SAVINGS AND LOAN ANNALS 1963

United States Savings and Loan League
221 North La Salle Street
Chicago, Illinois 60601

Copyright 1964
by
United States Savings and Loan League

Frank B. Geilding

PRESIDENT

FOREWORD

During 1963 a disturbing paradox was apparent within the savings and loan business. Nationwide growth in both savings and mortgage lending volume was greater than ever before and, at midyear, associations passed the remarkable milestone of $100 billion in total assets. Yet most savings and loan managers will not remember 1963 as a year of unbridled prosperity. They are more likely to remember it as the year in which they suddenly had to allow for a very substantial increase in federal taxes, which inevitably cut into their institution's income and reserve allocations.

Concurrent with new taxation, associations throughout the nation had to face the complex and burdensome task of reporting dividends paid on millions of individual savings accounts. The dividend reporting involved a gigantic clerical function and in many instances posed a difficult public relations problem, but associations met both challenges with great success.

Then, late in the year, the Federal Home Loan Bank Board issued a highly controversial new regulation on savings and loan reserve requirements. Although the original regulation was modified subsequently because of strong protests from hundreds of associations and their trade organizations, the regulation now in effect is nevertheless a difficult one which will require a great deal more advance planning of operations at most savings associations.

On the national scene, the savings and loan business was confronted with an abundance of critical issues which in the years ahead may affect decisively the activities of individual institutions.

In the spring the long-awaited Heller Committee Report was published, and among its great variety of recommendations was an indirect endorsement of the principle of stand-by dividend controls for savings and loan associations, along with a recommendation that savings associations be permitted broader investment powers. The United States League was pleased with the latter recommendation, but immediately restated strongly and consistently its opposition to any type of control on dividends.

The proposal for a federal system of mutual savings banks received wide publicity during the year, but had not been reported out by the House subcommittee at year end. The League's position is that a gradual convergence of the paths of savings banks and savings associations would be desirable but that "the ideal vehicle for the develop-

ment of a truly national unified system of savings institutions is the savings and loan system."

Despite these serious internal business issues, perhaps the most difficult day-to-day problem faced by the average savings and loan executive in 1963 was the real estate market. It has become increasingly apparent since 1960 that we no longer enjoy the almost unlimited housing demand which characterized the 1950s. As a result of this relative decline in housing and home mortgage demand, many savings associations in the past several years have experienced a reduction in income despite an increase in new loan volume.

During this same period the generally softer real estate markets and the absence of inflation caused a noticeable but not alarming increase in mortgage loan delinquencies and foreclosures. Although most of the defaults were on FHA-insured and VA-guaranteed loans, there also has been some rise in delinquencies and foreclosures on conventional loans since 1960.

A striking and desirable outgrowth of the present severe competition for mortgages has been a definite trend toward diversification of investments by associations seeking alternative sources of income. This diversified lending not only is helping to bridge the present gap in market demand but is introducing our business to a far broader concept of service to the housing field than it had held in the past.

Population experts predict that within the next half decade a new, far larger generation of home buying families will create another housing boom of unprecedented dimensions. Meanwhile, the present demanding market conditions are causing savings associations to make their operations more efficient and, with the help of modern market analysis, to develop new investment outlets. The tools we are forging today will serve us well in the years to come.

FRANK B. YEILDING JR.

BOARD OF DIRECTORS OF THE UNITED STATES SAVINGS AND LOAN LEAGUE

1962-1963

Officers

F. B. YEILDING JR., *President*...........213 N. 21st St., Birmingham 3, Ala.
EUGENE M. MORTLOCK, *Vice President*
........................1274 Avenue of the Americas, New York 20, N. Y.
Norman Strunk, *Executive Vice President*..221 N. La Salle St., Chicago 1, Ill.

Executive Committee

District
1. ARTHUR J. BROCKWAY..124-132 Temple St., Box 324, New Haven 2, Conn.
2. ROLAND LEWAN..................64 Main St., Box 151, Millburn, N. J.
3. J. D. SHULTZ.........145 W. Maple Ave., Box 179, Fayetteville, W. Va.
4. JULIUS W. ANDERSON........304 N. Main St., Box 347, Anderson, S. C.
5. WILLIAM E. TAYLOR..............1112 Euclid Ave., Cleveland 15, Ohio
6. WILLIAM GRIMM....................536 Madison Ave., Covington, Ky.
7. ARTHUR G. SHIREMAN..216-218 W. Washington Ave., South Bend 1, Ind.
8. A. C. STEINHAUER....................2 S. Carroll St., Madison 1, Wis.
9. JOSEPH E. CLARKIN......................200 16th St., Denver 2, Colo.
10. LLOYD S. BOWLES.........................1505 Elm St., Dallas 1, Tex.
11. RICHARD H. SHORETT.............1516 Westlake Ave., Seattle 1, Wash.
12. LEWIS S. EATON......................1177 Fulton St., Fresno 21, Calif.

M. L. DYE, *Immediate Past President*
..............................78 S. Main St., Salt Lake City 1, Utah
HENRY A. BUBB, *Chairman, Legislative Committee*
....................................700 Kansas Ave., Topeka, Kan.

Directors

J. CLEMSON DUCKWORTH.........2200 Broad St., Box 950, Tuscaloosa, Ala.
WALTER SCZUDLO......................500 Second Ave., Fairbanks, Alaska
THOMAS E. SHERIDAN JR................40 E. Thomas Rd., Phoenix 12, Ariz.
DEENER E. DOBBINS JR.............403 W. Arch Ave., Box 195, Searcy, Ark.
KENNETH D. CHILDS...............9245 Wilshire Blvd., Beverly Hills, Calif.
JUNIUS F. BAXTER..........................700 17th St., Denver 2, Colo.
WALES F. MEISINGER..................12 W. Main St., Waterbury 20, Conn.
WILLIAM A. WELSH...........909 Shipley St., Box 630, Wilmington 99, Del.
MARTIN A. COOK..........813 Pennsylvania Ave., N.W., Washington 4, D. C.
J. EDWIN WHITE.............440 N. Monroe St., Box 930, Tallahassee, Fla.
J. W. WELTCH......................985 Broad St., Box 1332, Augusta, Ga.
J. RALPH BROWN....................1001 Bishop St., Honolulu 13, Hawaii
JOHN W. HEWITT....................923 Idaho St., Box 1839, Boise, Idaho

William H. Spicer	1 N. La Grange Rd., La Grange, Ill.
Louis H. Boink Jr.	101 S.E. Third St., Evansville 8, Ind.
William F. Nutt	700 Pierce St., Sioux City 1, Iowa
John C. Dicus	700 Kansas Ave., Topeka, Kan.
J. Craig Davis	1010 Monmouth St., Box 214, Newport, Ky.
Ed. F. Scanlan	940 Common St., New Orleans 12, La.
Francis A. Finnegan	201 Main St., Bangor, Me.
Howard H. Walsh	23 E. North Ave., Baltimore 2, Md.
Gordon H. Ogilvie	31 Walden St., Box 477, Concord, Mass.
Fred C. Reynolds	215 E. Michigan Ave., Kalamazoo 3, Mich.
N. M. Coursolle	348 Robert St., St. Paul 1, Minn.
Tom B. Scott Jr.	Capitol at State, Box 1818, Jackson 1, Miss.
Roy A. Johnson	1010 Baltimore Ave., Kansas City 5, Mo.
Paul A. Johnson	601 First Ave., N., Box 1564, Great Falls, Mont.
Edward G. Kutilek	4501 Dodge St., Box 1103, Omaha 32, Neb.
Harley E. Harmon	327 S. Tenth St., Las Vegas, Nev.
Karl E. Dowd	200 Main St., Nashua, N. H.
D. P. Sammarco	250 Valley Blvd., Wood-Ridge, N. J.
Rodney W. Shoemaker	423 Copper Ave. N.W., Box 591, Albuquerque, N. M.
Joseph Holzka	221 Richmond Ave., Staten Island 2, N. Y.
George W. Crone	115 W. Third St., Box 204, Winston-Salem 1, N. C.
Miss Sabine D. Mohr	223 Central Ave. N., Box 270, Valley City, N. D.
Wayne J. Howsmon	4438 Main Ave., Box 113, Ashtabula, Ohio
S. Frank Jones	201 N. Robinson, Oklahoma City 2, Okla.
Robert K. Powell	580 State St., Box 430, Salem, Ore.
E. L. Breinig	1706 Lowrie St., Pittsburgh 12, Pa.
Horace E. Davila	1519 Ponce de Leon, Stop 23, Box 9146, Santurce, P. R.
Allyn K. Suttell	270 Westminster St., Box 1517, Providence 1, R. I.
Robert L. Handell	234 N. Church St., Box 1806, Spartanburg, S. C.
Bryce V. Smith	815 St. Joseph St., Box 470, Rapid City, S. D.
W. Arnold Chambers	817 Broad St., Chattanooga, Tenn.
Melvin L. Thurman	823 Washington Ave., Box 1488, Waco, Tex.
G. Blair Bradshaw	63 S. Main St., Salt Lake City 11, Utah
Henry M. Baldwin	150 Bank St., Box 789, Burlington, Vt.
Lawrence R. McMurty	400 George St., Fredericksburg, Va.
George A. Moore Jr.	1501 Cornwall Ave., Box 633, Bellingham, Wash.
Jacob Isacoff	804 Kanawha Blvd., E., Box 2189, Charleston 1, W. Va.
John W. Cleary	7901 W. Burleigh St., Milwaukee 10, Wis.
John D. Flitner	444 Greybull Ave., Box 1032, Greybull, Wyo.

Three Immediate Past Presidents

M. L. Dye	78 S. Main St., Salt Lake City 1, Utah
C. Elwood Knapp	217 N. Highland Ave., Pittsburgh 6, Pa.
W. O. DuVall	22 Marietta St., N.W., Box 1723, Atlanta 1, Ga.

President, American Savings and Loan Institute

Ray A. Neumann	111 N. Jefferson Ave., Peoria 2, Ill.

TABLE OF CONTENTS

GENERAL SESSIONS

Where We Stand, *Frank B. Yeilding Jr.* 3

The Savings and Loan Industry in Transition, *Joseph P. McMurray* 13

A Salute to Home Ownership and Thrift Institutions, *The Hon. Albert Rains* 23

The Longest Year, *The Hon. William B. Widnall* 29

Financing Obsolete Mortgage Risks, *Perry Prentice* 36

A Time for Choosing, *Ronald Reagan* 47

Memorial Resolution 60

TOPICAL FORUMS

Advertising and Business Promotion

- A Look at Savings and Loan Advertising, *Clyde Bedell* 71
- Attitudes toward Home Financing and Home Financing Institutions, *Dr. Herta Herzog, William K. Divers, Robert P. Perrin* 72

Association Directors

- Our Allies in Business, *Stuart Davis* 74
- What Is Happening to the Spirit of America? *Ed W. Hiles* 81
- Observations on the Responsibilities of Directorship, *John deLaittre* 88

Association Operations

- My Concept of Supervision, *Nathaniel L. Armistead* 95
- Pitfalls in Association Management, *James W. Cumpton* 100
- Techniques to Shorten Examination Time, *Lawrence M. Walters* 102
- Improving Operation Practices, *Nathaniel L. Armistead, James W. Cumpton, Lawrence M. Walters* 106

Business and Economic Trends
Business Outlook for 1964: The Money and Housing Markets, *Anthony Downs, Charles F. Haywood, Nathaniel H. Rogg, Harry S. Schwartz* 111
A Look Ahead from $100 Billion, *Edward E. Edwards, Arthur M. Weimer* 114

Investments and Mortgage Lending
A Preview of the U. S. League *Construction Lending Guide, Walter H. Lewis, John L. Schmidt, James H. Snellings* 120
Condominium Lending—How, *Percy E. Wagner* 132
FHA—Its Role, *Philip N. Brownstein* 137
Bond Portfolio Analysis, *Abner Goldstine* 141
Real Estate Owned—A Problem? *Fred C. Stalder* 145
New Lending Regulations, *Wyn Warman, John M. Wyman* 148

Management and Personnel
Effects of 1963 Dividend Rate Changes, *John Stafford* 157
A Formula for Success, *Louis A. Allen* 161
Improving Your Operating Ratio, *Carl F. Distelhorst* 166

Public Relations
Our Obligations to the Community, *J. Howard Edgerton* 174
Relations with Your Competitors, *Walter W. Belson* 178
You Can Be in the News, *Wendell Ashton, Albert Jedlicka, Warren Pursell, Donald White* 181

REPORTS OF ADMINISTRATIVE OFFICERS AND COMMITTEES

Report of the Executive Vice President on Administrative Matters, *Norman Strunk* 189
Report of the Legislative Director on Legislative Matters, *Stephen G. Slipher* 223
Annual Statistical Report for 1962 233
State Legislation, *William Prather* 250
Advertising and Public Relations Committee 272
Appraisal Policy and Building Practices Committee 284
Attorneys' Committee 285
Branch Operations Committee 314
Capital Stock Associations, Committee on Management of 323
Civic Development Committee 349
Constitution Committee 351

Federal Home Loan Bank System, Committee on 351
Federally Chartered Associations, Committee on 357
FSLIC Law and Regulations, Committee on 361
Insurance Committee 380
Internal Operations Committee 408
Investments and Mortgage Lending Committee 409
Legislative Committee 412
Management Committee 419
Mutual Institutions, Committee on 420
State Legislation, Advisory Committee on 421
Trends and Economic Policies Committee 432
Convention Resolutions 447

CONSTITUTION AND BYLAWS OF THE UNITED STATES LEAGUE

Constitution 453
Bylaws 462

CONVENTION ROSTER

Year, Site and League President 465

GENERAL SESSIONS

WHERE WE STAND

by FRANK B. YEILDING JR., *President*
United States Savings and Loan League
Birmingham, Ala.

As we meet at this convention, we are nearing the close of one of the most eventful and successful years in the history of the savings and loan business. It has been a year in which we have been able to adjust to major problems and establish—to the pleasant surprise of many of us—new records in savings growth and mortgage lending, thus enabling the business to pass the remarkable total of $100 billion in assets.

When 1963 began, there was a major question mark about the demand for real estate credit. With some notable exceptions, however, the housing and real estate markets around the country have proved far stronger than anticipated.

When 1963 began, there was a major question mark over the ability of our institutions to absorb a major increase in federal income taxes. While higher taxes have proved a matter of major concern to many associations, the transition generally has been made in a more satisfactory manner than expected.

When 1963 began, there was considerable concern over the rising delinquencies and foreclosures on FHA and VA loans held almost exclusively by other types of lenders, and over the danger of this infection spreading to the conventional loan portfolios of savings and loan institutions. During the year, however, there has been a noticeable improvement and tightening in loan servicing procedures and, as we meet here today, data gathered by our research department indicate that the ratio of mortgage delinquencies has declined in recent months below a year ago.

If 1963 is a year to which we can point with pride, 1964 is a year to which we can look forward with considerable confidence. The savings and loan business does not live in a vacuum; the key reason 1963 has proved to be a better year than expected is that the general tone of our economy has been strong and vigorous. Most economists expect business conditions to continue healthy next year. The key indexes of industrial production, retail sales and total employment continue to point upward. To these favorable factors we can expect to see added

next year a major reduction in personal and corporate income taxes. All in all, there is good reason for optimism about savings and loan prospects during 1964.

THE GROWING IMBALANCE: DIVIDEND, MORTGAGE RATES

This is a generalization and, like most generalizations, should be qualified. In many areas, associations are paying the highest dividend rates of modern times in the face of lower mortgage rates than prevailed a year ago. These institutions have begun to understand the meaning of the term "profitless prosperity" that has been used in American business circles for some years. More than one association is discovering that the amount tucked away in reserves this year will be less than it has been for the past few years, although the asset growth of the association may have been substantial.

The savings and loan business today is passing through a period of competition unmatched since the start of World War II. As the record in 1963 demonstrates, we have done well so far. However, it would be well to bear in mind that we have at least several years, and perhaps longer, to go before we shall see an abatement of this fierce competition, particularly on the loan side of the business.

One of the difficult adjustments involved in the new wave of competition is that, for the first time in many years, competition is bitter for *both* savings and mortgage loans. Until very recently, we have had to contend only with the problem of attracting savings; there was no real difficulty in keeping funds invested. Today, many of us face a formidable mortgage lending assignment, in part because of the changing nature of the housing market with its ever-growing emphasis on apartment construction. It is a source of annoyance and frustration to all of us to find that the key tool for attracting savings—a high dividend rate—also may be the key obstacle to remaining competitive in our local mortgage market.

FOUR APPROACHES TO THE DILEMMA

Today, it may be useful and instructive for me to devote a portion of this presidential address to a discussion of the various proposed solutions to the competitive dilemma that confronts us.

One solution advanced is probably the most obvious one: There should be a direct attack on high dividend rates. A second proposed solution is that investment powers should be broadened. A third approach—which has only limited support—is that savings and loan associations should become federal mutual savings banks. A fourth alternative is that federal supervisory officials be given new and broader authority to deal with so-called "problem case" associations, which conceivably could become more numerous as a result of much greater competition.

While each of these proposals can be stated in a matter-of-fact manner, they are not so regarded by savings and loan executives. Each proposal is capable of provoking very strong debate and differences of view among savings and loan executives. One of the responsibilities of a trade organization is to provide a forum for various views, and, after a consensus is taken, move forward in constructive action. In my judgment, the United States League has met this responsibility well over the years, and it always has been willing to take a position which may at times be unpopular with some portion of its membership.

THE DIVIDEND RATE QUESTION

With respect to savings and loan dividend rates, our position has been that the establishment of dividend rates is properly a prerogative of savings and loan management. Furthermore, we believe that, on the whole, these decisions have been made in a careful and responsible manner. Unfortunately, because there have been and are occasional exceptions to this rule, we have the responsibility of trying to curb the few while protecting the rights of the many.

Nor are we alone in this responsibility. Savings and loan associations are publicly chartered and publicly regulated institutions, and it is the obligation of the Federal Home Loan Bank Board to protect the public interest. It should be emphasized that as a result of ever-increasing use of national advertising, West Coast dividend rate increases may have a disconcerting effect not only on West Coast associations but elsewhere throughout the country where, in order to protect themselves, some associations may feel compelled to try to meet out-of-state competition. The Federal Home Loan Bank Board has a responsibility to do its best to see that unfortunate consequences growing out of such a situation are avoided.

We might bear in mind also that to the extent that excessive and unnecessary competition produces even one savings and loan problem case, it is a reflection on the entire business. To paraphrase a famous English poet, no savings and loan institution is an island unto itself.

As we meet in California this year, the dividend rate question probably is higher on everyone's personal agenda than in any previous year. Over the years there have been many proposed solutions to the dividend problem, including the proposal that the Federal Home Loan Bank Board be empowered to set ceilings, of either the stand-by or permanent variety, on dividend rates. There have been proposals for compulsory notification of the supervisory authorities of any changes, proposals to ask Congress to amend the antitrust statutes to permit institutions to engage in local price fixing, and a whole variety of arrangements for imposing restrictions of one kind or another on one of our principal management prerogatives.

In recent weeks the Federal Home Loan Bank Board has announced several proposals intended to deal with certain aspects of the problem. A number of them will be before committees and the official policy-making bodies of the League for consideration at this convention.

AMORTIZATION OF FEES, DISCOUNTS

One of these is the often discussed and now officially proposed regulation which would require the amortization of fees and discounts above amounts which represent the cost of putting loans on the books. In connection with this proposal, let me say that my support for it is unequivocal and, in making that statement, I know I have the backing of the United States League's Executive Committee. I would be keenly disappointed if our committees and board of directors at this convention did not indicate to the Federal Home Loan Bank Board their wholehearted support of this proposal, which would make sure that our accounting for gross income is conservative and that we do not take into current income, for use in the payment of dividends to savers or in meeting the required reserve allocations, earnings which properly belong in the income of subsequent periods. In my personal view, the regulation requiring amortization of fees and discounts is long overdue.

Another Board proposal would revise the Federal Savings and Loan Insurance Corporation's so-called "reserve regulation" in a way to make certain that the rapid growth of a savings association does not result in the deterioration of its reserve ratio or capital position. We all have seen examples, in many cities in the nation, of associations raising their dividend rates, with the result being rapid growth and reduction in the strength of the institution as measured by its ratio of reserves to total savings.

FIRST LINE OF DEFENSE: ADEQUACY OF RESERVES

In this connection, I want to point out that our reserves in each institution are the first line of defense against losses. To the extent that an institution's reserve ratio deteriorates, it increases the possibility that any losses in that institution eventually might have to be borne by the FSLIC. When losses of any institution are borne by the FSLIC, it means that your institution and my institution are sharing in that loss.

Certainly it should be in the interest of all of us to support the Board in proposals that will keep unwise dividend decisions and excessive growth in any one year from reducing the protection provided by that institution's own reserves against the consequences of bad loans or an economic downturn.

I have no concern for the adequacy of the reserves of this business generally, but I am concerned with the possibility that the reserves of some institutions are not accumulating rapidly enough in proportion to their growth. I am concerned also that some associations, in their desire for growth, are paying too little attention to the consequences of that growth upon their reserve ratio. I submit that the reserve ratio of an individual institution, if it gets too narrow or depreciates too greatly, becomes a concern of all of us.

We can state as a fundamental principle that there should be rewards for efficient operation. Management that has a better-than-

average operating ratio should be able, if it chooses, to pay a somewhat higher dividend rate than the inefficient institution, provided that its income and expenses are accounted for properly, that income belonging to a later year is not used as current income and that the basic strength of the institution, particularly as measured by its reserve ratio, is not weakened.

To the extent that the Board's proposals will assure adequacy of reserves in the business generally and prevent some few institutions from exploiting a high dividend situation at the expense of their reserve ratio, the Board's proposals deserve the support of this business.

FHLB CREDIT POLICIES, GOVERNMENT RATE POLICIES

At this convention there also will be discussed the whole broad question of Federal Home Loan Bank credit and lending policies. While there always has been the feeling that the operations of the Federal Home Loan Banks themselves and their lending should not be used as a supervisory weapon or tool, certainly it is incumbent upon management and the directors of the Banks to make certain that rudimentary banking principles are followed in these institutions, just as we follow certain credit fundamentals in each of our loan departments. Federal Home Loan Bank credit policies ought to be reviewed and revised from time to time to fit the changing economic conditions and changing needs of the business. I, for one, agree with those who think that there can well be some revisions of the idea that every Federal Home Loan Bank member automatically is entitled to a certain amount of credit and that borrowing from the Federal Home Loan Bank is an inalienable right along with life, liberty and the pursuit of happiness.

It is sometimes overlooked by savings and loan managers that our dividend rate decisions these days are complicated by the program of our government to curb the outflow of gold. The main technique involved in this program is to keep short-term rates high and long-term rates low. One result has been to help keep savings rates relatively high and mortgage rates relatively low. This program may continue indefinitely, and it is one more argument against a casual approach in the setting of dividend rates.

NEED BALANCED FLOW OF MORTGAGE FUNDS

Another comment on the events of recent weeks also is in order. A curious phenomenon of the postwar period is that as a result of modern-day methods of communication a national savings market has been created, so that American citizens in one section of the country may and do place their savings in an institution in another section of the country with a feeling of safety and confidence. However, much less progress has been made in the establishment of a national mortgage market, and one result has been a good deal of competitive friction within our business over regional disparities in dividend rates.

Perhaps we never shall eliminate completely this source of friction, but it can be reduced in scope and in intensity as we make greater progress in the direction of equalizing the flow of mortgage funds across the country. Some progress has been made since the inauguration of the participation loan program a few years ago. The establishment of a secondary market organization within the Federal Home Loan Bank Board to deal in participation loans would be another useful step. Still another suggestion in this direction worthy of deep and thoughtful study is to permit insured associations to invest a limited amount of their mortgage funds anywhere in the country.

So far I have discussed one proposed solution to the present competitive dilemma which confronts us. Let us move now to another proposal which finds a growing amount of support within the savings and loan business—the securing of investment and lending powers for savings and loan associations beyond the residential real estate market.

BROADER INVESTMENT POWERS FOR SAVINGS AND LOANS

As we meet here at this convention, the House Banking and Currency Committee has completed its hearings on broader investment powers for our institutions, and we hope that some favorable action will be taken on at least several of these proposals next year. We are optimistic, for example, that we will secure authority to finance certain consumer durables not on a wholesale basis but in connection with our regular lending program, to make loans on mobile homes and to purchase municipal securities. Of these broader investment powers, the one of perhaps greatest consequence to our business is the proposal to enable our institutions to offer a complete home financing package, including the furnishings and appliances necessary "to make a house a home."

The commercial banks and other lenders in the consumer credit area already have announced their intention to wage an all-out attack against savings and loan entry into this area. It is our impression, however, that many members of Congress believe increased competition for consumer credit financing will be in the public interest, and we are optimistic that some limited authority in this direction will be secured eventually.

In all candor, however, it should be emphasized that the authority we do secure never will produce by itself a large volume of business and is unlikely to become a major, vital part of savings and loan financing activity. In the first place, the consumer credit market is far smaller in terms of dollars than the real estate mortgage market. For example, there is only $50 billion in installment consumer credit outstanding, including automobile loans, as compared to more than $200 billion in residential real estate mortgage debt. In other words, real estate credit is a much bigger market than consumer credit, and our main job is to preserve our leadership position in the real estate field.

It also should not be forgotten that the savings and loan business has not been very enthusiastic about another consumer credit power that we have had for a long time, namely, property improvement financing. Since 1947, when property improvement lending first was authorized, our institutions have discovered that doing a successful job in this area required the addition of some consumer credit experts to the payroll as well as a much different philosophy of doing business as compared to the mortgage field. The result has been that property improvement lending by our institutions has not been a spectacular success in terms of volume. At the present time there is well under $1 billion outstanding in property improvement installment loans. This suggests that if we do secure consumer credit authority for household appliances and furnishings, it would be a good many years before this authority actually produced very much business.

On the other hand, these new consumer credit tools would have real value in helping us to better compete for mortgage loan business with the commercial banks. We certainly can use the furniture and appliance loan authority to keep mortgage loans from going to commercial banks, because the banks can and will finance the furnishings and appliances as they finance the home loan. Quite obviously, this new authority also would be a tool for curbing mortgage delinquencies, because it would tend to reduce the problem of mortgage loan borrowers becoming overloaded with consumer credit obligations.

FEDERAL CHARTERS FOR MUTUAL SAVINGS BANKS

One of the reasons there has been some support in the savings and loan business for federal charters for mutual savings banks is the feeling that such charters would provide a number of these broader investment powers at one fell swoop instead of securing them one at a time. There are a number of sincere and dedicated savings and loan executives who believe that federal charters for savings banks are essential to the future development of the thrift industry of the United States. The position of the United States League in this area recognizes the desirability of achieving unity with the mutual savings banks, and we sympathize with the aspirations of the savings banks for a dual system of charters, both national and state. Nevertheless, our position remains the same as it has been for some time.

This position can be summarized pretty much as follows: If the savings banks want a dual system of charters, then one obvious route available is for them to join with us in modernizing the federal savings and loan statute to combine the best concepts of savings and loan associations and mutual savings banks. Thus, the mutual savings banks have their position, and we have ours. A committee from the United States League headed by Past President C. R. Mitchell has met with a committee of the National Association of Mutual Savings Banks on several occasions during the past year to see if there is any common meeting ground. We expect to continue these meetings, and it is still unclear where these discussions will lead. It would be less than honest

not to point out, however, that there has been something less than a runaway "grass roots" enthusiasm within the savings and loan business for the proposal to create federal mutual savings banks, even though the savings banks have suggested that most of the initial charters would go to converted savings and loan associations.

Most savings and loan executives take the position that if the federal charter authority were granted, it ultimately would mean the establishment of a new national system of savings and home financing institutions in direct competition with existing savings and loan associations. In view of the present savings and loan development and in view of the conditions in the residential real estate market, we doubt that Congress would find it desirable or necessary to open the door to such a new system at the present time.

THE SUPERVISORY QUESTION: GREATER FLEXIBILITY NEEDED

Still a fourth solution proposed for the problems arising from the new competitive environment is that the public supervisors be given greater and more flexible authority to deal with problem cases that may develop as the result of the inability of any savings and loan association to cope with the competitive environment in which we now find ourselves.

The problem of determining what is a fair and proper role for our public supervisors of savings and loan institutions certainly is not a new one. Over the years, more time has been spent on this question by committees and officers of the United States League than on any other single question. During the past two years a select committee of past presidents of the United States League, headed by Past President W. O. DuVall, has met with the Federal Home Loan Bank Board on repeated occasions in an effort to work out some agreement on how the supervisory statutes should be strengthened and made more flexible. Both we and the Board are in agreement that greater flexibility is in order and that some measures short of a take-over by supervisors should be provided in those cases where the solvency of an association and the safety of its savers' funds are not involved.

At the present time, when it seeks correction of some federal association management practice, the Federal Home Loan Bank Board can issue a cease-and-desist order to the association involved, but the association is granted the right of appealing the order before it becomes effective. Therefore the Board has not used the cease-and-desist procedure in the small number of problem cases that have arisen. Instead it has felt compelled to use the much more drastic procedure of a "take-over" with placement of a supervisory representative in charge or, in the case of a state-chartered association, to take action to terminate insurance of accounts. As Past President DuVall has said, present procedures "have made the mild corrective remedy difficult and the drastic remedy easy."

We endorse the principle that a cease-and-desist order should be

effective immediately, pending judicial disposition of the case. Such a step would provide much greater flexibility and probably mean avoidance of the drastic seizure power in all but a handful of cases.

With respect to state-chartered associations, it is no secret that the Federal Home Loan Bank Board has felt for some time that, in order to help safeguard the financial integrity of the Insurance Corporation, certain additional safeguards may have to be taken. Admittedly, this is a difficult area in which to work, and we shall do our best to move carefully and constructively.

In this connection, however, it is worth noting that the bill introduced in June to permit stand-by dividend rate controls and a $15,000 ceiling on insured savings accounts included a section dealing with the so-called conflict-of-interest question. The proposed language would apply to all insured associations and is patterned after similar restraints on insured banks. It is uncertain at this point just when Congress will consider this question.

STRENGTHENING OF HOLDING COMPANY LAW

While discussing supervision and regulation, I should emphasize that one of the main legislative objectives of the United States League continues to be the strengthening of savings and loan holding company law. As many of our members know, our Legislative Conference last January approved a legislative draft which imposes a considerable number of new restrictions and requirements on holding companies and subjects them for the first time to regulation by the Federal Home Loan Bank Board. Our legislative draft has not been introduced formally because the Bank Board has requested us to postpone the introduction of our bill until the drafting of its own bill is completed. We have been informed that the completion of this task is near at hand, and we anticipate the early introduction of appropriate legislation on holding companies.

These, then, are the various approaches to the problems arising from intense competition that now confronts the savings and loan business in many areas of the country. Restraint in dividend rate increases, broader investment powers and the strengthening of supervision—each is regarded by an important element of the savings and loan business as the answer to the competitive dilemma.

But I would suggest to you in all sincerity that each is only a partial answer and that the heart of the answer really lies within the attitude and perspective of all of us who are charged with the responsibility of operating savings and loan institutions.

TIME FOR MATURE GROWTHMANSHIP

This business has enjoyed fantastic success and acceptance since World War II because it assumed the key role in financing the great postwar real estate boom. But it may well be that, for a few years at

least, we shall be traveling a plateau en route to the next boom. In the meantime, we should recognize that all-out "growthmanship" may make the footing treacherous and dangerous at times.

When we have talked about growthmanship in the savings and loan business, we have meant rapid growth, growth almost for growth's sake and growth to the exclusion of almost every other management objective. I should like to suggest a new type of growthmanship—mature growthmanship which involves consideration of the consequences of growth and of the extent to which growth can be afforded. This mature growthmanship also would involve the orderly planning of growth and the amount of growth, just as we prepare our income and expense budgets and forecast our flow of cash in and out of the institution.

Certainly there is nothing wrong with growth. The growth of this business to its $100 billion asset level has been a key factor in making America a nation of home owners and of self-reliant, thrifty citizens. This business must continue to grow to serve an ever-expanding nation and an ever-increasing number of families.

Our members will recall that, at our convention four years ago, the projections of and challenges for the business in the decade of the '60s were laid out for us by a faculty team from the Graduate School of Business at Indiana University. Our business was then $63 billion in assets, and the forecast that we would be a $165 billion business by the end of 1970 brought gasps of disbelief from many.

Today we are $102 billion in assets and are running ahead of the Indiana projection. However, a number of things have happened in the intervening period. We have a new look in commercial bank competition, we have a new tax law, and we have a real estate market that at least to many of us is new. Consequently, we thought it appropriate to have the Indiana University team take a second look at the decade of the '60s.

At the Trends Topical Forum tomorrow, Professor Edward E. Edwards and Doctor Arthur M. Weimer will give us a second look at the challenges in the savings and loan business in this decade. They assure us that the savings and loan business easily can reach $165 billion in assets and that it will not take any unusual growth pattern to get there.

The opportunities of a $165 billion business lie before us. The economic road to $165 billion appears to be wide and reasonably straight. I would suggest that the problems we encounter in reaching $165 billion by 1970 will be largely of our own creation and, in great part, from our practicing the wrong, rather than the right, kind of growthmanship.

THE SAVINGS AND LOAN INDUSTRY IN TRANSITION

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

I AM IMPRESSED with the spectacular changes that have overtaken the savings and loan industry in a period of substantially less than 20 years. Perhaps I am even more impressed that in the heyday of the 1920s the savings and loan industry, in a much smaller economy than we have today, had not achieved much more than half its present relative importance.

In musing about the figures and studies that abound in an office such as ours, I came to realize that the progress this industry has made deserves a very intensive study. It is not enough to hail your growth and success, for to do only that is to ignore the chemistry which led to that success and to lose for those who follow you the elements of this spectacular episode. I have not made any such study, however, and neither has any member of our staff.

It is nice to dream about something we should all like to do, but my objectives here today are far more limited. Briefly, I should like to examine with you the accomplishments of your industry, the general state of the industry and a few of the problems that growth has brought. You probably know the story of this industry so well that for me to recite numbers really is unnecessary. So let me instead paint with a rather broad brush, while asking your indulgence in case I occasionally stray from the boundaries of precision.

CAPSULE HISTORY OF SAVINGS AND LOAN GROWTH

In the early history of the savings and loan business in the United States, the overwhelming majority of associations were tiny enterprises. A great many of them relied on volunteer workers. Occasionally one

or more members of the association serving in some such capacity as secretary or attorney received direct compensation, but it was small. The most a man could look for was that he might get a little legal or real estate business from his contact with the association. The associations were part time in many, many cases. Your penetration of the mortgage market was almost inconsequential.

Some progress was made away from this format during the 1930s. The catastrophic developments of 1929-1933 forced a good many institutions out of business, forced others to merge and brought the federal savings and loan associations into being, thus creating a really new environment. Yet even by 1939 the savings and loan business was not a large business. Its relative importance was little different from that which prevailed in 1929. However, the business was organized on more advanced lines. You began to have a very substantial number of full-time operations and paid staffs became more common, but the painful ravages of the depression continued to cast a shadow and the growth that the savings and loan business enjoyed was smaller than that for society as a whole.

In 1945 the position of your industry was not significantly different from what it was in 1939. Oh, some changes occurred. But think back, those of you who have participated in the industry from 1945. Can you really visualize the industry as it was in 1945? We are talking about an industry that was only about $8 billion, about business units that were quite small. Can you picture the offices of that day, the bookkeeping methods, the managerial capabilities you had, and compare them with what exists now? If you are honest, I think, the brightness of the present and of the recent past blinds you to the industry as it existed in 1945.

The events of the postwar period broke upon the 1945 scene. It is one thing to grow rapidly, but when we talk about growing rapidly we really are talking about a whole range of possibilities. This industry has had astounding growth. Absorbing this growth without difficulty requires a development of technique that could not possibly have existed in 1945. From that humble beginning you have grown to be a $100-billion-plus industry, you have penetrated every nook and cranny of the residential real estate market and to a degree you have moved into other markets as well.

PRAISES SAVINGS AND LOAN PERFORMANCE

How has the performance been? Considering the rate of growth and the problems of the period, I would say exceedingly good. I say this with confidence because the last several years have been a crucible for all mortgage lenders, as you well know. Foreclosure rates on a national basis for all lenders have climbed to rather high levels; the increase since 1960 has been particularly sharp. We do not have separate figures yet for savings and loan associations going back to 1960, but we have some for the last year and, generally, the industry looks fairly good.

In general, the industry has done exceedingly well. And, in general, the foreclosure rate is a respectable one, considering the performance of all lenders.

The scope of the change which has engulfed your industry is reflected in a number of things that are quite familiar to you. Look at your own shop. How different is the equipment from what it was in 1945? How many more people are there? How much more specialized are your top executives? These are only one set of clues. Another set is contained in the literature published by and about this industry. Examine, if you will, the most recent publications of your own League and compare them with those of 1945 or even 1950. You will get the feeling, I am sure, that you are stepping back into the Dark Ages, because this industry has evolved into a sophisticated, complex, financial mechanism. Whatever one may say about specific cases, the industry, generally, deserves our plaudits. It is my pleasure to give you mine.

In the course of these developments, the industry has acquired a structure which, in general, provides a basis for confidence. For example, your total reserves and surplus are in excess of $7 billion. Furthermore, you hold close to $10 billion in cash and United States government obligations. Your reserves and surplus, therefore, amount to about 8% of "risk assets."

FACTORS LIMITING SAVINGS AND LOAN RISK

Of course, this term is misleading, because risk is quite a variable thing. Primarily, the assets we refer to as risk assets consist of your mortgage portfolio. Even within that mortgage portfolio, not all the assets really can bear the label "risk"—to any meaningful degree, at least. About $11.5 billion of those so-called risk assets are insured or guaranteed by the United States government, because the mortgages are either FHA or VA. Even among the $75 billion of conventional loans, which do not involve government insurance or guarantees, the risk is probably minimal in a substantial percentage of the cases.

We know that a loan made on a reasonable down payment, after five years or so, provides a substantial margin of safety for the lender. Because of the large volume of real estate turnover and the growth of your industry, not a very large percentage of loans on your books is beyond the five-year category. However, even on loans that are three years old and over, where there has been a meaningful down payment the risk to the lender begins to fade to a very large degree. It would appear from our statistics that about half of your loans are at least three years old or over. Therefore the average risk with which we might be concerned applies primarily to about half of your conventional loans. The remainder of your assets lies clear of average risk. May I say, too, that the average risk to which I refer is not dangerous because, if you follow good appraisal practices and the strictures of law and regulation covering down payments and maturities, the risk necessarily is sharply limited.

The main point we should bear in mind is that the savings and loan industry is sound, firmly grounded and, in general, in a position to resist even the most severe ravages of economic decline. It is a strong, well-developed set of financial institutions which have served the public well and which are in a position to continue this service.

To be sure, you did not do this all on your own. I am not referring to the aid which the Federal Home Loan Bank System and the Federal Savings and Loan Insurance Corporation have supplied. I am talking about the general developments in the economy which induced people to accumulate savings in liquid form, to need and to seek housing which made it possible for you to invest those savings profitably and possible for the economy generally to maintain a pace which we must regard in terms of past history as really remarkable. There have been no major recessions and certainly no depressions. Although mortgage lenders have passed through a crucible period in recent years, the severe developments of the past have been conspicuous by their absence. So while I commend you, I suggest tempering pride with humility.

GROWTH BRINGS PROBLEMS, TOO

To say that the savings and loan industry generally is in satisfactory condition is accurate but incomplete. Success and growth create almost as many problems as failure and stagnation. Admittedly, the problems associated with growth are not so devastating or so comprehensive; they are in many respects much more desirable, but they do exist. Furthermore, growth, particularly rapid growth, sometimes permits contradictions and inadequacies in techniques which need to be corrected. We should, therefore, focus on two types of problems: the problems of adaptation associated with growth and success, and the problems of correction associated with contradictions that stem from growth which outpaces changes in management or regulatory techniques.

The Board has sometimes been criticized for talking about these problems simultaneously, but they do exist concomitantly. They are the product of the same forces, and neither one should be subordinated. I shall talk first about the problems of adaptation.

THE PROBLEMS OF ADAPTATION TO GROWTH

When your industry was small and your penetration of the mortgage market was very minor, certain conditions would give rise to relatively few problems. For example, if your savings grew more rapidly than total mortgage demand, you simply could expand your penetration of the market. Secondly, even if the growth in savings was very rapid relative to the mortgage market, you could, because you were small, still pick and choose. Occupying a large segment of the market and still continuing to grow when the outlets for your funds are not growing preclude reliance on the luxury of picking and choosing and

prevent sharp increases in market penetration. Consequently, it is widely held by many observers that your outlets for savings must be increased. They should be increased, not just for your benefit, but for the benefit of the economy as a whole—for the people. To dam up the large volume of funds entrusted to you and allow them to go only into the mortgage market, and primarily into a narrow segment of the residential market, can, I submit, distort the flow of funds through the money and capital markets.

Some alleviation of this constricted type of outlet already has been achieved. Last year the federal savings and loan associations were the beneficiaries of legislation, introduced at the Board's behest, which broadened their powers to lend on multifamily dwelling units. The Board also has expanded lending territory for all associations and strengthened the participation program so that associations in areas of surplus savings will not be confined to a very narrow local market.

This, however, is not enough. Recently we succeeded in having a bill introduced that would broaden your power to invest in securities, including government agency securities, from which you now are barred by an accident of history, and state and local securities which are tax-exempt. Your lending powers would be broadened to include lending on major household durables and mobile homes. In terms of number of items included in the bill, we are somewhat behind your staff and your legislative committee; the reasons for the difference are both technical and substantive. On the other hand, our bill is much broader in the sense that it includes fewer restrictions on the ability of associations to lend and invest. We think this is better legislative practice, more in keeping with the practices in other financial agencies and, in the long run, likely to redound to everyone's benefit.

You may ask what savings and loan association would want to invest in state and local securities. Let me say, just as we said to a congressional committee of which Congressman Widnall is a member, that not all associations are satisfied to carry the minimum liquidity required by law and regulation. Many carry a substantial amount in excess of minimum requirements. This is an attempt to reduce risk in the total portfolio. For those institutions, we feel that the opportunity to participate in the state and local market when yields are advantageous is appropriate and consistent. Furthermore, as the Committee on Financial Institutions, on which I served, pointed out, the function of savings and loan associations and the purposes for which the proceeds of state and local bonds are used are so close as to constitute an essential link that should be established and encouraged. With this tool in your kit, we think that you can employ your savings much more efficiently when mortgage demand lags or if you are investing only those funds which you want to keep out of "risk assets."

As for the other elements included in our bill, we think there is sufficient connection between financing homes and financing the appliances and furnishings that make those homes livable to justify proceeding along these lines. Here, too, I should mention that the Committee on

Financial Institutions recognized this as a worth-while and relevant power for savings and loan associations. As Congressman Widnall pointed out, mobile homes are becoming ever more important in our society. How many of you are aware that new mobile homes amount to 12% of single-family housing starts? Their occupants, to the surprise of many, have an income somewhat higher than the average for the population and, insofar as we can determine, the delinquency rate on mobile home loans by banks and finance companies compares very favorably with that on mortgage loans on conventional homes.

STEPS ALREADY TAKEN ONLY A BEGINNING

We are not entirely satisfied that even these steps broadening your lending and investment powers will suffice for an indefinite period. But we think they are an essential beginning. In advocating these changes, we must admit some doubt about the notion, frequently expressed, that all money entrusted to savings institutions, whether savings and loan associations or mutual savings banks, should be narrowly limited to the mortgage market and primarily to the residential market. Time and recent events should have proved to all that the mere injection of money into the mortgage market does not create a demand for houses, does not create a need for mortgages and does not solve the problems of the housing market which stem from such causes as inadequate incomes for a segment of our population. Pursuit of a "mortgages only" policy may lead to undesirable consequences.

The problems of adaptation, rather than deter you, should be a welcome challenge. They are problems which we think you should understand. We think it is essential for you in the industry to realize that a single-line financial institution cannot maintain the pace to which you have been accustomed since the end of World War II. We think, too, that a single-line financial institution lacks the flexibility which the economy requires in order to make sure that funds flow to all segments of the capital market or at least to all segments of the capital market in which consumers are interested. On this point I should like to leave a question with you: Is it unreasonable for savings institutions to try to make the most efficient use of their savings, or must they stay exclusively in the mortgage market because that is what they were created for about 135 years ago? Certainly your resemblance to the savings and loan association of 1945 is already very tenuous, and you bear about the same resemblance to the savings and loan association of 135 years ago as an astrojet airliner does to the first steam-powered train.

THE PROBLEMS OF CORRECTION

I should like to turn briefly to the problems of correction. Many of you know that we have already put a regulation on notice covering the deferral of fee income. In addition, I am sure you are aware that

we are planning a regulation which should reach the *Federal Register* this week, dealing with increased allocations of reserves for those associations which have more than moderate growth. Also on the drawing boards is a policy statement that would provide the basis for the Federal Home Loan Banks to adopt rules by which they set lines of credit for expansion on a basis that would reflect the soundness of an institution's portfolio.

While most observers agree that the regulation covering fee deferral is important and the revised policy covering Federal Home Loan Bank advances is essential, the most important of the three programs on which we are issuing regulations deals with reserve allocations.

This regulation, as now planned, would permit associations that are growing moderately to abide by the same rules that apply today, namely, to set aside 10% of net income. Even for some of those associations that are at the upper end of the scale of moderate growth, the 10% of net income provides only the lowest requirement for reserve strength; it is not what you would call a long-run satisfactory requirement. However, because institutions that show moderate growth create relatively few problems and usually accumulate more than the bare minimum reserves over a period of several years, we have decided to continue the 10% net income requirement for them.

The second step in this program would require institutions growing between 10% and 20% to add to their reserve accounts 8% of the growth over 10%. This is not a heavy requirement. For example, for an association growing about 12% a year (the average for the country), the requirement would be about 13% of net income. Remember that the average association put about 16% into reserves last year. For an association growing about 15%, the reserve allocation would amount to about 17% of net. So the new formula does not add any significant burden for most associations.

NO GREAT HARDSHIP FOR MOST ASSOCIATIONS

Before I proceed further, I should like to give you one kind of summary measure of what this means. Perhaps you did not realize that there are seven states, having 14% of all associations, with rates of growth under 10% and 19 states, having about 53% of all associations, with rates of growth between 10% and 12%. In other words, half of the states, including about two-thirds of the associations, have rates of growth of less than 12%. If you stop to calculate, you will find that the 12% grower may want to put more into reserves, as indeed he has in most years, than this new regulation requires. So, for the largest group of associations, there really is no significant difference from the present practice.

Twelve states, with about 15% of the associations, have growth rates between 12% and 15%. Even for associations in those states, the increase is not sufficiently marked to be of any great consequence. Above a 15% growth rate, the new formula begins to place some pres-

sure on the earnings available for dividends. The requirement probably would be greater by some margin than is typically put into reserves today. In the 20% growth range, about 25% of net income would have to be placed into reserves. (Mind you, just a few years ago that is what the average association was putting into reserves.) However, for associations that grow more than 20%, things get a bit stiff. In addition to 10% of net income and 8% of the second 10% of growth, they would have to put in 9% of all growth thereafter. This requirement is essential to ensure sound operations and provide an adequate reserve against savings.

New, small associations under a certain size would continue to put in only 10% of net income; but when they pass a certain size, even if they are still less than 20 years old, they would move to the new basis. In addition, we are going to issue a policy statement outlining the basis for waivers for associations with strong reserves, good portfolios and satisfactory operation practices. The waiver will be applied almost automatically in each Bank district by the president of the district.

WHAT WILL THE REGULATION ACCOMPLISH?

What will the higher reserve regulation accomplish? It will accomplish one thing that is vital to the maintenance of this industry that you have helped build and that I am sure you do not wish to see damaged even in the slightest degree. It will prevent the deterioration of reserve ratios because of rapid growth. This is essential in order to limit those operators who take advantage of open-ended avenues and stimulate their operations to obtain growth rates that may be inconsistent with the need for funds in their area. The time has come to prevent the operator who is obsessed with growth for growth's sake, or for the temporary profit it may bring him, from using these open-ended avenues to the detriment of the industry and the public.

There is an old saying that some people add two and two and get five. By the same reasoning the Board has been accused of being opposed to growth. Is this so? The answer is obviously and absolutely "no." We approve and encourage growth which is based on a sound foundation. We approve and encourage growth where an adequate margin of reserves is provided for the protection of the public and the industry. The proposed program will tend to push associations that grow fairly rapidly toward an 8% reserve ratio, but they will never reach it if they do not grow more than 20%. The 15% grower will be directed toward a ratio of not more than 6⅔%. It is perfectly clear and obvious that we are not pressing hard at this time. Do not believe or be led astray by those critics who, from my observation thus far, are largely the "growth for growth's sake" operators who are trying to sell the idea that the Board wants to repress growth for the sake of repression. In fact, many associations with substantial growth will face no problem at all. It is our sincere and dedicated objective, in accordance with our oath of office, to create an environment in which you and the

public can continue to have confidence. This we shall do with your help and encouragement.

Let me illustrate my point further. There are six states with growth rates over 20%. Four of them showed chinks in their armor, evidence of one or more types of problems developing which, if permitted to proceed unabated, would reflect unfavorably on everyone present here, including the speaker. Is this the result you want?

PHILOSOPHY UNDERLYING ASSOCIATION GOALS, BOARD ACTIONS

I should like to review with you the philosophy that must underlie your objectives and our actions. Your desires of continuing to maintain a business which remains healthy, grows and yields an adequate return to your savers, while providing management with an adequate level of retained earnings to support the superstructure of assets and liabilities, are legitimate goals. Now, is this asking too much? Is it logical to argue that efforts to make certain that this is done within some range of reason are essentially antigrowth? We suggest to you that the antigrowth allegation makes a mockery of logic and consistency; it reduces the argument to an absurdity. Before you reach any definite conclusions about this aim, study it and think of its effects on cutthroat competition as well as on you.

Those of us who have served on the Board since I took office have taken a very broad view of the industry, the economy and the related problems. We are all of the opinion that Congress created this instrument, fostered it and clothed the Federal Home Loan Bank Board, of which I have the honor of being chairman, with the responsibility of seeing that its wishes and those of the administration, under which we serve, are carried out. The instrument has worked, and worked well indeed. It is our responsibility to ask Congress to make those changes which only legislation can effect and to put into practice ourselves those rules which lie within our authority and which are essential to the health and welfare of this industry.

We are every bit as concerned about the need for adaptation as we are about the problems of correction. When I said that we think these problems must be discussed hand in hand, I was not speaking idly. To assume that the fact that some associations have engaged in questionable practices constitutes a reason for not seeking a cure for the problems of adaptation, which is the argument many of the critics of the savings and loan industry make, seems to be an empty and fallacious argument. This is particularly so because the industry as a whole shows increasing awareness and responsibility. The widespread favorable support from savings and loan leaders for the Board's program of improved supervision attests strongly to this growing responsibility. As a corollary, to say that the need to adapt and broaden our horizons justifies pursuing avenues which are not guarded by sufficient tests of reasonableness also has an empty ring.

These are the principles that underlie the Board's thinking and de-

cision-making. As I leave this platform, I do so with confidence that I can entrust to you the verdict as to whether the policies here discussed are essential to an industry in transition. I ask your judgment as to whether the context surrounding the actions on both sets of problems can be construed as an appropriate framework. The savings and loan industry is indeed in transition, and what we may be asking may seem novel and perhaps strong, but this is only because the framework in which all of us operate has changed. We must not resist change to the point where we damage the fabric which has wrought the change. Your interests lie in the same mold as the public's. Your future depends upon how well you meet the challenge created by success. We can be certain that what all of us want is a position that can withstand scrutiny and that commands respect and confidence. That is the key to your future success.

I promise you that we at the Board—John Horne, John deLaittre, our able and dedicated staff and I—will work unceasingly in your interest and in the public interest, and I pray that God will give us the wisdom, strength and courage to do the kind of a job that, with your full cooperation, will ensure your continuing success in serving the people of our glorious country.

A SALUTE TO HOME OWNERSHIP AND THRIFT INSTITUTIONS

by the HON. ALBERT RAINS

United States Congressman

Gadsden, Ala.

THE YEAR 1963 marks a major milestone in your long history. When your industry passed the $100 billion mark this year, it made the whole country aware of your tremendous growth and importance to the economy.

Everyone concerned with housing and home ownership has long been aware that savings and loan associations are the largest single source of mortgage financing and that their assets have been rising rapidly. We know also that for over a century, savings and loans have played the major role in making America a nation of home owners. Nevertheless, when your assets passed the fantastic figure of $100 billion, it drove home in dramatic fashion the point that your role in the financial world has undergone a striking change over the years. The sheer size of your industry makes it a basic factor not only in mortgage finance but in the field of savings and investment generally. Changes in your policies and attitudes now reverberate throughout the entire money market.

The growth and success of the savings and loan industry reflect the vital service your institutions provide to both your 35 million savers and your 9 million borrowers. But even more, they reflect the sound management which your industry has enjoyed over the years. Sound management, of course, includes imagination and adaptability, and these virtues have been amply demonstrated both in the day-to-day operations of your 6,300 local associations and in your national leadership. In my years in Congress I have found no more responsible and cooperative, yet hard-hitting, spokesmen than in the savings and loan industry.

Your president, my good and dear friend Frank Yeilding, is a splendid exemplification of the top business management which has guided your industry during its gigantic growth period. You can be proud that

you have men of his caliber in your leadership.

When we look back on 1963, I believe we shall see that this was the year when the wheels were set in motion to bring about an important and timely adaptation of the laws which govern the savings and loan industry. I do not say that we are contemplating any fundamental change in your basic operation. Your function of providing the small and medium-size saver with a safe place to put money at an attractive return and of using these funds to invest in the growth and improvement of the community is a vital one. Obviously, however, the thinking embodied in laws originally written at the depth of the Great Depression or during the postwar housing shortage for an industry one-tenth your present size does not fit the present circumstances. Those laws have been amended and revised over the years in an effort to keep up with your accelerated growth, but we must keep an open mind to the need for further adaptations. I believe that the $100 billion landmark which you passed this year is clear evidence of the need for some expansion in your investment powers and some flexibility which would take into account the widely varying conditions around the country.

In his testimony before the House Banking Committee, Henry Bubb pointed out that the basic statute which governs investments by federal savings and loan associations and which has been amended from time to time is not significantly different from the original 1933 law. He advocated a number of ways in which the U. S. Savings and Loan League thinks the law should be modified. I shall not comment on every item of these proposals, some of which are very complex, as you know. As I have said, you are now a giant industry, and any authorized change in your pattern of lending must be examined carefully. However, I agree that the time has come to modernize the legislation to keep pace with the very modern thinking of savings and loan management and with the changes in what the consumer wants and can afford.

FINANCING HOME FURNISHINGS AND APPLIANCES

The proposal which has received the greatest public attention is that which would permit savings and loans to put some part of their assets to work in financing home furnishings. A strong case can be made for this proposal. In my judgment, your industry is wise in accepting the recommendation that this financing be extended only to home owners whose mortgages you hold, rather than permitting a free-wheeling independent retail financing operation. A further fact to be kept in mind is that we must not allow this new source of financing to disrupt established retail distribution channels. The retail trade industry performs an essential economic service, and it would be shortsighted to undercut its business. The home owner also will be better served if he is allowed a free choice in selecting the appliances and furnishings which will be part of his home and which give his home personality, rather than making him a captive consumer for wholesale shipments of goods through the builder or developer.

In my judgment, these loans will achieve the same outstanding record of safety that you have already made in the mortgage field. You will have the advantage of a thorough knowledge of the family's financial capacity, because of your credit analysis made in connection with the mortgage loan. You will have before you a full record of assets, income and debts, and an evaluation of the past payment record which will enable you to make the loans soundly and efficiently. As the testimony before our committee showed, this can result in a substantial saving to the borrower in interest charges. It also will permit smaller and less burdensome monthly payments.

As you well know, this is not a small item to the home owner. Your own studies indicate that the average cost of home furnishings is in the neighborhood of $3,000. For many families moving into new houses, this amount or some part of it is as much an inescapable part of their whole cost of housing as the down payment. The protection of your investment and the welfare of the home buyer will both be served by providing sound financing for major appliances and furnishings.

Consumers today demand far more in the way of furniture and fixtures than was true in the past, and much of their satisfaction with their home reflects this attitude. It is part of our ever-rising consumer tastes and personal incomes. America's home owners have proven to be sound risks, and the overwhelming majority are conscientious about repaying their debts. We can safely build on these facts by taking this additional step to ensure their satisfaction with their homes.

THE QUESTION OF INVESTING IN MUNICIPALS

Another of your recommendations which merits endorsement is the proposal to allow savings and loans to invest in municipal bonds. It is ironic that existing law prevents the savings of the people in the community from being invested in the welfare of their own home town. No institution is better fitted to help meet the credit requirements of state and local governments than are your associations, which are primarily community institutions having a tremendous investment in the progress and improvement of the towns and cities where you are located. As businessmen, you all recognize the benefits to your own industry of adequate provision for the whole range of community facilities. Your investments in real estate are dependent on them, and the prosperity of savers and borrowers alike requires an adequate base of local public investment. You have recognized this responsibility by serving in public and semipublic office and through community organizations aimed at improving your local areas. Under this proposal you also will be able to help meet the financial needs of your own community.

In this proposal you have the ardent support of every mayor in the country. There is hardly a single town or city that is not faced with the need to borrow money for capital investment. Any additional source of funds which can be tapped will help bring lower interest rates. Financing the needs of state and local governments has become a major na-

tional problem, and these credit requirements in the years ahead will in all probability be greater than those of the federal government. Over the past decade, outstanding state and city debt has increased by $45 billion, considerably more than the increase in federal debt over the same period. If state and local governments are to meet their responsibilities and play their essential roles in our political system, we need to take whatever steps are called for to assure their financial strength.

SAVINGS AND LOANS AS REPOSITORIES FOR PUBLIC FUNDS

Another well-justified proposal made by the U. S. League is that which would amend our laws to make insured savings and loans eligible as repositories for public funds. I am thinking of the funds under the self-employment retirement act and funds of other corporations which are started by or supported by federal legislation. My very good friend John Horne is here today. Before he came with the Federal Home Loan Bank Board, he was the Small Business Administrator. The SBA does not permit small business investment companies to put money in savings and loan associations; it feels that Congress did not authorize this under existing legislation. Regardless of the legal interpretation of the statute, small business investment companies should be able legally to place funds in savings and loan associations. Whether they do it or not is another matter, but it should be legally permissible and I plan to do everything I can to see that the law is amended.

I doubt if anyone could come up with a list of all the agencies and officials at different levels of government that have the responsibility of holding and investing public money, but the total amount is undoubtedly very substantial. Existing law ignores the proven safety of insured savings and loan associations and the advantages of the generally higher return available, and limits eligible repositories to banks. This limitation should be removed.

RAISING THE CEILING ON INSURANCE OF ACCOUNTS

On the savings side, it is high time to raise the ceiling on insurance, both for savings and loan associations and for banks. I have introduced legislation to raise the ceiling from $10,000 to $20,000 and I am sure this proposal has broad support. All it would do would be to adjust the law to keep pace with the facts of the present day. Our higher incomes and ever-rising savings amply justify an increase in the ceiling. The record proves that this increase in coverage would involve little extra risk, which would be more than outweighed by the benefits to savers and borrowers alike. As a practical matter, it would not make any real difference if the ceiling were taken off. As a matter of fact, it would make good sense, but politically there will be a ceiling, I believe; and within this framework of practicality and politics, I would think that $20,000 or $25,000 is a reasonable figure.

As for coupling legislation to increase the insurance coverage with

extraneous matters, I am against it. I think it is extraneous to say that if the insurance is increased, other aspects of your law and regulations must be tightened up. There is talk about the Heller Committee recommending that your liquidity and reserves be increased. As far as I know, your business exceeds the requirements the Federal Home Loan Bank Board has in its present regulations and, under existing law, the Board has the authority to increase your liquidity requirements. If these areas need study, then we should study them; but I think that it has no place in legislation to increase your insurance.

I am very hopeful that the next session of Congress will enact legislation embodying these and other worth-while proposals. You have laid a sound foundation for action this year in presenting your ideas, and they will be very helpful in securing the necessary votes for passage in the coming session.

There are those who feel that a price should be exacted for these improvements in the law in the form of more direct controls over savings and loan operations. Personally, I disagree. The steps I have outlined should be taken to benefit millions of savers and borrowers and to encourage the healthy growth of our towns and cities. We should not have to bargain for these benefits over separate issues which should stand or fall on their own merits.

THE QUESTION OF DIVIDEND RATE CONTROL

The principal proposal in dispute is dividend rate control. Personally, I am opposed to having the return you pay on your savings accounts limited by an arbitrary ceiling. This is a normal prerogative of management, and it would take a clear and serious danger to warrant government restrictions.

This is not to say that there are no problems now or that conditions requiring some federal action in the interest of the public are inconceivable. There is considerable concern over the rising structure of interest and dividend rates, and I share that concern. Those of us in my generation will recall what can happen when interest rates reach a point where investment declines and basically sound institutions are forced to overextend and to accept questionable loans in order to meet the competition for savings. Naturally, I want the saver to receive the best possible reward for his thrift, but it would be shortsighted to pursue this end without taking into account all the ramifications. The best interests of the saver are not served by sitting by and watching dividends rise to a point where bankruptcies and failures are the inevitable result.

The recent rise in foreclosures and defaults, although still not alarming in relation to total loans outstanding, was nonetheless a reminder of the fact that there is always an element of risk in mortgage investment. For years it was highly unusual for a loan to go bad. The postwar housing shortage, our rising population and incomes, and the shift of population to the cities practically guaranteed a strong market for

housing, but even in these times there were cases of temporary overbuilding and weak markets. Today the market is more competitive; yet in spite of an increase over the past two or three years, the foreclosure rate remains relatively low and appears to have leveled off this year. However, there are still many places, including growth areas, which suffer from serious overbuilding which may take considerable time to absorb. In the meantime, lenders must be more careful to avoid unsound loans than they have been for years.

In particular, there is concern over the recent increase by some West Coast institutions to a 5% dividend rate. The Home Loan Bank Board is preparing regulations which are aimed at heading off any general movement to a higher dividend plateau. The intent, as I understand it, is to curb only a relatively small number of associations and avoid putting a strait jacket on the whole industry. Certainly we must study these tentative regulations very carefully to make sure they are not unduly restrictive or burdensome.

SIMPLE SOLUTION TO SPIRALING DIVIDEND RATES

On a broader scale, I feel that there is a very simple solution to the competitive upward spiral of dividend rates. The key rate in the savings picture is that authorized by the Fed for commercial banks. It is truly the anchor rate. This control has long been in existence and properly so, because of the unique position of the banking system in monetary policy. As many of you know, I have protested vigorously in the past when this ceiling has been raised. I thought that the increase of a full percentage point announced just two years ago was ill-advised and would merely lead to an upward spiral of competitive rate increases throughout the industry to a new higher structure of interest rates. I believe this is just what has happened.

I am convinced that if the Fed would roll back at least a part of that increase—say, from 4% to 3½%—it would greatly relieve pressure on other savings institutions. In fact, the action would be welcomed by many banks as well, because they are under pressure to seek yield at the expense of soundness. Your industry could then maintain the historical margin over the rate paid by commercial banks without adding to the interest burden on home owners and with less danger that some associations would be tempted to accept excessive risks in their investments. I wish the monetary authorities would move along these lines, but I am not optimistic.

In closing, I do want to tell you that I hold your industry and its members in the highest regard, and when I support legislation which helps you perform more effectively I know I am also furthering two of our greatest and most cherished American objectives—home ownership and thrift. I can think of no more rewarding endeavor.

THE LONGEST YEAR

by the HON. WILLIAM B. WIDNALL

United States Congressman

Saddle River, N. J.

THE LONGEST YEAR refers, of course, to this, the longest congressional session since 1942. There has been much bloody battling, and I am not sure when it will end or who will come out on top.

I have supported almost all the legislation the savings and loan business has sought, and so have most other congressmen. The reason is quite simple: Your League sponsors legislation that is soundly conceived, reasonable and consistent with the public interest. I commend your leadership for being able to screen out "crackpot" proposals. I do not know by what miracle you have accomplished your unity, but I believe it has been a key ingredient of your legislative success over the years. Of course it is not the only key. Your Washington office is widely considered to be one of the most effective legislative teams in all Washington. In addition, Henry Bubb has been an outstanding legislative chairman and one of the ablest congressional witnesses I have ever seen.

The Banking and Currency Committee, like the rest of Congress, has been "talking more and acting less." It has been a session of stalemates. Back in April the committee held three days of hearings on H.R. 5130, a simple little page-and-a-half bill providing for increasing deposit and share account insurance to a maximum coverage of $25,000 per account. It had widespread bipartisan support and at the start we thought it would be passed quickly. Then we learned that the administration would have some recommendations on this legislation. After considerable delay, these additional recommendations made their appearance. The revised proposal would raise the insured account coverage to a maximum of $15,000 per account and would attach tighter controls over your industry in the form of stand-by dividend control authority, additional liquidity requirements and various conflict-of-interest pro-

visions. The little page-and-a-half original proposal had become a new 41-page bill, H.R. 7484, which was introduced on July 8, 1963. No committee hearings have been held or scheduled on the new bill.

It seems that a stalemate also may have been reached on H.R. 8245, to broaden the investment powers of associations. As you know, there is an administration substitute, H.R. 8541, for this proposal. In this instance the eight-page original bill is stripped down to a two-page bill which would allow you to invest in municipals, make major household consumer loans and finance mobile dwellings. However, it is not the substitute bill that is delaying action. The legislation was considered in hearings on five other bills involving expansion of powers for banks and credit unions. One of these five bills has proven very controversial, namely, the bill to permit national banks to underwrite and deal in revenue bonds. Brief additional hearings are resuming this week on this package of bills. Unless some of these proposals are laid aside, the cross currents of controversy in the whole package of bills could result in a stalemate endangering favorable action on any of them.

You are doubtless wondering if anything will be done in this session of Congress on any bills of importance to you. Let me try to give you a quick rundown on their chances.

CEILING ON INSURANCE OF ACCOUNTS

First, let us take the insured-account increase bill to which the administration attached the control conditions. Here the administration adopted the technique so highly developed in omnibus housing bills, where "goodies" for various segments of private enterprise are added to get private enterprise to swallow doses of socialized housing medicine. The same technique was employed in the insurance bill, but in reverse. The proposed benefit to private enterprise in the form of increased account insurance was loaded down with expanded controls over your industry which you find objectionable. I would guess the bill is dead for this session.

Even though no action is taken on the bill in this session, however, it will remain alive for the next session of Congress. It could be triggered into life in various ways. For instance, conflict of interest over a wide range of government and business activity is a subject much in the public mind today. Should only a few examples of it turn up in your industry, they could evoke active administrative and legislative interest in the conflict-of-interest provisions in the proposed bill. Quality of credit is another subject coming to the fore in legislative discussions these days. The bill would treat that subject through authorizing increased and special liquidity requirements as a buffer to quality of credit. However, short of a considerable volume of "horrible examples," I doubt that the quality-of-credit issue would trigger the bill. The stand-by dividend control authority in the bill has become largely moot, for the time being at least, in view of the Federal Home Loan Bank Board's proposed regulation on reserves. I conclude that

the most likely trigger for the bill will be its probable inclusion in next year's "candy and castor oil" omnibus housing bill.

EXPANDED INVESTMENT AND LENDING POWERS

With respect to the bills relating to expansion of powers of financial institutions, I am hopeful that something will be done in this session. In considering, in one set of hearings, bills dealing with broadened powers for savings and loan associations, banks and credit unions, the committee would not act just in one field. The bank-underwriting bill has proved to be most controversial; if it were laid aside for further study, we might be able to get action on some of the other measures.

There is not too much opposition to the request of your industry to invest in municipal bonds. Some congressmen believe that savings and loan assets should be husbanded for the financing of housing. But the record speaks for itself, with approximately 90% of your mortgage loan investments in home mortgages. With the existing yield differential between good mortgage loans and good municipals, the existing limited value of tax exemption to your institutions and your existing dividend structure, I just do not see the possibility of any important diversion of funds in your industry from mortgages to municipals. A practical measure of this is found in the $42 billion savings bank industry, where state and municipal bond investments have declined each year except one for the past five years, from $729 million in 1958 to $527 million in 1962, while over the same five years mortgage loan investments have expanded from $23 billion to $32 billion.

The request of your industry to engage in consumer financing of major household durable goods is more controversial. It is opposed by the banks, just as you oppose their request for 80% conventional real estate loans. I suspect that these two proposals are tied together in the minds of the committee and that favorable action will not be taken on one without favorable action on the other. It is something like the omnibus housing bill approach, even though the proposals are put forward in different bills. Often overlooked is the fact that you are not without considerable experience in consumer financing. I refer, of course, to unsecured property improvement loans, most of which associations finance outside the FHA Title I insurance program. The half billion dollars of association financing represents a substantial portion of the total volume of such financing in 1962.

The proposal that associations be permitted to engage in mobile home financing received an interesting reaction in the committee. Among the members with whom I have talked, there was general surprise on learning that in 1962 there were 113,500 deliveries of pre-engineered mobile homes designed as permanent housing units. The volume approximates 8% of nonfarm housing starts last year. These units, not to be confused with the travel trailer, of which 58,200 were manufactured last year, represent a significant addition to the nation's housing supply. As such, there is a disposition of the committee to

do something to assist the financing of this new type of home, but no one on the committee has the faintest idea what statutory limitations should be imposed other than a flat percentage of assets.

Although not included in the administration substitute, I am much interested in the provision in your original lending power bill relating to proposed authority for your associations to make college education loans. I compliment your industry for its interest in this vital field. Already in this new lending field are the federal government, college- and university-affiliated foundations and associations; private financial organizations, commercial and mutual savings banks; insurance companies; and various civic, philanthropic, church, business and labor groups. Individual states have varying plans for guaranty of principal or assistance on interest payments for private loans made in this field. It is evident that new financial resources must be tapped to meet the rapidly expanding demand. As Henry Bubb testified before our committee, "In years past, a college diploma was regarded as a luxury, but in today's complex society it is almost a must." I think it makes good sense that your institutions be given authority to participate in this lending field, particularly in those instances where you have the family savings account or have made the family home loan. Your real profit from such loans will come from making better citizens of young people who will have had an opportunity to further their educational advantages. I sincerely hope that higher education loan authority will be included in any bill we report for your industry.

BANK AND CREDIT UNION BILLS

Of the bank bills in the package hearing before the committee, H.R. 8230, liberalizing lending powers of national banks on forest tracts, has not been controversial so it might be tagged as a candidate for action. Bill H.R. 7878, which would allow national banks to make 30-year 80% real estate loans, is controversial and its fate probably is tied to action on the provision of your bill authorizing savings and loans to engage in financing of consumer home durable goods. The other bank bill, to increase the lending limit of national banks from 10% to 20% of capital and surplus for any one borrower, probably would not receive favorable consideration.

The credit union bill, H.R. 8459, in the package hearing has not been controversial. It would permit investment of funds in Federal Credit Agency obligations and make some minor procedural changes in operation of credit unions.

Such would be the framework of the legislation the committee might report as a result of the package hearings. I see no reason for the committee not taking this action and, with the Congress continuing in session, there may even be some pressure from the leadership for committees to produce bills upon which the House can take action. Should action not be taken, you of course may expect them to end up in next year's omnibus housing bill.

URBAN RENEWAL: A FIELD WORTH EXPLORING

There is a particular field which I believe it would profit you to explore, both individually and collectively as an organization. That is urban renewal, a program which since 1949 has expended $800 million in the area of slum clearance and urban planning. In addition to $800 million plus, the agency has made commitments of more than $3¼ billion.

To many people, urban renewal appears to be a simple program. Local public agencies, with the aid of increasing amounts of federal funds, purchase clearly identifiable slum and blighted portions of cities, and clear away the ancient and run-down structures. Families and businesses are relocated in more favorable circumstances, the land obtained is sold to redevelopers for new construction which adds to the tax rolls and the cities are revitalized. All this is done under the benevolent supervision of the Federal Urban Renewal Administration.

This is the ideal version of the urban renewal program. In reality, it is much different. While it follows a general pattern, the individuality of the different cities makes it a different instrument to each city. The program often is beset with relocation problems and questionable expense and is burdened with red tape, regulations and lack of effective or consistent supervision. This is the lifeblood of bureaucracy.

Both you and the program could, I believe, benefit from closer acquaintance. One thing that struck me as I listened to the testimony from officials of different cities was the large amount of private enterprise mixed into the urban renewal formula where the program has worked the best. By this means the program's promises are better fulfilled, the city's objectives are better attained, the planners' dreams are more fully realized.

What I have in mind is this: At the present time, savings and loans are pressing for new sources of investment. Urban renewal areas offer possibilities. The government gives you a write-down on the land acquisition, generally through negotiation, and a good deal of what would otherwise be prohibitive costs is eliminated. You also will have an opportunity to rebuild your home communities' more run-down areas.

I shall not attempt to disguise the fact that you must put up with a certain amount of government bureaucracy, but I think you can minimize its extent; and by financing new, improved housing and its supporting commercial and business facilities you may have a welcome outlet on a large scale for some of your surplus funds. I recommend its consideration. Your participation would greatly improve the program and restore its original concept of providing better residential housing.

NEW HOUSING LEGISLATION FOR 1964

In 1964 you can expect once again an omnibus housing bill in which the economic programs, such as that of the FHA, will be held captive for the welfare programs such as public housing. There are innumerable

housing proposals, both large and small, which the committee will consider before it writes the final bill. It is likely to be a sizable package. The 1961 bill involved $10 billion. That of 1964 also will be in the billions of dollars.

It is my hope that sometime we can find some way to separate the economics of housing from its welfare problems. The one is self-supporting; the other operates through government subsidy. It is with this thought in mind that I have joined other members of Congress in sponsoring legislation (H.R. 6657) to set up the FHA as an agency separate from the housing complex, along the lines of the Federal Home Loan Bank Board.

It is my opinion that the economic programs of housing should not be hostages for the welfare proposals of the administration. Both have been woven into the tapestry of housing legislation, but the pattern is discordant. They have separate places. The FHA insurance reserves should not be pledged, for example, in support of programs that are not able to stand by themselves. These programs have a place in our operations, but that place is outside the risks shared by the holders of FHA mortgages. It is my hope that we can separate the more vital programs of housing and pass what legislation they need. Let welfare housing stand on its own merits and, after a factual appraisal, take its legislative turn before the Congress.

Housing affects all segments of our society. It generates more economic activity than any other aspect of our economy, and savings associations contribute more to the increase of that activity than does any other single force. Tying welfare housing to that activity is no part of logic. Such tinkering with the economy is a disservice.

SAVINGS GROWTH BRINGS PROBLEMS, BENEFITS

I never get over being amazed at your amazing industry. Savings in your institutions have increased from $19.1 billion at the end of 1952 to $80.4 billion at the close of 1962, an annual compound growth rate of 15.5% for the 10-year period. We all know that growth puts pressure on reserve ratios, but over the decade reserves relative to savings have remained quite constant at approximately 8%. Reserves of 8.66% at the close of 1952 eased to a low of 7.86% at the end of 1956, then gradually improved to 8.13% at the end of 1962. Since the rate of savings growth this year will exceed the 10-year average, it would be normal to expect a slight easing in the reserve ratio. Maintenance of this relatively constant reserve position with respect to savings has been possible only because your associations have made reserve allocations from earnings substantially in excess of the present 10%-of-net-income requirement. Last year, for the industry as a whole, the allocation to reserves amounted to 19.6% of net income.

Savings growth creates problems but it also provides benefits. It is important that we not overlook that fact. Growth enhances your ability to serve your community. Growth improves the flow of liquidity, because for every three dollars of savings you take in, only two are paid out, leaving one new dollar of assets remaining for you. Growth provides increased flexibility to adjust asset and reserve composition to changed conditions. Growth permits improvement in your operating expense ratio; in 1962 it was 21% of gross income as compared with 27% in 1952.

I am impressed also with the degree of restraint which savings and loan management places upon itself. Although current regulations permit member associations to borrow up to 17.5% of savings for purposes of expansion, the industry total at the close of last year was only 4.5% and, as a matter of record, 45% of your associations had no borrowed funds at all. Regulations permit associations with reserves and surplus of at least 3% of assets to employ up to 20% of assets in making 90% conventional home loans up to $25,000 of appraised value. The program has been in effect since October 1958, yet such full-value loans made represented only slightly more than 1% of industry assets at the close of 1962. Interestingly enough, the Greensboro Home Loan Bank District topped both the Chicago and San Francisco Bank Districts in the number and dollar value of such loans. The Congress gave you authority in 1959 to make loans up to 5% of withdrawable accounts for acquisition and development of land for residential use, but at the close of 1962 the cumulative amount of such loans made approximated only 1/4 of 1% of withdrawable accounts.

At the moment there is a bit of a flurry in your industry over a very few character failures and a few exuberant dividend actions. I think there is room for improvement in your stature with respect to conflict-of-interest safeguards, and I suggest that you consider seriously those proposed in H.R. 7404. In the matter of dividend control, I am loath to see action taken, whether by statute or regulation. After all, our government a few years ago had its fling at the "magic fives," but competitive forces soon brought self-corrective action. We can assume that none of you are in business to go broke. None of you are immune to self-corrective competitive forces both within and outside your industry. I think the balancing of interests of savers and borrowers is a proper responsibility of management and I hope we can keep it that way.

If we are to establish an objective of maintenance of an 8% reserve level relative to savings, it seems to me that the performance of your industry suggests an avenue worthy of consideration. Last year you put into reserves approximately 25% of your net. That enabled you to end the year with a slightly improved reserve ratio of 8.13% of savings, although substantial income taxes may reduce that performance. The current reserve requirement is 10% of net. Perhaps we could protect present savings and loan performance by a reserve requirement somewhat higher than 10%, after giving consideration to the income tax impact, without shock to large segments of the industry. Such an approach would avoid the administrative pitfalls inherent in any regulation requiring widespread waivers in its application. I commend this suggestion to your consideration.

FINANCING OBSOLETE MORTGAGE RISKS

by PERRY PRENTICE, *Vice President*
Time, Inc.
New York, N. Y.

I AM NOT GOING to talk about the maybe 1.5 million new housing units that will come on the market this year. Instead I want to talk about the more than half a million housing units that have to be taken *off* the market or added to the vacancies this year on top of the half million that had to be taken off the market or added to the vacancies last year because the housing industry, of which you are an important part, is producing new units much faster than population growth is producing new families.

For the first time since Menendez founded St. Augustine, we are building new houses and apartments 60% to 70% faster than we are starting new families to live in them. So, for the first time in 398 years of American home building, the public soon will be as free to abandon obsolete homes as to abandon obsolete cars. So, for the first time in 398 years, mortgage lenders must start worrying about whether obsolescence will overtake the house faster than the mortgage is paid down.

For 15 years, because the war and depression had left America with a numerical shortage of housing, any house that the builders built, no matter how bad it was, could be sold at a profit, and any mortgage the lenders bought could be amortized, no matter how unsound the value or how bad the risk. But instead of a shortage, home builders and home financers soon will be up against a big surplus, already foreshadowed by the bald statistic that year-round housing vacancies right now total nearly 2.5 million, well over half of them in metropolitan areas.

That is the statistic which already has helped put more than half the home builders out of business, cutting their number from a reported 109,000 in the shortage days of 1949 to just over 51,000 when the NAHB local officers counted noses two years ago—and there are fewer than that today. That is the statistic which could put quite a

few mortgage lenders out of business, too, unless they change with the times and begin performing the all-important function of local selectivity that I am afraid so many of them have neglected for so many years that they may have forgotten how. That is the statistic which points up the most difficult change the housing industry has ever faced: the change from an industry floating high on the demand created by a seemingly inexhaustible shortage into an industry that soon may be struggling under the weight of a heavy surplus of many types of housing; an industry dependent for half its sales on its ability year after year to displace half a million existing homes; an industry whose product must now compete with millions of existing homes built when everything was cheaper; an industry whose product almost no one will have to buy unless he wants to.

BUYERS' MARKET A BOON TO CONSUMERS

For consumers, the change from a sellers' market to a buyers' market is the best news ever, because at long last it will let them pick and choose and shop for better values. It will give them an opportunity to compare the advantages of more space and a closer-in location in a used house with the advantages of the better features only a new house can offer. It will give the trade-up—or trickle-down—process a chance to operate in a great big way for the first time in our generation. It will give mobility to the housing market, so that in time millions of families now forced to live in substandard homes will be able to move into something better. Housing Administrator Bob Weaver even hopes it will solve the desegregation problem and the Negro housing problem by making enough housing available so everybody can have a good home.

As long as the metropolitan housing supply still includes nearly 4 million substandard units long overdue for junking, the home builders and the mortgage lenders will not feel the full market impact of the change from shortage to surplus. But at today's rate of home building, even 4 million "junkers" cannot ease that impact more than eight years; they will all be gone before this year's new 30-year mortgages have been paid down 15%.

And let us not kid ourselves that even in this year 1963 all the new vacancies will be confined to the 4 million substandard housing units that ought to have been vacated and junked long ago. That is much too much to hope for. We are not going to see a mass exodus of half a million slum families this year moving into better neighborhoods and abandoning half a million tenements. Much of the worst old housing will be vacated, but so will many of the cheap little two-bedroom houses built right after the war, and so will many almost new housing units that ought never to have been built—brand new housing that was obsolete before ever a key was turned in the front door.

I could show you plenty of almost new developments that are already beginning to look like ghost towns—ghost towns that died almost be-

fore they were born, ghost towns built within the last five years, ghost towns that were hardly lived in. And let us not forget that right now FHA is loaded with more than 42,000 repossessions and getting new ones every day—a large percentage of them almost new units that could not have been built if the FHA, Fanny May and the mortgage lenders had not teamed up to let consumers buy cheap new homes for a down payment less than a quarter the size required to buy a better value in an available used house at the same price.

MORTGAGE LENDERS SLOW TO SEE THE CHANGE

Smart home builders have known for at least four years that the change from shortage to surplus was coming and their sleigh ride was over, and they have been adjusting to this change so fast that, despite a sizable increase in building material prices and a whopping increase in building trades wages, they are offering more house per dollar today than they were 10 years ago. You might expect the mortgage lenders to be even quicker to foresee the change and recognize its importance, but the sad and shocking truth is that most lenders are so preoccupied with their own immediate problem of how to keep on getting tight money yields when money is easy that they are rushing to buy mortgages that would have been dubious risks in a shortage market and are just plain crazy risks today.

Says famed economist Leo Grebler: "The competition for mortgage loans is so fierce that lending standards are being compromised." Says Home Loan Bank Board Chairman Joseph McMurray, in an equally notable understatement: "Portfolios obviously have become riskier."

Savings bank economist Saul Klaman comes closest to spelling out the danger: "Yield has become God in the mortgage market. We are worshiping at the altar of growth and letting the quality of mortgage credit deteriorate. Caution is being thrown to the winds, and in the mad scramble for mortgage loans too many lenders and originators are winking at overliberal appraisals." He adds this sobering warning: "With inflationary pressures subdued, mistakes in judgment today are not so easy to camouflage as they were in the years of steadily rising real estate prices. Unless this trend is reversed, many lenders and servicers will come to grief."

What worries Grebler, McMurray and Klaman most is that too many lenders are taking the threefold risk of accepting smaller down payments and slower amortizations from home buyers whose incomes are less adequate. The three risks that worry them are curable with time, as the home buyer's income grows and amortization slowly builds up his equity; a 30-year 95% mortgage can be as safe as a 20-year 80% mortgage if the house value stays at 100%.

But what worries me is a much graver risk, a risk that *nothing* can cure and that will get worse instead of better with each passing year. I mean the risk the lender takes when he puts his money into the kind of house or apartment that no one should be building today—the kind of housing that is obsolescent before it is finished, that will not remain worth as much as the mortgage, that may be vacant and unsalable long before the mortgage is paid off.

WHY BUILD OR LEND ON OBSOLESCENT HOUSING?

Why build such housing? I must give you a twofold answer:

1. Now that home building is industrialized, with bigger and bigger overheads, the builders have to build *something* or go broke. Unless they maintain a volume of very close to 1.5 million homes a year, many more builders will be squeezed out of business; building trades unemployment (already almost the highest of any industry) will climb higher still; and building product manufacturing profits (already almost the lowest of any industry) will be squeezed smaller still.

2. This is the more important answer for mortgage lenders to remember. The builders will build any kind of housing the mortgage lenders are willing to buy from them—and let us remember that it *is* the lender who buys the house. In these days of high percentage loans, walkaways and no deficiency judgments, *of course* the lender buys the house! He buys the house for cash and then resells it to the home buyer for next-to-nothing down and 30 years to pay. This is what Tom Coogan calls "the new type of tenancy." The only thing that makes it different from ordinary tenancy is that if prices rise the lender does not get the profit and if prices fall he takes the loss.

This brings me to the basic, fundamental, all-important questions I came here to ask you today: If you are going to be the owners in everything but name, why not take the same care as you would with any other purchase and insist on the same long-term values? If you are going to take the risk, why not take a closer look at what you are buying and make sure every house you pay for is the kind of house that somebody will want to live in 20 years from now, when some of the mortgages you write this year will still have 10 years to run? Why do you let your appraisers just tell you what a willing buyer will pay for the house today, when what you really need to know is what a willing buyer would pay for the house 10 years and 20 years from now?

Of course, nobody can tell today all the things that will make 1983 houses so much better than 1963 houses. By 1983, everybody may be cooking in electronic ovens, doing the wash with high-frequency sound, cutting the roast with a laser light and commuting to work on a pogo-stick rocket. But not being able to foretell all the new things people will want in their homes 20 years from now is no reason for not at least making sure the houses you put your money into in 1963 are not already obsolete or obsolescent, as perhaps half of them are.

AIR CONDITIONING WILL BE A MUST

For an obvious example of how a new house can be half-obsolete before it is finished, let us consider air conditioning, the biggest im-

provement the builders have offered since the advent of indoor plumbing. Air conditioning changes almost everything. Children sleep better, everybody eats more, people get sick less, teen-agers stay home, cleaning and laundry bills are smaller.

You do not need a crystal ball to see that long before the mortgages you write this year are paid off, air conditioning will be a must. All you need to do is listen to the warning given you by three successive FHA Commissioners—Norman Mason, Julian Zimmerman and Neal Hardy. Each of them has stated flatly that within a few years any house without air conditioning will be obsolescent wherever summers are hot, which means almost everywhere in these United States. So if every house you put your money into will have to be air-conditioned to be resalable, why not insist that the builder put in air conditioning while the house is being built, when it will cost less than half as much as it will to add later on? And if he does not include this must feature now, why not insist that your appraiser penalize the house in his valuation by the amount it will cost to add air conditioning later, just as you would a house without an inside bath?

ADEQUATE STORAGE ATTRACTS HOME BUYERS

Now let us consider another equally obvious example—the need of better storage. Survey after survey finds second-time buyers listing lack of adequate storage as one of the two biggest reasons they had for moving out of their former homes. This is clear warning that any house without adequate storage is already obsolescent and a bad mortgage risk, because your first owner-tenant may soon want to move out and others will hesitate to move in. But how many of you insist on adequate storage as a must requirement for houses you put your money into? How many of you still go along with the FHA storage requirement, written nearly 20 years ago to meet the minimum needs of young couples with very few possessions and not much money to buy more? It costs less than $100 to double the usable storage during construction; it will cost five times that much to make up for its lack later on.

Or let us consider the obsolete bathroom. How many of you know enough about bathroom fixtures to recognize a washdown toilet when you see one? How many of you know that it has been obsolete since before World War I? It makes so much noise you can hear it all over the house, and it is not self-scouring—somebody has to clean it every few days. And how many of you realize that one-third of all the toilets you put up the money to pay for this year will be washdowns that sooner or later will have to be replaced? A builder saves $3.00 by putting in a washdown toilet that will cost at least $50 to replace when consumers get wise to what a bad toilet they are stuck with. Why not penalize that builder $50 in your appraisal now, instead of taking a chance that in a few years you may have to put up the $50 yourself to make the house resalable?

I do not have time to go through the entire house listing petty faults.

No one of them is serious enough to make the house hard to resell if everything else is right; but when there are too many of them in the same house, they add up to a house whose resale value is bound to fall. As long as we had a housing shortage, you did not have to worry about these little faults, because consumers had to put up with them. But now that consumers are getting a more adequate choice of vacancies, now that we are producing 500,000 more houses a year than the population increase is adding to the housing demand, now that 500,000 more homes each year must be added to the vacancy list or taken off the market, the sum of these little faults can make all the difference between a sound mortgage risk and a house too few will want to buy.

OTHER FAULTS TO WATCH FOR

How many of you let the builder save $1.00 by installing a front door lock without a safety catch? How many of you are putting good money into houses whose master bedroom is too small for twin beds? How many of you are putting good money into houses whose second and third bedrooms are smaller than 120 sq. ft.? How many of you are putting good money into houses without an adequate overhang, which pays for itself many times over in lower cooling and repainting costs? How many of you are putting good money into houses without adequate wiring, so that the buyer will have to spend at least $100 to add wiring facilities that would have cost $20 during construction? How many of you are putting good money into houses without adequate insulation, making them cost too much to heat and cool?

How many of you are encouraging that worst of all suburban eyesores, overhead wiring, by not insisting that the builder and the utility spend a few extra dollars of your money to hide the wiring underground? In many areas today, the utilities offer underground wiring in new developments for less than $100 a house. In some cities, notably Chicago, the utility charges nothing extra at all.

How many of you let the builder save $6.00 on a lavatory so small you cannot wash your face in it without splashing water on the floor or banging your head on the faucet? That is one fault I mention with personal bitterness, because the builder of my New York apartment pocketed that $6.00 saving on a 19″x17″ washbasin in my bathroom and now the plumber wants $150 to replace it with a larger one.

How many of you insist that the house should be sold complete with all the necessary appliances? That might be wise to do for your own protection, because for a number of years one of the biggest reasons for mortgage defaults was the short-term, high-interest loans which home buyers had to carry to get appliances that were not included in the house package and financed under the mortgage. And how many of you insist that your appraisers know enough about appliances to be sure those you finance are good ones instead of the bottom of the line? How much of *your* money are you putting into the cheapest appliances the builder can buy?

QUALITY A SAFEGUARD AGAINST OBSOLESCENCE

Says America's No. 1 housing economist, Miles Colean: "In the complex process by which houses are built, financed and sold, the mortgage lender comes nearest to representing the consumer because the mortgage lender, like the consumer, has to live with the house long after the builder has taken his profit and moved on." How well are you exercising your stewardship for the home buyer?

As long as the housing shortage lasted, you could let the home buyer stand the cost if you permitted him to get stuck with a house full of faults. But now that the shortage is over, and the nominal home buyer can move out and dump the house back on you and/or the VA if he does not like it, you have plenty of selfish reasons for being much more careful with how the money you put into housing is spent.

Inadequate storage, too small rooms, noisy toilets, inadequate wiring, inadequate windows, inadequate noise control, too few bathrooms and, above all, lack of air conditioning—these are just a few of the physical faults that are bound to make millions of today's new houses obsolete or obsolescent long before your mortgages run out. I could list many others and could ask you, fault by fault, why you do not insist that your appraiser penalize the house the amount it would cost to correct them. This could mean at least a 200% penalty, because usually it costs more than twice as much to correct a fault after the house is finished as it does to avoid the fault while the house is being built.

But you do not need help from me in exercising sound judgment on the quality to insist upon in the houses and apartments you finance, for the Architectural and Construction Research Department of the United States League is doing a monumental job of researching and collating all this information for you. By next spring you will have copies of the League's excellent new manual on construction loan procedures. I think this is one of the most important jobs the League has ever done for you, and I am sure that those lenders who make full use of the manual will save many thousands of dollars they might otherwise lose by financing new homes and apartments that are physically obsolescent even before they are financed!

Physical faults and lacks, however, are not the only reason millions of today's houses face obsolescence that will cut their value below the mortgage balance. There are at least four other kinds of obsolescence that will affect the long-term value of the mortgages you write.

MONEY OBSOLESCENCE

First, there is what we might call money obsolescence, or perhaps "too much money for what you get" obsolescence or perhaps just overpricing obsolescence. By this I mean what happens to the market price and the mortgage security of a house built at inflated featherbedding costs, inflated material costs or inflated land costs—costs that the lender puts up the money to pay for but that add nothing to long-term value.

FHA has a simple formula for covering these valueless costs: "The greater the waste, the higher the appraisal." For example, if the local code requires the builder to waste $75 on useless floor bridging, FHA adds $75 to its valuation, even though the bridging adds nothing to value. If the local code makes the builder waste $100 on a useless and oversized vent for every plumbing fixture, FHA adds $100 to its valuation. If the builder was "stuck" 15% simple interest for his development money and his contribution money, it gets buried in the FHA appraisal. If the local painters waste $300 painting the house with a brush when they could do it better for half the cost with a spray, FHA cheerfully reflects that valueless cost with a $300 higher valuation.

This may be the only possible policy for FHA, but I am not sure it is a wise basis for you to accept without getting someone to insure your mortgages. Slowly but surely, the home builders are finding ways to squeeze out these costs that add nothing to value, which is another way of saying that sooner or later the resale value of houses built at excessive costs is sure to fail to meet the competition of new houses built more efficiently.

The mortgage lenders put up the money to pay for featherbedding, so I cannot understand why they have not taken the lead in the fight against wasteful codes and wasteful labor restrictions. They also put up the money that makes land speculation as profitable as it is uneconomic, so I cannot understand why they have not taken the lead in the fight to take the profit out of land speculation by shifting most of the local tax burden onto land, thereby relieving improvements of the too-heavy tax load they carry today.

SOCIAL-CHANGE OBSOLESCENCE

Another kind of obsolescence that can undermine the value of even a very good house, and thus the security of the mortgage, is what I call social-change obsolescence. This has nothing to do with whether or not the house is well built.

There are millions of fine houses for sale today for a small fraction of their reproduction cost because they are too big to run without servants—and who can get servants now? There are millions of fine houses whose prices have been cut in half by what the income tax has done to upper-bracket incomes. Other fine houses are hard to sell because they cannot be adapted to back-yard living, they require taking too many steps, their big rooms cost too much to heat, or any one of a dozen other reasons that reflect the tremendous, continuing change in the way Americans live.

If the examples I have cited seem obvious and "old hat" to you, let me try a fresh one. How much longer do you think there will be a good market for suburban houses that offer nothing in the way of suburban living and suburban fun except the dubious pleasure of mowing the lawn in summer and shoveling the snow in winter? Says housing economist Robinson Newcomb: "More and more home buyers put

higher and higher store on whether their homes in the country will give them a chance to go swimming and play golf or tennis." Says redeveloper Lewis Kitchen: "Nobody who knows his business would take on an urban renewal project that does not include a community swimming pool." If recreation facilities are essential to revive blighted areas, you can be very sure they will be equally important to the long-term value of any suburban housing you finance.

LOCATION OBSOLESCENCE

Location obsolescence has nothing to do with how good the house is. You have heard it said that the three most important selling features are: first, location; second, location; third, location. And true enough, a good house in a location that goes downhill will go downhill with its neighborhood, perhaps "down the drain." So I find it hard to believe that any smart lender will tie up his money for 30 years without a very careful study, not just of what the neighborhood is like today, but what it will be like 15 or 20 or 25 years from now. Before long, perhaps, smart lenders will tell their appraisers to give higher valuations to good houses that can be moved if the neighborhood decays.

MARKET OBSOLESCENCE

This brings us to the last and by far the most dramatic of the factors that are bound to make millions of today's homes, including many being built this year, obsolete and bad mortgage risks long before their time. Let us call this market obsolescence; it is what happens to the value of a house when the demand for that kind of house dries up, the market is glutted and prices break.

You all know how the market for two-bedroom houses was overbuilt right after the war, so that two-bedroom houses were hard to sell when the big demand shifted to three-bedroom houses during the '50s. Now the market for low-priced houses is way overbuilt almost everywhere, so it is just plain nonsense for politicians to keep on clamoring for still more houses too cheap to be really good.

The fact is that right now, not counting any of the 5 million substandard units, there are twice as many reasonably good homes available for less than $10,600 as there are families who could not qualify under FHA for something better. And if incomes continue to rise under this administration at the same rate as they rose under President Eisenhower's—a rate President Kennedy called twice too slow—by 1970 there will be three times as many housing units available for less than $10,600 as there will be families left who could not qualify under FHA for something better. In other words, we are running headlong into a situation where the cheap house market will be 200% overbuilt. Conversely, the better house market will be almost 200% underbuilt, because there will be enough families with incomes over $9,000 to create a potential market for nearly 200% more homes priced over $17,500

than there were when the last housing census was taken.

Ten years ago a *House & Home* round table sounded the first warning against building any more houses too cheap to be really good. Seven years ago the best-informed housing expert in official Washington took up the alarm and said we were building ourselves into such a glut of too cheap houses that their price was bound to break, leaving the mortgage lender or the mortgage insurer holding the bag; he was so alarmed that he proposed that Congress forbid the FHA to insure any more long-term mortgages on low-priced houses. Three years ago housing's No. 1 economist, Miles Colean, said: "Even if we had stopped building any cheap housing at all after 1957, the year 1970 would find 9.4 million more reasonably good homes available for less than $12,400 than there will be families left who could not qualify under FHA to buy something better, over and above some 5 million substandard units that should be torn down as soon as possible."

In brief, the housing industry's No. 1 problem is no longer how to build new homes cheaply enough so people can afford what they need. It is how to make new homes desirable enough so people will want to pay for what they can afford.

So here we have perhaps the biggest obsolescence factor of all: a change in the income pattern that is creating an alarming imbalance in the housing market, with far too many cheap units threatening to glut the market for homes priced under $15,000 and far too few good houses available at higher prices to tempt consumers to trade up.

SOME SOBERING CONCLUSIONS

When you put the five obsolescence factors together—physical obsolescence, overpricing obsolescence, social-change obsolescence, location obsolescence and market obsolescence—you will reach some sobering conclusions, I think, about the long-term security of a good many mortgages written without careful study of what obsolescence will do to the long-term value of the property—including a good many mortgages written in this year's crazy scramble for high yields.

My guess would be that less than half of today's 55-million-odd housing units are the kind of homes the spacemen of 1983 will want to live in and that the change is coming so fast that more than half of today's housing units, including many homes built this year, will be obsolete and hard to rent or resell by the time a 30-year mortgage written today is half-amortized. By that time the average family—I repeat, *average* family—will have an income of close to $10,000 in 1960 purchasing power, enough to qualify under FHA for a $20,000 house! Who then will want to put up with all the things that are wrong with most of today's existing homes and with too many of the homes we are still building?

The question now is: Is this good news, or is it bad news?

Obviously, this tremendous speed-up in obsolescence will be bad news for builders who try to go on selling obsolescent houses. But it should be wonderful news for those home builders who are nimble enough to

adjust to the change, for it means that a tremendous replacement demand will be added to the enormous demand the population explosion will soon bring into the housing market—a replacement demand averaging at least a million new homes a year, on top of the population growth demand for at least a million homes a year.

Equally obviously, the tremendous speed-up in obsolescence is bad news for mortgage lenders who have been in such a swivet for high yields that they have dropped their standards and sunk their money into mortgages whose security will not stand up. But it should be good news for discriminating mortgage lenders, because it assures them an enormous demand for mortgage money—twice as big a demand as they could expect if the speed-up in obsolescence were not doubling the market for better houses and so doubling or trebling the need for mortgage money.

In the shortage days, when any mortgage was safe, and the inflation days, when rising prices soon camouflaged mistakes, almost any mortgage was safe, so it did not take too much expert knowledge and market research to be a successful lender. But now the speed-up in obsolescence caused by building 50% to 100% more new housing units each year than are needed to keep up with net new family formation is going to part the sheep from the goats. It will part good mortgage risks from bad mortgage risks. And it will part the good, discriminating mortgage lenders from the mortgage lenders foolish enough to sink their money into loans whose security will be eaten away by premature obsolescence because the housing had too many physical faults, was overpriced, was in the wrong location, was not planned for the way people in the area are going to want to live or was built for a price class that soon will be glutted.

From now on, the local mortgage lender's job will be twice as hard and his appraiser's job will be twice as hard. They will need to exercise twice as much care to make sure that each home they finance is free from costly faults, that its value is sound and that it is planned to fit tomorrow's way of life; twice as much care to be sure the location will stand up; and twice as much care in forecasting the market.

Because the mortgage lender's job will be twice as hard, it will be twice as important and therefore twice as valuable. Mortgage lenders who cannot measure up to this twice-as-important responsibility will be in real trouble. For mortgage lenders who can meet the challenge, the speed-up in obsolescence should create a wonderful opportunity to prove their worth and to cash in on it.

A TIME FOR CHOOSING

by RONALD REAGAN

Actor and Public Speaker

Pacific Palisades, Calif.

JAMES MADISON, one of our founding fathers, said, "We base all our experiments on the capacity of man for self-government." The practice of self-government entails free discussion between men of good will in an effort to solve differences of opinion.

Today it seems impossible to debate legitimately the means of solving our problems. There is a growing tendency to substitute name-calling. On the one hand, a small group of people see treason in any philosophical difference of opinion and apply the terms "pink" and "leftist" to those who are motivated only by humanitarian idealism in their support of the liberal welfare philosophy. On the other hand, an even greater number of people today, advocates of this liberal philosophy, lump all who oppose their viewpoint under the banner of right-wing lunacy, charging that these right-wing lunatics or extremists pose the only internal threat to our national security. One has to wonder how long we can afford the luxury of this family fight while we are at war with the most dangerous enemy mankind has ever known.

Savings and loan associations deal with investment risks, evaluating past records, future potential, company policy, management balance sheets. Well, I think it is high time that we all do some unemotional evaluating of our most important holding, including a check on the future plans and policies of its management.

Not long ago, two friends of mine were talking to a Cuban businessman who had escaped from Castro. He was telling pretty horrible tales of his experiences. One of my friends turned to the other and said, "We don't realize how lucky we are." The Cuban exclaimed, "How lucky *you* are! I had some place to escape to." It is just as simple as that.

If this way of life of ours is lost, where in the world do men who desire freedom find an escape? I think it is time to ask ourselves if

we still know the freedoms intended for us by the creators of the only true revolution that has ever taken place in man's history. Here in this country our revolution was the only one that did not merely exchange one set of rulers for another set of rulers. We lighted a torch 200 years ago that said to the downtrodden of all the world, not that we had decided on a more benevolent ruler, but rather that for the first time man had decided his rights were God-given, the people were sovereign and government could do only those things permitted by the people.

By unleashing the individual genius of every man, a mere 6% of the world's population occupying only 7% of the world's land surface has created and owns 50% of the world's wealth. We have distributed that wealth more widely among our people than has ever been done in any society heretofore created by man. We have proved man's capacity for self-government. Yet today, under the unremitting pressure of the cold war, we have adopted contrary measures in the apparent belief that our proven system is unable to meet the challenge of cold war.

THE LIBERAL PHILOSOPHY: PLANNED ECONOMY

A White House adviser, Arthur Schlesinger Jr., sees the cold war disappearing "through a peaceful transition into a not undemocratic socialism." Another government adviser, Ted Sorensen, in his book *Decisions in the White House,* says that public opinion is often erratic, inconsistent, arbitrary and unreasonable; that it is frequently hampered by myths and misinformation, by stereotypes and by innate resistance to innovations. For these reasons, he says, "the President must not be bound by public opinion; he must not only reign in Washington but he also must rule."

Howard K. Smith of television tells us that "the distribution of goods must be effected by a planned economy; that the profit motive must be replaced by the incentives of the liberal welfare state." Today there are millions and millions of people in our land who cannot see a fat man standing beside a thin one without automatically coming to the conclusion that the fat man got that way by taking advantage of the thin one. They seek an answer to all the problems of human need through government.

One of the articulate voices of the liberal philosophy, Senator Clark of Pennsylvania, defines liberalism as "the program of meeting the material needs of the masses through utilizing the full power of centralized government." It is disturbing when a representative of the people uses what heretofore has been a foreign term and describes you and me as "the masses." But, more important, the "power of centralized government" was the very thing the founding fathers sought to minimize. They knew that the government cannot control *things.* The government cannot control the economy without controlling *people.* Plutarch warned that "the real destroyer of the liberties of the people is he who spreads among them bounties, donations and benefits."

Mankind has known only a few moments of freedom in all the long

climb from the swamp to the stars, and most of those moments have been ours. Strangely enough, all of them have been under a system of private ownership and capitalism. But freedom is never more than one generation away from extinction. The late Judge Learned Hand said, "Liberty lies in the hearts of men and women; when it dies there, no constitution, no court, no law can save it."

I think we have come to a time for choosing. Two contrary philosophies divide us in this land of ours. Either we believe in our traditional system of individual liberty, or we abandon the American Revolution and confess that an intellectual elite in a far distant capital can plan our lives for us better than we can plan them ourselves.

In our adult lifetime we have seen the government lay its hands on health, housing, farming, industry, commerce, education and communications. In so doing, regardless of good intentions, it has created a permanent structure of government which has become so big and so complex that it virtually entraps the President and the Congress, regardless of which party is elected to power.

There are today 2½ million federal employees, and the present budget calls for an increase of 40,000 this year. In 1942 there was one top-salaried government executive for every 89 employees; by 1961 there was one for every 17. Federal, state and local governments employ one out of every six people earning a living in this country; five of us are paying the full salary of a sixth employee. If the present rate of increase continues, in six short years one-fourth of the total work force of the nation will be employed by government.

Today 48 million Americans receive some form of direct cash payment from government; 38 million receive it from the federal government.

Secretary of Commerce Hodges recently said, "The sad thing about government is that you really don't know what is going on most of the time." He probably said it right after he announced that he could run his department with 10% fewer employees and then discovered that in one month 1,600 new ones had been hired.

Probably no one in government knows exactly what everyone does do, but one congressman found an indication. He uncovered a man whose job in Washington is to sit and scan documents that come over his desk. He reads them, initials them and sends them on to the proper agency. One day a document came his way that he was not supposed to read. Nevertheless he read it, initialed it and passed it on. Twenty-four hours later it came back to his desk with a memo: "You were not supposed to read this. Erase your initials and initial the erasure."

GOVERNMENT PROGRAMS SELF-PERPETUATING

Government programs take on a weight and momentum of their own. Federal welfare spending today is 10 times greater than it was in the dark depths of the depression, when there was so much real need. Federal welfare spending in the last 10 years has multiplied eight times as fast as the increase in population. In my home region of Los

Angeles County, 44% of the total budget is for welfare. This is more than all the money collected from real estate taxes in our county.

All of us probably are familiar with the practice of government agencies in hurrying to spend all their money before the end of the fiscal year so they can go to Congress with clean hands and empty pockets. But is it not going a little overboard for one of the United States travel agencies to spend 87% of its budget in the last two days of the fiscal year?

There is a seeming indestructibility to government agencies. A government bureau is the nearest thing to eternal life that we shall ever see on this earth.

The Farm Home Mortgage Bureau was created in the depths of the depression. Today it is bigger than ever. It is not lending money as it was originally set up to do, that is, to enable tenant farmers to own their own cabins. It is now in the business of lending money for recreational agencies, golf courses and—you name it.

The REA, or Rural Electrification Administration, was created in 1936 to aid in bringing electricity to rural homes. It did just that, and today more than 98% of the farm homes in the country have electric power. In 1936 the sponsors of this legislation declared it was not their intent to let government-subsidized, tax-exempt utility groups compete with private industry, but today the REA is bigger than ever, with a budget of nearly half a billion dollars a year. Four out of five of all its new customers are nonfarm users. It borrows money from the Treasury at 2% for such nonfarm uses as a ski lift, complete with artificial snow machinery, in northern Illinois; and that money must be borrowed by the Treasury at 4% to 4½%.

The Tennessee Valley Authority was started as a flood control project. Periodically the Tennessee Valley had been ravaged by flood. The TVA cured that; it flooded the whole area permanently. Then it was suggested that with the electricity generated by the waters impounded behind the dams, the TVA go into the power business. But today three-fourths of all the electricity produced by the TVA is generated in steam plants.

Some people say government spending is necessary to stimulate the economy. There has been no greater spending anywhere in the country than in the Tennessee Valley, yet the Labor Department today officially lists over 50% of the 169 counties in that region as permanent areas of poverty, distress and unemployment.

This brings us to the most serious threat to freedom: the extent to which policy is determined by these permanent bureaus rather than by those we elect to office with our ballots. Last year, while Congress was debating whether to lend the United Nations $100 million to bail it out of its financial difficulties, the State Department, without asking anyone's permission, handed the UN $217 million, part of which was used to pay the delinquent dues of Castro's Cuba.

Last year Congress passed a law prohibiting our foreign aid bureaus and agencies from giving aid to any nation selling oil to Cuba. Yet, in the first six months of this year, four nations selling oil to Cuba have received $145 million.

Since 1933 the Congress of the United States has passed laws that fill 11 thick volumes. In that same period the bureaus of government have adopted regulations that fill 39 such thick volumes, and many of these regulations are "final and not subject to review by any court."

You and I have lost the Fourth Amendment to the Constitution, our protection against search and seizure. Today federal agents, if they suspect a citizen of violating a regulation, can invade his property without a warrant; can levy a fine without a formal hearing, let alone a trial by jury; and can seize and sell his property at auction to enforce payment of that fine.

HOW WELL DOES THE FARM PROGRAM WORK?

The Farm Program is a classic example of how government must resort to force and coercion when it attempts to control the economy. If we were surprised when the wheat farmers last spring voted against Santa Claus, we might be interested in the case of one wheat farmer. Ten years ago he was operating independently, without help from the government, and he was getting $2.05 a bushel for his wheat and paying 20¢ a loaf for bread. With the government helping him for 10 years, he now gets $1.89 a bushel for his wheat and bread costs 36¢ a loaf.

The government has been so zealous to preserve the family farmer that it has declared Louisiana State Penitentiary a family farmer and sends it $45,000 each year. But after 30 years of helping, there are only half as many family farmers in America as there were 30 years ago. One-fourth of farming in America is responsible for 85% of the farm surplus. One-fourth of farming has seen a reduction in the per capita consumption of everything it raises. That one-fourth of farming is regulated and subsidized by the federal government. Three-fourths of farming in the free market governed only by the laws of supply and demand have seen a 21% increase in the per capita consumption of everything it raises.

There is today in the Department of Agriculture one employee for every 60 farmers. Yet with all that help it does not know what happened to 66 full shiploads of grain that disappeared without a trace while en route to Austria.

The federal grain program today is prorated at $43 for every dollar bushel of corn that is not raised. We authorize hundreds of millions of dollars for new irrigation projects to reclaim desert and wastelands and put them into fruitful farm production, but we are paying $300 million a year to take fruitful farmland out of production.

EVILS OF URBAN RENEWAL AND PUBLIC HOUSING

Meanwhile, back in the cities, we adopt programs of urban renewal. Granted the desirability of refurbishing rundown areas in our cities so

they can once again be a source of tax revenue, we have so diluted private property rights under urban renewal that "public use" is anything a few government planners decide it should be. It is this ability to force the sale of private property, more than federal money, that is the real attraction of urban renewal.

At the same time, the opportunities for unscrupulous conduct are many. In one key city in the United States a man owning a rundown section in the heart of the city sold it to urban renewal for several million dollars and then submitted his own plan for renewal. His plan was approved and the government sold him back his own land for 22% of the purchase price.

Officials of federal housing, disturbed as they realize belatedly that all who cried "doom" were not crying falsely, discovered that a whole generation growing up, getting married and raising children is taking for granted as a way of life the living on a subsidy contributed by their neighbors. But they do not suggest going out of business. No, they have a new approach. They are now discussing in Washington taking advantage of the condemnation features of urban renewal, buying homes in scattered neighborhoods and putting tenants from public housing into these individual homes in the hope that a sort of good neighborliness osmosis will occur that will enable them to take their place among the productive people of the community.

In New York City the maximum income for living in public housing is $7,500 per year. I do not have to tell you that is pretty well above the national average right now. A man is suing the public housing authority for the right to continue living in public housing even though in his new job he and his wife have a combined income of $14,000 a year. The basis for the suit is his new job. He has been elected to the New York State Assembly, and he says, "How do I know I will get re-elected in the next election?"

CONDEMNS METHODS, NOT HUMANITARIAN GOALS

Government programs usually start with humanitarian goals and in answer to some great emergency. To question the extent of the crisis or the suggested cure is to be charged with being opposed to the noble motive. This is a dishonest evasion of legitimate debate. It is possible to fulfill our responsibilities to a needy neighbor, to be our brother's keeper, without totally replacing human compassion with the coercion of taxation.

Could any of us be charged with being opposed to the noble purpose of the Peace Corps? Since the inception of this country we have, through our various religions, contributed voluntarily to send missionaries to every corner of the world, so of course we are not opposed to the noble purpose. One religious order today can send and keep a volunteer overseas for one year for $900. What we object to is that the Peace Corps prorates at $9,000 for each volunteer per year.

Because we have a problem with school dropouts and juvenile delinquents, it has been suggested that we adopt or revive something like the CCC to help these youngsters. The program that is proposed prorates to $7,000 a year for each young person to be helped. You can send a boy to Harvard for $3,000 a year! Do not get me wrong—I am not suggesting Harvard as the answer to juvenile delinquency.

DILEMMA OF THE SENIOR CITIZEN

Right now the crisis we are hearing about has to do with the health of our senior citizens, and we are told that a compulsory government program of medical insurance will resolve it. Ignored is the revolutionary increase in private health insurance in the last 10 years, which has matched the growth of the savings and loan business. Today, 141 million Americans, 76% of our population, have some kind of private medical or health insurance, and the coverage is increasing at the rate of 4 million a year. Yet we are told that the private sector of the economy cannot solve the problem.

Nine per cent of the people in this country are over age 65. They cannot be entirely destitute, because that 9% is collecting 8% of all the personal revenue in the United States. As nearly as we can determine, about 10% of our senior citizens require outside help for medical needs. Legislation enacted in the Kerr-Mills bill provides federal funds for state administration for this needy 10%. One state has found an excellent solution, using the funds to buy Blue Cross insurance policies for its needy senior citizens—paying in part or in full, depending on individual need.

In the state of California the private insurance companies have obtained permission to pool their resources and their risks and to provide low-cost policies which will cover an additional number of our senior citizens and for which no medical examination is required. However, when the insurance companies of New Jersey asked their state legislature for the same right, they were turned down. In turning them down, the governor said that if this legislation were passed it would be more difficult for the federal government to get its program of compulsory health insurance.

It would seem that government for government's sake is wanted. No responsible person would suggest that a senior citizen should suffer destitution because of unemployment by reason of old age, but should the responsible citizen not be able to question the soundness of Social Security as a solution to the problem without reaping a whirlwind?

SOCIAL SECURITY: INSURANCE PROGRAM OR TAX?

The Social Security agency has told us in more than 100 million pieces of literature since 1939 that this is an insurance program, that each one of us and our employers pay into the fund and thus in our nonearning years we call upon our own money to see us through. Is it not strange, then, that the Social Security authorities appeared before

the Supreme Court and denied that it is an insurance program? They used the term only to sell it to the people. They said that Social Security dues are a tax for the general use of the government, and the government has used that tax money.

The Social Security fund is some $20 billion worth of government bonds. Now, you know better than anyone else that if you and I hold a government bond it is an I.O.U. and an asset, but how in heaven's name does the government give itself an I.O.U. and consider it an asset? The money has been spent. The plain truth is that Social Security today is, by its own admission, $298 billion in the red. And who pays for this? Just take a look at your son.

A young man going to work today, earning an average salary in his early '20s, will find that he and his employer are now paying to Social Security $1.69 for every dollar the government promises to give him back. He can go into the open market today with the same amount of money and buy a retirement insurance program that will guarantee him $220 a month at age 65. The government promises him $127.

Are we suggesting that we suddenly deny a generation of senior citizens an income? No. But is it beyond reason that we should look at this program and see where it can be put on a voluntary basis; where people who can buy a better deal from private industry should be allowed to do so; and where those of us who can take care of our brothers in need when the time comes, should ask them to participate in the program in the meantime and contribute toward their own welfare?

FOREIGN AID: COST VS. ACCOMPLISHMENT

Earlier I mentioned foreign aid. All of us agree, on humanitarian grounds if upon no other, that, blessed as we are with material means, we should help our needy neighbors. But I do not believe that Christian charity or charity of the God of Moses demands that we go into debt to see that a needy neighbor has an egg in his beer.

Since the end of World War II, the original 19 countries that we set out to help have become 107. And to those foreign countries and to international agencies we have handed over $148 billion. We hear howls of protest when Congress suggests cutting the present foreign aid appropriation by half a billion dollars at the same time Senator Harry Byrd of Virginia reveals that foreign aid today has $21 billion of unexpended funds from previous appropriations.

The prime minister of Liberia told Dr. Howard Kirschner recently that his country has no deficits, balances its budget every year, has a modest tax rate, has increased its gold earnings as much as $170 million each year and has no inflation. To which Dr. Kirschner replied, "Mr. Prime Minister, my country has not balanced its budget in 26 of the past 32 years. We have a public debt that is greater than the combined debt of all the other nations of the world. We have galloping inflation, and we have lost gold to the extent that the solvency of our currency is in danger. Do you think we should continue to give your government millions of dollars every year?" The prime minister smiled and said, "No, but if you are foolish enough to do it, we are going to keep on taking the money."

So will Nasser keep on taking it, for Egypt is purchasing $100 million worth of arms annually from Russia. Half of Brazil's total budget is made up of our money, and recently we appropriated half a million dollars for research and study in Brazil to find out whether that country can use additional funds. Does it surprise you to find out how much it costs to determine where we can spend money? We sent foreign aid to Bolivia, and with our money it nationalized private industry, confiscated the tin mines, doubled the number of employees, cut production in half. And the cost of living went up 250% in a single year.

THE DAY OF RECKONING: HOW SOON?

Representative Weston of Washington asked an official of the Federal Reserve System how long we can postpone the day of reckoning by giving short-term I.O.U.s to foreigners who have claims on our gold reserves. The answer was, "We are getting close to the end of the line right now." As of October 12, the United States gold at Fort Knox totaled $15½ billion. Foreign claims against that gold are $27.3 billion, so we are $12 billion in the hole with respect to our gold. Yet we are attempting to finance the world.

One-fifth of our total industrial capacity is fully controlled, planned or owned by government. One-fourth of all the construction in this nation is done by government. One-third of all the mortgages in this country are financed or guaranteed by agencies of the federal government. The interest on our national debt takes the entire personal income tax paid by 41 million Americans reporting earnings up to $6,000 a year, but our real debt in legislation already enacted into law is in excess of $1¼ trillion! This is greater than the assessed valuation of all the real estate and tangible property in the United States. The last fiscal year closed with a $6 billion deficit, but we are not to worry; a $10 billion deficit is planned for this year.

We have a budget of $99 billion, we are told. But when you read the 1,600 pages of our fiscal budget you find, concealed in the fine print, some bookkeeping practices which I am sure you would all decry. You find public enterprise funds listed in the budget at $3½ billion; but if you read carefully, you discover that $23½ billion is to be used in back-door spending. Yet we are told we wallow in luxury in the private sector of the economy while the public sector is starved for funds.

The problem is not that liberals are ignorant; it is that they know so much that is not so. History tells us that as a country approaches a tax burden of 20%, evasion begins and breaks down respect for law and order. Economists claim that our country is so solid it can afford a rate of 25%, but no nation in history has ever survived a tax burden that reached a third of its national income. Yet today 35¢ out of every dollar earned in this country is the tax collector's share; 24¢ goes to

the federal government, leaving 11¢ to be divided among the county, the local community and the state.

Is it any wonder that, whatever we need, we turn to the federal government for grants-in-aid? One congressman described federal aid as the case of a man giving himself a transfusion in the right arm by taking blood from the left and spilling half of it on the way across.

WARNING FROM THE PAST: PRESERVE THE CONSTITUTION

Professor Alexander Fraser Tytler wrote that "a democracy cannot exist as a permanent form of government. It can exist only until the voters discover they can vote themselves largesse out of the public treasury. From that moment on, the majority always votes for the candidate promising the most benefits . . . with the result that democracy collapses over a loose fiscal policy, always to be followed by a dictatorship." This is not a theoretical speculation on our future; it is a warning from our past, for it was written while we were a colony of Great Britain. The professor was explaining what had destroyed the Republic of Athens more than 2,000 years before. We cannot pass resolutions on economy and then send committees to Washington to get federal spending for our home town.

Tytler's warning reminds us that democracy is mob rule unless we have some ground rules protecting the rights of the individuals and putting them beyond the vote of the majority. You and I have such ground rules providing for the most equitable and limited government ever known to man—the Constitution.

Of course, this stamps me as a Neanderthal man; the Constitution has been ruled obsolete by our intellectual elite. Senator Fulbright, speaking at Stanford University, said that the President is hobbled in his actions by the restrictions of power imposed on him by an antiquated document, a constitutional system designed for an 18th century agrarian society. One man says that to talk of the Constitution today is to talk of taking the country back to the days of McKinley. I think that is not a bad idea, for under McKinley we freed Cuba.

Daniel Webster said, "Hold on, my friends, to the Constitution of the United States of America and to the Republic for which it stands. Miracles do not happen. What has happened once in six thousand years may never happen again. Hold on to your Constitution, for if the Constitution shall fall, there will be anarchy throughout the world."

It has been said that if we lose this way of life of ours, history will report that those who had the most to lose did the least to prevent its happening. And we *can* do something about it. There are, perhaps, some among us today who are concerned about taking a stand. They fear reprisal—retaliation from customers or clients or even government agencies. But we can no longer afford to sit on the sidelines; to practice such aloofness today is to go on feeding the crocodile, hoping he will eat you *last*. But eat you he will. Once you make the decision that this is your battle, you will find a million things you can do.

A businessman in Virginia, concerned because his 200 employees paid no heed to the increasing cost of government, decided to make all deductions from their pay checks on the fourth payday of each month. On three paydays they received their full salary; on the fourth payday the entire deduction came out. It took only about two months to make conservatives out of those 200 employees! The Internal Revenue Service is trying to force this man to give up his practice, but what he is doing is perfectly legal. Besides, it saves him $3,500 a year in bookkeeping costs.

The percentage of money that government is taking from the private sector of the economy must be reduced. Unfortunately, the promised tax legislation of today begs the question. Tax reform is still directed by those who see taxation as a social reform. Through it they can get restrictions on the people that the people would not knowingly vote upon themselves if presented in their true light. They talk of this tax legislation as stimulating the economy. They could do a great deal toward stimulating the economy if they just released the average businessman from some of the manhours he has to spend filling out government forms and acting as the government's tax collector. It costs the American Association of Railroads $5 million a year just to make out ICC forms and papers.

GRADUATED TAX NOT A PROPORTIONATE TAX

Let us have the courage in tax reform to look squarely, once and for all, at the myth that our graduated income tax has any resemblance to proportionate taxation. The entire structure was created by Karl Marx. It has no justification in getting the government needed revenue. It simply is a penalty on the individual who can improve his own lot; it takes his earnings from him and redistributes them to people who are incapable of earning as much as he can.

Let me give you an example of what progressive taxation has done to the American dream in just 30 years. That dream, of course, is that wealth is denied to no one in this land—that any American can go around a corner and find the pot of gold. Thirty years ago Babe Ruth hit 60 home runs a season, and the Yankees rewarded him with the biggest salary ever paid in baseball, $80,000 a year. Thirty years go by, and Roger Maris hits 60 home runs in a season. But in 30 years there have been some changes in the value of the dollar and some greater changes in the income tax laws. To match the take-home purchasing power Babe Ruth got from his $80,000, Maris would have had to be paid $960,000 for the season.

WHAT HAVE WE DONE TO FREEDOM?

It is time we questioned what we have done to freedom. Federal agencies hold what amounts to life-and-death power over businesses, even those not legally subject to regulation. They can exert this power

through the various bureaus, through the control of hundreds of billions of dollars of spending, through the use of the tax power as a policing power. In addition to a reduction in taxes, we must demand that any tax reform be simplified so that the citizen of modest means need not employ legal assistance to find out how much he owes his government.

At the same time we must demand an end to deficit spending and provision for payments on the national debt. It does not take much arithmetic to figure out that there is a basic dishonesty in a government that talks about an $11 billion tax cut over a two-year period and at the same time knowingly, openly and admittedly pursues an inflationary policy as an aid to prosperity that will in the same two-year period reduce the purchasing power of the people by $27 billion.

Finally, in this election year—regardless of the party of our choice, because this transcends party lines—we must pin down those who solicit our votes as to where they stand with regard to fiscal responsibility, individual freedom and limited government. We cannot stop the advance of socialism by electing to office men who just happen to be taking a little longer in arriving at socialist goals. Socialist goals can be achieved without the overt seizure and nationalization of private property. It matters little that you hold title to your business, if government can dictate policies and procedure in that business.

'PEACEFUL CO-EXISTENCE': DANGEROUS FOLLY

This all relates to the world struggle, because there can be no security anywhere in the free world if there is not fiscal and economic stability within the United States. We are told that if we avoid a direct confrontation with the enemy and pursue a policy of accommodation, the enemy will discover that his system is based on a false premise and he will move to the right, adopting more of our democracy and freedom. If this is true, and certainly it is possible, then does it not make more sense to let his system come unglued than to bail him out every time he gets sand in his gears and is threatened with a breakdown? Or are we trying to prove that Lenin was right when he said, "When we get ready to hang the capitalists, they will stupidly vie with each other to sell us the rope."

At the same time we are told that the enemy will moderate, that we must move to the left into a government-planned and controlled economy and that as we accept a "not undemocratic socialism" the enemy will lose his fear and distrust. Every morning we are treated to bulletins reporting on Khrushchev's smile as an indication of our safety from the threat of the bomb. To those who say Mr. Khrushchev promises peace, co-existence and friendship, the answer was given 2,000 years ago by Demosthenes, standing in the Athenian market place: "What sane man would let another man's words rather than his deeds tell him who is at peace and who is at war with him?" Is it too much for us to ask just one deed as evidence that the enemy is moderating?

Are we warmongers if we suggest that the Poles and Czechs and the Hungarians and all those others enslaved behind the iron curtain in direct violation of signed treaties ought to have a free election? Are we warmongers if we suggest that any meeting with Khrushchev regarding the Berlin crisis should take place *after* "the wall" comes down? One thing our well-meaning liberal friends refuse to face is that their whole reasonable, civilized, "let's talk this over" solution to the threat of the bombs is appeasement. Appeasement does not give us a choice between peace and war, but only between fight and surrender.

We do not want to send other people's sons to war. We have sons of our own. It is precisely because we do want peace that we heed all the lessons of history regarding the dangerous folly on the evil road of expediency. Of course there is a risk in taking a firm stand. There is no way to live without taking a certain amount of risk, but at least let us take the risk standing up for those things we believe to be morally right and sound.

'BETTER TO PERISH THAN LIVE AS SLAVES'

Winston Churchill summed it up when he said to his own people: "If you will not fight for the right when you can, without bloodshed; if you will not fight when your victory will be sure and not too costly; you may come to the moment when you will have to fight with all the odds against you and only a precarious chance of survival. There may be a worse case. You may have to fight when there is no chance of victory because it's better to perish than to live as slaves."

You and I are face to face with our destiny. We must stand firm, or we shall trail in the dust the golden hopes of mankind for generations to come. I believe that freedom has never been so fragile, so near to slipping from our grasp, as it is at this moment, and this did not come about through an outside aggressor. It came about through our own sincere efforts to solve problems of misery and human need through exchanging freedom for security.

If we do not accept the challenge, our children may well be the generation that takes the first step into another thousand years of darkness. Lincoln's words of 100 years ago are so appropriate they could well be spoken today: "The fiery trial through which we pass will light us to the latest generation. We here hold the power and the responsibility; we shall nobly save or meanly lose the last best hope of man on earth."