be preserved. It follows that whatever answers we develop must provide rewards for strong, able and aggressive management. We cannot afford a system which would necessarily guarantee business life for every single management—even though it be careless, antiquated, incompetent, or just plain lazy.

#### DEALING WITH OUTSIDE COMPETITION

As to the problem of outside competition, these signposts are labelled more clearly. It is also true that probably we are more eager to cope with this problem since it is not "in the family" so to speak. All of us realize, or should, that outside competition promises to become progressively more intense. Our competitors understand that we have not only taken the lead in the fight for

savings, but that there are many reasons why we should be able to keep it.

In the first place, we offer a product that is attractive. We are easy to do business with, we provide unquestioned safety for the public's savings, and we have been able to return the saver's dollar when he wants it.

In addition to having a good product, it is priced right. We have rewarded the saver adequately and certainly more generously than have the banks. We have provided service with convenience and the public always responds to service. We have treated our customers courteously and made them feel we are glad they came to us.

We have made the saver the king. He is our preferred customer. We give him our best—not our second best. We have advertised and promoted our business colorfully and effectively. In the main we have spent money in adequate amounts for advertising and our public relations have been good. We have made a reputation throughout the community as being a vigorous financial business—a reputation well deserved.

Some in the banking field, such as the men who lead the Bankers Committee for Tax Equality, have charged and will continue to charge that we have advantages over them with respect to the laws under which we operate. Most frequently referred to are the laws relating to branches, laws relating to our income tax status, and our ability to promote, advertise, and make mortgage loans.

I do not concede for one minute that we have any advantages in our legal framework. Certainly the Federal Income Tax Law provides us no more than that to which we are entitled. If the banks do not have as good a loss reserve formula, it is not because we have too generous a formula, but because they have an inadequate one.

In this connection, it is significant to note that astute observers of the financial scene have become aware of the "negative" approach to competition that has frequently been employed by some commercial banking groups. For example, Leif Olsen, Banking Editor of *The New York Times*, wrote this comment a short time ago:

Commercial banks in the main have sought to limit or restrict their competitors instead of seeking ways of expanding their own operations.

The question is whether it will help the future of commercial banks by limiting competition. . . . Is not the solution to the commercial banks' problems best found within their own system rather than in that of competitors?

This is the type of thinking of the Bankers Committee for Tax Equality and the Independent Bankers Association—which, incidentally, receive most of their support from the small town

bankers. Many of the banking leaders are taking a more constructive approach as, for example, the thought that banks should not attack our tax status but rather should concentrate on efforts to improve their own. Many bankers are following the advice on savings and loan competition of Gaylord Freeman of the First National Bank of Chicago. He is telling them to meet our competition by doing a better selling job. That's one reason we should expect more intelligent competition from the banks in the future. I think, however, that Mr. Olsen's words should be referred to whenever you run into a banker who does not take this more constructive approach to our business and who talks vaguely about some legal or legislative "advantages" our business is supposed to enjoy.

Let us never lose sight of the fact that we have our present legal framework for good reason—because our institutions render a vital service to the American people, because it is vital to the strength of America that our institutions be preserved in their present form, and that we be able to continue our progress.

As I mentioned earlier, the great money shortage in this country is a shortage of savings. Savings associations are the one type of institution which has been doing something about this shortage. We have been doing something about it over the last ten years and we are the greatest promoters of thrift in the country today.

Our major mission in life, of course, is the financing of homes. Our ability to finance homes is limited only by the amount of money people save, or invest, in our institutions—plus our ability to build reserves to keep pace with the growth in savings. We provide financing for one of the basic necessities of American life—shelter. We are currently in a period of a rather low rate of family formation, but in a few years (when the children now crowding our schools grow to marriageable age and demand housing) we will face a lack of mortgage money such as this country has never before experienced. It will be absolutely necessary to the health and prosperity of America and the preservation of our way of life that our institutions be strong, vigorous, and growing.

Because we are the dog that has the bone, because in this period of tight money our institutions have been getting substantial sums of new money while others have not, we face tremendous competition from the commercial banks, the mutual savings banks, the stock market, and, to a lesser extent, from the credit unions and the mutual investment trusts.

From all concerned we will face more vigorous and more able promotion and advertising. For example, just the other day I read that a banker had advised his colleagues to promote savings by offering lower charges for checking accounts to bank savers, or giving them three or four free checks a month, and

by offering bank savers better terms on loans than those who do not save with the bank.

We will face higher rates of return being paid by others who seek the saver's dollar. We will face more talent in the management of the savings departments of commercial banks.

From some we will face legislative attack, competitively inspired, both in the Congress and in state legislatures. We will find more determined opposition and obstruction to legislative proposals designed to improve our services. We will also face the problem of warding off legislative proposals deliberately designed to lessen our ability to promote savings and finance more homes for American people.

**LET US FIGHT OUR COMPETITORS' ATTACKS  
WITH MORE AND BETTER SERVICE**

From time to time, on this and other occasions, I have expressed criticism of the bankers' approach to competition through legislative restrictions, public pamphleteering and the like. In this connection, we really practice what we preach in that the United States League has never appeared before any Congressional committee to ask for any restriction on our competitors, be they banks, savings banks or credit unions, and never once have we gone before Congress to oppose legislation which the commercial bankers have sought for their improvement. Neither have we published inflammatory pamphlets undermining public confidence in our competitors. That this position and philosophy have inured to our benefit is evidenced by the many occasions on which Congressmen, such as the distinguished Chairman of the House Banking Committee (who is here to address us this morning), have referred to our "live and let live" policy in rebuttal to our competitors' requests for legislation detrimental to us.

We should be confident as to the outcome of this continuing competitive struggle. It has been going on for several years with all the important victories being on our side. We possibly cannot expect to win every skirmish or battle, or make a touchdown every time we get the ball, but we can not only resist the attacks of those who would hold us back but also make steady gains in service to the American people.

We can win provided only that we remember the American public is, and always will be, the final judge and jury in any controversy involving service to themselves. We have built our business on the concept of service; we render the best service of any type of financial institution to savers, home owners, and builders.

The home financing done by our institutions, using as we do savings dollars as money for loans, is non-inflationary. That is

important these days and reflects another phase of our service to American society.

The one sure way to answer the criticisms that will be directed our way and to meet the more intense competition we face is to offer superior service to the public.

Many of these issues will be settled in the state legislatures and in the United States Congress. Our strength in the state legislatures and Congress has always been and is now the fact that we are dedicated in our work to financing homes for the American people. Our continued existence and growth are vital to the health of the home building industry, the real estate market and the entire economy. We should always remember that our business exists today because our mission in life is providing homes for the American people.

In many, many ways the decisions of state legislatures are as vital to our strength and progress as those of the United States Congress. This means that we must have and support strong and effective state leagues. Your support of the United States Savings and Loan League and its Legislative Committee testifies to your understanding of the importance to us of the decisions Congress will make in the years to come.

Yes, we have our problems. Sure, there will be criticism and problems ahead. But with the knowledge and strength that come from working together, in the future as in the past, none of us need fear for the outcome.

## THE LONG LOOK AT OUR ECONOMY

by THE HON. W. RANDOLPH BURGESS, *Undersecretary*

*The United States Treasury*

*Washington, D. C.*



**S**AVINGS AND LOAN ASSOCIATIONS have come of age.

You can be justly proud of the fact that you are the guardians of \$36 billion of the savings of the American people and that your institutions are growing at the rate of more than \$5 billion a year.

You can be equally proud that you are currently financing about 40% of all new mortgage loans, making possible hundreds of

thousands of new homes across America each year.

You can be proud, also, of the influence your organization has exercised for sound home financing. I applaud especially your efforts to improve the organization and standards of your own associations and the Federal Home Loan Bank System. They show that you recognize the responsibility that goes with your large and growing influence.

The job that you are doing has become more important than ever before to the well-being of the people of the United States. I want to review some of the reasons.

### THE MATURE ECONOMY THEORY EXPLODED

For many years, American economic thinking, when not concerned with wars and armaments, was colored by the depression of the '30s. The depression had developed a defeatist attitude which took the form of the "mature economy" theory. This theory was that this country had stopped spontaneous, vigorous, upward growth and could make progress only by government intervention of one kind or another. The challenge of the frontier was seemingly gone. Population growth appeared to be leveling off. Saving was discouraged and spending was extolled. Money appeared to be a drug on the market. Low interest rates gave savers scant rewards.

This depression theory has just been completely exploded by the prosperity of the past few years. There are several convincing evidences of the change.

First, there is population growth, which has jumped to a new high level. Four million children were born last year, as against an average of 2½ million in the '30s. This means many more schools, more churches, more utilities, more streets, and a great many more houses. It means more demand for food, clothing, and equipment. It requires an expansion of productive facilities of all kinds.

Second, there is the amazing progress of science and invention. The vast research programs of business and government have uncovered a whole new vista of progress to improve the well-being of the people.

A third factor for dynamic growth, I believe, is the confidence both the individual and private enterprise feel today to plan for the future, partly because government is providing an encouraging economic climate, based on sound money and sound economic policies.

In the face of these changes, plus the pay increases, American business has revised drastically its program of capital expenditures. We spent \$26½ billion on business capital expenditures in 1952; this year, we are spending \$35 billion—an increase of one-third in four years.

It is no wonder that our total national product is breaking all records and that more people are working than ever before. All of this intensive activity takes money—more than ever before in peacetime. We must find the money to finance this activity without inflation—without, in effect, printing new money.

### SAVINGS ACCUMULATING—MORE NEEDED

Here is where a new day is dawning for savings. It is fortunate that we are a saving people. Our country is doing a tremendous job of saving money and applying it to increasing our wealth and wealth-producing assets. Individuals are currently saving at a rate of about \$20 billion a year. Despite heavy borrowing, they are still piling up assets much faster than debts. That \$20 billion rate is about 7% of their income after taxes.

Business corporations, too, are saving about half their net earnings and are thus able to cover a large share of their new plant and equipment expenditures either from retained earnings or from current depreciation.

But the savings we as a people are making are still not enough to pay for everything that we want to do. The demand is just much greater.

So people are borrowing money—a great deal of it. As long as people borrow money that other people have already saved,

there is no great problem for the economy. But when they try to borrow more money than is being saved, then the price of money—the interest rates—go up. Lenders have to decide which loans they will make and which they will turn down. The banks have to decide whether they, in turn, will borrow from the Federal Reserve to help meet the demand. That means, in effect, creating new money, and that is where the danger of inflation comes in. This is a real danger which we must not ignore.

The solution to the problem of adequate funds to sustain our tremendous economic growth without inflation is very simple. It is to spend a little less and save more.

Thus, the first thing we must do is to exercise some restraint in spending—not to try to do everything at once. Higher money rates and tight money act as such a restraint. That is why the Federal Reserve System is allowing money rates to rise, as the demand for funds continues to outrun the supply.

#### TIGHT MONEY POLICY PRODUCES SOME HEALTHY RESULTS

When there is vigorous competition for money, as there is today, not everyone can get all the money he wants. This heavy demand for money has hit especially mortgage money for home building. This is true despite the fact that mortgage lending is still going forward at high levels. We recognize this has made many problems for your business. Without underestimating the hardships in many cases, it is interesting to find many of you recognizing some advantage in the slowing down in home building. It gives the market a chance to absorb the very heavy building of recent years. It is a partial brake on the rise in building costs which would threaten seriously to narrow the market for houses.

Some other borrowers are finding their projects held back by difficulties in getting money. This is not a pleasant experience for anybody. But there is, fortunately, growing understanding that these restraints are essential to avoid inflation. If the Federal Reserve, in effect, printed money to meet all demands for money—or even just those that seemed desirable—it would cause price inflation. With labor fully employed, and with many scarce materials, a further increase in activity would simply push up prices.

So the only sound way to finance more rapid economic growth is by increasing savings. Higher money rates themselves encourage saving. Higher rates mean that banks and savings associations are offering their depositors greater inducements to save. Life insurance becomes more attractive as insurance companies are able to raise their dividends to policy holders. Of course, these higher rates take time before they actually result in higher savings, but the American people have sharp pencils,

and they are today responding to these more attractive rates.

Another incentive to save is confidence in the continuing value of the dollar. Inflationary government policies helped cut the purchasing power of the dollar from 100 cents in 1939 to 52 cents by the end of 1952. Saving under those conditions was a frustrating experience.

Since 1952, however, we have enjoyed a remarkable period of price stability. The purchasing power of the dollar has held close to its value for 4 years—with a loss of only about 2½%.

This didn't just happen. It reflects the determination of the Government to help keep the dollar sound.

#### BALANCED BUDGET BRAKES INFLATION

Under this Administration, the federal budget has been brought into balance from an inherited \$9½ billion deficit. A \$1¾ billion surplus last year gave a start in debt reduction. The national debt today is \$276¾ billion, compared with \$280 billion a year ago. Another balanced budget is in prospect, and further debt reduction. Government deficits are, thus, no longer a source of inflation and instability.

The Federal Reserve System has been freed to exercise its independent judgment in the determination of monetary policies in the public interest. The broad program of the Federal Reserve in checking the tendency toward overexpansion of credit has been helpful in keeping the pressures toward inflation within bounds.

Bursts of inflation are too often the prelude to recession and unemployment. With the world looking to us as an example, we cannot afford this. But if we continue present policies—with effective credit restraint, stable prices and a growing interest in savings—our prospects for the sustained and vigorous growth of our country stagger the imagination.

But in addition to higher money rates and a favorable governmental climate to encourage savings, private enterprise must do its part. It takes salesmanship—shoe leather. That is where your organizations have shown their capacity. You are doing a fine job encouraging people to save. This is not only good for your business and good for the home building industry, it is good for your country.

To reach the high goals of prosperity and well-being which are within our grasp, we must save more to have the funds to build a new and greater America. That is the reason why what you are doing in encouraging saving, and investing the savings soundly in new homes, is more important than ever.

## THE DRIFT OF GOVERNMENT POLICY IN MORTGAGE FINANCING

by MILES L. COLEAN, *Economist*  
*Washington, D. C.*



THE PERIOD OF LULL between the end of a hard fought political campaign and the convening of what promises to be a contentious Congress is a good time to take a look at a major question facing the savings institutions of the country. This question is: Can a private home mortgage credit system in any real sense much longer survive in the present political climate?

This brief period is a good time to take a look at this question, because with one set of emotions cooling and the next set not yet aroused, it is a favorable time for speaking frankly. I propose to speak frankly.

I think the private home mortgage credit system is in trouble. The trouble has been a cumulating one, especially over the last decade, as the basic criteria of a sound credit operation—the yield on the money and the evaluation of the lender's risk and the borrower's ability to pay—have been corroded by concepts of social action under which need is the basic reason for extending credit, with yield and risk secondary considerations, if they are to be considered at all. This development is well illustrated in the history of FHA.

### ORIGINAL IMPERSONAL CONCEPT OF FHA WAS SHORT-LIVED

At its beginning the FHA offered the private mortgage market a single formula for spreading risk on a mutual basis, available to all lending institutions and accessible to all borrowers with good credit standing and an acceptable piece of residential property. Though the device was created by government, its support was to come solely from those who benefited from it, and any

profit was to accrue to the borrowers who paid its premiums. The government's position was kept remote; it made no distinction between persons or classes or groups, and it had no direct relationships with individuals.

It was not long, however, before the indirect and impersonal concept of the governmental relationship as embodied in FHA was seriously adulterated. Strong forces were at work to give government a more direct and positive role through which, by grant and subsidy, it was proposed to give every family in the nation a good house irrespective of considerations other than that of assumed need.

To combat these forces, the supporters of FHA were lured into a succession of compromises. Since direct lending and public housing purported to offer a cure for all social ills, FHA had to offer one also. In fact, a whole series of alleged cures were provided as special insurance programs were set up to encourage low prices houses, farm houses, housing in outlying areas, housing for war workers (two programs here), for veterans, for slum dwellers and those displaced from slums, for men in service and now, for old folks. Let us not overlook programs to promote cooperatives, prefabricated houses and "industrialized" housing and to help the armed services avoid asking for direct appropriations, and probably a few more I have forgotten.

In this panic to set up a special program to meet every real or invented need, the original, limited, practical objective was lost, and FHA was caught up in the spreading delusion that there was no limit to the power of government to remedy every human ill and solve every social problem. As a consequence, the agency began to be looked upon not as an impersonal device for improving the functioning of the private market mechanism but as a tool for directing and controlling the flow of funds to meet current social and political objectives.

One difficulty with this Utopian approach is that it hasn't worked very well. The administrative processes of FHA have become so involved that efficient functioning even of its basic operation is almost impossible. Many of the special programs have not got off the ground. Some have appeared too hazardous or too cumbersome to appeal to the private market. Others, with real promise, have been defeated by excessive regulation. The final result, however, has not been to prevent or reduce the encroachment of government but to raise new demands for intervention by way of market support through the Federal National Mortgage Association or by direct lending, for which we now have a proliferation of programs.

After the war, an entirely new element was introduced into the mortgage picture—the guarantee of home loans to veterans by the Veterans Administration. Here again was basically a simple and practical idea. Amid the prosperity of the immediate

postwar years and after a decade of low housing production, a serious shortage existed. Moreover, with the hand of rent control (which gave a great advantage to the stay-at-homes in possession) heavy on the market, veterans were at a special disadvantage. The idea of the loan guarantee program (by permitting veterans to borrow with a minimum or non-existent down payment) was to make it possible for men who had been in service to compete advantageously with those who had been able to accumulate savings during the war years. Like the FHA, however, this plan also soon took on special overtones, especially as to the sanctity of a fixed interest rate.

The founders of FHA and of the VA loan guaranty plan were wise enough to know that private funds cannot be expected to flow into areas in which yields are not competitive with those in other areas. It is a fact that from FHA's inception until the early 1950s, the maximum interest rate permitted on FHA mortgages was consistently above the market rate. The several reductions in rate that were made during that period always followed the market's downward trend. There was never even the appearance of leading it, let alone of coercing it. It is also true that the interest rate set for the VA loan guaranty program at its inception was not a privileged rate but one that was well in line with the rates currently being charged on conventional mortgages of good quality.

#### WELFARE AND POLITICAL CONCEPTS VIOLATE ECONOMIC REALITIES

What has happened is that over a period—and a fairly short period at that—a marked differential in interest rate, as well as in down payment and maturity, came to be considered a privilege of the users of these systems. This development was not only contrary to original intent, but contrary also to the facts of economic life. What could be, on the basis of economic realism, became hopelessly confused with what ought to be, on the basis of a false concept of public welfare. And as invariably is the case, what ought to be, in terms of a welfare concept, became what is feasible, in terms of a concept of political expediency.

When the welfare concept and the political and welfare concepts begin to do violence to the economic realities, the now normal course is not to adjust the concepts to the realities but to attempt to dismiss the realities by resort to direct or indirect governmental lending.

As representatives of the savings and loan business, you could take the position that these matters do not concern you. You have little truck with FHA and, proportionately to your other activity, you are not heavily involved with VA. You have obtained the freedom of your supervisory agencies from the control of the politically dominated HHFA which, so long as it

lasted, always carried the threat of impingements similar to those imposed on FHA. You could, no doubt, feel fairly secure from political subvention.

Moreover, confining yourselves largely to the area of conventional lending, you have given a notable demonstration of the greater stability and dependability of a program relatively free from political influences. I have recently charted the comparative fluctuations since 1947 of the number of houses started with insured and guaranteed financing and those without it. During that period, the year-to-year fluctuations in the insured and guaranteed sectors have been in the range of 48% up to 40% down. I have also charted the comparative fluctuations in the dollar volume of mortgages under \$20,000 recorded under the insured and guaranteed systems and those made on a conventional basis. Here the year-to-year fluctuations for the first grouping are in the range of 65% up to 19% down, while those for the conventional group have shown constant upward movement, ranging from 2% to 30%.

This period, it will easily be recalled, contained a succession of easy and tight money situations as well as the artificially designed restraints of Regulation X. I know of no better evidence of the desirability of freedom from constant political tinkering in a mortgage system than this record shows. The results are something for which, from your point of view, you may be profoundly thankful.

I insist, however, there is nothing in this circumstance to be complacent about. In view of the fact that, at times, the insured and guaranteed mortgage programs have accounted for as much as 51% of all private houses started and 36% of all home mortgages recorded, your operations cannot avoid being affected by what goes on in these areas.

It is certainly to your interest, for example, to see that operations conducted under FHA's aegis be conducted on a sound and rational basis. If it is realistic to assume, as I am sure it is, that mortgage insurance will not be abolished, it is all the more vital to see that it be made an instrument of the private credit system rather than a contributor to its erosion. Unsound operations anywhere in the mortgage system cannot but have an infectious influence throughout the system. It is certainly also to your interest to restrain the growth of direct lending and subsidy operations, since no sector of the mortgage industry, no matter how securely isolated it may feel, can escape the blighting effects of this sort of competition.

#### AVOID CREDIT SYSTEM THAT PROVIDES FOR GROUP DISCRIMINATION

It is to your interest to maintain the distinction between, on the one hand, a broad, freely operating credit system devoid of

group discrimination and, on the other, a credit system compartmentalized with special deals for the special groups that from time to time seem deserving of special advantage—usually politically motivated advantages. Finally, it is to your interest to work to strengthen and increase the efficiency of the conventional mortgage system so that, by more effectively serving the whole range of housing demand, it can stand as a bulwark against government encroachment.

Fortunately, and it is a tribute to the leadership of the United States Savings and Loan League, you have not been lulled into a false security. You have been consistently opposed to public housing and direct lending programs. During the debate on the 1954 Housing bill, which was crucial because it was the first major housing program under the Eisenhower Administration, you were almost alone in cautioning against the liberalization of FHA terms. You have valiantly—although unfortunately not always successfully—taken a position against each step that would lead away from sound credit principles.

One important reason why the extension of government intervention is so difficult to combat is that, over the years during which the legislation has been developed, numerous vested interests have been created. The beneficiaries thereof naturally are not only zealous to protect their advantages but also to extend them. The promoters of governmental expansion are, by playing one group against another, able to break up concerted opposition to measures that are inimical to a private mortgage system. More than this, in return for added benefits or by creating fear of loss of benefit to this interest or that, they are often able to remove opposition altogether. I have seen these tactics developed to a high point and expect their employment on a broad scale during the coming Congressional session.

In dealing with Congress today, I think the fact is that we are dealing with a body of men whose concept of a free market in the mortgage field has become badly clouded, to say the least. The ideas that an interest rate can, by legislative edict, be what legislators think it ought to be or that money can be made to flow in this direction or that, as legislators may determine, irrespective of market conditions, are deeply imbedded in legislative thinking. Confidence that the normal processes of the market will in the end work to the benefit of the general welfare better than will government manipulations of the market is at a low ebb, to put it mildly.

As a result, we may expect a flood of legislative proposals designed either to circumvent the administration's general credit policy or to substitute for private lending altogether. This will include, of course, a renewed drive for more public housing. It is not this, however, that I am most concerned about. Public housing is at least readily identifiable for what it is.

#### EXPECT AND BEWARE OF LEGISLATION AIMED AT NARROWING PRIVATE CREDIT FIELD

The kind of legislation that we need most to be concerned about lies in that gray zone that is neither distinctly public nor distinctly private, that always has some good purpose, that is designed to overcome what is considered to be a temporary or chronic deficiency in the operation of the private market, and that invariably serves in the long run to create more impediments for the private credit system and hence the excuse for more legislation of the same kind.

It is this constant process of narrowing the area in which private decisions are paramount that makes me raise the question of the survival of private mortgage credit in terms of a system in which the funds are voluntarily supplied by individual savings, in which the decisions as to who gets the money and what is paid for it are the results of private negotiation, and in which the role of government is limited to that of supplying the necessary institutional framework and setting the rules of the game.

It may be pointed out that government—and by government I mean state as well as national government—has not done even this limited part too well. In the state jurisdictions, government has left the basic urban mortgage structure in substantially the form in which it was inherited from a predominantly agricultural economy, thus adding unnecessarily to the risk of the lender and the cost to the borrower. It has inhibited, in numerous ways, the flow of private funds from areas of surplus capital to the under-capitalized areas. It has maintained restrictions on institutional lending policies that ignore all the developments in mortgage lending over the past quarter century. While these conditions persist, the invitation to federal intrusion is wide open.

On the federal front, there has been, as I have already noted, a continued moving away from a limited definition of the role of government. This has come to the point where the federal government has virtually assumed the responsibility for maintaining a predetermined volume of building and a corresponding flow of credit. The task ahead, if a private credit system is to be preserved, is thus a double one: To stimulate the states to remove the rigidities in state laws and to restrain the further encroachments of the federal government.

I feel as strongly as I do about this, not because I lack sympathy with the objectives of the federal government's programs but because I have great sympathy for them. I believe, however, that the only way these objectives can be ultimately and fully achieved is through a vigorous and efficient system of private mortgage credit. I am convinced, and I think

the evidence supports my conviction, that when government, in its Utopian zeal, tries to circumvent or displace the private credit system, its actions are more likely than not to be self-defeating. It weakens our main chance for a general upgrading of our housing conditions at the same time that it snarls itself hopelessly in the web of its own inability to act effectively.

#### SAVINGS AND LOANS MUST PROVIDE LEADERSHIP IN THIS FIGHT

If the private mortgage economy is to be preserved, the initiative and leadership must come from you and others who are directly concerned with it and who share in this conviction. The situation is crucial—so crucial that it requires setting aside institutional rivalries and uniting in an effort to remove the obstacles that impede the full effectiveness of private credit and to demonstrate that private credit and only private credit can do the job.

The United States Savings and Loan League is in a unique position to provide a rallying point. Its policies have been sound as its actions have been consistent. It has a long record of solid achievement often against heavy odds, as in the cases of gaining the independence of the Bank Board and of defeating 1956's Reorganization Plan No. 2, demonstrating its ability to mobilize strong support when the issues are clearly of concern.

I urge you to keep yourselves strong and to assert yourselves vigorously in what should be the common endeavor of all who want a continuous and effective advance to the goal of a high standard of housing with the largest possible scope for individual home ownership.

## A NEW CHAIRMAN LOOKS AT HIS JOB

by THE HON. ALBERT J. ROBERTSON, *Chairman*

*Federal Home Loan Bank Board*

*Washington, D. C.*



I AM DELIGHTED to be with you today. This is my first opportunity to speak before a national convention of this great League, whose members play such an important part in financing the homes of millions of people.

Since coming on the Board less than two months ago, I have talked about savings and loan matters with many of the people I see here today, both in Washington and at other nearby meetings. Among my best sources of information and instruction on savings and loan matters are Steve Slipher and Norman Strunk. They are at all times helpful, encouraging and stimulating. These men and other leaders of the fraternity are doing an excellent job of representing you in Washington.

I wish also to add my congratulations to those of the many others who recognize and appreciate Walter McAllister's wise and notable services to the Federal Home Loan Bank Board and to the savings and loan business. His talents have been immensely effective in improving and expanding the breadth and depth of these institutions over the years.

It is a privilege for me to serve on the Board with my two colleagues—Ira Dixon and Bill Hallahan—men of such high caliber, who have an intimate knowledge of the savings and loan business and a real devotion to it.

As one who has spent all of his business life in private and public finance, I find myself in a congenial and friendly atmosphere. I have been greatly impressed with the quality of work done by the professional and technical staff of the Board, and with the manner in which they carry out their responsibilities. These career people are a highly qualified, hard-working group. I was informed by my predecessor, Walter McAllister, that I was inheriting an eminently competent and experienced staff.

My observations during the past two months have fully confirmed what Walter said.

The thrilling story of the savings and loan business during the 125 years of its history certainly justifies our faith in the initiative, determination, and ability of free men to provide for their own needs. And I know of no more appropriate place to stimulate and strengthen faith in our enterprise than in the shadow of Independence Hall—the cradle of American liberty.

We are citizens of a democracy whose principles were cherished in the minds of men who met in this city in 1776 to proclaim the birth of a new nation. We are citizens of a great republic and there should be no room in our thinking for fear that our way of life may ever fail.

Events in Europe today remind us of how precious our freedom is. As the *Wall Street Journal* put it editorially on October 29, "There is in all men a spark of freedom that no tyranny has ever been able wholly to extinguish. Even though it is only a spark—and it may remain no more for decades or even centuries—it still defeats darkness. For while it may flicker fitfully for a time, there comes a day when it blazes up into a fierce flame and consumes tyranny itself.

"This is a faith that the people of the United States, through the passing of many tyrannies, have never lost and must never lose."

In our society, it is easy to forget that the whole course of life is determined, not by material gains or losses, but by ideas. For an example of this truth we have not far to seek.

#### OUR HERITAGE FROM AMERICA'S SAVINGS ADVOCATE

Think for a moment of the power and persistence of Benjamin Franklin's ideas of "Save and Have." Reared here in Philadelphia, this great apostle of thrift and self-reliance left a legacy of ideas to the American people which has drawn interest at a high rate, indeed.

Franklin contributed greatly to the American habit of saving, from which came the capital investments necessary for the rapid development of our expanding country. High among the approved virtues of his day were the habits of industry, thrift and savings which he expounded with shrewd wit in his *Poor Richard's Almanac*. Issued for over a quarter of a century, the *Almanac* influenced many American families to educate their children along lines of self-reliance and foresight. "Poor Richard" expressed his thoughts so simply that every child could understand and apply them. His maxims on the fruits of saving are as timely now as they were two centuries ago.

Saving, as advocated by Franklin, meant not only spending less than you earn. It also meant diligence in work, regular

habits and careful planning for the future—in other words, foresight. Of course, he did not counsel the shabby hoarding of pennies but rather the husbanding of one's resources for later spending, in order to provide one's self and one's family with a home, education and other advantages, or to grasp a business opportunity.

During the 84 years of his life, Franklin demonstrated the value of his philosophy of industry, thrift, and saving by becoming perhaps the most versatile man in our history—political leader, diplomat, essayist, scientist, inventor, educator, printer, and organizer of many business enterprises. This many-sided genius could not be content with one single, sealed compartment of life. He was not satisfied with mere discovery of knowledge; he turned it to practical uses, put it to work in the world of everyday men.

True to his philosophy, he sought to better the environment in which he and his neighbors lived. He never turned inward, as did some of his associates; he looked outward and around him, to understand how he might help his community. When his scientific work and statesmanship made him a world figure, he used his high position to assist his fellow countrymen to win their independence.

His public service did not imply a collectivist philosophy but rather one of individualism. As a businessman, he sought and won material success. His material and intellectual successes made him a steward whose devotion to his country was unsurpassed.

And 125 years after the birth of Franklin, a handful of men experienced the joy of suddenly breaking through to a new idea—an idea just as exciting and important, though not so dramatic, as smashing the sound barrier today. It was in Franklin's adopted state of Pennsylvania that the first savings and loan association on the American continent was organized—the Oxford Provident Building Association in Philadelphia.

Today we are officially observing the 125th birthday of a transaction between the Oxford Association and Comly Rich, an obscure lamplighter in the town of Frankford, now a part of this great metropolis. For in 1831, this Frankford citizen was granted a \$345 mortgage loan to help build his modest two-and-one-half-story frame dwelling. This loan was made by the ancestor of all American savings and loan associations, then just organized in his village. Millions of people have followed the lamplighter's example and, as a result, own homes of their own.

The years which since have passed have brought great changes in home financing. These include the period when a "mortgage" often was the tool of the grasping villain of Victorian melodrama. He was a terrible ogre, a heartless schemer who sometimes used his power even to further his romances.

But today, as the business passes its 125th milestone, the savings and loan institutions can point out that the word "mortgage" has been relieved of the sense of burden or even "disgrace" that once attached to it as a symbol of financial worry and family misfortune.

The real significance of the birthday of the savings and loan idea is that, with the nation in the midst of new industrial and business activity spurred on by new vigor and vitality, home ownership is being offered to the American people on a sounder and safer basis than ever before. We now have 6,100 savings and loan institutions, which are today the nation's greatest single source of capital for home financing and which have played a large part in making America a nation of home owners and the best housed people in the world.

Today there are savings and loan associations operating throughout the United States, in scattered areas of Puerto Rico, Alaska, Hawaii, and Guam. There are 4,408 of them joined together in a reserve credit network under the supervision of the United States Government.

#### THE FHLB SYSTEM'S POSITION AS OF NOW

This brings me to another bench mark in the annals of the savings and loan business. I think most of you are aware that October 15 marked an historic anniversary in the annals of the Board, the Federal Home Loan Bank System and the savings and loan business. It was the 24th anniversary of the opening for business of the district Federal Home Loan Banks. In October 1932, each of the banks hung out its shingle—hopefully. We have seen that hope richly fulfilled and all of us here today appreciate the present and potential value of the Bank System to the savings and loan business.

Established under the leadership of President Hoover to encourage thrift and economical home financing, the Bank System has come of age in an era of sweeping financial changes, and it has gained nationwide recognition as a major financial agency in the country's credit structure.

I have been greatly impressed with your Federal Home Loan Bank System. The scope of the System is indicated by the fact that the combined resources of its member institutions now total \$40.4 billion. These member institutions have 95% of the entire resources of the business and have available to them the reserve credit and other facilities of their District Banks. With a total capital of \$650 million and assets of \$2.2 billion, the banks are better fortified to serve their members than ever before.

In addition to these sources of funds are the consolidated obligations of the banks, which have gained wide acceptance in the public money market. Since 1937 more than \$7 billion of

such securities have been sold. Of this amount, \$963 million will be outstanding on November 15.

In order to measure the full significance of these successful developments in the sale of our consolidated obligations, let me call your attention to these facts:

1. The success of our offerings confirms the confidence of business in the soundness and marketability of the Federal Home Loan Banks' obligations; and

2. The wide range of buyers of our notes is an important element of strength. Whereas commercial banks were once the principal purchasers, recently more and more corporations, private agencies, foundations, and other investors have become heavy buyers. And we should be pleased with this broadening market.

Another source of funds for the banks is the deposits of their members' funds. Currently the banks hold nearly \$650 million of these funds. Of this amount, 75% is invested in U. S. government obligations maturing in less than 13 months and the balance in short-term advances to members or U. S. government obligations maturing in less than 5 years, resulting in high liquidity with which to meet withdrawal demands.

The Bank System has grown and is continuing to grow at a tremendous rate. As a result we hold an important place in the financial economy. Whatever our future plans may be to provide funds for your great business, we cannot operate in a financial vacuum. The financing plans of the Federal Home Loan Banks will continue to receive more and more attention from the Council of Economic Advisers, the Treasury Department, and the Federal Reserve System, in their efforts to maintain the proper balance in the money market. When limitations are placed upon the economy, we cannot operate independently nor contrary to national monetary policy. We must put the well-being of the whole economy ahead of our particular interests. We must recognize that our financial health is tied inevitably to the soundness of the fiscal structure of the entire nation.

Although the Board and the activities it supervises are self-supporting, we must keep in mind the fact that the Federal Savings and Loan Insurance Corporation's guaranty of \$10,000 for each account—on which shareholders place such great reliance—is, in addition to premiums and earnings, supported by a standby borrowing power of \$750 million of public funds from the United States Treasury. The Board also has the authority to borrow up to \$1 billion from the Treasury, should resources of the Bank System ever prove inadequate. While we have never had to tap these resources, they are, nevertheless, factors that will be a basis for continuing governmental interest in our operations.

There has been a good deal of discussion lately about the

shortage of credit for home financing, and there is no doubt that it is not as plentiful as it has been at times in the past. The work of the Board in coping with the pressures on the economy is vividly illustrated by the Board's shifting, over the past year, from a policy of active restraint on credits to one of moderate limitations. In order to improve the capacity of savings and loan associations to meet the demand for sound home financing, the Board on September 20 authorized an increase of 2½% in borrowing limits from the banks for purposes other than meeting withdrawals. In the aggregate this authorization could make \$850 million of additional credit available through the System.

#### SAVINGS AND LOAN NOW DOMINANT HOME FINANCING SOURCE

The banks are not the only part of this business building up an enviable record. I have been impressed also with the vitality and strength of the savings and loan associations. The old saying that "Time brings change" was never more in evidence than when I observe the progress and growth of this business. For one thing, it is a \$42 billion business today!

Predominantly local in character and highly specialized in thrift and home financing, savings and loan associations are a vital and integral part of the nation's savings and investment markets. Today, savings and loan associations are the dominant force in home financing and a top repository of savings in the private financial world.

I like to ponder these facts, and relish the satisfaction they give. Savings and loan associations, as the nation's number one home mortgage lender, financed about 37% of all home loans last year. They have averaged 35.7% for each year since 1950. Last year they made more home mortgages than life insurance companies, commercial banks, or any other segment of private financial institutions.

Impressive advances also have been made in savings. Associations moved into first place last year with the largest net gain of savings.

Savings associations held \$32.3 billion in savings at the end of 1955, four times the amount held 10 years ago and more than twice 1950's total. During the past nine months they added another \$3.4 billion in savings to push their total to \$35.7 billion.

Consistent with the increased flow of savings in the last few years, the nation's associations, so far in 1956, have increased their net intake of savings 4% over the same period last year. Indications are that 1956 will be another banner year for net savings, approximating \$5.1 billion—about 4% above 1955.

Although during 1956 savings and loan associations as a group substantially increased the volume of funds in their custody, leaders of the business feel it vital that they intensify

their efforts to encourage systematic savings of surplus money, through additions to savings and investment accounts in savings and loan associations.

Such concerted action can help to stabilize or reduce prices and assist people in building up a backlog of personal reserves on which they obtain regular earnings.

Now, what is the status of mortgage lending? Mortgage lending this year, as you know, has been less active than last. In the nine-month period of this year, mortgage lending of all savings and loan associations totaled \$8.1 billion, 10% below the comparable year-ago period, but 25% above the January-September period of 1954. From our studies, however, it seems that associations will finance a total of about \$10.5 billion of new loans by year end.

It looks as if the 1957 volume of new mortgage lending by savings and loan associations will be about equal to the total for the current year. For home-construction loans the average amount loaned per dwelling in 1957 may approximate \$11,300 as against \$10,700 in 1956, while for the home-purchase loans the average may be about \$9,400 as compared with \$9,100 in 1956.

Our estimate of the total mortgage volume for next year is based upon the assumption that both net savings receipts and total loan repayments on mortgage portfolios will remain at the same levels as in 1956—\$5.1 billion and \$6.2 billion, respectively. Obviously, any change in the volume of funds which might be available to the associations from these sources, or any pronounced softening in potential buyers' demands for homes would have effects on the amounts loaned by the savings and loan business.

In conclusion let me say this. We are on the threshold of a challenging new day. All of us will face greater responsibilities. The future will be what we make it. If we go forward with faith, with determined courage and with humility into the expanding frontiers around us, then we cannot fail. I am confident that, with the full support of the entire membership of our associations throughout the country, the savings and loan business will continue to meet the challenges that lie ahead.

## THE YEAR AHEAD

by ARTHUR M. WEIMER, *Economist**United States Savings and Loan League**Dean, School of Business, Indiana University**Bloomington, Indiana*

AS ECONOMIST for the U. S. Savings and Loan League I have several very pleasant assignments. Among the more challenging of these is the opportunity to report to you from time to time at annual conventions or management conferences in regard to general business conditions and to think with you about the future—the future of the economy as a whole, the future of the entire savings and loan business, and the future of your own

institution in particular.

More detailed discussions of business and mortgage market conditions will be carried on tomorrow afternoon at the meeting of the Committee on Trends and Economic Policies. This meeting is open to all delegates. Today I plan to deal briefly with three questions:

1. What are the outstanding characteristics of the current business situation?
2. What sort of economic pattern is likely to unfold in the year ahead?
3. Of what significance are these potential developments for you as savings and loan managers?

The first question may be dealt with in summary fashion. The American economy is operating at its highest level in history. Gross National Product now is running at an annual rate of around \$420 billion, about 5% above the levels of a year ago. About half of this gain may be attributed to increased output of goods and services and about half to price increases.

The upward pressure on prices which became quite evident in the nonfarm sectors of the economy early in 1955 has become even more intense during the past year. For example, the wholesale price index for commodities other than farm products and

foods now stands at more than 123% of their 1947-49 average, compared to 120.4% in January 1956 and 115.2% in January 1955.

Similar price changes have been taking place at the consumer level. The consumer price index has advanced 2% since last spring, after having remained virtually stable for four years. While such a small percentage increase may not appear excessive at first glance, it is enough to shrink the \$8.1 billion gain in the annual rate of disposable personal income achieved during the second and third quarters to \$2.5 billion in terms of 1955 prices. (In other words, the price stability of recent years has been upset and we face the danger of renewed inflation.)

## EXPANSION STRAINS CAPITAL

We appear to be trying to expand faster than our physical resources, capital and manpower will allow. Demands for labor, for materials, for machines, for buildings and for money are running far ahead of our ability to satisfy them, at least at current prices. The economy is on a full employment basis with an almost irreducible minimum of unemployment—below 2 million or about 3% of the work force.

You are all familiar with the current heavy demands for money. As a result interest rates are at their highest level in a generation. Despite such high rates, demands continue. Savings are inadequate to meet all of the requirements for desirable projects, to say nothing of speculative and undesirable ventures.

In order to combat this situation the Federal Reserve has been following restrictive policies in the hope that a balance may be reestablished in the money markets of the country. Clearly this is the proper approach to the problem. The alternative is inflation which is undesirable for the economy as a whole, but it is especially undesirable for savings institutions, since nothing weakens the desire to save so much as lack of faith in the future value of money.

The present situation is complicated by the international scene which adds new uncertainties to the problems of producers and consumers alike. A wave of scare buying might be touched off by international events at any time. This would add to the inflationary problem, which is already difficult enough.

While the political campaigns appeared to have less impact on economic conditions than is usual in election years, the fact that the elections are over removes one area of uncertainty. The elections indicate a continuation of the Eisenhower policies, domestic and international. This suggests good government-business relationships, continuation of the anti-inflationary policies, flexible farm price supports, pursuit of balanced budgets despite the continuation of very high levels of federal expenditure, and in-

ternational policies based on conditions as they arise rather than on a body of accepted doctrines. In this connection I am reminded of Will Rogers' remark to the effect that businessmen would prefer to make money under the Republicans, but if that is not possible, they will consent to make money under the Democrats.

To characterize the current business situation in a few words, we might refer to it as "eager expansion," or even "excessive expansion," or "expansion with an inflationary bias."

#### WHAT ECONOMIC PATTERN IS AHEAD?

The second question I posed may be more interesting: What sort of economic pattern is likely to unfold in the year ahead?

The easiest answer is to suggest more of the same. The momentum built up will carry forward, at least for a time. The forces of expansion are very strong. If they continue to outrun our capacity, further price increases are very likely. Restrictive monetary and credit policies, thus, may be expected to continue.

We may hope that such policies, coupled with statesmanlike actions by business executives and government officials will lead to the achievement of more balanced conditions in the near future. My own guess is that this may be accomplished by next spring. If this proves to be the case, the remainder of 1957 should be a period of reasonable business stability at a high level.

However, if a wave of scare buying by business firms and consumers should result from a sudden shift in the international scene or from some other cause, we may see a pronounced inflationary spiral. This might lead to a "boom and bust" development comparable to that of the late '20s.

Another possibility is that restrictive monetary and credit policies will bring a sudden reduction in expansion programs and set the stage for a recession. I am inclined to discount this possibility at the present time—but it exists nevertheless and should be given consideration as we make our plans.

I am inclined to estimate that 1957 will be a year of further expansion, with some additional price increases, but that the rate of growth will fall below that of 1956. I believe that the last half of the year will be a period of relative stability—but stability at high levels. This assumes no worsening of the international situation and no sudden domestic change that would result in precipitous action, either toward expansion or contraction.

Employment should expand; incomes are likely to advance somewhat further; tax rates probably will be stable; money will be reasonably tight, tighter in the first half of the year than the second; markets generally will be highly competitive; housing

starts should exceed 1 million units by a slight margin; industrial and commercial construction will be maintained at high levels; capital expenditures will top those of 1956; automobile markets should enjoy some improvement over the past season, but not as much as predicted by optimists in that industry; government spending at federal, state and local levels will expand and move somewhat above current levels; and all in all the year ahead may not be unlike 1956 except that the first half may be slightly better than the second, while in the current year the reverse was the case.

#### WHAT IS YOUR ANSWER?

Now for the third and final question: Of what significance are these potential developments for you as savings and loan managers?

First, competition for savings will continue to be keen. The need for savings is great. An increase in the rate of saving would go a long way toward easing inflationary pressures. As a manager your duty to your institution and to the American economy as a whole points to major efforts in stepping up the rate of savings. By this I do not mean simply redistributing the savings in existence from one form to another or from one institution to another, but expanding the total supply of savings available. In addition to your own programs this may suggest cooperative action such as may be undertaken through city leagues, state leagues, the Savings and Loan Foundation, the National Thrift Committee or through other means.

I am disturbed by the continuing and persistent tendency toward higher dividend rates in this business. I am afraid that some managers do not understand how much the additional savings that may be attracted by a higher rate will really cost them. We must recognize that we are not in a strong competitive position relative to many other competitors for savings. The federal government may have to pay 3 or 3½% for a given bond issue but it continues to pay at 2¼% on many of its earlier issues. However, when you increase your dividend rate from, say, 3 to 3½%, you pay the increased rate on all savings that you now have as well as on the new savings which you may attract.

Let me give you a specific example. Suppose you now have \$10 million in savings accounts and you are paying a rate of 3%. Your total dividend cost is then \$300,000 per year. Suppose you have been experiencing a normal growth of \$1 million per year. Suppose now you conclude that by raising your rate to 3½% you can attract an additional \$1 million during the next year. Note that this additional \$1 million does not really cost you \$35,000 but also costs you one-half point on \$11 million or

\$55,000 more. The real cost of this added \$1 million is \$90,000 or 9%—not 3½%.

What I am illustrating is the principle of marginal costs, a very important concept and one that is considered carefully by all big businesses.

But, you may say, if I don't raise my rate, I will not be able to attract increased savings.

I am doubtful that this is true. There are two ways to look at the problem of attracting savings, one in terms of savings volume, the other in terms of savings numbers. Experience shows that every new savings account, even the small ones, will grow to the average size of your accounts in about 18 months.

Go after the small saver. Get savings numbers rather than savings volume. If you get the numbers, the volume will follow in due course and you will get this type of volume without paying excessive dividend rates.

Second, you will continue to operate as rationers of funds. You will have to select among many good loans. You will not be able to finance all of the good or possibly even all of the excellent loans that will come your way. Your job will be to select properly—to ration funds realistically but soundly. How are you to do this?

#### SUGGESTED GUIDES

I suggest several guides. You should improve your earning position but do so without impairing the soundness of your mortgage portfolio. Return and risk should be carefully balanced. But your earnings ought to be high now if they ever are—and you should be able to add to your reserve strength as never before. Every new mortgage should fit into a lending pattern. This may mean shorter terms in order to get faster rates of repayment, in view of current capital shortages. It may mean delimiting the neighborhoods in which you will operate. It may mean refinancing in order to improve yield.

Your selection of the projects you will finance should be done in such a way that you will add to the strength of your local community. Mortgages that will go to finance poorly designed houses, or poorly located houses, or improperly equipped houses, or houses that have too little living space, certainly will not add to the long term strength of your local community.

Third, you must pay special attention to liquidity. The volatility of money today is well known to all of you. While there are wide differences in the rate of turnover as between communities, the increased level of withdrawals in recent years is well known and must be a basic consideration in outlining management policies. Liquidity must be planned for and pursued relentlessly. The fast pace at which the world moves will not give you

time to improve your liquidity position in the event of a sudden shift in public opinion, government policy or business attitudes.

Finally, you must continue to operate as good managers. This means giving constant attention to the basic managerial processes of planning, organizing, motivating and controlling the operations of your institutions.

It means also that you will operate in accordance with the highest standards of trusteeship for other people's money. It means that you will contribute to the soundness of the American economy by selecting the risks that deserve financing in the interests of stable home ownership. It means that you will fight inflation in order to assure the soundness of the dollar and to protect your home owners against a "boom and bust" tragedy. And it means operating as responsible officials in your local communities, working for orderly growth and for sound working relationships among business firms, community institutions and government agencies.

The year holds promise. It is full of risks. It will demand your best. The future is never clear and half of what I've told you may be wrong. Unfortunately I don't know which half.

## A LOOK AT AMERICA

by HAROLD R. MEDINA, *Circuit Judge**United States Court of Appeals**New York, N. Y.*

WHAT I PROPOSE TO DO is to give you the picture of the Communist trial and the aftermath.

It is almost eight years ago that the trial took place. I had no conception at the time of its real importance. I went on from day to day the best I could, but in retrospect I believe it was one of the significant events of our time. I will try to interpret it for you.

At the point where I was assigned to try the case, I didn't even know what a Communist was. I thought a Communist was a sort of a roughneck that wanted to make trouble and divide up other people's property, but I didn't believe all I read in the papers, and this talk about the tie-up with Russia seemed to me to be fantastic and possibly greatly exaggerated.

I think most Americans at that time were just about in the same position that I was. They didn't have the remotest idea what a Communist was.

I was a new judge who had never tried a single criminal case as a judge. I had had plenty of experience at the Bar with criminal cases and civil cases and all kinds of cases, but as a judge I had never tried a single criminal case when I was given the task of this one.

## A JUDGE IS OFFERED PROTECTION

A few days before the trial started I got a little clipping from Ray Moley in Washington. He was an old friend of mine; we used to teach at Columbia together. He was in the School of Political Science and I was in the Law School, and we became very friendly. I knew that if he sent me a clipping it was probably something to which I should pay attention.

This little clipping read something like this—that I had been assigned to try the case of the Communists, that I was a rather colorful figure at the New York Bar and an interesting person, but that pretty soon I was going to wish I had never been born. That was the first intimation I had that perhaps it wasn't all going to turn out the way the ordinary case does.

The next thing that happened was that the Deputy Police Commissioner came to me and said, "Now, Judge, we're all fixed up to give you a little protection." I protested. He went away, but the next day he came back and said, "Look here, Judge, you know your business, don't you?"

I said, "I know something about it."

"Well," he said, "we know our business, and whether you like it or not you are going to get the protection."

From that day on for nine solid months, I had living with me city detectives, state troopers, FBI men all the time, everywhere. As I look back on it, it got a little tiresome. But there it was.

I did get a lot of letters about how I was going to be shot. They never seemed real to me. I don't know why it was, but they would say, "You'll be shot tomorrow morning. There's nothing you can do about it, Judge, but just relax. You're as good as gone."

Then there would be some girl who would apparently be writing after she had been in some bar and grill, and she would say that she heard some very bad characters in the next little booth talking about how they were going to shoot me the next day.

That psychology didn't work on me, however.

We started the trial. The first thing we had was a challenge to the jury panel. It was claimed that the judges had conspired together and excluded all the Negroes and all the Jews and all the workers and all the housewives. Do you get that propaganda line of discrimination—workers excluded, housewives excluded?

We tried that issue out and finally got through with it, and there wasn't any exclusion. As a matter of fact, when we got through picking the jury there were three Negroes (the foreman of the jury was a Negro woman), several Jews, and the rest were housewives and workers.

You know, I felt ashamed. Every businessman "begged off" the very first day that we were picking the jury. We had about 350 jurors there and I said, "All those who want to be excused will come up." Every businessman, executive, insurance man, banker, everybody that had at stake so much "begged off."

I wasn't going to have anybody put on there who didn't want to sit. I thought at that time that it might take maybe six weeks or two months, maybe three months. Nobody dreamed that it could possibly go on for nine months as it ultimately did. In any case I wasn't going to put on anybody as a juror who was dissatisfied, impatient and continually griping about doing the job.

The pattern of the case developed in a most surprising way. These people didn't seem to care at all about being acquitted. They were interested only in two things:

One of them was the persistent, continuous spreading of Communist propaganda. I became convinced that everything they did was done on orders from somewhere else.

In the opening to the jury I had trouble in keeping these fellows from continually talking about the war in China, the war in Spain and how the Negroes were lynched and everything under the sun. I would say, "Remember, the issues here are whether these defendants conspired to teach and advocate the overthrow of the United States government by force and violence."

"Oh, well," came the answer, "we have got to show what they really did do, and in order to show that we have got to go into the war in China, the war in Spain, the Abraham Lincoln Brigade," etc.

Fortunately I was patient and I went along instead of trying to kick them around and browbeat them. At that stage of the trial there were those who wanted to have me impeached in Congress for not being hard enough on them. Why? Because I was trying the case just as I would try any other case, according to our traditional American principles, ruling as each proposition came up for ruling, trying my level best to be right with each point that came up.

#### THE PROPAGANDA SMOKE SCREEN

The first part of the strategy, then, was this business about propaganda. They never stopped that. They were at that all the time, and all I could do was ride along with it and be patient and comment to the jury once in a while about what the issues really were so that they wouldn't get confused—and to do that calmly, dispassionately.

The other part of the strategy I do not believe has ever been tried before in an American courtroom. Remember, the one weakness, the Achilles heel of our system is the judge. You have only one judge. If you can knock out the judge, that's the end of the case. With jurors you have alternates, and we had four, the maximum that was allowed by law, but there is only one judge.

So the other part of their strategy was to break up that trial, break it up by knocking me out, break it up physically by various expedients to which they resorted.

Do you remember that some time in September of '49, when the trial was nearing its close, there was that Paul Robeson incident up at Peekskill?

It was announced that Paul Robeson was going to give a concert in Peekskill and there was a great to-do. Immediately the American Legion and the patriotic organizations who were supposed to be provoked by that got provoked by that, and they got sucked right into it. A great clamor arose against it, and the more clamor arose against it, the more the Communists said they were going to have Paul Robeson give his concert.

It just makes you sick when you see it from a little distance—good people foolishly doing things that they are being deliberately provoked into doing.

So Paul Robeson was up there, and so were all the Communists, and what happened was that no concert was given. This was just what the Communists wanted to have happen.

The American Legion and the patriotic societies smashed the windshields of all the Communists' cars and a lot of people got hurt. None of the American Legion was touched. Nobody ever intended to touch them. It was supposed to demonstrate what these fellows had been talking about in my courtroom for eight solid months—that all the force and violence was done by the capitalists and that it was an outrage to charge it against the others.

The next day in came two of my defendants bandaged all up, and there were motions to have a mistrial, put an end to the case, etc. I had these fellows taken right up to the Marine Hospital and checked up, and one of them didn't have anything the matter with him at all. The other had a few pieces of glass in his eye that they took out, but I had to adjourn that trial for one day. Their plan was for that to be the end of that trial.

That is one of the things that they did, but it didn't work. We adjourned the trial for only one day. That happened twice during that whole nine months.

Now that you understand the strategy, let me give you two or three pictures of particular incidents that happened during the trial, and then we'll get up to what happened after the trial.

I guess one of the first things they did to me was this: I came down one morning, and there was a delegation. I suppose it was foolish for me to see these fellows, but I let them in. It was a political case, they said, and I ought to throw it out.

I said, "Look here, you have no business coming in to a judge in an American court and telling him what to do with a case. What would you think if some rich man or some politician came in here to tell me what to do? You get out of here. I don't want any more of this."

That was fine, but telling them to get out and getting them out were two different things. Each one had to say the same thing all over again, and I no sooner got that bunch out and there was another delegation and another delegation. They came from all over the United States. You would hardly believe it.

After a couple days of seeing them—I could only see them before I went into the courtroom and after I got out of the courtroom—I found I was going without my lunch seeing all these delegations. I felt as though I was representing America and I couldn't let people do that sort of thing without protesting and without telling them, "You can't do this."

It taught me a lesson. That is when I realized, my friends, that the stakes were higher than I had thought. That is when I realized the chips were down and that here was an organization of greater power than I had ever conceived possible.

Then, when I said "No more delegations," it was just as though you turned a spigot. Not a single one of them turned up from that moment on, and that's the time I girded my loins for battle.

We gave up all social engagements of every kind. We never went anywhere. My life consisted of watching what I ate, and when, of lying down after lunch in my chambers and taking a nap. It took me about a week to get used to taking that nap. I had to go to the doctor to get something that I could take at night so that I could sleep. I tell you we really settled down for the long pull, and it's a good thing I did.

#### THE GREAT DISCRIMINATOR LINE

After that they started another line. I was the great discriminator. I hated Negroes. I hated the Jews. I hated everybody. Every day they were making motions to disqualify me. They said I wasn't fit to be a judge, that I had no right sitting there when I hated everybody the way I did and these defendants particularly. I would say, "You made that accusation before and I denied that. You don't have to do that over and over again."

They got up a little card, a sort of placard, a mimeographed sheet about 12" by 18", with a picture of me in the middle, with my name on it. It looked like a kind of monster, and there was all this stuff in there about how I hated everybody, particularly the Negroes.

It's a funny thing. I just happened to have been brought up in an atmosphere which had none of that antagonism in it.

My father was a Mexican. I went to public school in Brooklyn. There were lots of people of different races in that school. You could have gone all over the United States and you couldn't have found anybody by nature, by background, by disposition that had more natural good will toward other people than I did.

Then they took these pieces of paper and spread them around by the millions. They put them in people's pockets in the subway. They stuck them in old automobiles that were parked around the city. They slipped them under the doors of the apartments in the poorer sections of the city.

I began getting the repercussions, the letters from these people who thought I hated them. They would say, "Judge Medina, what's the matter with you? Why do you hate the Negroes so?"

You know, after that goes on for a while, if you're an honest person you begin to search your own conscience. You begin to wonder—Can there possibly be some truth in this? Have I been fooling myself all this time? Oh, how terrible it is to tear at a person's subconscious and get him to doubt himself. Well, that didn't work so they stopped it.

Then one day when we got into court there was the biggest attempt to break up the trial. One of the defendants was on the stand under cross-examination, and the United States Attorney asked him a question. The lawyer said it was objectionable, and he said he had a right to refuse to answer because it might incriminate him.

Then I said, "You know this man didn't have to testify in his own defense. When he took the stand he waived any privilege to refuse to answer questions as far as they were pertinent to the questions you asked him on direct examination."

The lawyer went on protesting, so I said, "I'll tell you what I want to do. This is an important thing and I'll think about it overnight." I often did that in that trial. Sometimes I reversed myself, but I was only trying to be right.

We got back there the next day, and that courtroom was packed with Communist sympathizers. The door of the courtroom would open and these fellows would be on the line from about eight o'clock in the morning. No ordinary people like you could get in because of all the Communists or the Communist sympathizers jammed into the room. And one whole side of the courtroom was taken up with the press; reporters were there from all over the world.

#### THE SELF-INCRIMINATION DODGE

This next day, then, when I went down there I felt there was something going on.

We got started again, and the U. S. Attorney put another question to defendant. He withdrew the one that we talked to him about the day before and put another one that was even clearer.

The lawyer said, "I object to that as irrelevant, incompetent and immaterial."

I said, "I overrule the objection."

Then the defendant said, "I plead my privilege against self-incrimination and I refuse to answer."

I said, "I direct you to answer that question."

He said, "I refuse to answer."

Then I said, "I hereby adjudge you to be guilty of a criminal

contempt of court and sentence you to jail for 30 days, unless you purge yourself by answering that question. We can't have the trial go on when witnesses won't answer questions that are proper."

With that, that whole courtroom arose as one man. You just can't believe what happened. They had it all planned in advance, of course, but I didn't know anything about that. Everybody in that courtroom—all the defendants, all the lawyers, all the spectators jumped up and there was shouting and yelling and hullabaloo, and two or three of those fellows started walking toward the bench in a menacing way.

Well, I tell you that's the day somebody else was helping me, because I couldn't have done what I did under my own steam. I am sure of that. I just sat there as quiet as I am now and I looked over and I said, "Isn't this Mr. Hall?" Yes, that was Mr. Hall.

And I said, "Mr. Reporter, get down that Mr. Hall has just said this is a kangaroo court." Then I continued, "Mr. Hall, I remand you for the balance of the trial."

All this time there was shouting. The reporter was paralyzed; he wasn't getting anything down except when I told him to. You just can't imagine the excitement, the emotion, the hullabaloo that was going on. Pretty soon I had about five of them on their way to jail.

That didn't mean they had to stay in jail during the trial. That meant they stayed in jail before the trial and after the trial; that is, we would have a court session, they would be brought down from jail to the court session and then at the end of the court session they would be taken back to jail instead of going home like the others who were out on bail.

After that fifth one was remanded things began to quiet down a little bit. They were all still standing and there in the middle was Mr. Dennis. He was the leader. He was the chief one, and he started letting me have it.

"Mr. Dennis," I said, "you know I told you before I was going to treat you as one of the lawyers. You are your own lawyer here, and so I am not going to put you in jail today no matter what you say. Maybe there will be a day of reckoning later on, but you are not going to get in with your friends today, so you're wasting your time."

Incidentally, what these fellows can't fight is a sense of humor. They don't have a sense of humor. I suppose they are indoctrinated against being happy and pleasant.

I went on and I said, "Mr. Dennis, I don't know whether I ought to say this or not, but really you look silly." And he did look silly. He was standing there shifting from one side to the other. All the shouting had stopped, but they were all standing up and looking for orders from Dennis.

I said, "You know I have told everybody to sit down two or three times. Nobody paid any attention. I think that's a very sensible thing to do." With that, Dennis said, "Sit down" and they all sat down.

The following Monday—that was Friday, June 3, 1949, and they nearly broke up the trial that day. We got through the morning session all right, and these fellows all were brought down from jail.

But after the luncheon recess I saw that the lawyers who represented the Communists were all smiling and they wanted to have a little session in that little room back of the courtroom where the judge puts on his robe to get into the courtroom.

I let them all come in and I said, "What's going on?"

They said, "We have argued this morning before Judge Liebel writs of habeas corpus to get out of prison these men that you tyrannically put in jail last Friday, and Judge Liebel has formulated some questions for you to answer."

Remember, all I had said was, "I remand you for the balance of the trial," and I didn't say why. All I did was to say "I remand you," but that was good enough to get them to jail and that is what happened.

I said, "What are the questions?"

"They are in an envelope here," one of the lawyers said.

I said, "Let's open the envelope and see what they are."

"Oh, no," he said, "Judge Liebel has directed that you must open that envelope on the bench and give your answers in open court."

Well, you know what I thought about Judge Liebel at that particular moment was not very pleasant, but he was wise and he did the only right thing.

They had been accusing me throughout of conniving with the Attorney General, conniving with the U. S. Attorney, conniving with the other judges.

But Judge Liebel was smart. He wasn't going to have it look as though he and I might have talked it over and that I had said certain things because I got the tip-off from him or any of the other judges. He knew as I knew from that moment on that I was alone, absolutely alone, that I could not get help from anybody.

I got up on the bench and I opened that envelope and there was Question No. 1: "Did you remand the defendant So-and-So in the exercise of your plenary power as a trial judge to control bail?"

Now, if I had said I did it just for that I might have been reversed because they don't know today in our circuit whether a trial judge can revoke bail unless there is some reason to suppose the defendant won't come back the next day. You see, that was kind of important.

No. 2: "Did you remand the defendants as and for a criminal contempt of court in the immediate view and presence of you as the trial judge?"

No. 3: "Did you remand the defendants in the exercise of any other powers that you possess as a federal judge?"

Well, I thought for a second and then I said, "I remanded these defendants in the exercise of my power as trial judge to control bail and I remanded them for a criminal contempt of court committed in my immediate view and presence, and I remanded them in the exercise of any and all other powers I possess under the laws and constitution of the United States."

That turned out to be the right answer, and they didn't like that very much.

#### NAME CALLING IS NEXT

As the summer rolled around they went around with signs that read, "How do you spell Medina? R-a-t," etc. They started singing out there in front of the court house, "Judge Medina is a blankety-blank." They kept that up all day long. You can imagine what it was they called me, about the worst thing you can call anybody right out in the open—no abbreviations, no letters, but right out in the open. You even could hear it all the way up on the 22nd floor where my chambers were.

They knew well enough that they weren't going to make me angry by calling me anything. They didn't do that for its effect on me, but the people it was supposed to affect surely did react.

I began getting messages from all over the place, telephone calls from judges that I knew intimately, people that were friends of mine, saying, "Harold, what's the matter with you? Haven't you got any guts? Are you going to let these fellows do this right in front of the U. S. Court House in New York City and make a spectacle of our administration of justice for the world to see? Why don't you punish those fellows for contempt? Why don't you get the FBI to have pictures and recordings taken? Get it all down and get all those fellows in jail where they belong."

But by this time all that was necessary to knock me out completely was to start a few contempt proceedings with all the complications, all the adjournments, all the appeals and remands and other things that would necessarily come around with them. That would have been the end of that trial just as sure as anything, so I didn't do it.

And at last, around August, I was getting very tired. I could hardly sleep, even taking that mild dope that the doctor gave me to take every night. With all this harassing and hullabaloo and shouting and repetition going on every day in the courtroom—I was tired.

One afternoon I was sitting on the bench and I felt faint. I felt as though maybe I would fall off the bench and make a scene, so I said, "Gentlemen, I don't feel well. I am going to take a recess and go in and lie down for a few minutes."

There wasn't any use beating around the bush on this thing. I had been shooting straight from the shoulder on this right along and I thought I might as well say what the situation was and not put on any fake.

Those people were right down below me and they looked up at me as much as to say, "We've got him now." And, you know, I thought they did. I didn't see how I was ever going to go back there again.

I went out into that little room where I had that envelope from Judge Liebel, and I lay down on the couch there.

I tell you I did some tall praying that afternoon. You either have faith or you don't. I did. I believed, I had been praying all my life, but never like I prayed during that trial. After a little while I felt better, and I went back into the courtroom, finished up the afternoon and went on through the rest of the trial.

That is the first part—the venom, the poison, the ill will, all the bad things in the human animal that seemed to be part of the apparatus of these Communists as they fought to spread their propaganda and to break up the trial.

#### THE ACCOLADE

Then came the wonderful part. Through with the trial, I was getting ready to go off for a rest. I came down to say good-by to the people in my chambers and to clean up things that needed to be cleaned up. The first day after the trial there was a bunch of mail, maybe 400 or 500 letters.

I started reading these letters and as we went through the day they kept coming in. By the time we were ready to go home that day there may have been a couple of thousand of them in there. I supposed that I should get organized for that, so I got help—two of the girls from my old law office and the girl I had as my secretary in the court house.

The next day the letters began to come in in bales. There I sat reading these letters and answering a few, maybe two or three out of a hundred.

The ones I was answering were ones that came from blind people or old people or from voices out of my childhood. Many of them came from boys and girls with whom I had gone to public school. Some were from men who had taught me when I was in prep school, men that I would have sworn didn't even know I was in the school.

These echoes, these voices began coming to me. At first I was

reading the letters and throwing them away, and answering two or three out of a hundred. I don't know how many thousands of them I threw away that way, until all of a sudden one day, about the third day, I began to catch on to what was happening.

I said to myself, "Now look here, Harold; pull yourself together and think about this thing. You are in the midst of a spiritual experience. You don't understand it. You have been going through the motions and reading these things and throwing most of them away. Look at them and feel them and see what they are saying."

When I became conscious of what these people were saying, my friends, oh, how grateful I felt that I was the person selected by chance to get those letters.

They weren't telling me what a wonderful judge I was, what a fine fellow I was. They weren't fan mail at all. They were telling me they loved America just as I did. Here were these people all over the United States. They came from everywhere. There were thousands and thousands of these letters—each one saying "Judge, notice me, notice me. I love America too."

They came from little organizations, like filling stations and beauty shops and stores of one kind or another. Everybody signed. The boss would be perhaps in the middle somewhere. Each one would put down what he did in the store. One of them came from a Greek restaurant, and there was the dishwasher and the assistant dishwasher and all the other people with their names and jobs. Money didn't count any more. Position didn't count any more—whether you were the boss, whether you were the dishwasher, you were all in the boat together writing to Judge Medina to tell him you loved America. Each one wanted me to know him; he wanted me to see him and notice him.

More than 2,000 of those letters were signed by husbands and wives together. I never heard of that being done before. You know how close that relationship is, and here were these people who loved one another so—they wanted me to notice them together.

Furthermore, there were some patients in a hospital who sent a telegram down to the desk with the nurses, and the nurses all put down their names too and sent it to Western Union; and the girls at Western Union signed too and it came to me with all the names on it.

They just didn't want to say "the nurses in the hospital" or "the girls at Western Union"—not a bit of it. These were individuals.

I don't know how many of you have seen that little movie called "Lilli." There was in it a lonely little girl in the circus, and everything looked blue. She went to the puppet show there, and she started singing to the puppets that nobody cared. There you saw in the background the people in the circus, the people

who had paid to get in and were looking around. They drifted together there, and as this little girl was singing away that nobody cared, you saw somebody in the background say, "I care, I care," and then another one: "I care, I care." Well, that's the way it was with these voices that came to me.

You know, any other judge would have done the same thing. I just happened to be the lucky man that happened to be taken for the moment as the symbol of patriotism and the symbol of American justice. Oh, how grateful I should be for that. I'll never forget it.

Out of all this experience I became utterly convinced that these Communists are wise cookies. They have a lot "on the ball." They have picked just the opposite of good will to do their purpose, but in doing that they convinced me that spiritual values are the big things for us and for everybody.

Good will is right at the bottom as the big foundation stone. Good will, my friends, is the most powerful dynamic force in the world. They keep talking about people doing everything for material ends. That's a fallacy. It's the most easily disproved fallacy. All history gives the lie to it.

People do the things that are big for spiritual reasons, and the great motivating force at the bottom of it all is good will.

And out of good will come freedom and justice. They are the products of good will. They tie right into it. And you take those three things—good will, freedom and justice—and you have the secret of life for every one of us.

That is the way we are going to do what is good for our country and for ourselves, do the unselfish thing; that is the way we are going to prevail over the Communists in the long run.

COMMUNICATIONS

Walter H. Dreier, President  
United States Savings and Loan League  
Philadelphia, Pennsylvania

Please give my greetings to the 64th Annual Convention of the United States Savings and Loan League and congratulations as you celebrate the 125th anniversary of the origin of savings and loan association operations in this country.

As you have encouraged thrift and met mortgage loan needs in your local communities you have contributed to the sound economic growth of the country.

As you continue to employ the savings entrusted to you with foresight and prudence, you will help to bring us safely to higher levels of home building, home financing and general economic activity.

Dwight D. Eisenhower, President  
United States of America  
Washington, D. C.

Walter H. Dreier, President  
United States Savings and Loan League  
Philadelphia, Pennsylvania

Please extend my greetings and congratulations to the convention now celebrating the 125th anniversary of the savings and loan institutions. Our great nation is indebted to your associations for their unique assistance in helping families own their homes. I wish I could personally share in your celebration of this great record of achievement, but the strenuous political campaign just completed and pressing national matters prevent my being with you. I am anxious to learn of the decisions on financial and mortgage lending policy which are made at your convention, and as a member of the Senate Banking Committee, I wish to assure you that your proposals will continue to receive serious consideration.

Homer E. Capehart, Member  
Senate Banking and Currency Committee  
Washington, D. C.

Walter H. Dreier, President  
United States Savings and Loan League  
Philadelphia, Pennsylvania

On behalf of the Council and members of the Building Societies Association I wish to express to you and to all representatives my best wishes for a happy and successful annual convention in Philadelphia. I also send hearty congratulations on the 125th anniversary of the League's foundation and I am sure that building on such firm foundation it will progress from strength to strength in the future.

F. Bentley, Chairman  
The Council of the Building Societies Association  
London, England

Walter H. Dreier, President  
United States Savings and Loan League  
Philadelphia, Pennsylvania

I am sending these few lines to you as president of the United States Savings and Loan League to greet you as you preside at your 64th Annual Convention. I hope the occasion will be a very happy one for you and I send to you and your colleagues assembled at Philadelphia my best wishes for a successful conference and I hope that those attending will benefit to the fullest extent by your discussions and deliberations.

Mr. Norman Strunk kindly conveyed to me the kind invitation of your officers and directors to attend the convention and I regret very much that the distance between your country and ours prevents my doing so, but I hope an opportunity may arise for me to visit the United States some time in the future.

Sir Cecil Crabbe, Chief Registrar  
Friendly Societies  
London, England

Walter H. Dreier, President  
United States Savings and Loan League  
Philadelphia, Pennsylvania

I have much pleasure in sending you, for this convention which marks the 125th anniversary of the savings and loan business in the United States, the warmest greetings and good wishes.

A century and a quarter is a memorable milestone in any cir-

cumstances, and most remarkably so in the history of the United States. During this period the United States has grown to full nationhood and has become, indeed, a major world power. The virtues, both civic and personal, which the savings and loan institutions have inculcated so assiduously, have doubtless helped materially in the growth and prosperity of the country. It is especially heartening that your movement is still playing such a vigorous role in the nation's ever-expanding economy. If this imposes enormous responsibility upon savings and loan directors and executives, it presents also a great challenge, which I am sure your convention will inspire the whole movement to meet with renewed energy and resource.

With all good wishes for your future success and prosperity.

Sir Bruce Wycherley, Managing Director  
Abbey National Building Society  
London, England

Walter H. Dreier, President  
United States Savings and Loan League  
Philadelphia, Pennsylvania

Will you convey my thanks to the officers and directors of the United States Savings and Loan League for their most cordial invitation to join them at the annual convention in Philadelphia on the 12th-16th November.

I am sorry that I cannot make the trip this year but nevertheless wish to congratulate you all, first, on celebrating the 125th anniversary of the savings and loan business, secondly, on the sound financial basis on which the business is conducted, and thirdly, on the excellent work in which you are engaged and which derives inspiration from the example set so long ago.

May your association long continue to enjoy the confidence of the public.

One hundred and twenty-five years is a long time, but my message to you all is, may you live as long, be as active and have the reserve strength of the savings and loan associations which you represent at this convention under the banner of the United States Savings and Loan League.

Hubert Newton, General Manager and Secretary  
Leek & Moorlands Building Society  
Leek, Staffs., England

Walter H. Dreier, President  
United States Savings and Loan League  
Philadelphia, Pennsylvania

Best wishes for successful conference.

Francis E. Lumb, Chairman  
Building Societies Association of Great Britain  
Bradford, Yorks., England

Walter H. Dreier, President  
United States Savings and Loan League  
Philadelphia, Pennsylvania

When in Europe recently I was asked by the managing directors of the following building societies to bring their warm greetings and best wishes for a most successful convention and also the celebration of the 125th anniversary of savings and loan in the United States: Halifax Building Society, Halifax; Abbey National, London Temperance Permanent, London; Leek and Moorlands, Leek, Staffs.; Caisse Hypothecaire de Credit, Paris; Building Societies Association, London.

Arnold E. Archibald, President  
San Francisco Federal Savings and Loan Association  
San Francisco, California

Norman Strunk, Executive Vice President  
United States Savings and Loan League  
Philadelphia, Pennsylvania

The Scottish Building Societies Association send greetings to the United States Savings and Loan League on the occasion of its 64th annual convention and good wishes for its future progress.

William S. Allison, President  
Scottish Building Societies Association  
Edinburgh, Scotland

Norman Strunk, Executive Vice President  
United States Savings and Loan League  
Philadelphia, Pennsylvania

The President Rt. Hon. Lord Inverclyde, Vice President Rt. Hon. Thomas Johnston, P. C., Trustees and Directors of the Scottish Amicable Building Society send their greetings on the occasion of the 64th annual convention of the United States Savings and Loan League and congratulations to all those responsible for the growth and development of the savings and loan business during 125 years service to the citizens of the United States. They wish the League continued success and prosperity.

Very much regret that I am unable to be present to convey this message in person.

William S. Allison, Chairman  
Scottish Amicable Building Society  
Edinburgh, Scotland

Walter H. Dreier, President  
United States Savings and Loan League  
Philadelphia, Pennsylvania

Please convey to delegates to your 64th annual convention our warmest greetings and best wishes for a most successful conference.

E. H. Tytherleigh, President  
Association of Cooperative Building Societies of N.S.W.  
Sydney, Australia

Norman Strunk, Executive Vice President  
United States Savings and Loan League  
Philadelphia, Pennsylvania

I have for acknowledgement your letter of 10th August last and thank you for your kind invitation to attend the 64th annual convention of your League at Philadelphia in November next.

Unfortunately, in view of the distance and considerable expense involved, it will not be possible for me to accept your invitation although I would very much like to do so, for as yet I have not had the opportunity of visiting your country.

However, I shall be greatly obliged if you will extend my personal greetings to your president, Mr. Walter H. Dreier, on this

important occasion with my best wishes for a most successful convention.

Furthermore, in my present capacity as chairman of the executive committee of the Association of Building Societies of South Africa, I shall be obliged if you will extend my Association's greetings and best wishes to all members of your League at the forthcoming convention, for their future progress and prosperity.

G. E. Neebe, General Manager  
Equity Building Society  
Johannesburg, South Africa

Norman Strunk, Executive Vice President  
United States Savings and Loan League  
Philadelphia, Pennsylvania

At a meeting of our council this week the news of your convention was received with interest, but I am directed on behalf of our president to express regret at his being unable to attend owing to the distance which separates our two countries.

Our members send you cordial greetings and every good wish for a successful conference.

E. C. Jenkins, Secretary  
The Association of Building Societies of South Africa  
Johannesburg, South Africa

Norman Strunk, Executive Vice President  
United States Savings and Loan League  
Philadelphia, Pennsylvania

I am very grateful to the officers and directors of your League for their invitation to attend your 64th annual convention to be held in Philadelphia, Pa. 12th to 16th November, 1956.

I note that you will be celebrating your 125th Anniversary and I appreciate that the programme will be outstanding, but very much regret that I will be unable to attend.

My directors and staff beg to send their warmest greetings and trust that the convention will be a huge success.

Allan C. Geddes, Secretary  
Saint Ann Benefit Building Society  
Jamaica, B.W.I.

Walter H. Dreier, President  
United States Savings and Loan League  
Philadelphia, Pennsylvania

Best wishes for successful convention and celebration of 125th anniversary.

Management  
Saambou Buildizu Society  
Capetown, South Africa

Walter H. Dreier, President  
United States Savings and Loan League  
Philadelphia, Pennsylvania

On this the 125th anniversary of the savings and loan business in the United States of America, the chairman and board of directors of the Brown's Town Benefit Building Society take pleasure in extending to the League assembled for its 64th annual convention hearty greetings and congratulations on the excellent accomplishments of savings and loan institutions in the United States through 125 years of service to the great American nation and their best wishes for many more years of continued usefulness.

It is regretted that this society cannot be represented at your convention this year but please be assured of our deep interest and it is hoped that on another occasion it may be possible for us to attend and to participate in the discussion of mutual problems.

May your 64th annual conference be abundantly successful and a happy occasion for all who attend.

Leslie H. Barrett, Manager and Secretary  
The Brown's Town Benefit Building Society  
Brown's Town, Jamaica, B.W.I.

Walter H. Dreier, President  
United States Savings and Loan League  
Philadelphia, Pennsylvania

The simultaneous celebrations of the 125th anniversary of the great American savings and loan movement lends added splendour and particular honour to the 64th annual convention of the United States Savings and Loan League.

I know that the justified pride in the achievements, but also the recollection of many a mastered difficulty, will evoke new strength in order to procure an even stronger response to our mutual efforts which serve individual freedom and worldwide peace.

It grieves me that urgent circumstances prevent my attending the convention personally, but the more I am hoping to be able to welcome many friends from the American savings and loan associations next year at the congress in Germany.

I may ask you cordially to convey my sincere good wishes and greetings to all attending the 64th annual convention.

Dr. Hermann Schuon, President  
Bausparkasse Gemeinschaft der Freunde Wuestenrot and  
Chairman, Union of Private Building Societies  
Ludwigsburg, Germany

Walter H. Dreier, President  
United States Savings and Loan League  
Philadelphia, Pennsylvania

Union of Austrian Bausparkasse wishes your convention much success and your movement further progress in peace and prosperity. Many thanks for your endeavours to assist Austrians to own homes which are, like yours, safeguards of western liberties.

Wilhelm Flatz  
Bausparkasse Gemeinschaft der Freunde Wuestenrot  
Salzburg, Austria

Walter H. Dreier, President  
United States Savings and Loan League  
Philadelphia, Pennsylvania

The Swiss Association of Savings and Loan banks send their best congratulations for your 125th anniversary. Your outstanding growth and strength will be a real encouragement for all societies promoting home ownership on our continent.

Dr. J. Hasli, Secretary  
Verband Schweiz. Bausparbanken  
Basel, Switzerland

Walter H. Dreier, President  
United States Savings and Loan League  
Philadelphia, Pennsylvania

With regret that I shall not be with you in Philadelphia please convey greetings to delegates and cordial wishes for successful conference. Hope to meet you in Stuttgart.

E. F. Brieven, President  
Association Belge des Societies Hypothecaires  
Brussels, Belgium

Walter H. Dreier, President  
United States Savings and Loan League  
Philadelphia, Pennsylvania

It is with a deep regret that I am compelled to decline once more your so kind invitation to attend your annual convention.

I want you to be assured that I am fully at heart with you all and you will find here my most sincere wishes for the usual success of your meeting.

Jean Tournaire  
Caisse Hypothecaire de Credit  
Paris, France