SAVINGS AND LOAN ANNALS 1962

United States Savings and Loan League
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Chicago 1, Illinois

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United States Savings and Loan League

PRESIDENT

FOREWORD

BY THE TIME managers of the member associations of the United States Savings and Loan League assembled for the 70th annual convention on November 5, 1962, President Kennedy had signed into law the Revenue Act of 1962.

While we fell short of winning our two-year struggle to prevent a change in our tax law, let it be noted that the commercial bankers also failed to obtain their objective to impose a "death tax" on our institutions. The law, as finally enacted, will enable us to continue to serve the shelter needs of the American people, but growth may become a less important objective than it has been in the last decade.

In any event, it was evident at the day-long Tax Clinic, held on the second day of the convention, that the majority of those present shared my feeling that it was healthy to have the issue of taxation settled and were determined to learn as much as they could about the implications of the new law and the best way to comply with its provisions.

Inasmuch as no regulations and/or interpretations had been issued by the Internal Revenue Service at that time, several presentations at the Tax Clinic were in the nature of "informed conjectures." For that reason, only two of the addresses have been included in the *Annals*. It was announced, however, that as rules and regulations are issued, the U. S. League will issue *Special Tax Bulletins* to guide the business in preparing 1963 returns, in obtaining identifying numbers from savers and in reporting dividends and interest paid to them.

With the Tax Clinic taking one full day out of our customary four-and-a-half-day convention week, this year's convention format had to be changed. Because the Topical Forums have been so popular in recent years, all but one found on last year's agenda—Internal Operations—was repeated. The Investments and Mortgage Lending Forum was extended to two sessions, reflecting the continuing squeeze on earnings and the growing competition on the investment side of our business.

The Advertising, Public Relations, and Business and Economic Trends Forums also paid special attention to the intensifying competition the business is facing and will continue to have to face in the foreseeable future.

There were only two general sessions, and the number of open committee meetings was pared from nine to six. As in the past, papers presented at these committee meetings have been included, so that managers who had to bypass one meeting for another that seemed more pertinent to their needs can now review the meetings they were unable to attend.

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GENERAL SESSIONS

THE NEW COMPETITION

by M. L. DYE, *President*

United States Savings and Loan League

Salt Lake City, Utah

FOR A CONVENTION such as this, the presidential address usually has two purposes. The first is to report and review what has happened during the past year, and the second is to look ahead and attempt to analyze the challenges that will confront us tomorrow. I shall follow this pattern, but my intent is to spend substantially more time in examining the future than the past.

The principal part of my time this morning will be devoted to a discussion of some of the immediate and long-term implications of what, in my judgment, is the most important problem to confront us in 1962 and for the next several years, namely, the increasingly competitive environment in which our institutions must operate, with special reference to the role of the commercial banks.

It is true, of course, that certain other vital issues which have been held in abeyance pending settlement of the tax issue will move to the forefront in 1963. These include the problem of attempting to secure some long-sought changes in federal supervisory procedures, and the proposal which has been introduced in Congress to establish a system of federally chartered savings banks. While each of these subjects has aroused considerable interest in our business, I believe that the subject of adjusting to the new competitive environment is the matter of greatest interest to savings and loan people, and so I want to direct my remarks principally to this area.

But before discussing the longer-term implications of the new competitive environment, I should like to comment on the change in our tax law which was approved by Congress last month and signed by President Kennedy. This was easily the most important single piece of legislation that has involved our business since the passage of the Revenue Act of 1951.

There is cause for rejoicing and elation over the fact that, as a result of the efforts of this business, the Senate of the United States eliminated from the tax bill passed by the House the proposed withholding tax on interest and dividend payments. I think every saver and stockholder in the United States has reason to applaud the leadership displayed by the savings and loan business in this issue. There is cause for mixed feelings about the outcome of the corporate tax bill. Our objective was to prevent a change in our tax law. We fell short of this objective. On the other hand, and of even greater importance, is the fact that the commercial banks fell short of their equally determined effort to impose a "death tax" on our institutions.

It should be emphasized, however, that while there will be problems in the aftermath of taxation, and while we accept the change in our tax law with great reluctance, the law as finally enacted will permit us to grow and be of great service to the American people.

TAXATION A THREAT FOR YEARS

In my judgment, it is healthy to have the issue of taxation settled. The threat of higher taxation had been hanging over our heads for over a decade. It had been an issue ever since 1951, when Congress decided that our business should pay an important amount of money directly to the Treasury. Relatively little was paid in the ensuing decade and this fact, coupled with the phenomenal growth of our institutions, probably made some adjustment in our tax law inevitable. The real issue in 1962 was not whether the savings and loan business should pay taxes. That was decided 11 years ago. The key questions this year were the amount to be paid and the formula to effect payment.

Perhaps the most important problem that remains in the wake of the bitter fight over the tax law will be to secure some relief for associations in areas where mortgage earnings are low. Many institutions in those areas will find it extremely difficult to meet the supervisory reserve requirements, pay the new taxes and still maintain a competitive dividend rate. A very careful study will have to be made of reserve requirements at both the federal and the state level, and one of the major tasks of the United States League and state leagues next year will be to develop some solutions to this problem.

SUPERVISORY RESERVE REQUIREMENTS

In this connection it should be remembered that we made repeated efforts in our testimony before Congress, and numerous visits to key members of the House and Senate, to emphasize that higher taxes would make it impossible for some associations to pay taxes and still meet their supervisory reserve requirements without reducing their dividend rates. While we regard this as a strong and valid argument in our behalf, unfortunately it was not regarded as such by key members of the House Ways and Means Committee and the Senate Finance Committee. On a number of occasions the tax writers made it abundantly clear they would not have the federal tax laws governed by what state or federal supervisors might prescribe in the way of minimum supervisory reserve allocations.

In any event, passage of the new savings and loan tax law makes necessary an intensive re-examination of the nature of savings and loan reserve allocations. In addition to a review of the reserve requirements, greater attention will have to be given to the question of boosting earnings in the so-called low earnings areas. This is a problem which will require some aggressiveness on the part of the institutions in those areas, some thoughtful cooperation and support from the Federal Home Loan Bank Board and some understanding from institutions in the high earnings areas.

Those of you who come from areas where earnings are high and payment of income taxes will not prove overly burdensome cannot escape the problem of the institutions in the low earnings areas. It is not only their problem; it is yours as well.

In this connection we need to review very carefully some of the suggestions that have been made which will enable associations in the "low earnings areas" to boost their income.

CAN TAKE FIRM STAND NOW

A few moments ago I mentioned that it was a healthy thing to have the tax issue settled and behind us. For much of the last decade, every major decision made by this business has been influenced in some way or another by the threat of higher taxation. We have not been able to express ourselves on certain issues and we have not been able to take action in certain areas for fear of alienating people or groups who might be influential in our tax fight. Certain decisions important to our business have been either deferred or relegated to a secondary position because the best talents and energies of this business have been monopolized by the tax problem.

We have some tricky problems remaining in the aftermath of the congressional change in our tax law, but one thing is clear: This decision now releases the full attention of the leadership of this business from our tax problem and enables us to devote much more time and attention to other vital issues which confront our institutions.

BANKS IN FOREFRONT

One of these issues, and I think it is the most important issue that confronts this business today, is the rising tempo of competition for both savings and mortgage loans—competition marked by growing interest and activity in these areas on the part of commercial banks. In fact, I think it may be said that while 1962 will be remembered as the year our tax law was changed, it will be remembered better as the year when the savings and mortgage competition from the commercial bank business truly became significant.

The general competitive environment in which we find ourselves today is tougher than it has been for many years, particularly on the mortgage side of the business. At the start of 1962 we had expected that the 4% bank savings rate would have a substantially adverse effect on the flow of savings into our institutions. As we meet at convention time, however, the national statistics available suggest that this problem has not been as great as expected. Our business nationally will have a larger gain in savings this year than in 1961. In some cities our institutions have been hard put to maintain savings increases comparable with 1961. Still other areas, however, are ahead of 1961 gains, and the total result for the nation will be a record net gain in savings this year.

On the other hand, the 4% bank rate has produced a tremendous flow of savings into commercial banks and this, in turn, has stimulated interest in real estate lending on the part of the commercial banks. Thus, we face greater competition for loans at a time when the general demand for residential mortgage credit has abated, particularly in the single-family house field in which our institutions specialize.

In contrast to a few years ago, the supply of savings available for mortgage loans is growing at a much faster rate than the demand for mortgage credit, notably in the category of one- to four-family units.

This growing disparity between savings gains and increases in residential mortgage debt explains the present intense competition in the mortgage market.

In short, we have entered a real "buyer's market" for mortgage credit. How long this market will last is anyone's guess, but the chances are that it will last the better part of the present decade. And as long as the banks maintain a 4% savings rate, you may be sure the pressure of investing these funds will be so great they will try hard to increase their share of the mortgage market.

There has been some speculation in the press that because the move to the 4% savings rate has been so costly, banks may decide to reduce savings rates at the end of the year. While retreats from the 4% line may occur in a limited number of places, savings and loan people would be well advised to plan their 1963 operations on the basis that the great majority of banks will retain the 4% savings rate into 1963 despite the adverse effect on their earnings.

COMMERCIAL BANK INTENT CLEAR

Many savings and loan people hopefully believe that greater competition from commercial banks for savings and mortgages is only temporary. If you believe this, then you have not been reading what the leadership of the commercial banking business has been stating publicly for some time. On the basis of these pronouncements and on the basis of programs already put into motion, there is every reason to believe that, rather than becoming less competitive in the areas of savings and mortgage lending, the commercial banking business has every intention of trying to become even more competitive in these two areas of vital concern to every savings and loan executive.

Let me remind you that the American Bankers Association has had two bills introduced in Congress, one to authorize federally chartered and privately owned organizations to insure conventional loans and the other to create secondary mortgage marketing corporations which would buy and sell conventional home loans. It also should not be overlooked that the first statement made by the new president of the American Bankers Association after his election in September was that the number one legislative effort of the commercial banking business in 1963 would be to secure passage of these two bills.

Let me remind you that commercial banks already have mustered the support of one important public interest group for their expansion in the mortgage lending field. One key recommendation of the Commission on Money and Credit of the Committee for Economic Development is that commercial banks be given the same flexibility in investing their time and savings deposits as permitted savings and loan associations and mutual savings banks.

And, finally, let me remind you that a special Advisory Committee to the Comptroller of the Currency issued a series of recommendations two months ago which would facilitate the expansion of national banks in the savings and mortgage lending fields. Specifically, the committee recommended the elimination of a ceiling on interest on time deposits, the elimination of the reserve requirements on bank time deposits, and a variety of other measures for liberalizing mortgage investment powers on the part of national banks. While there may be tremendous controversy within the commercial banking field over the most publicized recommendation of Mr. Saxon's Advisory Committee—greater branch banking authority for national banks—I suggest there will be virtual unanimity about liberalized savings and investment policy.

BANKER DRIVE HIGHLY ORGANIZED

What we are witnessing today is an energetic, well-organized and well-financed drive by the commercial banking business, not only to recover a position of unquestioned leadership in the savings field but to challenge the position of the savings and loan business as the central force in the home mortgage market. Probably the most amazing and startling aspect of this drive is that it is taking place without commercial banking groups giving pause or consideration to the question of whether it is appropriate and in the public interest for commercial banks to seek to become the dominant force in either of these fields. The banks have assumed automatically that it is their innate right to seek leadership in both the savings and mortgage fields. But I say to you that it is the responsibility of the savings and loan business to begin to challenge this assumption, and the time and place to start this challenge are here and now.

BANKERS STILL CRY 'EQUALITY'

The philosophy that is supplying the fuel for this commercial bank drive into the home mortgage market is essentially the same as that employed in the tax controversy with our institutions in recent years. The commercial banks maintain in a straight-faced manner that they are entitled to have parity and equality with specialized savings institutions on each and every score. They consistently ignore and forget that the primary purpose of commercial banks is not the same as the primary purpose of savings and loan associations and mutual savings banks.

One cause of the breakdown in the commercial banking system during the depression of the 1930s was that it assumed unto itself many of the functions which properly belonged to the so-called financial intermediaries, including specialized thrift institutions. On the eve of the depression, the lending and investment powers of the commercial banking system were so broad that when the depression arrived, the difficulties encountered in these investments ultimately impaired the demand deposit functions of many banks.

OVERLOOK DEPRESSION LESSON

One of the lessons we should have learned from the depression is that all the financial "eggs" of the American economy should not be placed in one "basket"—the "basket" being the commercial banking system. This is the theory which gave rise to so much of the legislation enacted in the early 1930s to stimulate the recovery and development of specialized thrift institutions.

In every community, the commercial bank is the key financial institution. All the money that is used in the transaction of business and commerce flows in and out of commercial banks. Because of its primary responsibility as a demand depository, every person or group with a demand deposit is heavily dependent on the proper functioning of the commercial bank. This includes savings and loan associations, credit unions and mutual savings banks, as well as almost any business organization whose liquidity is largely dependent on the commercial banking system.

THREAT OF TOO MUCH POWER

In view of this enormous responsibility carried by the commercial banks, it is essential to the welfare of every community that the commercial bank be as invulnerable as possible to fluctuations in business conditions. This, in turn, suggests four questions:

1. How can we make certain that the ability of the commercial banking system to perform its primary obligation is not jeopardized?
2. How great a concentration of financial power should the commercial banking system possess?
3. How might each of the variety of activities the commercial banking business wants to perform jeopardize its primary function?
4. Should not stringent safeguards be imposed on such activities to the extent that they are permitted?

These are questions which up to now have been largely ignored by the leaders of commercial banking in their attempts to move strongly and energetically into the home lending field. Instead, the legislative strategy of the commercial banking business is to secure passage of various measures, one by one, aimed at expediting their drive into the home mortgage field.

EMBARKED ON STEP-BY-STEP PLAN

This year the commercial bankers succeeded in increasing the amount of time deposits that may be invested in mortgage loans and extending the maturity on construction loans. Next year the drive is for chartering of corporations to insure conventional loans and provide secondary mortgage markets. Beyond this are the proposals for the elimination of interest rate ceilings on time deposits, elimination of the primary reserve requirements on savings deposits and liberalization of mortgage investment power.

Before Congress gives further consideration to this legislative program, it seems to me that a congressional committee might appropriately undertake a full-scale inquiry into the proper role of the commercial bank in the mortgage business. It is not enough that such recommendations for expanded bank mortgage lending come from commercial bank trade organizations, from the Comptroller of the Currency or the Committee for Economic Development, or indeed from the appointed officials of the various financial agencies within the administration who now are surveying financial institutions.

A QUESTION OF PUBLIC POLICY

This broad question of public policy is the responsibility of the Congress of the United States and should be studied and pursued by the Congress before any further consideration is given to commercial bank requests. I should hope that such a special study would consider various questions, including:

1. To what extent should a financial institution which is primarily a demand deposit institution be allowed to involve itself in long-term lending?
2. To protect the liquidity of a demand deposit institution, does the public interest require the segregation of its savings function from its demand deposit operation in commercial banking?
3. To the extent that deposit growth of the commercial banking business is essential, would it not be wiser and less costly for individual banks, and from the point of public interest as well, to promote this growth through payment of a modest interest rate on demand deposits rather than the high 4% rate currently being paid on time and savings deposits?

The question of public interest is, therefore, the paramount issue in determining the appropriate role of commercial banks in the savings and mortgage fields. This fact was underscored in a statement made by

Ralph A. Young, adviser to the Board of Governors of the Federal Reserve System. In commenting on the recommendation of the Commission on Money and Credit regarding greater powers for commercial banks in investing time and savings deposits, Mr. Young made the following significant statement:

> In the case of commercial banks, the traditional American view is that freedom to compete for long-term savings cannot be allowed to reach excesses that might threaten the solvency of the principal liability of commercial banks and the main focus of monetary management; namely, demand deposits. One wonders whether it is logical to subscribe to complete prohibition on the payment of interest on demand deposits, or as does the Commission, on the ground that such limitation is needed to prevent important bank failure and at the same time endorse complete freedom for commercial banks to compete for savings and time deposits.

BANKS ARE NOT 'ANEMIC'

It is a natural inclination on the part of every business to attempt to grow and flourish. This desire is shared by the commercial banking business. The commercial banks maintain it is necessary for them to obtain a greater share of the savings deposits of the American people. This would suggest to some persons that the commercial banking system is a fairly "anemic" structure and really needs help. The truth is all to the contrary. This can be illustrated by the fact that one commercial bank in the United States has more assets than all of the savings and loan associations in 32 of our states. This hardly suggests a business that is stagnant because it does not have parity and equality with every other financial organization in every phase of its operations.

To a certain degree, therefore, the long-term competitive outlook for our institutions hinges on what decision Congress will make as to the appropriate scope of commercial bank activities in the savings and mortgage fields.

FOR THE PRESENT: PRUDENT INVESTMENT

In the meantime, you have the present problems of an "earnings squeeze," the mounting pressure of paying higher dividend rates and the rising competition for home mortgage loans at a time when real estate activity and mortgage demand are on the decline in a growing number of areas. It is my impression that the primary problem of the savings and loan business in the coming year will not be the recruitment of savings but the wise and prudent investment of funds.

President Kennedy has signed a bill enabling federal associations to make apartment loans, and this law will help our association adjust to the increasingly competitive conditions in the mortgage market. The additional authorization for investment in multifamily housing, representing success in the "positive" part of our 1962 legislative program, is a commendable move on the part of Congress, and we appreciate the

very considerable help of the chairman of the Federal Home Loan Bank Board in securing this legislation. On the other hand, this authority comes at a time when apartment vacancies are increasing in some areas, emphasizing the need for savings and loan associations to be extremely careful in their underwriting procedures.

In view of the intensive competitive environment with which we now are confronted, probably the most difficult adjustment savings and loan associations will have to make in the next few years is to realize that the great growth and expansion of the past decade will not easily be duplicated in the period just ahead.

GROWTH A SECONDARY OBJECTIVE

There is a great need in the savings and loan business for a change in perspective. Growth has become the idol of our institutions during the past dozen years, and it has been a good thing for the country that this has been so. However, we are now in a period when growth should be a less important objective in the life of a savings and loan man. We cannot expect inflation to eliminate mistakes in lending policy in the present extremely competitive era. It is a time to remember that the postwar boom has passed, and we should be prepared for any eventualities that occur in the aftermath of this boom, including greater losses on mortgage collateral.

In the present situation, most savings and loan people will fall generally into three categories:

There will be those who will think that because the demand for single-family housing has abated, a policy of very conservative operations is required and additional savings and additional loans should not be sought in an aggressive manner.

Second, there will be a small group that will adopt a philosophy of "growth at any price." Here you will find the managers who will be reaching for marginal loans in order to boost earnings and pay dividend rates higher than those that prevail in their community.

And then there will be a third group comprised of those managers who will make a determined but responsible effort to maintain a good rate of growth without violating standards of soundness and safety.

OUR ROLE IN YEARS AHEAD

There should be and will be considerable study and discussion of the role that the savings and loan business can play in American finance in the years ahead. The planning of this convention has contemplated discussions of this nature, including the key question of investment opportunities and new investment authority for our institutions.

Without attempting to express conclusions ahead of careful research, and not with the thought of prejudging the decision of the savings and loan business with respect to the direction it takes in the next decade or two, I do offer the thought that we shall continue to find our greatest area of service and our destiny linked essentially to the business of financing shelter for the American people.

DO MORE SHELTER FINANCING

The answer to the investment problem of our business in the immediate future, it seems to me, lies almost wholly in doing a better job in the areas most of our institutions are now authorized to serve, as well as in the markets which we know best and which we are superbly equipped to serve.

Now that we have reasonably ample authority in the apartment lending field, I can think of only a few other refinements we need in our laws to permit us to serve the entire range of shelter financing in the United States—to permit us to serve not just 45% of all home buyers in any one year but 47%, 48% or 50% within a few years and up to 55% or maybe 60% in a greater number of years.

This, frankly, will mean doing considerably more in areas we have only begun to scratch, even though the role of the mortgage lender will not be as easy as in the field of financing new, single-family homes on the edge of cities. I am referring to financing improvements to our existing housing supply: major improvements that are handled by a new mortgage or the extension of an open-end mortgage, and small improvements handled by an unsecured loan. Such financing would include really doing a job in the urban renewal sections of our cities and really getting into the business of providing housing for the aged, as well as rest homes and nursing homes. To further our share of shelter financing also will mean extending the participation program by those who already are acquainted with it and most particularly by those who have not seen fit to use it.

Enlarging our share of the mortgage credit field in the next few years provides, it seems to me, the most logical answer to the immediate problem of investments and earnings. While we must look quite far ahead and be quite broad in our planning, the primary immediate challenge to this great business is how to increase our share of the home mortgage market. I suggest that we turn our attention to it at once—and at this convention.

PROBLEMS FACING THE BUSINESS AND THE BOARD

by JOSEPH P. MCMURRAY, *Chairman*
Federal Home Loan Bank Board
Washington, D. C.

PRESIDENT KENNEDY has stated that "the ultimate objective of our nonmilitary emergency planning is a development of capability at all levels of government to manage our resources, both human and material, so that we can meet essential human needs, successfully support any required military effort, and survive as a free and independent nation."

The Federal Home Loan Bank Board is charged with the independent responsibility for the development of national security preparedness measures relating to savings and loan credit policies and programs. I am satisfied, after a careful review of what has been accomplished, with the full cooperation of your League and its members, that the Board and the business have done a creditable job. There is complete liaison between the Federal Home Loan Bank Board, the Office of Emergency Planning, the Treasury Department and the Federal Reserve Board. The Federal Reserve Banks have been authorized in times of emergency to regard Federal Home Loan Banks as nonmember banks and to extend credit to them.

Since 1956, the Federal Home Loan Bank Board in Washington and the district banks have established relocation sites and provided for the duplication of records and for the relocation of offices. In addition to the Bank Presidents' Committee on Mobilization Preparedness, we have a National Committee on Emergency Operations composed of two members from the United States League and two from the National League. Every member association has been furnished the booklet *Preparedness Guidelines for Emergency Savings and Loan Operations*, and a revised edition will shortly be made available to you.

The very excellent and comprehensive manual, *Disaster Planning by*

Savings and Loan Associations, published and distributed by the United States League, and the series of excellent articles on disaster planning and economic stabilization in your *Savings and Loan News,* should serve you well. The League deserves our congratulations and gratitude for this contribution to our defense effort.

I hardly think it requires urging on my part to have you review your past efforts, redouble them and take advantage of all the knowledge that already exists, so that you will be better prepared no matter what may come. At the Federal Home Loan Bank Board these last two weeks, we have concentrated our efforts on preparedness matters and will assist you in every way we can.

I should like now to discuss with you some of the problems that confront you and the Board in the relatively peacetime economy which we have been enjoying these past several years and which I anticipate will continue for a long time to come.

INVESTMENT FUNDS AVAILABLE, DEMAND SLACKENED

It is not only in the field of international affairs that we are confronted with sudden or fast changes in our situation. Just think of the differences between this year and last year, when I had the privilege of addressing you in Chicago. A year ago the demand for mortgage funds was still quite strong. In fact, even this year the associations have experienced a very sharp rise in the volume of mortgages outstanding. Yet we cannot overlook the fact that the supply of money available for mortgages has also increased sharply. At the same time, the entire demand-supply structure in financial markets has undergone a radical change. The availability of funds for investment has increased substantially, and the demand for funds has slackened considerably.

I think I can bring this message home to you very sharply with a few figures. In 1959, liquid savings, in the form of savings capital with your associations, time and savings deposits with banks, and savings bonds, increased only $7.5 billion. Mortgage volume, which must rely on these liquid savings to an important extent, increased by $19 billion. Last year, despite the recovery in economic activity, liquid savings grew almost $22 billion, while mortgages rose by a little more than $18 billion. This year, as nearly as one can tell, liquid savings may rise by $24-$25 billion and mortgages by about $19 billion. Simply stated, there has been a shift from stringency in the mortgage markets to plentiful ease.

Corporate activity in the capital market has also changed. The volume of corporate securities issued in the first three quarters of this year is more than 20% below last year. State and local securities have shown no significant increase this year, in contrast to substantial increases in most other years. Plainly, the demand for investment funds is not what it used to be. Nor is that demand likely to expand greatly in the foreseeable future. Even if it does, it will be met by a sharply increased volume of loanable funds. The day of strong upward pressure on interest rates seems to be clearly behind us. The drives necessary to create strong demands for funds have abated, and the forces making for large increases in liquid savings have become pronounced. While this could not be foreseen clearly a year ago, the handwriting on the wall is plain and sharp today.

THE INTEREST RATE STORY

All of this is clear from what has happened to interest rates. To the extent that interest rates have risen at all in this recovery, they have increased much less than in any other recent recovery. Rates on short governments currently are a little more than half a point higher than they were in February 1961, at the bottom of the recession, and long-term rates on governments are less than a quarter of a point higher than at the recession low. In other recoveries, the short-term rate has increased three to four points and the long-term rate has risen a point or more.

This is not all of the contrasts. Some rates have actually come down, with top-grade state and local securities selling for less now than at the recession low. Special circumstances have made these securities more attractive to banks and other investors; but even so, this decline points to the fact that there are funds seeking investment. Furthermore, as all of you know, mortgage rates also have declined. The growth in availability of funds, which is evident in the data on liquid savings, is putting considerable pressure on mortgage rates.

You face a difficult task in employing your funds judiciously. This is a time for taking stock, setting your house in order and building a stronger liquidity position.

One of the lessons of the past year is that financial markets can change in character quite rapidly and fundamentally. Specialized institutions such as yours are not fully equipped to deal with these changes. For this and other reasons, I should like to emphasize that the Board advocates certain broad principles.

ADVOCATES SPECIALIZATION, BROADER INVESTMENT POWERS

First, institutions which were created for a particular purpose should not have their specialization destroyed unless the original purpose has passed completely from the scene.

Second, specialization in a very narrow area, without a reasonable measure of alternative authority, involves certain dangers. On the one hand, rigid specialization may cause the institutions to shrink during periods of temporary changes in markets, thereby limiting their effectiveness when the particular market revives. On the other hand, rigid specialization may induce some institutions to resist a change in markets by pursuing loans which are unduly risky. Neither of these alternatives is satisfactory.

Third, an institution which has some connection with several markets usually develops a better feel for, and understanding of, the trends generally. This permits more prudent, timely adjustments to conditions as they develop.

For these reasons, therefore, we intend to pursue a broadening of the authority of investing and lending by associations in fields which are related to and consistent with the maintenance of economical home financing. This means a wider choice of securities, including tax-exempts, and entry into such lending fields as consumer goods for the home, loans for educational purposes and other elements of family finance. These matters are still under study, but we hope that we can move ahead in these areas in the not too distant future.

The immediate test on how judiciously and well you use your broader powers is in the authority you have gained from the enactment of the multifamily bill enacted by the Congress just before it adjourned. The regulations necessary to give effect to this legislation will be published within the next two weeks. While I fought strenuously and, I am pleased to say, most successfully, with the all-out support of your League and its staff, I would be less than responsible in carrying out my duties if I did not warn you of the dangers and pitfalls that are attached to this type of lending.

This is a rather specialized field where the danger of risk is less easily determinable and where much more is at stake. Prudently made, such loans can be a source of increasing income and, most importantly, can provide economical home financing for our people. We hope that this initial success in broadening the investing and lending powers of the associations will mark the beginnings of successes in other areas which will enable you better to serve the public and provide you with better opportunities for a safe and sound operation.

As you know, Congress recently added to the Home Owners' Loan Act of 1933 a provision to authorize the investment of not over 5% of the assets of a federal savings and loan association in loans on housing accommodations, rest homes and nursing homes for aged persons without regard to other specified lending limitations except the area restriction. The preparation of regulations to implement this provision has posed a great number of difficult and complex problems, but I am happy to be able to inform you that a draft of such regulations is now before the Board and it is our intention that such regulations be published shortly. In addition, the preparation of regulations to carry out the provision authorizing investment of a similar percentage of such assets in certificates of beneficial interests issued by urban renewal trusts is nearing the final stage.

BOARD MAY INCREASE SOME LOAN-TO-VALUE RATIOS

The Board is also giving serious consideration to increasing the loan-to-value ratio on certain types of commercial loans. There is a tremendous immediate need for more adequate and more modern hospital and medical facilities throughout the nation, and especially in our suburban areas and in many renewal areas within our cities. Certainly this type

of loan, which directly benefits the people in the community and has a tendency to increase the general level of real estate values of the community, is the kind of loan savings and loan associations should be encouraged to make, assuming, of course, such loans are subject to the expert and specialized appraisals they require. Loans to finance other types of real estate which involve a high degree of public and community interest and contribute to the over-all value and stability of a neighborhood or a community may deserve special consideration and encouragement. The Board welcomes any suggestions you may have.

FAVORS INCREASE IN INSURANCE CEILING

In accordance with my custom on occasions of discussing a tentative proposal in order to get a grass-roots reaction, I indicated in a lecture delivered a few months ago that I thought the present ceiling of $10,000 on FSLIC accounts was out of date and should be increased. The favorable response to my suggestion was tremendous and unanimous. Since that time we have given it further study. We found that after the insurance limit was lifted in 1950 from $5,000 to $10,000 the net savings increased substantially in the two years following, the increase in the insurance ceiling no doubt being an important contributing factor.

Many investors, either by law or by regulation, or by action of the board of directors, are compelled to invest their funds within the insured limits. A higher ceiling would also facilitate and enlarge the amounts of funds placed by institutional investors.

The risk position of the Insurance Corporation, for all practical purposes, would not be changed appreciably. Not only has the Corporation covered all accounts in full in most of the settlement cases to date, but the prepayment of premium under the law enacted last year has already greatly increased the reserves of the Corporation, thus providing a more substantial base for the increase in the insurance limits.

With the increase in the average family income and the amount of savings, certainly a 1951 insurance ceiling of $10,000 does not fit a 1963 or 1973 economy. A higher ceiling would not only vitalize such savings but, in turn, would significantly give vigor to the housing sector of the economy. Accordingly, the Federal Home Loan Bank Board, in a resolution passed last week, is recommending to the administration updating the ceiling to $25,000. Both the FDIC and FSLIC announced the decision recommending the increase over the week end.

In a number of state association meetings, I have stressed the importance of self-discipline and the importance of cooperating with the Board in formulating adequate regulations as a means of ensuring proper supervision.

STRESSES NEED FOR SELF-DISCIPLINE, COOPERATION WITH BOARD

The public and to some extent the Congress have a tendency to judge your business not by the best managers among you, or even the average management, but by the worst operators—those who are always skating on thin ice, taking undue risks, flouting or circumventing regulations of the Home Loan Bank Board, Insurance Corporation and the states and, in general, operating in an imprudent manner. Among them is the fellow whose advertising borders on misrepresentation, whose offices look more like department stores, whose fees and interest rates on loans are out of line with those of other associations in the area, whose dealings frequently appear to be with himself, and who frequently pays a higher dividend than the prudently operated association in the area can afford. We know of associations, as you do, that pursue questionable or clearly improper practices as measured by the standards fixed and applied by responsible management.

Regardless of the effect that kind of management and operation may have on the Congress, it is not the kind that makes for fair competition or that makes it easier for you to operate safely and soundly.

This Board is determined to do everything it can, by persuasion, regulation and statute, to eliminate the "ragamuffin" from this business. We need your full cooperation and support. There is a tendency to imagine that every proposed regulation or change in statute is aimed at *you;* quite the contrary. It is true that some regulations, conceivably and theoretically, may limit flexibility or freedom a little bit or may seem to set down a slightly different procedure from the one you are now following. But try to understand them in terms of how they will affect the association that is competing with you unfairly, perhaps not even in your area but thousands of miles away, but whose action nevertheless has a direct effect on your operation and that of the whole business, not to mention the broad public impression it is creating, to the possible or probable detriment of your institution.

PLANS 'UNSAFE AND UNSOUND,' 'CONFLICT OF INTEREST' REGULATIONS

We are attempting—and it is a tremendously difficult job—to set forth in regulation what heretofore has come under the heading of "unsafe and unsound" operations. Yet every time we draft a regulation we hear all the reasons why it cannot work but get very few constructive suggestions on how to perfect regulations so they will work effectively and without adverse effects.

I was pleased, therefore, to learn that a committee of the League is studying some of the proposed regulations on (1) loans to one borrower; (2) lending powers, construction loans; (3) test appraisals of real estate security for mortgage loans by insured institutions; and (4) establishment and maintenance of records by insured institutions—with the attitude of how such regulations can be shaped so as to be remedial without being prejudicial to the health and progress of the business. I am sure your recommendations will be helpful. I must confess, however, that there still seems to be a carryover of fear of the Board's putting the worst interpretation on every phrase of a proposed regulation. Believe me, our only intention is to be fair and practical, but we must be

effective if we are to make this business all it can and should be.

Ira Dixon, my good friend and yours, and for eight years a member of the Bank Board, has for the last few months been working on a special assignment to develop, if it is finally determined to be feasible, a conflict-of-interest regulation or statement of policy by the Board on that subject. We consider this a matter of great importance, and we are pleased that the United States League has appointed a special subcommittee to consider the problem and to consult with Mr. Dixon. The National League has appointed a similar committee to consult with him. Mr. Dixon has solicited the state supervisors on the subject. In addition, he has received many constructive suggestions and ideas and will welcome any thoughts you may have on this matter. The Board has also appointed a Committee on Legislation and Regulation, comprised of certain members of the Board's staff and two of the Federal Home Loan Bank presidents, to study those matters and to give the Board its views and comments from the standpoint of policy. Members of the legal, supervisory and examining staffs of the Board also are actively engaged in drafting, for Board consideration, specific regulations on the numerous matters which are of current concern to the Board.

PROBABLE RECOMMENDATIONS TO CONGRESS

The Board hopes it will be able to recommend to the Congress next year, if it has the approval of the administration, legislation covering (1) amendments to Section 5(d)(1) providing for the issuance of cease and desist orders which will become effective at the time of issuance and providing for a hearing in accordance with the Administrative Procedure Act if the association desires to contest; (2) holding companies; (3) FSLIC ceiling increase; and (4) broadening of the investing and lending powers of federal associations.

The Board also plans to issue, within the next year, regulations or policy statements on regulation on loans to one borrower, test appraisals of real estate security for mortgage loans by insured institutions, establishment and maintenance of records by insured institutions, construction loans and discounts on mortgage loans purchased.

We look forward to a very busy and, I hope, fruitful year. To do our job we need your help. Vice Chairman Joe Williams, John deLaittre and I are dedicated to do the best job we know how for you and the public you serve. In the last month and a half of working with us, Mr. deLaittre confirmed our belief that he was all we said he would be: "a great source of strength and wisdom."

Over the last year I have had the opportunity to get to know and work with your retiring president, Met Dye. If all your presidents are as cooperative and helpful as he, the Board will consider itself most fortunate. Frank Yeilding Jr., who will succeed him, I am sure will follow in his footsteps, and I look forward to continued constructive and friendly cooperation in doing our job to make this business a more effective one in serving the public's needs.

THE ECONOMIC TRENDS YOU FACE

by ARTHUR M. WEIMER, *Dean*

Graduate School of Business, Indiana University

Bloomington, Indiana

ONCE AGAIN it is my privilege to discuss with you the business outlook for the year ahead. Since our meeting last year we have had a number of surprises, including the sharp drop in the stock market in May, the steel pricing controversy, the Communist occupation of Cuba and, more recently, the heating up of the cold war over the Cuban situation. There may be some surprises as a result of the election tomorrow, but unfortunately I am faced with the task of estimating the business outlook for 1963 without specific knowledge about the election results. And of course there may be surprises in international relations at any moment.

Despite various unforeseen developments, our over-all projections of last year turned out to be amazingly accurate, a fact that may well have been due to good luck rather than to good forecasting, because nobody can see ahead and take into account all the things one might be able to anticipate plus all the unanticipated developments. In general, 1962 has been a pretty good year for the American economy, with overall gains in gross national product approximating 7%. Certainly 1962 has been a good year for the savings and loan business—one of the best in its history.

With respect to business conditions in the year ahead, much depends on international developments. The Cuban crisis and its aftermath may have tipped the economic scales toward expansion. The major short-run effect of the Cuban situation is likely to be psychological. Consumers may be somewhat more willing to trigger expenditures for major items such as automobiles and other durables. Business executives may feel somewhat more comfortable with a higher level of inventories than those of recent months, and less inclined to "give" in pricing their products. Barring some further deterioration in international relations, the sense of relief arising from the diplomatic arrangements relative to

the Cuban situation undoubtedly will set the stage for a record level of spending for the Christmas season ahead.

There undoubtedly will be heavier defense and defense-related spending than was projected earlier. We should recognize, however, that there are some real questions about the impact of still greater defense spending. It may mean less chance of a tax cut in the next session of Congress, and a tax cut may be sorely needed to provide the incentive for further expansion of the private sectors of the economy. We probably need a major overhaul of our tax structure that recognizes the heavy commitments for defense, space and related programs. The practical politics involved in bringing about such an overhaul, however, presents some great difficulties, as most of you recognize from your recent legislative experience relative to taxes. The net result may be that we shall get neither tax reform nor tax cuts.

I have been impressed by the various demonstrations of strength present in the economy, particularly the fact that the sharp drop in stock prices last May did not set off a significant downturn and, more recently, by the relatively balanced reaction of the business community to the Cuban situation. The continued strength in the automobile industry also has been highly important. It now appears that 1963 models have started off the best ever, with sales running well ahead of a year ago. It would be difficult to foresee a bigger year than the last one for automobiles, but this may prove to be the case. Undoubtedly 1962 and 1963 together will represent the best two-year period in the history of the automobile industry.

CAPITAL EXPENDITURES AT ALL-TIME HIGH

One of the big question marks is the extent to which capital expenditures will maintain their present high levels or even advance. On the basis of present knowledge, it is difficult to forecast in this field. However, we should note that capital expenditures are now at all-time high levels, at rates above $37 billion per year or about 8% over last year, and there are good chances that they will advance slightly. The new depreciation schedules may carry them even higher than we now anticipate; much will depend on the administration of the new schedules.

In general, consumers are in a favorable position. Personal income has been rising less rapidly than earlier in the year, but is running currently at annual rates of around $443 billion. Consumers have been buying in good volume. Their credit position is reasonably favorable and their liquid assets are high. The crisis in Cuba may well have triggered some additional consumer spending, and it will take some time for general consumer psychology to revert to a position of caution.

Housing markets have demonstrated substantial strength during the current year. The volume of house building has exceeded many earlier estimates, and the year will close with around 1.4 million starts. We know, of course, that an increasing percentage of housing starts, which this year broke a record dating back to 1925, is represented by apartment house building and that the general character of the housing industry has undergone some changes. Nevertheless, the total volume is heartening. There is no reason now to forecast significant drops from current levels unless calling up the Reserves should have a dampening effect on house buying plans. If the international situation takes a turn for the worse and conditions are sufficiently discouraging to require limitations on activities in one or another sector of the economy, it is my guess that house building would be one of the earlier activities to be cut back. At the moment, I do not expect this to happen but I mention it as a factor to consider.

We may see a somewhat higher percentage of housing starts in apartments during the year ahead. Total volume, however, may compare favorably with 1962 levels. There will, of course, be substantial variations among local markets, as has been increasingly noticeable in recent years; some local markets are overbuilt at current price levels. Financing should be fairly favorable to buyers and builders. Savings are likely to continue strong and to be sufficiently high to prevent upward pressures on the interest rate structure.

CURRENT HOUSING MARKET TRENDS TO CONTINUE

Reports coming to your Committee on Trends and Economic Policies generally substantiate the estimates about housing market trends that I have outlined. Current trends in housing markets are expected to continue, with some declines in the lower-priced and prefabricated areas, some drop in construction loans, continued strength in the apartment area and in higher quality homes, ready availability of mortgage money, continued competition from other lenders and an over-all favorable balance between savings volume and loan demand.

All this assumes no major surprises. Should the long-discussed federal open-occupancy order be issued, for example, this forecast might have to be revised. Just what its impact might be is difficult to foresee. There would be variations among local communities, as is true of many factors in housing markets, and over all it might slow down house building. There may be other surprises, both from a domestic and international standpoint. Managers must remain sufficiently flexible in their policies to be able to adapt to sudden changes.

In developing our forecasts of business and real estate trends over the years, we have tried to identify broad basic trends in the economy and throughout the world and to estimate their significance, rather than to base our forecasts essentially on evaluations of current statistical indicators. For example, we pointed out several years ago that inflationary pressures had subsided and that business policies could be evolved in an essentially noninflationary climate. While we may not yet be entering a period of deflation, some deflationary tendencies are beginning to put in an appearance both at home and abroad. The Cuban crisis may have delayed the development of such tendencies for the immediate future, but we should note their existence.

COMPETITION: THE ORDER OF THE DAY

Several years ago we anticipated the re-emergence of intense competition throughout the economy and indicated the potential impact of such competition for savings and loan managers. There is little doubt that intense competition will continue to be the order of the day. This has many advantages for our economy as a whole. It results in both products and services at lower costs and often lower prices. It increases over-all efficiency. It is, after all, the American way, and we take pride in competition and in our ability to meet it.

In the savings and loan business, as with other financial institutions, operations are conducted within the framework of a large number and variety of regulations. Because of their significant position in the economy, financial institutions typically require more regulations than do manufacturing or marketing activities. As you know, some of these regulations have been under study and reappraisal. This process has been going on within the FHLBB, and also in other parts of the financial community with the operations of the Heller Committee, the Saxon Committee and, earlier, the Commission on Money and Credit.

Many of the recommendations of these committees and commissions are designed to give financial institutions more freedom to compete. For example, there are numerous recommendations for enlarged geographic areas in which to operate, wider branching powers, wider lending and investment powers, fewer limitations on operations and the like. Greater freedom to compete should lead to greater competition. This, in turn, means that the greatest rewards go to the best competitors and that the less competent competitors are more quickly eliminated. The discipline of competition is rigorous.

We have been emphasizing from time to time the importance of our position in world markets, notably the financial markets, and their significance for our institutions. While pressures on our gold supply appear to have eased for the moment, we must remind ourselves that the gold problem is a reflection of more basic economic conditions. As Professor E. E. Edwards has pointed out:

> Under the international gold standard, gold inflows and outflows are indicators, just like the rise and fall of a thermometer. We don't say we have a thermometer problem when the temperature is dropping. We shouldn't say we have a gold problem when foreigners use their dollars to buy gold. What we have is an unfavorable market for foreigners to buy our goods and services or securities; since these markets are unfavorable, they prefer to buy gold. That is the real international economic problem from our standpoint at the present time.

A climate of intense competition at home and abroad is a tougher climate in which to do business than we have faced for some time. It is like playing golf on a rugged course where mistakes are costly.

All this suggests that 1963 will require imaginative management and strong leadership in the savings and loan business. While total housing starts in 1963 may not fall far short of the 1962 level, it is very likely that a greater proportion will be made up of multifamily units. There may be somewhat less commercial construction, although industrial building probably will remain high. Mortgage interest rates are not likely to advance and may remain soft. The recent Federal Reserve action reducing reserve requirements on time and savings deposits may release some funds which may go into mortgages. At the same time, you are likely to continue to have a high volume of savings, and you may be hard pressed to invest them to advantage. Repayments on mortgages are running at high rates and present still additional investment problems. Higher dividend rates do not now appear to be desirable, to say the least. And, as I have suggested, we may be in for some surprises such as an open-occupancy order.

Thus it seems to me that 1963 will require your best efforts in management and leadership. It will be a year in which a conservative managerial approach to your problems is likely to pay off—just as a sound golf swing is likely to pay off on a tough course.

CALLS FOR BALANCED POINT OF VIEW

My main plea with respect to managerial policies is a plea for balance. When you face a swiftly changing situation, it is often difficult to maintain a balanced point of view. To do so requires leadership of a high order. The international situation emphasizes the uncertainties under which you must do business. The new tax will bring changes in your planning, some of your accounting procedures and the way you view certain expenses. Intense competition also will have its impact on your thinking. But it would be a mistake to cut advertising to the bone, reduce your public relations programs, fail to add needed personnel or branches, postpone new programs or do other things that would limit your future growth. A balanced point of view will be needed.

The League staff under Norman Strunk's able direction will, I am sure, keep abreast or, for that matter, ahead of many problems as they emerge. The League can assist you in many ways but it cannot formulate management policies for you or endow you with the balance needed for sound leadership.

You can take great pride in your past performance. When I started making these forecasts and economic outlook guesses in 1949, the savings and loan business was a small segment of the American economy. Your assets then totaled $14 billion, or less than 6% of the gross national product of $258 billion, and your decisions had relatively little impact on the total economy. Today your assets approach $100 billion, or nearly 20% of present GNP; your decisions have a significant effect on the economy as a whole, hence must be weighed with great care.

So, on to 1963. I do not wish to either minimize or exaggerate the problems ahead. They will test your managerial and leadership talents, but I am confident you can meet them so that, when we meet a year from now, we shall look back on another period of significant progress for this great business.

CHANGING THE FACE OF HOUSING

by WILLIAM SNAITH, *President*
Raymond Loewy/William Snaith
New York, N. Y.

THERE IS CONSIDERABLE EVIDENCE that the house is gradually becoming a manufactured article—in fact, another product—and will compete with other products for the disposable dollar. But it is a product with a great difference.

When I say the house is becoming a product, I do not necessarily mean a prefabricated house, although that product continues and shows particular promise in the second- or vacation-house market. Through technology and the demands of the market place, the merchant builder has begun to use prefabricated roof trusses, panelized walls and built-in cabinets in his house products in order to reduce his costs. His overriding interest is to reduce on-site time, so the house is gradually becoming an assembled unit with prefabbed components made by a supplier or the builder himself.

As designers, my firm is approaching the house as a complex marketing problem in the context of an assembled unit. We are interested primarily, at present, in seeking ways to make the house desirable to people, for increasingly the problem is to sell and not just respond to a demand. People are ready for a better home, not just an adequate home. If present trends continue, the house in the future will in all probability be built by fewer and more efficient builders concentrating on a better product at lower cost. And it will be a quality house. In 1956, 18% of all houses built and sold by merchant builders cost $20,000; in 1961, 38%.

My interest in the house was aroused initially by the discovery that the public response to houses was not like the response to other major purchases. The house, one of the biggest single-unit family investments, seemed to operate outside the laws of marketing products. People buy de luxe refrigerators, TV sets and automobiles, and use their credit potential to buy near the top of the line. But in the case of a home, they have been buying just enough to meet their immediate need, despite the fact that statistics show that in the vast majority of cases they had the capacity to buy a better house. By unearthing all the reasons for this, we shall discover the way to merchandise the quality house.

There have been many surprising turns in public reaction to a marketing plan which may highlight what I mean by the difference in willingness to pay more for the top end of a given line. By "top end" I do not mean the most expensive product; I mean that, given a choice, as of inexpensive cars, the public will buy the top line.

A case in point is the experience of the auto manufacturer. Recently there was a rapid growth in sales of the small European car. It is difficult to produce that kind of car in this country because of our costs, but the auto manufacturers have met the competition very successfully with the compact car. Surprisingly, the customers went for the largest of the compacts, the one that looked the biggest, had the most interior finish and was the most expensive. Today the most successful automobile promotions are around the intermediate car, which pops up in everybody's line. In short, if the truth be known, what the American public seems to want is a compact Cadillac.

Another example is perhaps best shown in the experience of our marketing division. In making a study for a large appliance manufacturer, we sent researchers into the field to go through the process of buying refrigerators. They went to one of the best distributors in the field, but no matter how they tried they could not buy the stripped down model. The salesman proved to them how ridiculous the idea was in terms of monthly credit payments; and besides, how could a man be so mean as to deny his wife the beauty of the more expensive model?

WHAT IS THE STATE OF HOUSING TODAY?

The market for houses is weaker today than in the recent past. Immediately after World War II the problem was to provide shelter. In the years that followed, with our population explosion and the mushrooming of our suburban communities, we had a good market. The boom produced shelter and not much extra in the way of comfort or charm.

The next market—and a profitable one—should have been the market for better homes in better-planned communities. Although it is developing, it is moving slowly. We find that there is a seven-year turnover of basic houses and that when the family has more money and the desire for a better home, there is little or no place to go that seems much better.

WHAT IS A 'BETTER PRODUCT'?

The facts of life today are that we are staring at an excess of capacity in almost every area of our consumer economy. Competition is at a high point of intensity. And product difference and product superiority are the most important characteristics to prove in a product. If you

want someone to buy something, you have to show him a good reason for choosing your product—an economic reason or perhaps a psychological one.

The saving grace of this market—and the potential leverage—is the proportion of discretionary income, which presently represents about 31% of total personal income and is steadily going up. Discretionary income burns holes in people's pockets, but it is truly discretionary—they spend it where they want to. Records maintained in our office indicating sensitivity to discretionary income show outboard motors to have had the greatest rate of growth in the consumer industry in recent years. Money, leisure and the advertisement of that beautiful blonde sitting alongside in the speedboat have done their job.

So anyone who can tap this lode of increased discretionary income with some demonstrated appeal has a huge potential at hand.

HOW HAS THE MARKET PLACE CHANGED?

The house as a product is in competition with other products for the dollar. A man can choose to live in a $20,000 house and drive a Jaguar or to live in a $35,000 house and drive a Studebaker Lark. This is how the choice works with discretionary income. Therefore it is well to understand what has been going on in the market place these last several decades.

There has been a revolution in our market place over the past 20 years. It is a result of three distinct revolutions in differing aspects of our economy: the population explosion and its decentralization; the tremendous speed-up in communications; and manufacturers' bypassing of normal distribution channels to reach and influence the buying public directly.

Out of this triple play has come the multitude of shopping centers with their duplication of chain stores, largely selling the same kinds of goods because, naturally, everyone concentrates on the fast-turnover, high-profit items. With it have come the national advertising campaigns with instantaneous broadcasting through print and electronic devices, and announcements concerning new goods from the manufacturer. The speed and potency of communications devices have accelerated the process of making people aware of goods. In addition, people are exposed increasingly to great varieties of goods, all of which affect their tastes and buying habits.

This direct access to the consumer has the effect of lessening the importance of many retailers whose onetime function of selector and guarantor of merchandise has been usurped by the manufacturer, so that in many instances it becomes relatively unimportant where one buys a given kind of goods. In addition, it has brought about a sameness in goods and the things said about them. Advertising proceeds at the dead level of a scream. In passing, I might add that it is this situation which has brought the discount house into being; with the desire for, and confidence in, goods created by the manufacturer, and with the difference in some goods barely perceptible, anyone offering a big price reduction can gain a slice of the market.

We have licked the problem of production in this country, that is, in practically everything except houses and spaceships. As designers, we know that someone can build almost anything we can draw—a building, a product, a packaging device. The major problem for us and our clients is: Can this massive production output be sold or distributed?

HOW CAN WE APPEAL TO THE FICKLE DOLLAR?

One sure way to get people to spend extra money for goods is to invest a product with qualities which can justify it as having either functional, psychological or economic advantages. You may have seen our Avanti for Studebaker, as a case in point. Who needs $4,500 worth of transportation? Yet sales are nearly four times company expectancy, because this product is aimed at a specific market which, in turn, conditioned the appearance and performance features of the automobile. A particular segment of the automobile market—to which the car's form apparently appeals—has responded to this product without reserve. The Avanti is not addressed to a broad general market but, as designers, we have produced many products that are.

To indicate how important it is to know your market, consider the effect of a change in a national product or its packaging. In a popular cracker selling at the rate of $52 million a year, two words on the package were replaced by two others. Three weeks after the new package came out there was a recognized loss of about 2% of the market. A consumer survey uncovered the cause. The package was changed and it now sells $58 million a year. On the other hand, Ford Motor Company, after very elaborate and costly studies, missed the mark completely with the Edsel.

HOW CAN A HOUSE BE MADE A DESIRABLE PRODUCT?

With the formation of the Housing and Home Components Division of our firm, I have committed our marketing and design personnel to the belief that a good and marketable house can be designed. Further, I think these houses will be the result of major industry effort, for we have seen that the building industry continues to base its decisions on traditional building approaches. There are laws in marketing that apply to the house, and we seem to be fairly well along the pathfinding.

Three marketing conditions must be met in creating the wanted house: (1) It must offer real values—either functional improvements or emotional rewards. (2) It must be priced in the range of its customer—not for his minimum budget but for his potential maximum budget. (3) It must have character, establish an identity with which a customer can instantly associate himself and his family. And we must not separate the house from its land and community, for increasingly we will sell, not so much a house, as a way of life.

In my opinion, the great failure of the present house is that while it provides human shelter and housing for the myriad appliances we buy, it does not fill the real needs and longings people want fulfilled in a home. Not the least of these faults is inflexibility. The family is a dynamic unit; the house is static. In general, the American home serves only the immediate needs of the family and offers no promise of being able to do this more than a limited number of family-years. The house eventually drives the family from its land and its community, which are, in the final analysis, the primary sources of its sense of security.

Here we encounter a concept with marketing possibilities. A house that reassures a family in its deepest needs, one of which is security, is eminently merchandisable. People's tastes and habits may change, but not their inherent and instinctive beliefs in place. Therefore a house must reassure a man that he may stay on his land, and he can do this only if the house is adequate to his needs when he buys it and potentially adjustable to his needs as the family enlarges.

WHAT ARE THE CHARACTERISTICS OF THE WANTED HOUSE?

A first concept of the house of the future, then, is one based on a living core—a complete house—which may at some future date be enlarged or the functions of its spaces adjusted to the changing tastes and habits of the family members so that they will no longer be engaged in the game of "musical houses" and can have the deep security of belonging someplace.

A second characteristic of the merchandisable house will be improved functions of the house. Today the greatest single inducement to buy a house is the kitchen, which is proof that people will spend money for something they really want. This impressive product of American industry has sold more houses than any other single feature of the American home. The kitchen is the most expensive element of the total house and it has evolved to reflect the way a modern family wants to live.

There is a wide spread of interests within the family group. Wives work. Teen-agers enjoy privileges no former generation of children had. The house is called upon to serve a variety of uses. Our design studies are being based on these varying collective and individual needs.

We are working now on developments of the bath. By present building methods it is a good or bad space lined with water-resistant materials. Vitreous furniture is set around the room and connected with a remote system of pipes and pieces of machinery. Calling for the greatest degree of sanitation, it is, instead, a nonfunctional trouble spot. Builders have to set aside a sum for house calls to recaulk the area between the tub and wall as the house settles. The bathroom we secretly want is as luxurious as a Roman emperor's bath, as sanitary as a hospital operating room, and warm and attractive. The bathroom we are working on is a molded room made of Fiberglas.

The bedroom is not an adequate sleeping place. If you doubt it, I call your attention to the land-office business in tranquilizers and sleeping pills, eye masks and ear plugs.

In today's home, closets are stuffed. Nothing is truly accessible, except perhaps in that perfect kitchen. There is no planned space for things we use all the time or for the display of prized possessions. A dearth of storage space may be one of the deep-seated reasons the house is not sold.

To digress for a moment, one of the things we know about studying human needs is that the individual cannot always tell us why he does not like a house. He gives every reason except the one that makes him uneasy about buying a typical merchant-builder house, whereas the real reason, I think, is that the house does not "work." We have been spending all our efforts and ingenuity on ranch houses, split-level houses, Cape Cods, but rarely have we come to grips with fundamentals and I believe people are not responding because they want something more.

Too many houses today force conditions on people which they are not willing to accept unless all other choices are denied them. It is a basic rule of human behavior that a person will do almost anything to get and hold onto something he wants passionately. "Passionately," with its emotional content, is the proper word. Families who turned down a certain house because it was too far from transportation have ended up buying a house miles from nowhere because they loved it enough to put up with any inconvenience. As a designer, I do not see why anybody has to "put up" with anything.

HOW CAN LAND PLANNING HELP?

It will not be enough to provide a good house. We are going to be forced to use land more imaginatively. I trust the business of creating a sheet of postage-stamp sites on which houses are dropped will soon be a thing of the past. It has produced ugliness and deadly monotony which not only ironed out any personality the houses may have had but tended to have the same effect on the people who lived in them.

Not only will the wanted house reflect a way of life, but so will the community. A man needs to have pride in place as well as in home, and no community should be devoid of the elements that give a man interest and pride. Either he will reject it out of hand or he will resolve to move as soon as he is able and will buy a minimum house with no desire to reach for something he really wants. Land planning, landscaping, community planning are coming increasingly to the fore.

For the purposes of marketing our house product, these potentials of the house as a living unit must be projected so obviously that any buyer can sense them instantly. In this respect the housing industry has failed. The present house says, in effect: Here it is; take it or leave it. It should say: Here is the start of your home life; see the possibilities of that life in the future.

If this is the house that customers will want to buy in the future, lending agencies must be prepared for the differences in house products they are willing to finance.

WHAT ARE THE IMPLICATIONS FOR MORTGAGE LENDERS?

I said earlier that housing probably will be built by fewer and better builders. There still is no General Motors of housing, nor is there one in plain sight. On the horizon, however, is the corporate builder, who will have a better-organized system in the preparation and erection of his houses. He will be much better financed and will be in a position to think of credit as a sales tool for his house product. As we have seen demonstrated in other products, as differences in product disappear, price, credit and other tools become the elements of persuasion. And financing is a very large part of home building costs.

In high-rise buildings we have seen a new source of financing develop. Materials and equipment suppliers are finding that not only can they make money with their money but they can ensure the use of their material. This is vertical thinking with a vengeance. Perhaps, as the corporate builder develops, the supplier will find this an area for the extension of credit and financing. You do not have to keep hitting people on the head forever with the fact that GMAC is the most profitable division of General Motors.

As I say, the directions are dimly seen; we can work best with the immediate future.

As lenders, you have an enormous influence on the house market. Your stamp of approval or denial of approval, acting through mortgage requirements, has more effect on the character of a house and family living than the imagination of the designer or the remarkable new technologies.

You will be called upon to revise your attitudes toward value. Value may no longer be couched in the terms you now use—the kind of roof, number of rooms, heating plant and so on. Increasingly it will be measured in terms of how a house will suit the family's way of life, now and in the future. Just as you played an important role in formulating the values for the house as we know it, you now can play an important role in bringing a new concept of housing to the American people.

The proper house product also may be able to reverse the trend of bad housing. Bad housing eventually produces blight, and blight is an insecure base for a loan. The abandoned shelter house, bought the second time around by a family accepting it as a forced decision, cannot improve a neighborhood. A good house product in a well-planned community, on the other hand, may be the instrument of the future which encourages neighborhood pride, long-term ownership and, eventually, enhanced communities.

We are fast running out of usable land close to our major metropolitan areas. We have no choice but to make the best possible use of what land there is. And there is no better way than to equip that land with a desirable, functional house which fulfills secret longings and in which a family will want to invest its money, its future and its serious purposes.

THE CITIZEN'S STAKE IN SPACE EXPLORATION

by DEMARQUIS D. WYATT, *Director, Office of Programs*
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YOU AND THE INSTITUTIONS you represent have a leading role in enabling the people of our country to invest wisely in bettering their present and future living conditions and goals. Especially are you keenly aware of how carefully each of us should invest resources to provide long-term personal or family needs and desires. And because in your daily business practice you are constantly appraising the investments that our people make individually, I should like to discuss with you the American citizen's stake in space exploration and the return all of us can expect from wise investment in the national program to carry it out.

May I review briefly. In the spring of 1958, the need for a National Space Program had become widely recognized by our country's leaders. President Eisenhower and his Science Advisory Committee concluded that a substantial investment in space technology was urgent and, indeed, inevitable. The President recommended and Congress enacted the National Aeronautics and Space Act, setting forth in its Declaration of Policy and Purpose some vital objectives: (1) scientific exploration of space to advance knowledge and support technological development of space vehicles; (2) applications of space for the benefit of mankind; (3) national defense and security; (4) the promotion of international cooperation; and (5) manned exploration of space as an essential step in attaining leadership in space science and technology and thus enhancing national prestige. The validity of these objectives is even clearer today than when the program was established four years ago.

On May 25, 1961, President Kennedy proposed that the United States accelerate and broaden its space program. He advocated landing a team of explorers on the moon in this decade, a goal previously contemplated for the 1970s. Congress endorsed the proposal in an overwhelming bipartisan fashion. The past 17 months have seen broad reorganization of the National Aeronautics and Space Administration, and a series of steps that are rapidly establishing the facilities and developing the powerful rocket engines and large spacecraft we must have to carry out the program.

ASCENDANCY IN SPACE: INSURANCE FOR SURVIVAL

We should not lose sight, however, of the underlying purpose of the Manned Lunar Landing Program. It is not solely an attempt to reach the moon as a spectacular achievement. It is a concerted, driving effort that will create for us a space capability second to none—the all-around power to exploit space fully in the national interest, whatever that interest may require.

There is no doubt whatever that this nation and the free world would face very somber consequences should another country—one dedicated to self-aggrandizement rather than to the benefit of the human race as a whole—develop and apply superior space technology for aggressive purposes. Gaining ascendancy in space is, therefore, one of the most important forms of insurance in which the United States can invest for survival in the new age of man's expansion into the solar system that the modern rocket has opened.

To attain this vital position, we must make certain that our country continues to lead in the advances of science that come from space exploration. We must pursue knowledge vigorously, not for its own sake alone but because knowledge is power. We are determined that the United States shall have that power.

Nor must we overlook the fact that leadership in space strongly affects international affairs. The great human adventure involved in exploring space has impact, as President Kennedy has said, "on the minds of men everywhere who are attempting to make a determination of which road they should take." In the present time of crisis, we can see clearly the practical value of national prestige based on leadership in space. Moreover, the knowledge we are acquiring from scientific satellites will open new possibilities for technological and scientific leadership in many fields of endeavor. Finally, we have already demonstrated that our communications and weather satellites will yield a tangible return on our investment in terms of services performed—along with increased understanding and cooperation among the nations.

WHAT ARE WE BUYING, WHERE DO WE STAND?

As we move forward, we shall examine and re-examine our program to determine what form our investments should take and what our rate of investment should be. Because of the long lead times involved, we must read our future needs with great accuracy, or risk falling behind, with national security and well-being at stake.

Our investments in the scientific aspects of the space program are in four main areas:

1. We are launching and building new and improved satellites to study the earth and the sun and their relationships, the stars and interplanetary space.
2. We are continuing our experiments with communications and weather satellites.
3. We are investing in an intensive program of advanced research and technology on which much of our space activity of the next decade will be based.
4. We are engaging in many cooperative international projects. By working with other countries, we emphasize our peaceful intentions in space and our eagerness to aid and to receive aid from the scientists of all nations to develop understanding of space science and technology.

We have grown accustomed to production miracles in this country. The problems of space exploration, however, cannot be solved by mass-production techniques. We must create a completely new and unprecedented technology, step by step. What we are buying in our national space program is the knowledge, the experience, the skills, the industrial facilities and the experimental hardware that will make the United States first in every aspect of space exploration—scientific and practical uses, including military applications. To accomplish this result we must make advances at the frontiers of knowledge in nearly every field of science and technology.

Where do we stand today in this concerted effort for United States pre-eminence in space? Currently, we have a clear lead in scientific investigation of space. The Soviet Union has, however, this year launched a new series of scientific satellites that will undoubtedly advance their over-all space program.

U. S. PROGRAM FOR ASCENDANCY IN SPACE

It is impossible to describe in a few minutes the program that we believe will give the United States ascendancy in space, but I can convey to you some feeling for the projects and programs that are now under way, some in the research and development stage and many in engineering flight status. We believe a mature, responsible nation must institute such programs if it is to survive.

First of all, we must have a knowledge of near space—that part of space immediately surrounding us for several hundred thousand miles—because our egocentricity says it is most important and because it is most readily accessible. We also are concerned with exploring near space because it is not typical of space generally.

In the past four years we have flown some 35 satellites, each designed to measure some aspect of space, and have put them in different orbits for different purposes. Among other things, satellites measure the interrelation between the sun and our conditions here on earth. The sun is important to us because it is the source of our energy. It also is the only star in the universe that we can scrutinize in detail; the next closest star is 35 million light-years away.

We also are concerned with looking at space in the universe as a whole, and the satellite will provide a better tool for that purpose than our earth-based observation towers. Within several years we shall be flying an orbiting astronomical observatory. It will weigh almost two tons, have optical instruments 24 inches in diameter and circle the earth about 475 miles above its surface. From the earth we can get only a small look at the skies, because most of the energy waves are either slowed or distorted by the atmosphere. But with the kinds of satellites we are developing, we expect to see the universe in its entirety because we shall be able to see it above the atmosphere.

UNMANNED EXPLORATION FORERUNNER OF MANNED FLIGHT

Our interest, however, goes beyond that—all the way to the moon and to landing men on the moon to become personal explorers. But before we can do that, we have to conduct an extensive exploration by unmanned probes, of which we have the first generation at the present time. In fact, we already have made three attempts to land certain instruments on the moon.

Project Ranger involves launching a spacecraft weighing up to 700 pounds. It will be going so fast when it hits the moon that it will be destroyed. But before it is, it will have provided us with a great deal of data. Video cameras will be turned on thousands of miles from the moon, and pictures taken every 13 seconds and transmitted back to earth will give us our first close-up of the moon's surface and will be far superior to what can be seen through the most powerful telescope on earth. We need to know what kind of surface it is in order to design landing gear so that our space vehicles can be relaunched from the moon. Earth telescopes are unable to tell us, but Ranger's pictures will.

When Ranger is about 20 miles from the moon, it will separate from its payload, and the package containing the instruments will fall to the moon's surface. We have made several attempts to land a single-action seismometer, which would radio back to us whether or not there are tremors on the moon. It would give us significant data for determining the composition of the moon—for example, whether it is composed of a solid crust and a liquid core, like the earth.

In Project Surveyor, the whole spacecraft will land gently on the moon with no more sinking speed than a transport on a runway. Television cameras on Surveyor will take a panoramic look at the moon and a microscopic look at the soil, so that we shall receive back on earth the same visual information that a man would obtain if he actually looked about in the same vicinity. Many experiments on the composition of the moon will be performed. Later phases will have a core sampler which will dig five feet into the moon's crust, analyze it and radio back the results.

All this scientific information about the moon is needed to give us background knowledge to design manned spacecraft. Ranger and Surveyor will provide it.

Before 1970 we expect to have landed men on the moon and returned them to earth. This is the most complex technical undertaking man has ever conceived. We call it Project Apollo. The first steps already have been taken.

FIRST STEPS IN MANNED LUNAR FLIGHTS

Project Mercury is the first step in manned lunar activity. Through the millions of years of life force on earth, man has always been under the influence of the pull of the earth's gravity. We are not sure to what extent the subconscious internal processes depend upon the pull of gravity, since weightlessness cannot be duplicated to any extent on earth. But it was done for nine hours in Wally Schirra's case, and in the spring a man will fly up to 24 hours in a Mercury capsule. About a year from now, in Project Gemini, two men will be launched and will stay up for about a week.

In addition to getting longer-term observations, Gemini will provide us with the forerunner of a very important technology—rendezvous and docking in space. Rendezvous is the bringing of two spacecraft, launched at different times, into close proximity in space. Docking is the maneuvering of the spacecraft until they combine physically, one with the other, and form a single, composite craft. By this device, very large spacecraft can be built up with smaller vehicles. Our present plans involve rendezvous and docking as an interval technique.

Our analysis indicates that a certain period during the trip to the moon will be quite stressful and will require the simultaneous services of three astronauts. So Project Apollo will develop a three-man command module.

'DRY RUN' WILL TEST EQUIPMENT, TECHNIQUES

Initially the spacecraft will fly around the earth for a period of up to several weeks in order to test the technological equipment aboard, train the astronauts and learn the effects of long-term weightlessness. Then two spacecraft will be launched simultaneously from one launch vehicle. After they are in earth orbit they will be separated, moved apart and rejoined in the docking technique. The third step will be to fly the three men around the moon, probably without landing, and then return them to earth in order to prove out our technique for re-entry into the earth's atmosphere at 25,000 miles an hour. That speed produces temperatures measured in thousands of degrees, and would vaporize a spacecraft not having adequate heat protection.

Aiming the spacecraft on return is another nice problem. If it were aimed at the center of the earth it would come in so rapidly it would burn up. If it skimmed the edge of the atmosphere too finely, it would skip off it as a stone skips off water. It must come in at what we call an "approach corridor." The size of the corridor in proportion to the size of the earth is about the same as the thickness of an apple peel is

to the apple. Our problem in returning spacecraft to earth is not William Tell's classic of simply shooting the apple. Ours is not to *hit* the apple and not to *miss* it but simply to crease the peel!

The final phase of Apollo is to land men on the moon's surface and bring them back to earth. First, the three men will be launched up to a speed of 25,000 miles an hour on a trajectory toward the moon, and then their capsule will be turned around in space and connected face to face with another capsule. The second capsule, or lunar excursion module, is designed only to land on the moon; it does not have the heat protection to come back into the earth's atmosphere.

When the spacecraft gets near the moon, it will go into orbit around the moon and establish itself as a satellite. The two astronauts in the lunar excursion module will then separate themselves from the other spacecraft and will go to the moon's surface, where they will remain one to two days for lunar exploration. Then, as the mother spacecraft, which has been in orbit all this time, appears over the horizon, they will count themselves down, take off and come up into a coincident orbit around the moon. In other words, they will rendezvous with the mother spacecraft so that the two are flying in the same orbit. Then the spacecraft will dock, or join together, and the two astronauts will rejoin the third, who has been orbiting while they explored the moon. They will accelerate their command module to an escape speed from the moon, re-enter the earth's atmosphere and land at one of several preselected sites, which will be on land rather than on water, as they are with Project Mercury.

MILLIONS OF POUNDS OF LAUNCH CAPACITY NEEDED

Why do we choose such a seemingly complex way of getting people on the moon? There are many, many reasons. We get the best engineering management in the process and consequently minimize the size of the launch vehicle. Even so, it is by no means small.

The Mercury capsule that sent up Carpenter and Schirra used Atlas boosters that developed about a third of a million pounds launch capacity for a capsule going 100 to 160 miles above the earth. We have already test-fired twice, with another firing coming up shortly, a new launch vehicle called the Saturn C-1, which will develop 1½ million pounds and will be able to put the weight equivalent of seven Mercury capsules into orbit. An improved version called the Saturn C-1B has improved upper stages that will be able to put the equivalent of nine Mercury spacecraft into earth orbit. The most powerful vehicle now under development is the NASA Advanced Saturn, sometimes called the Saturn C-5. When Advanced Saturn goes into operation in four or five years, it will develop enough thrust to orbit the weight equivalent of nearly 75 Mercury spacecraft.

This tremendous capacity will be needed in order to launch not only the spacecraft and the men, but all the rocket fuel that will be used in the venture—the fuel to accelerate from an 18,000-mile-an-hour earth orbital speed to an escape speed of 25,000 miles an hour, slow it down around the moon and detach the lunar module, take the excursion module off the moon's surface and perform the rendezvous and docking, and re-enter the earth's atmosphere.

IMPROVED COMMUNICATIONS, METEOROLOGY

The space program already is finding applications to our own earth. We are developing the techniques and hardware that will make possible the establishment of operational networks in communications and meteorology. We also are looking into the possibility of a navigation satellite system, based on technology developed by the Navy, which could be adapted to needs of civilian aviation and shipping.

Last summer, Telstar clearly demonstrated the feasibility of employing one type of satellite as part of a network of space stations for world-wide radio and television transmission. Designed and funded by the American Telephone and Telegraph Company and launched by NASA expense, it is a so-called active satellite which carried radio receivers and transmitters aloft. In the months to come, we shall experiment with other types of communications satellites. Soon we shall launch the Relay, another active satellite, with differing electronic systems, in a project funded by NASA.

Early next year we plan to begin experiments in Project Syncom, under which an active communications satellite is to be launched into an orbit 22,300 miles above the earth, at which altitude it will revolve about the earth every 24 hours and thus appear fixed over one spot on the earth. At that altitude only three or four satellites would be required to provide coverage of most of the earth, provided they can be stabilized in altitude and held in position by auxiliary propulsion.

BETTER WEATHER FORECASTING EXPECTED

We have successfully orbited six Tiros satellites in a program to develop the technology for obtaining weather information from above the atmosphere. More than 100,000 usable photographs have been taken and transmitted back to earth for weather research and daily weather forecasting. The Tiros satellite is spin-stabilized, which means that it points constantly in one celestial direction regardless of where it is in its orbital path. Consequently its TV cameras look at the earth only part of the time. To overcome this difficulty, an advanced meteorological spacecraft called Nimbus is being developed by NASA, in cooperation with the United States Weather Bureau, for the U. S. Operational System of Weather Satellites. Its cameras and other sensors will be pointed constantly toward the earth, and it will be placed in polar orbit so that world coverage can be obtained by a single spacecraft.

Enormous improvements in weather forecasting are expected from operational meteorological satellites. The House Space Committee of Congress has noted that even 10% better forecasting could save the farmer and seasonal industry hundreds of millions of dollars a year.

The success of the National Space Program hinges on the ability of the American people, through their government, their industry and their privately endowed institutions, to implement many difficult tasks. Not one or two men will make the landing on the moon but, figuratively, the entire nation.

Our ultimate success also depends in some measure on our ability to enlist the cooperation of other nations in this enormous undertaking. An important but certainly not determining consideration in our international programs is winning and cementing friendly relations with our allies in the free world and among the uncommitted nations. This we do by demonstration of our peaceful objectives and our willingness to share what we learn from space exploration with the scientific community the world around.

COOPERATION OF OTHER NATIONS IMPORTANT

International cooperation is already a reality in the case of the United States and the more than 55 other nations with which we are engaged in programs of various kinds. We have conducted sounding rocket programs with a number of countries and have received valuable scientific data from different longitudes and latitudes around the world.

Among our international arrangements are ground-based meteorological observations related to weather satellite flights, communications satellite experiments, location and operation of tracking stations, and scientific personnel exchanges. In the case of the Tiros meteorological satellite series, for example, more than 35 weather services have taken part. In communications satellite activities, five countries—the United Kingdom, France, Germany, Italy and Brazil—have cooperated closely in establishing ground stations for use with Telstar and other communications satellites to follow.

No money changes hands in such cooperative projects. Each nation finances its own contribution.

Last spring the United States orbited the first international satellite, Ariel—a package of British instruments in an American-made spacecraft, launched by a United States rocket from Cape Canaveral. Later we launched the Canadian Alouette, a scientific satellite, the first complete spacecraft designed and constructed by a country other than the United States or Russia, and now in orbit. We also have concluded an agreement with Italy for a cooperative satellite launching. We are negotiating on other international projects.

We in this country are convinced that any spacefaring nation stands to lose far more through secrecy than it could possibly gain. In its very essence, science is international. Its sources and its reach are as widespread as human intelligence and human needs for its benefits. In the long run, a closed policy on purely scientific knowledge is more apt to exclude valuable contributions from outside than to imprison worthwhile discoveries inside.

The United States is gaining contributions from gifted minds in scores of countries through its cooperative space programs and the interchange of ideas with scientists and scientific organizations of other nations. The Belgian scientist M. Nicolet, for example, predicted the existence of a belt of free helium in the upper atmosphere on the basis of U. S. data available to him. This was later confirmed, to add valuable insight to our picture of the atmosphere.

We have long sought some cooperative arrangement with the Soviet Union, most recently through negotiations between Soviet Academician Anatoly Blagonravov and myself. There was some United States-Soviet cooperation during the International Geophysical Year (1957-1958), but it was restricted to a rather limited exchange of published results through normal professional channels and through the World Data Centers. On the whole, so far as we know, Soviet performance during the IGY was of a restricted nature. Many aspects of their space activities remain unreported and therefore unknown to the world scientific community, particularly the results of their manned space activities.

Pursuant to correspondence between President Kennedy and Chairman Khrushchev, efforts are being made at present to raise U.S.-U.S.S.R. relationships in space matters to a more satisfactory level in satellite meteorology, a satellite survey of the earth's magnetic field and communications experiments using a passive reflector satellite. No exchanges of technical knowledge or instrumentation are planned, but rather a coordination of independent efforts which, in effect, would permit a sharing of the burden of scientific work to be done.

INVESTMENT IN SPACE PROGRESS BIG AND GETTING BIGGER

For fiscal year 1963 the National Aeronautics and Space Administration has a budget of $3,674,100,000. This includes $776.200,000 for construction of new and supporting facilities and $2,897,900,000 for research and development. The 1963 program will be approximately twice the size of the 1962 program. Funding requirements will increase still further in 1964 if we are to continue with projects already approved.

The large sums of money required in this effort are not spent in space or on the moon. They are spent in the nation's factories, workshops and laboratories for salaries, materials and supplies.

The investment in space progress is big and will grow, but the potential returns on the investment are even larger. And, because it concerns us all, it is every citizen's responsibility to understand what the space program really is and what it can do.

The National Aeronautics and Space Administration was created to carry out a program to explore space in the best interests of the United States and of men everywhere. To open space to gain additional knowledge of the universe in which man lives, to open space as a demonstration of this country's mastery of advanced technology, to share what we discover with humanity as a whole—these reflect a concept of world leadership that I know reasonable men in all countries will approve.

COMMITTEE REPORTS

ADVERTISING AND PUBLIC RELATIONS COMMITTEE

THE EXECUTIVE SESSION of the committee convened on November 7, 1962. Chairman Michael A. Burdzy presided, with Vice Chairmen Maurice H. Jones and Fred L. Kramer assisting. Twenty-five committee members attended.

The annual study of Advertising Budgets (see Addendum A) was presented and reviewed by George A. Rodelius. The operation of the Advertising Division's activities was given by R. P. Perrin, indicating a continued popularity of the Division's syndicated services among the small associations and a continued growth of the Division's services as a general advertising agency.

Recognizing the omnipresent concern about the effect of taxation upon our business, the committee scheduled a special panel discussion on "Savings and Loan Promotion in the Year Ahead" as one of the highlights of the Advertising Topical Forum. The general consensus of the panel was that because of general competition for savings dollars and the need for generating profitable loan volume, advertising budgets should not be cut during the coming years, that the additional outlay for taxes could scarcely be met by the few dollars cut from advertising budgets and that management should look for methods to improve income rather than slash budgets. The members participating in this interesting panel discussion were: William P. Sawyer, president, Watertown Federal, Watertown, Mass.; James G. Schneider, president, Kankakee Federal, Kankakee, Ill.; Harold A. Noble, president, San Joaquin First Federal, Stockton, Calif.; J. W. Weltch, president, First Federal, Augusta, Ga.; Michael A. Burdzy, president, Pulaski Savings, St. Louis, Mo.; Robert P. Perrin, president, Advertising Division, Inc., serving as moderator.

Another highly interesting talk was presented by Robert A. Merrell, president of First Federal of Daytona Beach, Fla. He reviewed the year-long loan promotion conducted by his association in an effort to increase its share of the loan market while the general real estate activity of the area was declining. The program followed by his institution combined the advertising of a specific home and specific terms of loan available with the presentation of individual builders' homes for sale. The combination of hard sell and good will created among the builders and realtors was reported as most rewarding.

Axel A. Olson, president of St. Paul Federal, St. Paul, Minn., briefly reviewed another public-spirited advertising campaign giving recognition to the various churches of the city.

Don Geyer, staff vice president of the League, discussed the U. S. League's new booklet entitled *Thrift: Making Your Wishes Come True.*

Designed for grade school children, the booklet explains the value of thrift, how savings helps children have things they want and how a savings and loan association operates. Mr. Geyer also emphasized that children are our future customers and that we should make special efforts to reach them through promotional activities and by opening our associations to classroom and teacher visits.

MICHAEL A. BURDZY, *Chairman*

ADDENDUM A
1962-63 ADVERTISING BUDGETS SURVEY OF SAVINGS ASSOCIATIONS
(Selected Tables)

THIS STUDY is the composite picture of 327 reporting associations selected from among the most aggressive merchandisers in our business. This study technique has been adopted so that individual associations seeking guidance may study progressive management practices without having the figures and percentages "bogged down" by the static operations. All 1962 figures reported by associations are nine-month actual figures projected for the last quarter only, and 1963 figures are those anticipated by the associations.

This comprehensive report includes an historical study showing the total annual advertising expenditures for the business nationwide for 11 years ending with 1962. It depicts the increasing importance our business places upon promotional activity.

For the fourth year the high-low advertising expenditures by asset classification is presented. It covers the years 1959 to 1962 and enables associations to compare quickly their own figures with those of associations of comparable size and to determine whether they are among the leaders or the followers.

The extent to which advertising agencies are employed and their compensation measured in terms of total advertising expenditures were also studied this year. They have been included in the survey in hopes of assisting the management and directors of associations not now employing professional guidance for their promotional activity.

A special tribute is hereby paid to the members of the Advertising and Public Relations Committee and to those 327 savings associations who so graciously completed the rather comprehensive questionnaires concerning their advertising expenditures. Their contributions of information and time will materially assist management everywhere in building the great savings and loan business of tomorrow.

TABLE 1—ANNUAL ADVERTISING OUTLAY AS A PERCENTAGE OF GROSS OPERATING INCOME, BY ASSET GROUPS, 1962-1963
(Based on Reports from 327 Associations)

Association Assets (In Millions)	Number Reporting	Percentage of Advertising Outlay to Gross Operating Income	
		1962*	1963**
Under $2	7	4.0%	3.3%
$ 2 and under $ 5	35	2.9	2.7
5 and under 10	43	3.4	3.2
10 and under 20	81	2.9	2.8
20 and under 35	74	3.1	2.9
35 and under 75	54	3.2	3.0
75 and under 150	18	3.5	3.5
150 and over	15	2.8	2.6
All asset groups	327	3.1%	2.9%

In 1963, associations with assets under $2 million anticipate spending 3.3% of gross operating income for advertising. Associations in asset categories $2 million to $75 million show ratios in 1963 which vary narrowly between 2.7% and 3.2%, while those with assets of $75 million to $150 million anticipate an advertising ratio of 3.5%. All size classes together in 1962 report a ratio of 3.1% as compared with 2.9% for 1963.

*Estimated. **Anticipated.

TABLE 2—ADVERTISING OUTLAY AS A PERCENTAGE OF TOTAL OPERATING EXPENSE, BY ASSET GROUPS, 1962-1963

Association Assets (In Millions)	Number Reporting	Percentage of Advertising Outlay to Total Operating Expense	
		1962*	1963**
Under $2	7	12.6%	11.4%
$ 2 and under $ 5	35	10.3	9.8
5 and under 10	43	12.4	12.4
10 and under 20	81	11.0	10.7
20 and under 35	74	11.2	11.2
35 and under 75	54	12.0	11.5
75 and under 150	18	12.1	11.6
150 and over	15	12.6	11.5
All asset groups	327	12.0%	11.4%

All reporting institutions together expect their 1963 advertising expenditures to amount to 11.4% of total operating expense. There is no consistent trend in this ratio with associations grouped according to size. For institutions with assets of $20 million and over, advertising outlay to total expense ranged narrowly from 11.2% to 11.6%.

*Estimated. **Anticipated.

TABLE 3—AVERAGE ADVERTISING OUTLAY OF REPORTING ASSOCIATIONS
BY ASSET GROUPS, 1959-1963

Association Assets (In Millions)	Number Reporting	Average[1] Advertising Outlay					Increase over 1959
		1959	1960	1961	1962*	1963**	
Under $2	7	$ 498	$ 1,089	$ 2,142	$ 2,511	$ 2,663	435%
$ 2 and under $ 5	35	3,572	4,396	5,518	5,816	6,297	76
5 and under 10	43	6,841	9,054	10,764	12,681	14,280	109
10 and under 20	81	15,796	18,815	21,847	22,799	25,197	60
20 and under 35	74	30,509	35,321	40,668	42,704	46,783	53
35 and under 75	54	65,081	74,188	84,016	85,996	93,019	43
75 and under 150	18	131,421	164,185	185,313	206,789	229,661	75
150 and over	15	322,718	384,883	476,062	480,070	505,267	57
All asset groups	327	$44,895	$53,282	$62,580	$65,261	$70,618	57%

The average anticipated advertising outlay for 1963 of reporting associations amounted to $70,618. This is 57% above the corresponding figure in 1959. While institutions in all asset classes have stepped up very considerably their budgets for advertising, the smaller institutions have outdistanced the larger ones in percentage gains since 1959. However, associations with assets of $75 million to $150 million report average anticipated expenditures for advertising in 1963 of $229,661, which is 75% above those of 1959.

*Estimated. **Anticipated. [1]Arithmetic mean.

TABLE 4—AVERAGE ADVERTISING OUTLAY OF REPORTING ASSOCIATIONS
BY POPULATION OF CITY, 1959-1963

Population of City	Number Reporting	Average[1] Advertising Outlay					Increase over 1959
		1959	1960	1961	1962*	1963**	
Under 15,000	44	$ 6,975	$ 8,586	$ 10,366	$ 10,976	$ 12,132	74%
15,000 and under 25,000	27	17,730	23,548	29,596	31,237	34,855	97
25,000 and under 50,000	56	25,983	31,807	35,058	38,548	41,566	60
50,000 and under 100,000	52	37,869	47,278	56,966	62,850	67,907	79
100,000 and under 500,000	61	50,752	58,144	65,822	66,631	71,125	40
500,000 and under 1,000,000	44	48,247	55,315	64,836	65,518	70,500	46
1,000,000 and over	43	122,139	144,009	172,370	178,294	195,315	60
All asset groups	327	$44,895	$53,282	$62,580	$65,261	$70,618	57%

Associations in communities with a population of 15,000-25,000 show the largest gains in advertising budgets since 1959. In 1962, average advertising outlays of all reporting associations were $2,700 above those of 1961. Average anticipated budgets for 1963, however, were about $5,400 above those of 1962, with substantial increases revealed in every population group.

*Estimated. **Anticipated. [1]Arithmetic mean

TABLE 5—HIGH AND LOW ADVERTISING OUTLAY, BY ASSET GROUPS, 1959-1963
(Association Assets in Millions)

Year	Under $2	$2 and under $5	$5 and under $10	$10 and under $20	$20 and under $35	$35 and under $75	$75 and under $150	$150 and over
1963**	$1,040-$6,000	$1,750-$20,000	$3,500-$60,000	$5,000-$60,000	$3,750-$160,000	$42,000-$290,000	$100,000-$425,000	$110,000-$1,878,000
1962*	1,000- 6,000	1,500- 16,150	2,700- 40,000	4,200- 48,491	3,750- 110,000	39,000- 200,000	88,000- 400,000	105,688- 1,720,000
1961	959- 4,008	1,388- 15,571	2,135- 19,508	3,874- 61,134	3,210- 104,464	36,716- 230,020	80,811- 399,503	162,141- 1,540,306
1960	388- 2,307	685- 13,671	1,327- 17,685	4,940- 43,173	3,687- 80,004	31,505- 187,307	71,074- 332,280	139,379- 1,202,740
1959	132- 1,051	627- 12,512	1,165- 15,200	3,900- 36,161	4,639- 75,000	11,657- 143,347	70,831- 345,204	136,745- 1,015,908

TABLE 6—PERCENTAGE DISTRIBUTION OF ADVERTISING OUTLAY BY TYPE OF SERVICE ADVERTISED, 1962*

Association Assets (In Millions)	Total	Institutional	Savings Promotion	Special Events	Loan Promotion	Public Relations
Under $2	100.0%	6.3%	76.0%	5.7%	9.1%	2.9%
$ 2 and under $ 5	100.0	10.6	61.5	4.2	20.0	3.7
5 and under 10	100.0	11.3	63.0	7.2	11.1	7.4
10 and under 20	100.0	11.5	60.0	7.7	15.6	5.2
20 and under 35	100.0	12.8	65.2	7.5	9.3	5.2
35 and under 75	100.0	8.9	63.7	6.6	15.6	5.2
75 and under 150	100.0	9.4	56.6	10.0	17.0	7.0
150 and over	100.0	21.7	55.0	11.3	4.7	7.3
All asset groups	100.0%	14.4%	59.4%	9.0%	11.0%	6.2%
Comparable 1961 ratios		11.5%	67.3%	6.7%	9.4%	5.1%

Savings promotion continues to be the number one service advertised. The size of the association has little effect on the type of service advertised.

*Estimated. **Anticipated.

TABLE 7—PERCENTAGE OF ASSOCIATIONS USING THE VARIOUS ADVERTISING MEDIA, BY ASSET GROUPS, 1961-1962*
(Association Assets in Millions)

Advertising Medium	Under $2		$2 and under $5		$5 and under $10		$10 and under $20		$20 and under $35		$35 and under $75		$75 and under $150		$150 and over	
	1961	1962	1961	1962	1961	1962	1961	1962	1961	1962	1961	1962	1961	1962	1961	1962
Newspaper	86%	86%	100%	100%	93%	93%	99%	99%	95%	95%	98%	98%	94%	94%	100%	100%
Radio	57	57	74	83	79	79	79	79	84	82	83	81	89	83	87	80
Television	—	—	6	9	19	23	44	40	34	32	59	61	39	61	80	80
Direct Mail																
Prospects	57	43	20	17	42	42	56	56	45	47	65	65	72	72	53	60
Customers	43	43	51	46	58	60	44	46	57	57	69	72	67	61	73	73
Outdoor—Billboard	14	14	11	17	42	56	53	51	62	64	67	76	72	56	80	87
Trade Papers	—	—	9	11	9	14	31	28	38	34	50	52	33	17	60	53
Transportation	14	14	9	9	2	5	14	11	20	18	30	30	44	39	40	33
Directories	57	57	40	43	44	42	64	62	55	57	63	63	61	56	80	67
Lobby Display	29	29	29	40	47	53	52	53	59	58	52	57	61	56	53	47
Other	43	43	77	80	79	72	84	83	81	84	89	87	89	83	93	93

*Estimated.

TABLE 8—PERCENTAGE DISTRIBUTION OF ADVERTISING OUTLAY BY ADVERTISING MEDIA USED, 1962*

Association Assets (In Millions)	Total	Newspaper	Radio	Television	Direct Mail	Outdoor	Trade Papers	Others
Under $2	100.0%	37.7%	41.7%	—	10.3%	1.2%	—	9.1%
$ 2 and under $ 5	100.0	51.6	20.3	0.4%	3.4	1.8	0.5%	22.0
5 and under 10	100.0	34.3	23.4	6.1	12.4	6.0	0.8	17.0
10 and under 20	100.0	39.3	14.8	8.9	8.8	5.5	0.8	21.9
20 and under 35	100.0	36.3	14.0	11.3	8.6	6.8	1.0	22.0
35 and under 75	100.0	35.3	10.8	12.2	11.0	6.3	1.0	23.4
75 and under 150	100.0	34.9	18.1	12.9	10.2	3.6	0.3	23.0
150 and over	100.0	36.6	10.8	18.6	7.3	4.8	1.4	20.5
All asset groups	100.0%	36.3%	13.2%	13.9%	9.0%	5.3%	1.0%	21.3%

Associations spend 34 to 52% of their advertising budget on newspapers. Larger institutions have a tendency to spend somewhat less than the smaller ones, and all groups together put 36% of the budget into this medium. Television was second at 14% of the total and radio was third at 13%; this represents a slight increase in the use of television over 1961. Expenditures for the aggregate of these three media represent nearly two-thirds of the advertising dollar. The percentage of budget allocated to television increases steadily as association assets increase.

*Estimated

TABLE 9—ASSOCIATIONS EMPLOYING AN ADVERTISING AGENCY, BY ASSET GROUPS, 1962*

Association Assets (In Millions)	Associations So Reporting	
	Number Reporting	% of Total
Under $2	—	—
$ 2 and under $ 5	6	17.1%
5 and under 10	13	30.2
10 and under 20	51	63.0
20 and under 35	62	83.8
35 and under 75	43	79.6
75 and under 150	17	94.4
150 and over	14	93.3
All asset groups	206	63.0%

*Estimated

TABLE 10—AGENCY COMPENSATION AS A PERCENTAGE OF TOTAL ADVERTISING OUTLAY, BY ASSET GROUPS, 1962*

Association Assets (In Millions)	Number Reporting	20% & over	15% & under 20%	10% & under 15%	5% & under 10%	Under 5%
Under $2	—	—	—	—	—	—
$ 2 and under $ 5	3	—	1%	2%	—	—
5 and under 10	11	1%	3	3	2%	2%
10 and under 20	42	2	9	13	13	5
20 and under 35	49	5	10	14	10	10
35 and under 75	37	7	7	11	9	3
75 and under 150	13	1	5	3	4	—
150 and over	12	—	4	5	1	2
All asset groups	167	16%	39%	51%	39%	22%

*Estimated.

TABLE 11—ASSOCIATIONS USING PREMIUMS AND/OR TRADING STAMPS TO STIMULATE NEW ACCOUNTS OR ADDITIONS TO ACCOUNTS IN THE 12 MONTHS ENDING AUGUST 31, 1962

Association Assets (In Millions)	Total Number Reporting	Percentage Using Premiums and/or Trading Stamps to Total Number Reporting	Number of Instances as to Uses Reported by Associations				
			Grand Opening	Anniversary Celebration	Offered Continuously	Other	Total
Under $2	7	42.9%	—	—	3	—	3
$ 2 and under $ 5	35	37.1	5	3	9	1	18
5 and under 10	43	58.1	9	8	9	8	34
10 and under 20	81	42.0	4	8	16	14	42
20 and under 35	74	48.6	10	10	14	14	48
35 and under 75	54	55.6	13	6	15	7	41
75 and under 100	18	50.0	3	1	3	2	9
100 and over	15	46.7	4	1	—	2	7
All asset groups	327	48.0%	48	37	69	48	202

Nearly one-half (48%) of the associations reported the use of premiums and/or trading stamps during the year ending August 31, 1962.

Note: Of the 327 associations reporting, 16 were using trading stamps.

TABLE 12—ASSOCIATIONS REPORTING DONATIONS OR CONTRIBUTIONS TO CHARITABLE AND/OR CIVIC ENTERPRISES DURING 1961

Association Assets (In Millions)	Number	Percentage Making Donations to Total Number Reporting	General Operating Cost	Expense Account Charged				Amount of Donations per $1 Million of Year-End Assets
				Advertising	Public Relations	Combination	Other	
Under $2	7	71.4%	5	—	—	—	—	$144
$ 2 and under $ 5	35	82.9	14	5	3	4	3	97
5 and under 10	43	90.7	15	12	4	4	4	81*
10 and under 20	81	95.1	32	11	13	8	13	75
20 and under 35	74	95.9	41	6	3	7	14	77
35 and under 75	54	92.6	26	1	6	5	12	60
75 and under 150	18	100.0	11	2	2	1	2	69
150 and over	15	93.3	7	2	1	1	3	36
All asset groups	327	92.7%	151	39	32	30	51	$ 58

A total of 303 associations, 93% of all reporting, donated or contributed to charitable and/or civic enterprises $58 for every $1 million of year-end assets during 1961. Only 13% of these institutions included such items in their advertising budget; another 11% charged them to public relations; as many as 50% charged them to general operating costs; the remaining 26% charged them to a combination of these three or to other accounts.

*Two associations were eliminated because of extremely high donations.