

**SAVINGS AND LOAN
ANNALS 1964**

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

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United States Savings and Loan League



Samuel

PRESIDENT

FOREWORD

FUTURE HISTORIANS of the savings and loan business will regard 1964 as a pivotal year for our business. It will be remembered as a year when fundamental changes in operating attitudes and objectives took place, a year when savings and loan institutions everywhere found themselves confronted with the decision whether to forge ahead in a continued rapid growth pattern or whether to consolidate postwar gains and get ready for the next upswing in the real estate cycle.

Fortunately, the overwhelming majority decided on the latter course. During 1964 the evidence of a rising swell of conservatism in the business was unmistakable. Almost overnight there appeared to be general agreement that growth for growth's sake at this time was not only unwise but downright dangerous. The change in attitude was a reaction to several developments: a tough earnings squeeze as a high savings inflow was coupled with a declining real estate market, erosion in mortgage earnings and higher federal taxes, rising delinquencies and foreclosures, and reserve ratios that were inching downward.

By the end of the year the situation had improved substantially. Reserve additions showed a small increase over 1963. Mortgage delinquencies showed a steady decline, and each month in 1964 showed a decrease from the corresponding month in 1963. Foreclosure figures reached a plateau and, in fact, during the third quarter of 1964, showed a drop for the first time in two years.

This adds up to real progress and indicates that our business is moving through a major adjustment in the real estate market with fewer problems than we had anticipated.

Perhaps the most significant event affecting our business came late in the year. This was the Federal Reserve Board's decision to raise the interest rate ceiling on commercial bank time deposits. Where not too long ago such action would have caused a chain reaction of dividend increases by savings and loan associations, this time it did not. As a result of the conservative management planning that had been growing more prevalent throughout the year, associations simply held the rate line and competed with the banks on virtually equal terms. Not only that—during the last days of the year they actually cut back their advertising and promotional expenditures.

The closing months of 1964 also saw the Congress increase the investment powers of federal associations. In addition to raising the limits on property improvement lending, it authorized federal associations to

invest in municipal bonds and federal agency obligations; to make loans and direct investments in urban renewal areas; and, for the first time in our history, to make a "non-real estate" investment, namely, college education loans.

In retrospect, 1964 was indeed a pivotal year—and the business pivoted in the right direction. There is every reason to believe that those who follow us in this great business will appreciate the maturity, foresight and sound planning displayed in 1964, because the effects of what we did during 1964 will be felt in the business for many years to come.

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1963-1964

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GENERAL SESSIONS

THE PUBLIC POSTURE OF SAVINGS AND LOANS

by EUGENE M. MORTLOCK, *President*
United States Savings and Loan League
New York, N. Y.

THE YEAR 1964 marks a significant milestone in the 130-year-old tradition of the great savings and loan business:

A year of regulatory and supervisory concern with limitations on growth consistent with the end of the postwar housing boom.

A year of increased competitive influences for the consumer's dollar, when the newcomers have joined the specialists in our chosen fields of home financing, when the law of supply and demand has whetted the appetite of the newcomer with the prospects of better returns.

A year of an earnings squeeze prompted in part by a tax law and aggravated by a lessened demand for homes.

A year of excess capital formation when measured by appropriate investment outlets.

A year of consolidation and containment of our operating phases and growing selectivity in the home financing arena.

For the typical savings and loan manager, a year of pause for a penetrating reassessment of his institution's financial structure and a compelling re-examination of its long-range objectives.

A year climaxing 46 months of a buoyant and exuberant national economy which has tended to cloud our perspective in the real estate markets.

A year when we celebrated the 30th anniversary of the Federal Savings and Loan Insurance Corporation, one of the federal agencies which have had so much to do with the progress and development of the modern savings and loan business.

A year when Congress gave us the most comprehensive legislative enactment since the early 1930s, all in the direction of liberalization and reflecting a vote of confidence by Congress in our business.

I had the honor and the privilege of watching President Johnson sign the Housing Act of 1964, and he told me that he appreciates what we in this business are doing for the prosperity of this country. As

managers, we have now the added responsibility to justify that confidence, to use these new powers and all our old powers wisely, conservatively and for the good of the people in our communities.

During the 1950s the interest of the federal government (the public interest) in housing was reflected and administered primarily through the FHA and VA programs. During the 1960s the housing markets changed and the key home loan and housing market is now our kind of market. The spotlight has turned primarily to conventional lending, the savings and loan business and the Federal Home Loan Bank Board.

CHANGE IS A TOOL OF PROGRESS

Facts change and, in keeping pace with them, we change them further; thus we regulate our process of adjustment. We control, challenge and conquer our environment. In the savings and loan business we have learned quickly that change is inevitable and we have made it a tool of our progress. We have learned to plan for it, to yield to it when necessary, to make it serve as a complement to our clearly defined goals.

Change has won us the victories we now boast: \$120 billion in assets by next month; 33% of the total mortgage debt of \$260 billion; 45% of the home loan market; 36% of the nation's over-the-counter savings; the extension of mortgage credit on a \$25 billion a year basis. We attract more savings capital annually than the total of state and local bond issues in the same period—over \$10 billion in net savings this year. We are now financing homes for 10 million of the 54 million families (one out of five) in America. Our volume of construction lending makes possible the employment of almost one-half million workers, generating a total income of \$3.8 billion.

Operations of such magnitude as represented by our institutions are bound to have a tremendous effect on the public interest. The actions, activities and policies of our business can make a great deal of difference in the lives of many Americans.

In our modern form, we are chronologically adolescent but statistically mature. We are professionals in risk-taking and underwriting, we are skillful in the art of mortgage lending. We are a rare combination of aggressiveness and conservatism, of big business and personal touch. We have been pragmatic, self-reliant lenders in growing and vibrant markets where time-tested techniques have been honored but new ones have been tried and proved.

Our commitment to Americans has been clear-cut: to house them in accordance with American standards and their individual financial means. Our objective in this area has been matched by our responsibility not to overextend credit. Our business is people. We are the people's counselors and confidants, and the people are our reflection and strength.

We have striven to become financial service institutions in performing these services through imagination and innovation, calculated, of

course, to bring more customers to our doors. People are now doing business with us for the first time at the rate of 3 million a year. Our growth has been spectacular, our performance noteworthy. In the process of learning, we now stand firm and sound, armed with the credentials of experience in a consumer-oriented home-financing industry. Ours is truly a creative enterprise. Creative thinking and creative work have been our principal tools, and service to mankind has been our basic desire and motivation.

PROGRESS BRINGS PROBLEMS AND CHALLENGES

Progress, of course, is impossible without recognition that problems come with it. Paradoxically, problems can be a benchmark of progress, and our industry has been confronted with vital challenges both within and without our structures to preserve and implement not only our own strength, but the strength of the borrower and his property rights. We must accept and recognize new concepts and ideas with determination and capabilities of performance in order to keep pace with accelerated changes in human as well as business affairs. We must plan our future markets as effectively as we have captured our present ones.

We have directed our legislative efforts primarily in those directions that would strengthen the over-all objectives of our business. Our legislative team has adopted the positive *we*, not the negative *you*, approach. Nevertheless, 1964 became our regulation year when the Federal Home Loan Bank Board's new and tougher reserve formula brought association management into reappraisal of and greater discipline in the need for market analysis as to the appropriate cost of savings capital.

Dividend policies had to be scrutinized. Selectivity became the keynote of mortgage lending. Investment programs were curtailed, liquidity positions improved, potential risks of delinquency and foreclosure diminished. Calculated conservatism has paid dividends in stronger financial substance and greater flexibility. Casual lending practices were replaced by attentive research in real estate markets, economic trends and portfolio analysis. Realistic budgets were adopted, management policies were refined. Future planning was rigorously practiced.

Perhaps the new supervisory requirements have been harsh in their initial impact. But in a free enterprise system such as ours, liberty cannot be construed as license, and right cannot be subordinated to privilege. We have learned, perhaps, that only self-policing can avoid excessive government restriction, that only conscience can insure freedom of action, that we must concern ourselves with the things we do. Our business involves unique privileges and unique duties. Rigid and responsible stewardship must be our commitment to the public.

We in the savings and loan business must be ready to defend our contributions as a specialized financial institution and make a case for our continued necessity as an integral part of the American economy. Our legislative efforts resulting in the savings and loan amendments to

the 1964 Housing Act show clearly that the expansion of specialized institutions like ours has resulted in a broader and a more comprehensive service to the American people. Of long-range significance, these amendments must be scored as one of the greatest advances which not only expand the scope of our investment activity but give us an important source of savings from public funds.

Because home financing is our exclusive mission, we have had a natural competitive edge. But it is this very same competition that will bring us optimum growth and progress. Competitive private enterprise, if we will only let it work, has kept open the market paths through which we can all profit by serving others. It is through this miracle that those who produce more shall have more, that progress can be constant and boundless. Free exchange must never be squelched. The free market is the perfect computer, the Golden Rule of economic practice. Our task must always be to preserve the elements of competition and at the same time guard against ruinous consequences. We have learned that the American saver is also the investor and the borrower who casts his dollar ballot which determines the destiny of our business. We have accepted the obligation to ensure him that choice on a free, fair and competitive front.

MANAGEMENT MUST METE OUT GROWTH

We find ourselves now in a period of adjustment—a real estate transition characterized by surplus and overcapacity. The postwar housing boom obviously is over, and speculative real estate ventures have created some lending problems. All the more reason why we must tailor our designs for growth to blueprints for sound investments. We must practice care in the evaluation of risk potential, study its influence on our reserve position, recognize that depreciation in real estate is a real fact of life, as are economic and functional obsolescence.

The shelter shortage is over momentarily, but tomorrow guarantees new levels of expansion, higher rates of construction, a growing population and rising living standards. Therefore we must treat this transition as a test of our strength, our ingenuity and our ability to develop a financial management that can recognize and cope with its challenge. Our investment policy programing must be implemented by a penetrating analysis of the anatomy of the residential mortgage loan, the property and the borrower characteristics to the extent that our management staff will react and perform as professional loan underwriters rather than merely as lending officers.

Our industry has grown so great in so short a time that expansion has become a preoccupation, and any hint of containment is frowned upon. But growth, as such, must be planned and controlled. It must be meted out by management at a rate which we can absorb and cope with. The past year has made this undeniable.

Because our business is the number one institution in the nation's largest debt area, we have been observed, examined and commented

upon by economists, college professors, government officials and leaders in Congress. We truly are in the public eye. Living in a goldfish bowl is the price of the size and the spectacular success we have achieved. Therefore it is time that association leadership graduate from the narrow and simple channels of administration to the role of economic statesmen. Ours is the complicated task of adjudicating the often conflicting interests of savers, employees and the public. It is our duty to grant these divergent groups the same satisfaction of their basic needs and wants, the same assurance, protection and advancement of their interests. In turn, we reap the understanding approval and stout support of all those who affect our fate in the market place. The people we serve will settle for nothing less.

EQUATING PUBLIC INTEREST, SELF-INTEREST

Our challenge as an industry is constantly to equate the public interest of this nation with the self-interest of our business. It is through such intelligent exercise of self-interest that great industries remain great.

The United States Savings and Loan League is the catalyst which provokes and motivates its members to a continuing alertness and an awareness of their responsibilities. It has dedicated itself to gathering, interpreting and analyzing a great store of facts for our study and profit. Through its research and development, through its devices for education and information, it causes actions and reactions which reverberate throughout our industry and are monuments to some of the finest teamwork and cooperation geared to give fast, flexible service.

Many managers continue to adhere to the proposition that business produces profits, and nothing more. As it happens, we can point with pride to many services we have produced because they have raised living standards in this country to an incredibly high level.

We have all shared in the wealth of our country's postwar period. We in this business have enjoyed an escalator ride to financial fame. We are richer materially, in prestige and in stature. We enjoy a prominent role and command confidence in the economic life of our communities. Accordingly, we should derive a deep sense of personal satisfaction in managing a successful enterprise that enriches the American way of life through the vehicle of home ownership and the management of thrift.

Thus, the savings and loan manager of today holds tremendous power. In producing services, he influences the lives and thoughts of many. His decisions affect the destinies of man, and extend beyond community influence to high levels of government. His power rests not so much on his profit-making abilities as on his contributions to society and his capacity to operate in a free enterprise system. His freedom is vast, limited only by his conscience and his good judgment. He must be alert to the fact that the public has a tendency to judge a group by its least worthy members; the character and the destiny

of any group are often determined by its inferior elements. In other words, the game of history usually is played by the best and the worst, over the heads of the majority in the middle.

BASIC TOOL IS LONG-RANGE PLANNING

In spite of all the unknowns, the uncertainties and the imponderables, the future of our associations can be controlled quite intelligently if we will only analyze our situation carefully and map a course of action that has a good probability of being successful. In times of radical change, forward planning may seem an exercise in futility, but it is in these very circumstances that the need for long-range business planning is most urgent.

The operation of the savings and loan association in this country is no longer an intimate proprietary affair. It is no longer a guessing game for amateurs to play. Today's manager must pass today's tests of skill and resourcefulness. Long-range planning is the one basic tool of management—the only method of plotting and holding a course of uninterrupted achievement. Its effectiveness relies on constant re-assessment of plans, conditions and results, and the development of capable executives who can administer its program.

Authority, as such, is always acquired. It is never visited upon people. It is not a gift or a blessing, but a prize awarded those who earn and deserve it and have the capacity to use it constructively. To those who take a reasonable risk, the reward is highest. To those who make decisions, the glory is greatest. There are no short cuts to wisdom that bypass thought and judgment. There are no guarantees that success will smile on our every deed. Any man who is unwilling to stand or fall on his own evaluation of the circumstances can only follow and imitate, but never lead.

As technology and psychology move closer together in association management, the value areas of finance, research, processing and marketing will disappear and the blind spots for decision-making will diminish. To be "in the black" is one thing, but to be "in the dark" is another. We cannot afford a dim vision of the long-term growth and profit potential of our business.

We must remember that markets are people, the common denominator of all goods and services, the lifeblood of our economy. The consumer is our key to success, to wealth, to self-satisfaction, to security. In serving him well, we have prospered. In serving him better, we shall triumph. Surely, we have won success; but how we preserve it is the real test.

HOME FINANCING LEGISLATION

by the HON. JOHN J. SPARKMAN

United States Senator

Huntsville, Ala.



ALTHOUGH I HAVE addressed your group many times, I believe this occasion is one of the most auspicious, considering the great accomplishments in savings and loan legislation of the past year and the likelihood of equally important matters to be considered next year. I want to tell you a little about what happened in the past Congress and what some of the issues are likely to be in the coming Congress scheduled to convene January 4, 1965.

I have always had a high regard for the savings and loan business because I see in it the success of two great American traditions: thrift and home ownership. The American people, more than any other, have demonstrated what can be done through thrift—saving from the surplus of today to build better things for tomorrow.

This is well illustrated by the accumulation of savings in the savings and loan system of nearly \$100 billion in 38 million separate accounts. What is even more impressive, this savings capital has been put to work to finance over 14 million homes since the war and to help create an economy in which two out of every three families in the United States own their own home.

The savings and loan system is not alone in promoting savings and home ownership. The mutual savings banks, the insurance companies, the credit unions and the savings departments of commercial banks all play a part. However, the savings and loan system is the most active single group; in 1963, about 43% of home mortgage debt was held by savings and loan associations.

Our interest in Congress is a broad one, covering many aspects of the thrift and home building industries, but primarily our objective is to build a better America and provide decent housing for all our people. We are convinced that the key to better homes is good financing. Our goal, therefore, is to maximize the flow of credit into this field.

Our home finance and home building industries in this country have done an excellent job in the last 20 years. Nearly 22 million new housing units have been built. This is a good record, but the job is far from done. In 1960 the Census Bureau reported that more than 9 million families were living in substandard housing units, and another 5 million in deteriorating housing. In addition, 6 million families were living in overcrowded conditions. In addition to providing decent housing for these families, we need about 1 million new units a year to take care of new family formations and probably half again as many to take care of units removed from the supply through public action or otherwise.

In the great, affluent America of today we can ill afford to be complacent about our housing production. The estimated starts for 1964 of 1.5 million are just about keeping us even with family growth and the most urgent replacement demands, but at this rate we are not making much progress toward meeting the needs of the ill-housed.

It was with these figures in mind that our committee considered what might be done to improve the tools for attacking the housing problem and making our existing institutions more effective.

HOUSING ACT A 'GIANT STRIDE' FORWARD

The enactment of the 1964 Housing Act was a giant stride toward improving the tools. This was generally believed to be a "bare bones" law, but there is some very nourishing flesh on those bones. No new programs were authorized, but effective action was taken to shore up existing programs to make them more workable.

Outstanding in the act was the section on savings and loan legislation, which will have more influence on the future of your industry than anything since the National Housing Act of 1934. First of all, I think that this year's Housing Act will have a significant impact on housing and will stimulate your business on the lending side. I might add also that there is a section in the act which will greatly stimulate your business on the savings side.

We included in the legislation a section that gives insured savings and loan associations the right to accept federal public funds up to the insurance limit. This means that as far as Congress is concerned, the various government agencies and officials can place idle funds in your institutions. This proposal has been a part of your legislative program for many, many years.

In the Housing Act of 1964 there were many other provisions broadening your lending authority. The increase from 50 to 100 miles in your lending area is a further liberalization which is made necessary by the greatly expanded suburbs. Certainly if 50 miles was proper in 1933 or 1934, then 100 miles is not unreasonable today. With the new highway systems and faster automotive transportation, as well as mass transit, it is a logical extension toward updating and modernizing your lending authority.

New authority in the act relevant to property improvement loans is a step toward modernization of that program. If properly used, this could lead to an important breakthrough in financing the maintenance and modernization of the existing housing supply. The subject of property improvement and rehabilitation was given a great deal of attention by our committee when considering this year's housing legislation, and I hope that your members recognize the possibilities of your new authority and use it. One of the areas that need attention is the so-called gray area inside the cities; the houses in this area are too good to be torn down, but not good enough for normal lending practices. Some new approaches must be developed to attract private enterprise to these needy areas.

The 1964 act recognizes in several ways the need to maintain the existing housing supply. We strengthened code enforcement requirements related to federal housing programs which should force self-improvement. We established a new type urban renewal project, a code enforcement project which can be financed with two-thirds federal assistance. We authorized direct low-interest-bearing 3% government loans for rehabilitation in urban renewal areas and we liberalized the investment powers of savings and loan associations to make unsecured loans for rehabilitation purposes.

Suburban new housing has been the great source of growth for the savings and loan business, but I wonder if it is not time for you to look back over your shoulder and pay attention to the existing supply, where most of us live. Financing the updating and rebuilding of areas within the existing community not only would be a source of great satisfaction to you, but it could provide an important new outlet for association funds to replace a portion of the dwindling new housing market.

The authority to invest in municipal obligations is another legislative proposal long favored by the savings and loan industry. Although this authority will not be used extensively by your industry, I think that in the area of good public relations it will be used to some degree. As you know, the expense of constructing and financing community facilities increases each year. You will need to take an interest in this type of financing, because it goes hand in hand with better housing and community development.

The ability for you to invest in savings and loan corporations, or service corporations, will permit you collectively to do some things that many of you could not do individually. The increase in your basic mortgage amount from \$35,000 to \$40,000 also will help you to keep pace with our modern concept of housing.

HOUSING THE MIDDLE-INCOME FAMILY

What about the future? In 1965 I expect many proposals from the administration to sharpen further our tools to improve the housing supply. I should hope that the great and influential savings and loan

industry will be in the forefront, working with the administration to develop these new tools.

It is an open secret that the President has appointed a task force to make recommendations on housing and community development programs. I have no advance knowledge of the findings of this task force, but I am certain that serious consideration is being given to one of our most pressing problems: housing the middle-income families. According to the latest census, over 40% of American families—the great middle class—have incomes between \$3,000 and \$7,000. A large percentage of them live in substandard or otherwise unsatisfactory housing and represent a great unmet demand for better housing.

This is an old problem, but I have never felt that private enterprise ever gave it the attention it deserves. The easy solution is government credit, and of course that will be the answer unless private enterprise, and more particularly the savings and loan industry, comes up with a better solution.

Here is an area where a great deal of work needs to be done. More knowledge is needed on the ability of these families to finance better housing: how much they can afford to pay for monthly housing costs; what risks would be encountered in financing homes for such families; and what new techniques need to be developed on underwriting, reserve requirements and reinsurance to make it possible for associations to apply a limited amount of funds to finance homes for this great middle-income class. I am pleased to hear that your League already is looking into this and has a research project under way to come up with findings and recommendations.

In the next Congress there will be many legislative proposals that will have a direct effect upon your business. I want to mention a few of them, because I know they are of vital interest to you.

HOLDING COMPANIES, FEDERAL STOCK ASSOCIATIONS

One item has to do with holding company legislation. As many of you know, I introduced a holding company bill last year for the purpose of study. So far the study has been limited mainly to people outside the business and to some study by our staff. Any major study will have to wait until next year and will need to be quite thorough in its approach. For example, the state of California enacted holding company legislation this year, and its effect will have to be studied. Also, this legislation will be controversial and all sides will have to be heard rather thoroughly. Because the original holding company legislation originated in the House, and in view of Chairman Robertson's thinking in this connection, I believe that the Senate will most likely wait for the House to act in this area before it begins any detailed public hearings.

In addition to some division in the industry, there is, of course, the Federal Home Loan Bank Board's bill, which was introduced in the very last days of this session of Congress. It differs from the study bill I introduced. All these differences will have to be considered at length.

Another bill introduced in the final day or two of Congress deals with supervision and regulation of savings and loan associations. Again, I would point out that the House has held many weeks of hearings on this subject, and I presume that it will move first in this area.

Still another bill which was introduced in the House, and to my knowledge was not introduced in the Senate, was a bill to charter federal stock savings and loan associations. I am sure that this proposal will require years of study and consideration. There are many members of Congress who would not look kindly on the chartering of federal stock savings and loan associations. Then, too, such a basic change in the federal statutes governing savings and loans would undoubtedly be coupled with discussions on your tax laws.

You may recall the debate in the Finance Committee in 1962 on a proposal to tax stock companies at a different rate from mutual companies. This in itself means that your industry will want to study this matter thoroughly before you come up with a proposal that you wish to be considered seriously by Congress.

FSLIC FINANCIAL POSITION, INSURANCE CEILING

I am sure that most of you were concerned by the news account of a General Accounting Office report on the financial position of the Federal Savings and Loan Insurance Corporation. The article implied that a serious situation existed in the FSLIC reserves because of acquisition of assets of several defunct savings and loan associations. According to the report, the FSLIC has paid out \$61.7 million to acquire the assets of four insured associations, and it may have to purchase assets amounting to an additional \$200 million in eight other problem cases, with more expenditures possible in seven others.

I believe that the news report on this matter was unfair. The GAO was really talking only about liquidity, but the general public does not know the difference between liquidity and insolvency. The Home Loan Bank Board's reply answered the charge satisfactorily: that the loss per dollar of acquired property would be only 13 cents, and its current assets invested in government bonds were well above \$1.3 billion. This amount will be increased to \$1.5 billion by June 30, 1965. Furthermore, no one mentioned the back-up authority that the FSLIC has, amounting to an additional \$750 million from the U. S. Treasury.

I believe, therefore, that there is not much cause to worry about either the liquidity or the solvency of this fund. We had a similar charge leveled at the FHA in 1963 when a news account reported that the agency paid claims of over \$700 million and that its entire reserve fund was in jeopardy, even though it had assets soundly valued at nearly \$1.6 billion.

Nevertheless, I believe that the GAO had other problems in mind. One is the natural concern about the management practices of insured savings and loan associations which get into financial difficulty in times like these when business is so good and there is still a slight inflationary

trend on property valuations. Second is the issue of the pay-off procedure of the Insurance Corporation in meeting the statutory requirements on insurance of accounts up to \$10,000.

You recall the big battle in the House of Representatives early this year on raising the insurance ceiling. The House turned down the request for authority to insure accounts up to \$20,000. Of course, that issue was clouded by the opposition to the bill by the administration and others, based mainly on the desire to combine the authority for higher ceilings with stronger supervisory powers by the FSLIC over insured associations. As you know, nothing was done by the Senate on either of these matters, but I expect that we will be faced with decisions on them in the coming 89th Congress.

I do not want to predict what will happen on these problems except to say that some members of Congress are less concerned about the insurance ceiling than they are about the Insurance Corporation having adequate authority to detect improper and unsound practices before it is too late to do anything about them. I see no reason that this cannot be granted without impairing the growth of soundly run associations.

PRAISE FOR FHLB BOARD CHAIRMAN

Now I want to say a few words with respect to my good friend, the distinguished chairman of the Federal Home Loan Bank Board, Joseph P. McMurray, who will soon take on new duties as president of Queens College in New York.

I am sure that most of you regret, as I do, to see Joe leave Washington. I believe his leaving will be a real loss to the savings and loan business. His imaginative mind, his persistence and hard work, his deep convictions and his ability to cut red tape to get things done have made him a truly outstanding chairman of the Bank Board.

You in the industry can be truly thankful that, during the past few hectic years involving the touchy issues of taxation, supervisory powers and extension of investment powers, you had a chairman with a firm hold on the helm. An industry maturing at the speed of a 50% growth in three years, and with total assets of nearly \$120 billion, must have strong leadership with the full confidence of the industry, the Congress and the public. Largely through Joe's efforts, the Bank Board is in the strongest position it has been in during my memory, and I hope it stays that way. The public's interest demands an effective Board. Your interests, too, depend upon a Board which, while recognizing the free-enterprise nature of your industry, is ever vigilant and does not fail to take action when necessary to preserve the system and its good public image.

Joe McMurray's good leadership qualities show up well through the top quality staff that he brought to the Board. More important, however, were his recommendations to the President on the appointment of John Horne and John deLaittre as members of the Board. It is to these two men that Joe is leaving a fine legacy and you in the industry can consider yourselves in the hands of the best.

RETROSPECT AND PROSPECTS

by JOSEPH P. MCMURRAY, *Chairman*

Federal Home Loan Bank Board

Washington, D. C.



WHEN I FIRST STARTED to think about what I should discuss with you today, I was tempted to review the events of my tenure in office. After all, this would not be unfitting. This will be my last appearance before you as chairman of the Federal Home Loan Bank Board. A re-examination of policies adopted and conditions which led to their adoption seemed at first thought just the thing to do.

But as I stood back and surveyed the mosaic of events that have filled the years since mid-1961, I suddenly became aware that individual events and individual policies have a way of intertwining with other developments so as to conceal major changes in the course of human affairs. These broader developments can affect us all very deeply and can, in fact, determine the basic setting which is even more important than the policies which we adopted to deal with that setting. I became aware that if we cut through the mosaic of specific actions and looked behind the scenes we would see much broader, more powerful principles.

CHANGED WORLD, CHANGED ECONOMY

After all, the world of 1964 is not the world of 1961. In 1961, Nikita Khrushchev was not far removed from pounding the desk at the UN. He was a hard adversary for our great and noble young President to deal with. But Nikita Khrushchev subsequently found it expedient to withdraw from one of his most exposed positions and had to part ways with those who once were his comrades, the Chinese. Today new faces, new voices rule in the Kremlin. Thus the world of 1961 is not the world of 1964; and although there may be those who would cast stones into the gardens our leaders have so very carefully cultivated and tell us that we are failures, reasonable men will have to agree, as I think the

election last week so eloquently showed, that we live in a safer and saner world than we did in 1961. This should be a clear testament to the success of our government under President Johnson's wise leadership.

The economy today is also not the economy of 1961. Indeed, we live in a rather unusual setting based on past experience. And as the world has changed, and as the economy has changed, so has your industry. It, too, is not the industry it was in 1961, and it is more than just the matter of how much it has grown or how much more intense competition with other financial institutions may have become. Rather it is the matter of the whole web and fabric of economic and financial life as it affects your industry.

Yes, our economy today is somewhat unusual, but not for the reasons that some people like to give, especially as they do from a campaign stump. It is still very much a private economy. In fact, it can be argued, it is more private today than it has been even in the past. Corporate profits are bigger and better than they have been for some time, and the role of the federal government, despite some increase in spending, is not as great in relation to our total output of goods and services as it once was. What, then, is unusual about our economy? It is the way we have developed since early 1961.

We have prevented the repetition, at least temporarily, of sharp increases in economic activity followed by frequent recessions. That course of events resulted in an over-all growth which was unsatisfactory. The current expansion of economic activity is the longest in our peacetime history; and even as we meet today, we can look ahead to 1965 and say with reasonable certainty that the economy will still be advancing a year from now. Given the length of the upswing, this last observation reflects the remarkable nature of our economy now, compared with what we expected it to be even as recently as 1961.

MAJOR FACTORS IN OUR EXPANDING ECONOMY

What has given rise to all this? I think we have to admit that a number of things have contributed to it. There are those who will emphasize the role of government, and perhaps not improperly. Certainly the tax cut of 1964 has been a major factor in contributing to our expansion this year and our probable growth next year. More importantly, it has transformed, to a degree, the response mechanism of our economy. But even this, important though it may be, in my view is not the most remarkable thing about this expansion.

To me, the most outstanding characteristic of this expansion can be stated in one word: moderation. Each sector of our economy has moved ahead steadily but without any surges since 1961. As a result, we have not developed some of the stresses and strains of the past.

Today we have a stronger, more resilient economy than we had in early 1961; we have one that is healthier and more promising. But these factors are no reason for us to become complacent as a nation, as members of a particular industry or as public servants in a particular gov-

ernment agency. For changes have been wrought in our economic environment which we must all consider with care.

One important change in our economy has been the large increase in savings accounts at deposit institutions from 1961 to 1963. While there has been some slowing this year, the flow is still very strong. You are aware of the competition among mortgage lenders which has resulted from this development. Let me just add that, in my judgment, it will continue for some time to come.

There has been a change, too, in our housing situation. The large upswing in apartment house construction which became apparent about 1957 picked up steam in the years from 1961 through 1963. It is only this year, following recognition of overbuilding in a number of important metropolitan areas, that there has been some abatement. At the same time, the growth in the population has been slow in those age groups which form families or households. This pattern is likely to continue for at least two more years. So here is another event that casts a shadow across the path of those who work in the mortgage market.

SAVINGS AND LOAN BUSINESS CHANGED, TOO

Now, what about the savings and loan industry? It is clearly not the same industry it was in 1961. True, one of the differences is size. You are more than 50% larger today than when I took office about 3½ years ago, but this is only a superficial manifestation of what has happened to the savings and loan industry. You have broader lending and investment powers than you have ever had in your history, and all this broadening has come about since 1961. The Housing Act of 1964 must be considered a landmark in the development of the basic lending and investing authority of your industry. But even these changes, with all their importance, are not the crux.

The major change, it seems to me, is the cost-price squeeze that you have been in since 1961. Mortgage interest rates have either been going down or have been soft since February 1961. Yet, at the same time, competition for savings has raised dividend rates so that the rate you pay today is substantially higher than that which you paid 3½ years ago. In addition, you are now subject to a substantial degree of taxation compared to a tax level which for practical purposes might have been considered zero in 1961.

Nor is this all. Even in 1961 we were still riding the crest of a substantial expansion in the price of housing. True, the degree of inflation had slowed even then. There had already been a large increase in foreclosure rates on conventional mortgages as well as FHA and VA mortgages. The main difference today, it seems to me, is that it is even easier to make a mistake than it was in 1961. A poor loan will no longer be rescued by inflation. An optimistic loan to a builder in the hope that houses will sell out quickly when the project is finished is likely to end up as inventory in the hands of the institution that made the loan. This is particularly so if that institution pays little attention to the rate at

which the builder erects houses in relation to sales and does not attempt to control the way in which the builder sells those houses.

Today the savings and loan industry is one in which skill in lending, skill in management and skill in operations are far more crucial than at any time in the recorded memory of most of us. It was only a few years ago, I must remind you, that people would have looked at you askance if you had suggested the possibility of scandals involving fertilizer tanks, vegetable oils and certain other schemes which have taken place. You would have been told that our banks and other financial institutions are far too sophisticated, far too cautious, far too closely regulated for any such event ever to be possible. But we know now that sophistication, caution and regulation must change with the times, for complacency will lead us down the primrose path.

ANTAGONISM: FIRST REACTION TO REGULATION

None of this is to deny the fact that our financial institutions, and the savings and loan industry in particular, have done an excellent job. The American money and capital markets, and indeed our mortgage markets, are copied and admired throughout the civilized world. Their efficiency in this expansion needs no testimony from me. Yet despite this record of which all of us may be proud, it is clear, too, that we need to reconsider some of the things we have been doing and the way we have been doing them, so as to avoid the pitfalls which appear in the road as we attempt to travel new and different paths.

Just a year ago, when I spoke to you in San Francisco about the new reserve regulation, I could feel the chill in the room. I shall not say that the reserve regulation today is universally embraced. It still is criticized. Yet, more and more as my colleagues and I travel from place to place and talk with people, we are told again and again that the regulation is a good one. It is serving an excellent purpose. It is making people think and review what they are doing. It reveals weaknesses and helps to correct them.

Similarly, there was a great hue and cry about the semiannual report and the burden it imposed. We would be the last to deny that it imposes a burden on you. But more and more we are receiving letters from your industry telling us that this report reveals to management information about itself that it never knew before and that management is thankful for a new tool. I cite these facts because we tend to resist change and to view every increase in effort demanded of us as a useless burden. Yet, after we live with the changes and the additional effort, we frequently realize that the game has been worth it all.

The legislation that the Board has submitted to Congress also fits this mold. True, our recommendations for Section 5(d) and Section 407 may appear to you to be unnecessary, or possibly unusual; but this is no longer an industry in which we can let matters ride until the day when we can invoke our powers to impose the death sentence upon an institution.

Do you want to live in an environment in which your less ethical competitors—in fact, in some cases greedy and dishonest operators—can go unhindered until they have brought a debacle upon their community? If we are to play the role of undertaker, we shall not be able to practice preventive medicine in the interest of the public and the overwhelmingly large proportion of institutions which need relatively little guidance from day to day. Too many of you have invested your life in the service of your own institution and your community to allow ruffraff an open avenue to destruction of your good name.

So I say to you: Look at the bill amending 5(d) and 407 and ask yourself what will happen to you if it is not on the statute books. In those circumstances, we will have to live with the present tools; yet there are those who have taken or could and would take advantage of them.

In the same vein, I want to call attention to the proposed amendments to Section 408 in the holding company legislation. We are quite keenly aware that some of the holding companies are not happy about them, but I ask you: Should the associations that they control have powers that other savings and loan institutions do not possess? Should a holding company association be able to fob off its responsibilities because its parent can take action which you cannot? Should an association controlled by a company in an entirely different line of endeavor be able to sell assets at a profit to its holding company so that it can accumulate resources with which to meet the reserve regulation? Should a holding company association allow its parent to do things in its behalf which law and regulations say that you cannot do for yourself? Should holding companies be permitted to operate across state lines when you cannot?

Perhaps the answers to some of these things may be yes, but it is up to the Board to bring these issues to the attention of Congress and advise it as expertly as it can. You, too, have an interest in seeing the matters discussed and in seeing that the Board's views, as well as your own, get full consideration.

After all, your interest as well as the public interest is deeply involved here. If we are unwilling to call these issues to the attention of Congress, we are guilty of default in our duties. If Congress rules in favor of the holding companies, the record will be clear and we shall all know where we stand. But the issues must be placed before Congress in a way that will permit it to study them and make a choice based on a considered judgment and not let the holding companies continue to enjoy their preferential status because of our unwillingness to act.

ETHICAL CONDUCT: BEST HEDGE AGAINST REGULATION

The challenges that you face because of the change in the economic financing environment have many facets to them. Let me give you one proposed by my good friend and yours, Arthur Weimer, at your Annual Business Operations Clinic in Chicago in 1964:

To date, the regulations have not, in my judgment, seriously inhibited the expansion of the industry, and on balance they have improved the general caliber of savings and loan assets. . . . The best hedge against more regulation is continued prosperity along with the continuation of the highest possible level of competency and of *ethical conduct on the part of all of us* who are dealing with *other people's* money. Outside forces usually determine the establishment of regulations. Internal elements within an industry determine their severity and their ultimate impact. [Emphasis added.]

I can think of no wiser caution as I prepare to leave office than that expressed by Arthur Weimer.

SAVINGS AND LOAN IMAGE RESTS WITH THE INDUSTRY

We talked about "image" when I first came into office. Many of you asked me to help improve the image of your industry. This I hope I have done. I must say to you now that the image of the savings and loan industry rests in the hands of the industry; or, as Arthur Weimer has pointed out, the internal elements within an industry are the key to what happens. You determine your future by your acts today.

There are those who would lead you astray; they would tell you that if you build lovely office buildings and make very graceful speeches, or produce the finest ads, or drive impressive cars, or have employees who meet the public with ease, your image will be able to withstand any pressure. These soothsayers are misleading you. It is true that all of us ought to strive to maintain a pleasant appearance; but beneath the surface we must be sure that the internal elements are strong, respectable and resistant to the most severe scrutiny and criticism possible. Without such a posture we fall prey to those who would happily spread dissension, to the sensation seekers and even to those who feel it their public duty to point to endemic weaknesses in financial institutions.

So, as I prepare to leave you, I urge that you turn your eyes to the future, remember the conditions which you face today and set goals for yourselves that will be honored by those who are prone to criticize. Hitch your wagon not to a single star, but to two stars: the star of excellence and the star of soundness.

From my experience with the overwhelming majority of people in this industry, I can say with assurance that this is clearly within the realm of achievement. You have excellent leadership. Most of you are people who carry the traditions of American business and management with considerable grace. What you need to do is to reorient your thoughts and avert your eyes from the issues of the past. You must turn your face toward the future and build the type of foundation for the success which will serve you well.

BOARD'S KEYSTONE: COOPERATION IN THE PUBLIC INTEREST

I wish also to call your attention to a goal that I set for myself when I became Board chairman. I refer to cooperation with, and participation

within, the government. The Board and its staff, during my tenure, have worked closely with many agencies of government on a variety of issues. Even though there are evident benefits from this process, there are those who have criticized it. They have said that the Board has, or I have, come under the domination of other agencies. This clearly is not so. We have maintained our independence, but we have not adopted a childish, disruptive view that what is the Board's prerogative must not be discussed, let alone questioned, by others; nor have we adopted the view that the territory of others must be open to the Board if it thinks there is some connection with the thrift industry.

Some argue that the Board should follow the course of promoting the industry, pressing for those things that increase its profits or hold down its expenses. One example of such a course of action has been continuously called to my attention. All I can say is: Do not be too sure that such a course is really helpful. For Congress sees this process and, although it may not act immediately, the day of reckoning will come and it may not be a pleasant one for those who may be reaping temporary benefits.

We have achieved much for your business without a blatant, disruptive attitude toward others. The Board did succeed in getting a clearer understanding of your position during the tax fight. Just recently our efforts at cooperative discussion had some effect on the considerations underlying regulations from another agency which affect you. We have been criticized for this, too, by those we feel should exist only to punish and never to help. How silly!

The keystone of my policy, and I know my colleagues join me, is that cooperation is essential to the democratic process. We all work in the public interest, and that must be the Board's primary guide. If the Board is recognized for its public policy orientation and good citizenship among the agencies of government, you, too, stand to gain. Others will be more sympathetic to you as well as to us.

I am greatly distressed and even embarrassed when the head of some agency breaks into print with quarrelsome charges or deprecations of other agencies. This is most unseemly. Disagreements cannot be avoided, but they should be discussed in an appropriate environment. Even if a mutually satisfactory resolution cannot be achieved, comments in public should not exaggerate the issues or deprecate the motives of others.

REGULATORY DILEMMA OF THE DUAL SYSTEM

It is easy to curry favor with one group of people by offering it what may in some remote sense seem appropriate. One issue which lends itself nicely to this end is the federal-state relationship.

This is particularly true in the case of the dual banking or financial system. It could be, and has been, argued that state-chartered institutions should receive no federal supervision. Does this mean that the state institutions also should surrender their insurance by FDIC or

FSLIC, or their membership in the Federal Reserve System or the Federal Home Loan Bank System? This seems not to be intended. Then how do we square the responsibilities and risks federal agencies are endowed with, if they leave no authority to check for proper maintenance of standards?

Let us be honest and recall that the actions taken by Congress which result in the present duality reflected a clear need to achieve some degree of comparability in supervision. It seems empty and deluding to argue that the federal government must grant privileges but cannot or should not require reasonable performance, even within the confines of state rather than federal law. Such a suggestion strikes me as provocative but highly unrealistic, and inimical to sound intergovernmental relations. Followed literally, this approach could lead to fragmentation and even disintegration of our carefully nurtured financial structure.

If I may leave a legacy for those who may yet join the Board, let me say: Remember the public interest and remember that in a democracy we must work together and reorganize the web of interagency and intergovernmental relationships. While all institutions and governmental structures are subject to change, efforts to modify by taking off on tangents are bound to be disruptive and usually are doomed to failure.

I invite you to recognize the problems my colleagues and successors face. It seems paradoxical that in our society, where government has contributed so greatly to our development, there are people who decry its efforts blandly. Remember, your industry would never have reached its present status without governmental assistance. So try to see the efforts of government and the burdens of the regulators in an over-all context and not in some narrow, strictly self-interest framework.

PRAISE FOR LEAGUE LEADERSHIP, BOARD COLLEAGUES

I cannot leave this platform without acknowledging the fine work that your leadership has done in many, many respects—in legislation, in regulation and in setting a proper course for you to follow. Nor can I fail to acknowledge the friendship, the understanding and the consideration that very many of you have shown me in a short span of time. If I have had any success in this venture, it is because you have been willing to support me, advise me and, even when you disagreed, to go along. So I shall remember you with great fondness and, no matter where I am, believe me, I want to help you in whatever way I can.

I must say in parting that those individuals who have headed your organization have indeed been remarkable men. I have worked closely with four of your presidents. All of them have been fine human beings, and I owe them a great deal. In particular, I should like to compliment your current president, Gene Mortlock, for his excellent statesmanship and his forthright, courageous views. I know that his successor, John Stadtler, also a very good friend of mine and an outstanding character in every way, also will provide the kind of guidance in which you can take pride.

Finally, I must acknowledge, too, a man who is most unusual: Norman Strunk. Many people have said to me, "Can you explain Norman Strunk? For a trade association man he certainly has an exceedingly broad view." It has not been difficult to explain Norman Strunk. Norman Strunk knows that your interest coincides with the public interest and that by promoting the public interest he serves his constituency well. He, too, is courageous. He, too, is forthright. He is a strong support, not only for your industry, but also for those who would work so that your industry serves the public interest best.

I only wish I had more time to thank by name so many others whom I have come to admire and who have helped me so much along the way, especially your staff in Washington.

I know you will forgive me for my Irish sentimentality, but I want to say publicly, and as succinctly as I can, how much I appreciate John Horne and John deLaittre. I really love them. They are truly great and dedicated servants of you, the people; they have helped me tremendously, and I hope they will continue to serve on the Board for many long years to come.

As I leave, I ask you, if you can do nothing else, to pay attention to those who recognize the public interest. They are far ahead of those who would have you turn into the dark byways, the empty recesses and the false paths that lead to disappointment. If you remember this, you will have rewarded me more than you may realize.

And so I say farewell, and God bless you in your great and noble work!

POPULATION TRENDS AND FUTURE DEMAND FOR MORTGAGES

by PHILIP M. HAUSER, *Chairman*

*Department of Sociology, University of Chicago
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IT IS MY FUNCTION to spell out some of the basic trends with respect to population affecting the national economy in general and having special implications for the savings and loan industry. I shall start with the more general considerations first, then turn to those things which have immediate and direct relevance to housing demands, particularly housing demands that are translated into home ownership.

The first of the trends of which we should be aware is our total population picture. When our 18th decennial census was taken in 1960, we were a nation just short of 180 million people. Since then, we already have added to our population some 13 million—as many people as there are in Sweden and Denmark combined—and to our market, by reason of our greater purchasing power, a market greater than that of those two nations combined.

Despite the fact that our birth rate has been declining for several years, we are still growing at an extraordinarily rapid rate, so that we shall be adding to our population between now and 1980 another 53 million—as many as there are in all of the United Kingdom. That is, within the course of the next 15 to 16 years we shall be adding to our market—because markets are people with purchasing power—a market greater than that of the entire United Kingdom.

You will be seeing more and more about a decrease in the birth rate. In the long run this will affect the total population of this nation. It might be well to bear in mind, however, that our birth rate could come down by as much as 50% during the coming generation and we still would be producing bumper baby crops in excess of 4 million every year for at least the next 18 years.

The reason is simple: Our postwar babies are now becoming of re-

productive age, and the population of reproductive age will double during the coming generation. Most childbearing is done by women under 30 years of age. When the 1960 census was taken, there were 11 million such women; by 1990 there will be 22 million. Most of the increase will have occurred by 1980, when there will be 20 million, not counting the males. They also have a function to perform, but they can be taken for granted statistically.

TREND ONE: POPULATION CONCENTRATION

Let me call attention to another basic trend affecting the total economy and having a direct effect on your business: the increasing concentration of people in this nation. When our first census was taken in 1790, 90% of the people were on farms or in places having less than 2,500 population. By 1960, 70% of the people lived in urban areas, and 63% lived in our great Standard Metropolitan Statistical Areas—in cities of 50,000 or more, or in the counties in which they were located.

Over the first 60 years of this century, the increase in urban population of the United States accounted for 92% of our total national growth, and between 1950 and 1960 the increase in our urban population accounted for more than 100% of our total national growth. This, incidentally, is not a mistake in arithmetic on our part. It signifies that, for the first time in our national history, our rural population actually diminished.

Over the first 60 years of this century the increase in metropolitan population—those living in areas having 50,000 or more—accounted for 85% of the total national growth. The increase of population classified as metropolitan absorbed over 97% of the country's population between 1950 and 1960. That is, our increase in concentration of population has resulted in an increase in concentration of dwelling units. This has been a basic factor in the growth of your industry.

How recent this development is may be gleaned from the fact that not until 1920 did as many as half of our people live in urban places, and then only 51% as reported in the census of that year. So this nation will not have completed its first half century as an urban nation until the next census is taken in 1970.

TREND TWO: POPULATION DECENTRALIZATION

The process of increased concentration is still under way. This means a rapidly growing market for homes and for apartment house units. In fact, projections of the current trends indicate that of some 65 million people likely to be added to our population between 1960 and 1980, 60 million will go into metropolitan United States. At the same time, within metropolitan United States we are observing the great process of population decentralization.

All of us have heard about the flight to the suburbs. This expression is a half-truth. Oliver Wendell Holmes said that a half-truth is like a

half-brick: you can throw it twice as far. This one has been so thrown. It is a half-truth because it obscures the fact that throughout the life of our nation, while people have been moving outward to the periphery of the cities, to the suburban areas, people also have been coming in, and that in most of the cities the people coming in have outnumbered the people going out.

Something new has been added. During the decade 1950 to 1960, for the first time in our history, as many as 70 central cities of some 257 in our metropolitan areas lost some population. In fact, over the first 60 years of the century, our suburbs—counting those people living in metropolitan areas but outside central cities—absorbed 45% of our total national growth. Between 1950 and 1960, the increase in the suburban population accounted for a full 66% of the total population increase in the United States.

Of the projected 60 million people added to the metropolitan areas between 1960 and 1980, 45 million will go into suburbs and only 15 million into central cities. As many as that will go into central cities only because when a place of less than 50,000 reaches that size, it becomes a new metropolitan area. The older and larger the metropolitan area, the more likely it is that most of its continued population growth will be in suburbia; the city itself is likely to change very little from now on. The newer the metropolitan area, the more likely is the central city still to absorb some population increase.

The increased concentration of our people is easy to understand. People pile up in our metropolitan areas because this number of people in economic activities is the most efficient producing-consuming unit mankind has yet devised. It has set in force a motion which is likely to continue as far ahead as we can see.

The decentralization is easy to understand also. Our improving technology is making possible a larger and larger conglomeration of people. Most of our central cities have, on the average, been filled up since 1920. As companies get larger and larger, the central cities continue to grow. Because they have rather fixed boundaries, when they are filled up the only place the population can grow is in the suburbs. But with the drastic changes in patterns, they are not likely to have greater growth from now on. They may lose a little with the expressway, urban renewal and other forms of development and may not change very much in either direction.

TREND THREE: CHANGING AGE STRUCTURE

Another basic population trend affecting the entire economy, with special implications for your business because it affects household construction, is our changing age structure. In 1800 the average American was 16 years old. By 1950 the average American was over 30 years old.

As individuals, from the moment of birth we have no alternative but to grow older; but an aggregate population can grow either older or younger. As a result of the postwar baby boom, the average American

grew younger between 1950 and 1960—a little under 30 years of age.

The reason for the aging of population over the years has been our decreasing birth rate. The postwar baby boom produced a birth rate of about 25 births per 1,000 persons a year, a boom rate compared with 18 during the depression when the bottom dropped out of the marriage market as well as the birth rate and as well as the stock market. But a boom rate of 25 is a relative boom. It is less than half of the birth rate of the United States in 1800, when it was 55.

As a result of the aging of our population over the years and the superimposition on that trend of our postwar baby boom, unprecedented things are happening, some of which have the most profound significance for your business. Let me give you a brief picture of the rapidity with which the age structure of the United States is changing.

The economists used to say that the population was an exogenous variable; in other words, that for all practical purposes you could forget about it. But with the tremendous fluctuations we have experienced in our birth rate—the big dip during the depression and the boom after the war, after demobilization, it turns out that our age structure is changing so rapidly it cannot be ignored. It may affect many sectors of the economy, particularly anyone concerned with construction and especially with home construction.

What are the facts about the changing age structure? Youngsters of elementary school age increased by about 45% during the 1950s. That will slough off to between 15% and 18% during the '60s.

High school youngsters, who increased only about 23% during the '50s, during this decade are increasing by 40% to 45%. The secondary schools are now feeling the impact of the postwar baby boom as it comes through the age structure.

The next age structure—the young people 20 to 24 years of age—is an especially critical group because this is where most marriages and household formations occur. That group decreased by 6% during the '50s and is in short supply as a result of the relatively small number of births in the 1930s. As opposed to the 6% decrease in the '50s, the age group of 20 to 24 years is increasing by 54% during the '60s.

BEARISH ASPECTS OF CHANGING AGE STRUCTURE

The changing age structure is affecting the entire economy in both bullish and bearish ways.

Let me say a word about the bearish ways. As a result of the fact that our postwar babies are only now reaching labor force age—remember that the first class of high school graduates, as far as the postwar baby boom is concerned, entered the labor force last summer and that for the next 18 years a similar class will be seeking first employment after high school—the net effect is that during the '60s there will be an average of 600,000 persons under 25 years of age seeking a job each year. This is three times the number under 25 years of age seeking employment during the second half of the '50s.

This, to my mind, provides our economy with perhaps its major challenge in peacetime since the depression of the '30s.

Can we generate jobs as fast as we did babies after demobilization? The answer so far is not too encouraging, with teen-age unemployment still three times that of average unemployment. Should we be unsuccessful in generating jobs to absorb this crop of persons under 25, and should unemployment continue to mount, we are likely to realize a shift from the private sector to the public sector of our national accounts. You may be sure the government will intervene to try to create jobs to absorb the unemployed.

The way the population is affecting the entire economy in a bearish manner has a specific effect on your business.

An important element in the demand for housing during the '40s and '50s was the large group of young people who were able to get jobs at relatively good salaries and wage rates and to set up their own housing units even before they were married. The smartest generation of Americans we have ever had, I think, was the generation of youngsters who were astute enough to be born during the depression years. These youngsters were in short supply. They could get jobs at good rates. They ran little risk of unemployment. They had great opportunities for promotion throughout their careers. They constitute an important element in the demand for housing.

As a result of these conditions, the marriage age went down. A greater proportion of our population is married than ever before in our history; it is greater than in any western nation.

The youngsters who chose to be born in the postwar period were something less than astute. They are in large supply. They are having difficulty getting jobs and getting away from their families.

There may be a reversal of the process of undoubling, in which young people as well as older people, in-laws and so on set up their own households. There may be a jamming up of the youngsters in the households. The trends indicate that for the first time in our history this decade may produce a larger number of persons per household. This is a bearish factor on the economy as a whole and a bearish factor from the standpoint of household formation and your own interest. And if this should continue, these young unmarried people will further depress the birth rate and set into motion bearish factors that could have adverse consequences within the next decade.

TREND FOUR: CHANGING PATTERNS OF LAND USE

There is another trend related to population that may be of major interest to the savings and loan business: the changing patterns of land use.

As you know, most of our cities had their origins at points which encompassed their original economic functions. In the case of Chicago, this was near the junction of the Chicago River with Lake Michigan, into which the river used to flow. From this point outward—to the

north, south and west, but for obvious reasons not so much to the east—as a result of the process of growth certain things happened with respect to land use patterns which still affect your industry. Forces are in motion that are even now changing this pattern. What I refer to is a cycle which has taken place throughout the country. Because the newer housing was always most distantly removed from the economic centers the population became stratified in space; in other words, "them that had it" always moved to the suburbs, thus providing a land use pattern throughout suburban areas.

Some basic forces are now being modified. If you think in terms of your own cities you can probably reproduce this cycle. The oldest housing was originally near the economic centers and the newest housing was farther out. Of course the newer house is always a little more desirable. Then the housing projects started to incorporate all the elements of changing technology.

For example, the first lighting in Chicago, around the junction of the river and the lake, was the kerosene lamp. Then came gas lighting, and after that electric lighting, with the wiring coming through the gas pipes. Then there was housing with electricity coming through its own conduit. There was housing with more and better plumbing. There were bigger picture windows. This increased the desirability of the outlying house even if the picture windows only faced other picture windows and the women had to get draperies and Venetian blinds to shut out the other houses. This basic pattern resulted in land use as we know it today, but the industry which gave this country the highest mass level of living ever achieved in the history of man also had certain restrictions. It anticipated the slums.

The slums became a matter of international disgrace, a matter of international politics. Public housing projects indicate that the American people have decided to clean up some of the mess they created in the hurry to get where they are today. As you know, we are still experimenting.

So far in our history, we have demonstrated that we can *build* a magnificent urban and metropolitan plant. We have demonstrated also that we can let large chunks of it deteriorate and become obsolete. We have still to demonstrate that we can *maintain* an urban plant. There are many signs which indicate that increasing stress will be placed on urban maintenance as distinguished from bulldozing and building all over again. This means renovation, modernization and conservation.

In my judgment, urban maintenance may become as large an outlet for housing as we have yet seen in new construction. There are many signs in the winds that will vary at different times and at different stages in a community.

NEW LAND USE PATTERN EMERGING

We are in the process of changing this inherent pattern of land use. Let me give you one example.

There is increasing evidence that the family will use the entire metropolitan area at various times during its life cycle. A girl meets a boy. They marry. They live in the center of the city. The baby comes. Off to the suburbs they go, in keeping with the American tradition of fresh air and green grass for the children. The children grow up and leave home. There is no one to cut the grass. The elderly couple moves back to the city into an efficiency apartment in a high-rise building in an urban renewal area. A turn of the key makes it possible for them to go to Florida or California. The grandparents can take turns baby sitting. Is this fact or fiction?

In 1890, when a man's child left home for marriage, the average American wife was a widow. By 1960—as a result of decreased marriage age, decreased birth rate, increased childbearing under the age of 30, decreased death rate and increased longevity—when the last child left home for marriage, the average wife had a husband with whom she would live for an additional 15 years with an empty nest.

Between 1890 and 1960, the average time for couples living with empty nests increased from zero to 15 years, creating a demand for housing which did not exist a generation and a half or two generations ago. This is why a decentralization movement has begun in a good part of the urban United States, with the type of population we have in Marina Tower and Outer Drive East, for example, in Chicago: young couples or singles, young couples without children and elderly couples whose children have “flown the coop.” This distribution is a new trend that will vitally affect the market.

TREND FIVE: THE GROWING NEGRO MARKET

The final trend I want to mention is with respect to what may be the most rapidly growing market of its size in the United States today. I refer to the Negro market.

Let me give you a few figures: In 1790 there were 800,000 Negroes in the United States—about the same number as there are today in the city of Chicago alone. From 1790 to 1830 they made up one-fifth of the total population. By 1940 they made up only about 10% of it. But they have been increasing more rapidly than whites ever since. Now they comprise a little more than 10% of our total population.

As recently as 1910, 85% of all our Negroes still lived in the South; this concentration had not changed by more than three or four percentage points since the first census was taken in 1790. Since then, as a result of World War I and World War II, with the cutting off of immigration the Negro has been exported to the North and West along with the surplus population of the South itself. These streams are continuing to flow. In consequence, by 1960, 40% of our Negroes were in the North.

Another fact may be more telling and may give you a better understanding of some of the problems relating to the so-called Negro revolt. In 1910, before the migratory movement began, 73% of our Negroes lived in rural places—on farms and in places having fewer than 2,500

people. By 1960 this had changed to 79% of the Negroes living in urban communities. The Negro today is more highly urbanized than the white population, 70% of whom are in urban areas.

About half of our Negroes live in the metropolitan areas of 1 million or more, 24 of which contained 30% of our population in 1960. The white population decreased by 6% while the Negro population increased by 60% in the decade between 1950 and 1960.

Why do I say that this may be the most rapidly growing market in the United States, including the market for housing? The Negro population is growing faster than the white. The Negro consumption pattern is changing from the rural pattern to the urban. About one-third of the Negroes now in the metropolitan areas of the North are, by any standards, middle class and the other two-thirds are coming up relatively fast. So our 22 million Negroes with a purchasing power of \$22 billion may have the opportunity to double purchasing power in the coming generation. This is a market that many of you are already beginning to watch. I repeat, it may be the most rapidly growing market of its size in a good part of the United States.

HOUSEHOLD FORMATION PROJECTIONS

Let me turn now specifically to the question of household formation and to something which offers good prospects for housing. I have been addressing savings and loan audiences for a number of years, and my message has always been definitely bearish. But today I think it is definitely bullish. I have made high and low projections of household formations for the next two decades and have indicated differences by age of the head of the household, which has great significance from the standpoint of home ownership and the nature of housing demands. Studies conducted by Leon Kendall for the United States Savings and Loan League indicate that 89% of all homes with mortgages are owned by households with heads between 25 and 54 years of age. Very few houses with mortgages are owned where the head is under 25 or over 54.

Now, what has happened so far during the 1960 decade? Take it almost exactly down the middle between my high and my low projections, split the difference and you have the current situation pretty well so far. In round numbers, there is an appreciable increase from 8 million to 11 million households between 1960 and 1970.

Let us consider the low projections first. The pattern is the same: Between 1960 and 1965, total heads of households increased by 7.2%; households with heads under 25 increased by 35.9%; households with heads 55 and over increased by 12%; but households with heads of the intermediate ages, those in the home-owning age group, increased by only 2.3%. In fact, for the whole decade from 1960 to 1970, both the low and high projections indicate that the total number of households for that decade will increase by 15% to 20%, whereas households with heads who are under 25 years of age and who are not owners of homes

with mortgages will increase by 75% to 93%. Households with older heads who are not owners of homes with mortgages will increase by about 25% to 30%, while households with heads in the intermediate age bracket, who are in the home-buying range, will increase by only 6% to 10% during the '60s.

Now let us look at the low projections again.

For the period from 1960 to 1965 I projected an increase of 3,807,000 households. Of that increase, only 745,000 are households with heads in the age group from 25 to 54 years. That is less than one-fifth in the home-buying age group, and is the low point in the distribution as a result of the decline in our birth rate during the depression.

FUTURE TREND: LARGER HOME-BUYING AGE GROUP

Now I come to the good news. In the second half of this decade, beginning with 1965, I have projected an increase from 745,000 to 1,270,000 to be added in this home-buying age range. In fact, during the second half of this decade the proportion of the total household increase which is in the home-buying age range will increase from about one-fifth to almost one-third; and in the first half of the next decade, with that increase of 2,774,000 between 1970 and 1975, we shall get back to the point where half of the household increase will be in the home-buying age group; and by the second half of the '70s, with our changing age structure, we may reach an all-time high of something like 57% of the household increment being in the home-buying age group.

This means that the low point in home ownership demand, as affected by population alone, is taking place during the first half of this decade, between 1960 and 1965, and that beginning with 1965 we shall have a definite upgrading in this respect.

This means that the demand for housing in the first half of this decade has been entirely or primarily, as far as age structure is concerned, for apartment house units. With the shift to which I am referring, it will be increasingly for private dwellings. In the '70s we shall again be where we were in the '50s and '40s, with something better than one-half of all household formations being in the home-buying age range. By the end of the '70s, the situation will be better than anything we have ever experienced.

BUSINESS AND REAL ESTATE TRENDS IN 1965

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RECENT EVENTS have made the task of estimating the future course of economic events far from easy. Developments in Russia, China and Great Britain, as well as at home, have created numerous uncertainties in regard to the business outlook. It is not possible at this early date to determine the potential significance of these many developments. There is a general tendency to assume that major changes will follow major events, but such an assumption is not always warranted. In the short run, things tend

to change rather slowly.

What is important is that these events have changed *expectations*. Business executives are less certain than they were a few weeks ago about the shape of things to come. Consumers feel that they are living in a world that is somewhat less safe than it had appeared to be. As time goes on, these changes in expectations will have a significant effect on the American economy.

These events demonstrate once again the tremendous importance of foreign affairs for the American economy. Increasingly, potential developments abroad must be taken into account in assessing the business outlook.

The general trends of economic activity continue to be favorable. It would be difficult, indeed, to project anything but a further rise in gross national product. Present trends suggest a rise of about 5%, giving us an over-all GNP for 1965 of nearly \$660 billion. This expansion will come from a number of sources.

In the private sector, one of the principal factors in the expansion will be capital expenditures. Current indications point to another major expansion which will have a decidedly stimulating effect on the

economy. Automobiles, while not expected to add to the already large support they are giving the economy, likewise are not expected to become a negative factor in the months ahead.

GOOD YEAR AHEAD

The construction industry seems headed for some further expansion, even though various areas of weakness in it leave some hard questions to be considered. For example, we have been expecting some declines in residential construction and mercantile construction, and possibly reductions in defense and various other fields. Such declines may well be counterbalanced by expansion in industrial building and in institutional, educational and governmental construction. Also, there may be some remaining strength in the office building field. All in all, I expect the construction industry to generate a little economic expansion in 1965.

There is a chance that house building may look a little stronger than it did a few months back. While we now expect declines in apartment construction, the single-family house field has taken on some improved aspects here and there, and it is very possible that we shall see some expansion in it. Miles Colean has pointed out that in many of our analyses of single-family house markets, we did not take into account mobile homes, sales of which exceeded 150,000 last year. If we include them, in effect, as additions to the single-family house supply, the market has not been off as much as many thought.

The consumer goods markets should be strong. The nondurables and services markets should see further expansion. In general, consumers seem to be demanding better-quality goods and services, and in many instances dollar volume is expanding more rapidly than number of units sold.

Another important source of expansion will be state and local governments. Their programs have been moving upward for some time, and this trend is likely to continue through 1965. The federal government may be a slightly positive factor, but not of major significance due to the cutbacks in defense and in some other lines of activity.

If state and local governments are to provide expansion over the longer-term future, sources of revenue must be developed which will not discourage business activity. I believe that savings and loan managers should participate in the search, not simply to keep real estate taxes low or to protect their own interests, but to get the big job done. That is how to finance the schools, highways, recreational areas, sewer and water projects which are needed for a growing and increasingly prosperous America.

In general, I expect 1965 to be a good year, but not be as buoyant as 1964. We must recognize the possibility that 1965 may see some slowing down in the rate of economic advance and that the year may end less strongly than it starts.

There is still a chance that we may advance too rapidly in the next

few months and run into quite a different set of problems. I consider this less of a possibility than it was some weeks ago, after the announcement of the first automobile labor contracts. Still, the economy could take off, move into an inflationary period and bring on tight money policies which, unless applied with extreme skill, would undoubtedly bring to a halt the current period of expansion.

At the U. S. League's Business Problems Clinic last August, I raised the question of whether we could get through the 1960s without a recession, or at least without a recession of more than minimal proportions. I believed then that we could, and I still think it is possible. It will take some luck as well as skill in the care with which we develop and carry out economic policies; but it is possible, barring war or other catastrophe.

All of you are interested in the housing field, and I have already commented on it in relation to the outlook for the construction industry in general. Even though there may be some slowdown in apartment building next year, I think that over the next five years it will have proved to be more of a hesitation than the beginning of a long-term trend. As I have indicated, the single-family house field seems to have more strength than we had expected a few months ago.

I believe there will be much greater variation among local housing markets in 1965 than we have seen in a long time. There is likely to be overbuilding in one city and not in another. Overbuilding of one type of property may occur within a given city and not of another type within the same city. Savings and loan managers will have to be very careful in analyzing conditions in their local housing markets during 1965.

Over-all national trends and even regional trends may not prove to be very good indicators of what is happening in any specific local housing market in the year ahead. It may be that the recently appointed Federal Home Loan Bank economists can be helpful in this area. I have suggested before and shall suggest again the possibility of using the services of university bureaus of business research, university economists and business economists on a part-time basis if you feel the need of outside analyses of the trends of housing market activity.

THE KEY TO SAVINGS AND LOAN GROWTH

I am always hesitant to make comments about the savings and loan business itself and about its management. I am not an expert in this area. I should like to emphasize again, however, as I have done in the past, the importance of long-range managerial planning. By this I do not mean planning just for the next budget period or even for several budget periods, but the kind of long-range planning you do when you plan for a new building. Something like a five-year period or longer seems to me to be required. It may be that long-range managerial planning is the real key to the future growth of this business.

For example, try to project conditions as you would like to see them on your balance sheet and income statement five years hence. Then de-

termine what may be required to reach these conditions. We have conducted exercises like this from time to time at the Graduate School of Savings and Loan. Most of the savings and loan managers in the school have found this to be a very revealing experience. But long-range managerial planning is much more than an exercise. It is a method of thinking. It is a method of approaching the problems of the future. If you can project an image of what you want your institution to look like five or six years from now, then it becomes a matter of designing policies that will lead you to that image. Otherwise you will be working as hard as you can to meet day-to-day problems, and your institution five or six years from now may be quite different from what you had hoped it would be.

You do have considerable control over your future if you state your objectives with sufficient care, then develop and apply your policies with skill and imagination. Of course you will have to revise your plans from time to time. The pressure of outside events may on occasion prevent your doing what you want to do. Accidents and ill fortune also may interrupt your plans. But much can be done by careful long-range managerial planning.

In this regard you must realize that the broadened lending and investment powers which you have just been granted give you a much wider range of possible objectives than heretofore. Much depends on your specific objectives and how you think about your institutions and your programs. If you think of yourself as essentially in the business of financing people and their needs, you can move in rather broad directions, including educational loans, for example. If you think of yourself as essentially in the business of financing real estate, you now have an opportunity to broaden your scope of lending. If you emphasize your savings programs and put the saver first in your thinking, you can range over a wider area of investments for higher yields. And there are other potential opportunities. The important point here is that you are no longer limited to the field of local home mortgage lending.

COST OF MONEY, OTHER COSTS TOO HIGH

As I view the business at the present time, it seems to me that it faces several difficult problems. For one thing, I believe the cost of money is too high. I realize that this has been the result of a long competitive trend; fairly generous dividend policies have been one of the major ingredients of our growth recently, but they have saddled the industry with some very high-cost money. As a result, in many instances managers have been forced to take on riskier projects than may have been warranted by the conditions under which they are operating. In the final analysis, reducing the cost of money comes down to a matter of dividend policy, although there may be some other ways to move as well. I commend this to your thinking for the year ahead and for the longer-term future as well.

Just as I think the cost of money is too high, I think the cost of many

other things we are doing is too high. Much has been done in the past year or so to reduce costs. I was much impressed by the suggestions which Carl Distelhorst and Wyn Warman presented at the Business Problems Clinic last August for using funds more effectively, particularly in the government bond account and in the management of cash flows. I think we have to become better money managers, just as we have already improved our capabilities in mortgage risk analysis, personnel administration, public relations, advertising and community relations.

In general, I prefer an expansion of business volume as an approach to current problems, rather than a tightening of internal controls. I think most of you do, too. However, internal cost and other controls are going to be a significant factor in future managerial programs. The danger in controlling costs too tightly is that often you do not know what the offsetting benefits to these costs may be. You must be extremely careful not merely to cut the costs that are readily available for cutting at the time. Doing so may cause great damage to your long-term programs. For example, you can cut advertising costs at any time; you can cut research expenditures at any time; you can avoid hiring additional people and, especially, you can avoid hiring promising young college graduates at any time. But doing these things may hurt your programs a year or two or five years hence. Cost controls are going to be a significant factor in future management programs, only if handled with great skill.

Another major problem of this industry is the relatively outmoded character of the mortgage instrument and the fairly rigid structure of mortgage lending patterns we are following.

RESEARCH AND DEVELOPMENT APPROACH

During the last several years I have been associated a good deal with research and development activities. As many of you know, I have been involved in a project which has been studying the application of the new technology generated by the space program and by various other government R&D efforts to civilian-oriented private enterprises. It has been a very interesting experience. My purpose in mentioning it here is to emphasize the R&D factor that is bulking so large in American industry today. I think this business needs essentially an R&D point of view. We have always had some research going on and we have always supported research, but we have not thought in terms of research *plus* the developmental activities that have to be associated with it to make the research effort pay off in practical terms. I should like to see savings and loan management think in somewhat the same general terms of reference as the managers of many industrial enterprises, who think constantly either of improving their products to make them more competitive or of developing new products. New products may be acquired by purchase or may be developed in-house through the use of research and development programs.

In this industry we have not thought greatly in these terms. We have not been "product oriented." We have not thought of our savings account as a product or of mortgage plans as products. I do not mean that you should set up R&D departments tomorrow, but I believe the top managers in this business, and some of their principal executive officers, need to think in R&D terms and to begin adding this element to their arsenal of management weapons.

For the period ahead, I believe that long-range managerial planning and an essentially R&D viewpoint will be two of the keys to successful management in this interesting area of financial operations.

The business has some new dimensions as a result of the recent legislation. We need to study these with care. I am inclined to suggest, for example, the possibility of a study conference on the college market—the market for financing college educations for young people. I think we may wish also to make estimates of what the expanded lending opportunities in housing may provide. We are all aware of some of the kinds of things we are going to be able to get to in the municipal area. I shall not comment on these topics, other than to suggest that we have greater opportunities than ever before. These added opportunities, however, give us many more chances to stub our toes. The management job grows increasingly complex.

In summary: Favorable over-all prospects for 1965, the year possibly being less strong at the end than at the beginning. Relatively stable housing market conditions, but with great variations among local markets and even among sectors of the same local market. Needs for long-range managerial planning, especially in order to reduce the cost of money to our institutions. A need for an R&D point of view, especially with respect to our products. New opportunities and new problems arising from the recent legislation.

With your demonstrated ability and your dedication to high standards of performance, I have no doubts about the record you will write in 1965.

PUBLIC RELATIONS PROGRAMING FOR OUR \$118 BILLION BUSINESS

Panelists: WILLIAM B. O'CONNELL and ROBERT P.

PERRIN, *Chicago, Ill.;* and WILLIAM K. DIVERS,
Washington, D. C.

Moderator: NORMAN STRUNK, *Chicago, Ill.*

NORMAN STRUNK: There has been a great deal of talk this past year about what many regard as public relations problems that the business has faced for the first time. We have noted some membership interest in just what the U. S. League is doing and plans to do in the whole area of public relations and image building—one of the major parts of our program of service to the savings and loan business. We probably spend as much money on public relations as on any other single phase of the League program, and much staff time is devoted to it.

Let me say at the outset that I do not believe the business today has any important public relations problems that are unique or bigger than before, and certainly nothing that should cause us to become excited or run for the fire alarm box. The fact is that our business is this year attracting almost as much net new money as in 1963, by far our biggest year, and at rates which compare much less favorably with commercial and savings bank rates than was true several years ago.

This is not to say that we do not have some public relations problems. The real estate boom is over, and knowledgeable people believe the years of easy prosperity for the savings and loan business are also over. There have been some indictments, convictions, closings and take-overs. Public officials have viewed with alarm the quality of credit and the kind of lending being done by financial institutions. Thus, we have had problems this past year, and these challenges promise to continue into the next year or so.

Our public relations activities are directed by William B. O'Connell. But much of the work of the Advertising Division, managed by Robert P. Perrin, falls into the public relations and education area. Both departments work closely with me and other staff members, and combine their skills to develop a well-balanced public relations program. The Savings and Loan Foundation, under the direction of William K.

Divers, also coordinates its confidence- and image-building projects with the League's.

We think it appropriate to outline the League's public relations program and to indicate how the Foundation's work is related to that of the League. We shall hear first from Bill O'Connell.

PUBLIC RELATIONS OBJECTIVES, TOOLS

WILLIAM B. O'CONNELL: We have a number of different public relations objectives. The first is to provide information about the business. The second is to interpret the important role of the savings and loan business in the economy. The third is to develop support for proposals and programs, including those of a legislative nature, to improve the service of our institutions.

In moving toward these objectives, we are trying to reach a good many audiences. These include the various communications media, educators and financial analysts, schools, other segments of the shelter industry and, finally, Congress and the state legislatures, which provide the laws governing this business.

Our program is in a constant state of evolution and expansion. We try to anticipate what public relations opportunities and problems will confront the business and we tailor much of our work to exploit these opportunities and meet these problems.

Our tools fall broadly into two categories: first, those distributed nationally to inform the public about the business and interpret our role in the economy; and second, those provided for the use of savings and loan associations. Let me tell you about some of our more important tools.

An annual project of the League's Research Department since 1954, the *Savings and Loan Fact Book* has a distribution of more than 40,000, including the press, members of Congress, libraries, educators, and leaders of allied businesses in the shelter industry. It is one of the most comprehensive and highly respected fact books in the financial field.

Initiated in 1950, the four-page *Quarterly Letter* on savings and home financing trends is put out four times a year and reaches a broad cross section of the press and the academic fraternity.

Developed primarily for the press, academic people and financial analysts, the *Trends Bulletin* is issued monthly to give an up-to-date glimpse of savings and mortgage trends. Originally a single sheet, it recently was changed to a much more attractive and impressive four-page format. The "In Perspective" column on the last page interprets some aspect of the savings and loan business, and frequently emphasizes the careful manner in which this business is operated.

More than 50 press releases are distributed annually to more than 300 newspapers coast to coast, more than 20 magazines and all major financial publications in the United States. Most of them are based on statistical material prepared by the Research Department and on speeches of League officers.

Press kits are developed as needed to spearhead and coordinate national promotional efforts on behalf of the savings and loan business. At the time of the \$100 billion celebration last year, we made up two press kits, one for the general press and one for state and local leagues. This year we prepared a press kit to introduce the *Construction Lending Guide*, itself one of the most useful national public relations tools of the savings and loan business, to members of the real estate and financial press at press conferences in Chicago, Washington and New York.

Another phase of our public relations activities supports the League's legislative program with specially prepared pamphlets for distribution to the press, other segments of the shelter industry and the public.

We publish and distribute a great deal of information about the future direction of the business. Designed primarily for League membership use, it is of considerable interest to the press and to financial analysts in agencies interested in the real estate market and the savings and loan business. Norman will tell you about the League's work in this area and also in connection with schools.

MODERATOR STRUNK: Many special studies are made for the exclusive use of our membership, but others are distributed widely outside the business on a fairly regular basis. Since 1952, for example, the *Trends Report* of the League's Committee on Trends and Economic Policies is received not only by our members but by the press and academic people as well.

I am sure you all remember the interesting and much-discussed study by Indiana University which was published in 1960 under the title *The Next Decade*. Although this study was made for the guidance of the savings and loan business, its release to the press paid big public relations dividends. Last year, you will recall, the report was updated and released under the title *A Second Look at the Decade of the Sixties*.

EDUCATIONAL PROGRAM

Working with schools is a vital part of any well-rounded public relations program, and the League does a great deal more in this connection than many members realize.

In 1958 the League sponsored the first annual Conference on Savings and Residential Financing, held each spring in Chicago for a select group of university and college professors of finance and economics. This is a high-level, long-range program aimed at developing these men's interest in matters relating to savings and home financing and, in turn, the savings and loan business.

A collateral benefit is derived from this method of introducing educators to our business, because many of those who attend the seminars are the ones who write the college texts. The program, now in its seventh year, has exposed 260 university professors and 31 high government officials to the savings and loan business at a very high academic level. Each year after the seminar we publish the proceedings, which we present to other academic leaders who were not present.

To bring the savings and loan story to high school teachers, we initiated about six years ago a program to be carried on annually by state leagues. The program, consisting of seminars held on campuses of state universities, has been held in 13 states to date, but is suffering in several areas because of lack of support by associations in the state. Currently, eight states sponsor the program on a regular summer schedule and two more states are considering it for 1965. The U. S. League underwrites the cost of the program for the first two years in any state and provides all textbooks and other teaching materials as long as the program continues.

More and more references to the savings and loan business are appearing in the college texts, but for basic high school use we had to write a textbook ourselves. *Safeguards of Freedom: Thrift and Home Ownership* is now in its fourth edition, and two special editions have been printed for the California league. About 300,000 copies have been distributed, but we consider this a disappointingly small quantity. Although we have pushed its use in educational magazines and have had exhibits at teachers' meetings, the primary responsibility for getting this kind of material into the schools rests with our member institutions. *Safeguards* is a very useful tool which we know can be introduced into the teaching curriculum.

For use in the elementary schools we have produced a heavily illustrated booklet entitled *Thrift—Making Your Wishes Come True*. Members' use of it, too, has only scraped the surface. Like *Safeguards*, it can be purchased through the Advertising Division.

MOTION PICTURES, ROUND TABLES

ROBERT P. PERRIN: Related to the school program is the motion picture program of our public relations activity. Four movies have been produced at a cost in excess of \$250,000: *Where the Heart Is*, *Yours to Keep*, *Harvey Dilemma* and *What You Should Know before You Buy a Home*. Through the film distributor, Modern Talking Pictures, the U. S. League arranges for showings of the films at schools, church groups, civic organizations and on television.

The total audience reached with non-TV showings exceeds 3½ million, in spite of the fact that our membership has not made full use of these movies. More than 56 million Americans have viewed the films as a result of free time we have booked on TV. There is a new film in preparation which you will hear about later on.

MODERATOR STRUNK: The League's moving picture program has been extensive and expensive. It also has been of tremendous value.

Our public relations program is in a constant state of expansion and evolution. As an example, during the past year we came to the conclusion that it should include periodic round tables on important issues affecting the housing field and the savings and loan business.

The first round table, on "Human Needs in Housing," was held this year in Topeka, Kan., and was sponsored jointly by the U. S. League

and the Menninger Foundation. It introduced our business to many important people in America's shelter industry and to some leading social and behavioral scientists. The program attracted representatives of numerous major national magazines, including *Life*, *Fortune*, *American Home*, *Better Homes and Gardens* and *Look*.

Another round table, set for January of 1965 and co-sponsored with the American Marketing Association, is designed to help develop better methods of determining local mortgage demand. This is of vital interest to the savings and loan business, and will be further evidence to the thought leaders of the country that the savings and loan business proceeds carefully and professionally in the study of its markets and its future. Some of the nation's key housing economists, government officials, representatives of national organizations in the shelter industry, building products manufacturers and members of the press have been invited to attend.

This gives you a good idea of the type and the depth of the work we do at the national level and of the approach we take to our public relations responsibilities.

WORK WITH NATIONAL PUBLICATIONS

One interesting and fortunate by-product of the round table on "Human Needs in Housing" was that *Fortune* magazine's representative was its executive editor, who later consulted with us in the preparation of its August article on the California savings and loan business. We like to think that the answers Arthur Goldman, Bill O'Connell and I gave to questions from the magazine's editorial staff corrected some of their preconceived notions about the business and helped lead to their publishing a good middle-of-the-road story.

The *Fortune* episode is an example of the type of thing Bill O'Connell and I spend much of our time on, namely, working with representatives of important national publications. We keep in touch with as many of them as possible. We also have on retainer in New York City a public relations firm whose primary responsibility is to keep in touch with a variety of newspaper and magazines and to alert us whenever a publication may be interested in doing a story about the savings and loan business.

MR. PERRIN: There has been a good deal of talk in the business, and the *Wall Street Journal* some months ago printed an item, about a forthcoming *Saturday Evening Post* story that would discuss the savings and loan business in a derogatory fashion. What is the latest intelligence on this, Bill?

MR. O'CONNELL: This story was under consideration by the *Post* as long ago as October 1963. My initial contact with the senior editor in charge of business articles at the *Post* was about a year ago, and I have met with him in New York five times and talked with him on the telephone many times. Norman Strunk also has visited with him on three occasions. We have a major interest in this story because the *Saturday*

Evening Post is one of the most important national magazines. The *Post* has been good enough to allow us to read several early drafts of the proposed article, which we found biased and inaccurate, and the editor recently informed me that the story was "up in the air." We shall continue to keep in close touch with the situation.

Other savings and loan people have also worked on the *Post* article. In particular, I acknowledge the efforts of Bill Divers; Frank Hardinge and Mrs. Dorothea Hegwer of the California league; Dr. Frederick Balderston, the California savings and loan commissioner; and Chairman McMurray of the Federal Home Loan Bank Board.

MODERATOR STRUNK: A *Business Week* story about Dr. Balderston and the nature of supervision in California helped greatly in our efforts with newspaper and magazine writers. Appearing in a publication quite independent of the savings and loan business, it made exactly the point we have been trying to make with the *Saturday Evening Post*, *Fortune* and others; namely, that the business in California is being supervised effectively and honestly.

We cannot deny the importance of insurance of accounts and the dependence of the public on the government to ensure the safety of its funds. I think the public welcomes evidence that the government is doing the kind of supervisory job the public counts on it to do.

PR TOOLS FOR THE LEAGUE MEMBERSHIP

Now we should talk about the public relations tools we provide to assist *you*, our members, in handling *your own* public relations. I have mentioned the text materials we developed for *you* to put into *your* schools. Our movies, too, are a most useful public relations tool which *you* can use in *your own* communities.

A wide range of materials has been produced by the Public Relations Department and also by the Advertising Division for your use. Some of them you may not have seen; others you may not have thought of as public relations tools or as ways for you to help build the image of the business generally and of your institution in particular. Bill O'Connell and Bob Perrin will run through some of these items.

MR. O'CONNELL: Each year sees the publication of more and more special newspaper sections by savings and loan institutions (either individually or collectively) around the country. We have designed a news kit to help in these activities, as well as for the opening of new offices, anniversary celebrations and so on.

For many years we have provided year-end promotional materials, including a suggested letter to customers, an annual report and news releases. We have also prepared a great number of "how to" public relations pamphlets, including *Invest with Your Public* and *You Can Be in the News*, and three years ago we published a comprehensive public relations manual.

A kit of speeches is available to League members who are called upon to address service and civic groups; it is constantly updated and

revised. Special kits are also made up for use by members in connection with national promotions, such as the 30th anniversary of the FSLIC—in the latter case in cooperation with the Advertising Division.

Finally, a monthly column in *Savings and Loan News* describes merchandising aids, including noteworthy public relations and advertising ideas.

Bob Perrin will review some of the public relations materials prepared by the Advertising Division.

DUAL GOALS: MERCHANDISING, IMAGE BUILDING

MR. PERRIN: While a large part of the Advertising Division's effort is devoted to creating a multitude of promotional materials designed to develop immediate business, we decided long ago that it is essential for us to produce sales tools which build the proper corporate image for the sponsoring association as well as perform the sales task. Many of these sales aids are part of the total public relations effort.

Home Life is an extraordinary personalized publication—pocket size and 20 pages in length—which may be distributed four or six times a year. Its four-color reproduction, articles of interest and help to home owners, and incentive stories relating to thrift build a quality image for an association, just as does an office building.

Because our business has grown so rapidly, customers ask a great many questions about the availability and safety of their funds. No doubt some of these questions stem from a lack of knowledge and information, but people have been misled deliberately by statements made in anti-savings and loan pamphlets, the most notorious of which probably was the so-called Kaltenborn pamphlet.

In cooperation with the Public Relations Department, we have supplied a quantity of pamphlets to counter this type of propaganda. The booklet *Answers to* has been a very useful tool for association personnel and directors, and has been distributed to the press as a reference source.

The most recent pamphlet of this type is a reprint of a statement by Congressman Wright Patman, based on the press statement he made at the time of the 30th anniversary celebration of the FSLIC and reproduced with his permission. It is available for use by member associations, and more than 1 million copies have been distributed to date.

Equally Safe, prepared in collaboration with the Public Relations Department, compares the withdrawal privileges and insurance of accounts of banks and savings and loan associations. As an example of the broad staff participation in these efforts, Bill Prather and Joe Salm did much of the research that is incorporated in this brochure.

The Advertising Division tries to keep the business supplied with general background literature suitable for placing in the hands of the press, educators and the general public. *The Savings and Loan Association—An American Financial Institution* is ideal for distribution to educators and to all others who seek to know the history and de-

velopment of our business. *What Is a Savings and Loan Association*, a long-time favorite for general public consumption, describes the business briefly.

We provide a wide variety of "how to" pamphlets, such as *What You Should Know before You Buy or Build a Home*; *Home Buyers' Check List*, a leaflet issued in conjunction with our latest motion picture; *How to Buy a New Home before Selling Your Present One*; and *How to Finance Home Improvements*.

Then there are such informational leaflets as a reprint from the Prentice-Hall book, *Make the Most of Your Income; Money and How It Grows; How the FSLIC Pays Out; How Your Savings Are Insured Safe*; and *Created by Act of Congress*, explaining both insurance of accounts and the Federal Home Loan Bank System.

All these pamphlets and leaflets are clearly intended to provide service information of interest to your customers.

The Advertising Division plays an important role in the national promotions undertaken by the savings and loan business. Last year the U. S. League and the Savings and Loan Foundation jointly sponsored the \$100 billion celebration; our task was to prepare promotional materials for the use of individual associations at the local level. In July of this year we prepared the advertising materials for individual association use in connection with the 30th anniversary of the Insurance Corporation.

In addition to close cooperation on the League's special activities, the Advertising Division from time to time is called upon to assist local groups in facing special challenges. Worthy of note is the series of ads produced recently for the Cook County Council of Chicago—which currently is attempting to counteract the effect of the problem cases in Chicago—and directed at building public confidence in our institutions. At other times we have aided associations in individual markets when they have had a direct challenge from bankers concerning the safety and availability of funds.

Finally, while it is important to be concerned with the corporate image our institution creates as a result of advertising and promotional efforts, this does not mean that our advertising should be devoid of salesmanship. Ads built on the consumer benefits provided by our services, and based on sound psychological appeals, can create the image of your association as a helpful financial center for typical American families.

COLOR-SOUND FILMSTRIPS

MODERATOR STRUNK: While talking about League public relations aids for our membership, we do not want to forget the practical filmstrips produced by the American Savings and Loan Institute to help savings and loan associations locally in their day-to-day dealings with their customers.

Beachhead to the Future is a 15-minute filmstrip in sound and color

which explains seven essential do's of successful salesmanship in dealing with customers and potential customers, and suggests ways in which the employee can further his career and at the same time contribute to the success of his association.

The Savings and Loan Look points out what an employer expects in the way of good grooming, personal appearance and personality attitude from women staff members. The filmstrip emphasizes the relationship between good grooming and personal confidence, and the improved customer relations resulting from greater personal confidence.

FUTURE PUBLIC RELATIONS PLANS

All or most of the programs we have talked about will be continued next year. We also have some new items on the burner. I mentioned the round table on real estate forecasting and mortgage demand that is scheduled for January. Bill will tell us about some of the others.

MR. O'CONNELL: First, at the national level, we have embarked upon a program to place greater emphasis on magazine coverage. We have retained an outside consultant in connection with the preparation and submission of articles to consumer magazines; he is a former editor of *Collier's* and has written for a number of national publications.

Second, we plan to produce a documentary film about the savings and loan business, with the 1965 League convention as the target date for its premiere. It will be an educational film explaining our business, its contribution to the national economy, and the way it is supervised and regulated.

Third, we have under consideration the publication of a popularly written book about the savings and loan business, and have made initial contact with a leading publisher. The book would be adaptable to reprinting as a paperback, for distribution by our institutions to important persons in their communities and in some cases to local colleges and universities.

As noted earlier, we have just completed a pamphlet entitled *Equally Safe*, dealing with the safety and availability of funds in savings and loan associations and banks. Two services will be provided in connection with it. First, the pamphlet itself will serve as a permanent reference guide for your savings and loan officers and savings department personnel. Second, a series of slides will be available for showing to members' employees. As a result of this double-barreled program, officers and employees will be better equipped to answer technical questions that customers sometimes ask.

We have begun to adapt the economic slides, which originally were prepared for association directors, for use at meetings of civic, real estate and home building groups.

We plan to publish several times a year a newsletter on public relations tips for savings and loan institutions. The letter will contain practical and timely suggestions for improving public relations programs.

Finally—and this will involve national promotion as well as member-

ship participation—we are working with the Savings and Loan Foundation on the possibility of developing a nationwide promotion each year.

MODERATOR STRUNK: Thank you, Bill and Bob, for your reassurances as to the scope, competency and quality of our public relations program.

ROLE OF SAVING AND LOAN FOUNDATION

Now we shall hear from Bill Divers, president of the Savings and Loan Foundation. The U. S. League and the Foundation have always cooperated closely in respect to objectives and techniques, and in complete mutual understanding of the problems with which we must deal.

The Foundation's advertising is part and parcel of the over-all educational, public relations and confidence-building efforts of the savings and loan business. It has, I know, been a major factor in the growing public confidence in our business. And if we are to attract money at somewhat lower dividend rates, as we must, we shall need more than ever the kind of national advertising support provided by the Foundation.

WILLIAM K. DIVERS: There is no better business than the savings and loan business. Let me say that again: There is no better business than the savings and loan business. There is no business which does more to help the individual, the family, the neighborhood, the community, the national economy.

In order to have good public relations, we must have a good product to sell—and we have one. All the public relations men in the world would not be successful for long in promoting an inferior product. But our product is superior.

Now, if we have a superior product, what do we do? We educate people about our product, and to do this we use every available medium of mass communication.

Twelve years ago, when the Savings and Loan Foundation was organized, not enough people knew about our business; too many had questions in their minds. The Foundation's organizers knew that our image could be improved by telling the true story of our great business to more millions of people.

THE FOUNDATION'S MAGAZINE ADVERTISING

Our first ad appeared in December 1954 in *Saturday Evening Post*, *Life* and *Time*. For 10 years the Foundation has been improving the public relations of our business by telling 30 million to 50 million Americans each month the savings and loan story—an advertising story which builds stature, builds a good image and in which, incidentally, we have willingly acknowledged our obligations to our God and to our country.

For 10 years the Foundation has been providing an umbrella of institutional advertising under which your own advertising becomes more effective. And when an occasional irresponsible, inaccurate news story

breaks, a continuing campaign reminds the public of the safety of its savings in FSLIC-insured institutions.

For 10 years the Foundation has been advertising our business as a business while you have been advertising the unique advantages of doing business with your own institution. For 10 years the Foundation has been developing new markets nationally while you have been cultivating them locally.

For 10 years the Foundation has been addressing messages to people of various age groups. The theme of all these ads has been: The savings and loan business wants to help you, is ready to help you, is waiting to help you. All this is done in a way which we believe improves our public relations.

For 10 years the readers of popular magazines, including all the news magazines, have been exposed to the story of our business: its popularity, its size, its strength, its service. Through advertising we can tell our story when we want to, the way we want to, to most of the people we want to reach. And in 10 years our print program has reached impressive figures: a total of 1,872,304,000 copies of magazines in which savings and loan ads have appeared—an average of 15,600,000 copies each month since our first ad appeared.

THE FOUNDATION'S TV ADVERTISING

But today is an electronic age, and television is part of our everyday—or every evening—life. It, too, reaches vast millions.

Remember the impression we made on the public when our business was the sole sponsor of the CBS Network telecast of Lt. Col. John Glenn's immortal space flight? It was good public relations to be associated with such an event, and we had the opportunity to tell the savings and loan story over and over to many millions—43% of the television audience! And we had an estimated audience of 12 million for "The Red, White and Blue."

Our next TV show will feature Robert Goulet, the popular singing star, on the CBS television network on November 19. An estimated 19 million people will enjoy the singing, dancing and comedy, and will be exposed to six minutes of commercials about our business. On January 2, for the seventh consecutive time, the Foundation will sponsor the first half of the East-West All-Star Football Game, and an estimated 17 million people will see our eight minutes of commercials.

On January 12, shortly after the new Congress convenes, we shall sponsor another new special, "The Capitol," the history of our national capitol in Washington. This NBC Network show will have an estimated 9,400,000 viewers who will see our six minutes of commercials. And on January 20 the Foundation will be the sole sponsor of the CBS telecast of the inaugural ceremonies from Washington, D. C. We estimate our audience at 20 million, and 14 minutes of commercials will provide ample opportunity to do a good public relations job.

That is what we have done, are doing and plan to do to improve the

public relations of our business. There is no substitute for national advertising as a promoter of good public relations.

The savings and loan managers who are the trustees of the Savings and Loan Foundation select these shows, approve the commercials and otherwise devote about two weeks each year to the promotion of our business. They deserve your support and a vote of thanks.

FOUNDATION MEMBERSHIP HELPS THE BUSINESS

If you are as proud of the savings and loan business as we are; if you believe that 99% of savings and loan managers know what to do, how to do it and where they are going; if you believe that our business has a great future; if you believe that families are better off if they own their own homes; if you believe in prudent money management; if you believe that we should promote thrift among those who buy now and pay much later . . . then you should be a member of the Foundation; you should support the national advertising program of the savings and loan business; you should help finance the public relations umbrella of national advertising which will continue to do much to promote the image of our great business in every community throughout the nation. I submit that this is one of the important ways to meet the public relations challenges and take advantage of the opportunities in our \$118 billion business.

MODERATOR STRUNK: Thank you, Bill. I know everyone here appreciates the value of this kind of merchandising. Your presentation certainly should confirm the judgment of most savings and loan people that the Foundation is doing a great job for the business.

The United States League has for years strongly supported the Foundation and has urged membership of our insured institutions in it. The League believes that the Foundation program deserves the complete support of the business, even in these days of careful scrutiny of advertising budgets. We can see many reasons why the next few years will be the time when the Foundation must do its biggest and best job.

This concludes our presentation of a public relations program for a \$118 billion business—a business that in a few years will be larger than the life insurance business. You can be sure that we shall continue to move ahead in public relations and public education activities on a broad front.

I want to leave one final message with you. In the last analysis, the image of the savings and loan business will be determined by the conduct of the business in communities throughout the country. Your image and my image are what we see when we look in a mirror. We see how others see us. The image of the savings and loan business is the picture others see when they look at us. If we want the public to think well of us, we must do the things that will make the public think well of us. No amount of advertising or propaganda can turn an ugly picture into a good one. With few exceptions this business has presented a good image to the public. Let us continue to do just that.

SPECIAL RECOGNITION PLAQUES

presented by EUGENE M. MORTLOCK, *President*

United States Savings and Loan League

New York, N. Y.

The United States Savings and Loan League presents to

THE HONORABLE JOSEPH P. McMURRAY

this expression of appreciation for his outstanding service as chairman of the Federal Home Loan Bank Board at a time when a strong, courageous and determined leadership was needed in Washington to increase the usefulness and emphasize the heightened responsibility and major significance of the savings and loan institutions;

this recognition of his successful efforts to raise the standards of supervision by the Federal Home Loan Bank Board so that public confidence in the rapidly expanding savings and loan business continued unabated in the midst of numerous and unprecedented challenges;

this commendation of his fairness of approach to difficult tasks, his willingness to weigh and understand all sides of difficult questions, and his perseverance in pursuit of greater understanding of the fundamental approaches and problems of this business; and

this affirmation of the respect which he carries with him as he leaves his post at the Federal Home Loan Bank Board, because of his integrity, his sincerity and friendliness, and his eminence as a thinker and creator in the difficult field of public regulation and supervision.

The United States Savings and Loan League presents to

THE HONORABLE ALBERT RAINS

this record of appreciation for his leadership in creating the enlightened modern statutes under which savings and loan institutions serve this generation of savers and home owners;

this commendation of his diligence in examining the questions posed for housing and home financing by the economic and social challenges

of the twenty years he served in the House of Representatives and of the fourteen years he was chairman of the Housing Subcommittee;

this expression of regard for the fairness, courtesy, and understanding he has accorded the representatives of the savings and loan institutions in every contact with him; and

this acclaim for his distinguished public service as an original thinker, an able debater, a dedicated legislator, and a great American.

The United States Savings and Loan League salutes

DR. WILLIAM H. HUSBAND

for his thirty years of service to the savings and loan business, and

for the two decades of brilliant leadership he has given as general manager and director of the Federal Savings and Loan Insurance Corporation.

The savings and loan business is stronger, safer, and in a better position to meet the thrift and home financing needs of America because of his ability, integrity, and dedication.

With affection and great respect, we wish him many years of health and happiness.

MEMORIAL RESOLUTION

presented by F. B. YEILDING JR., Past President

United States Savings and Loan League

Birmingham, Ala.

TO THOSE who have passed to their reward since the last convention we pay our respects. It is a very appropriate part of our meeting. Our business at home has been bound together by ties of affection. We miss our fellow workers sorely when they are no longer with us.

You will receive a printed list this morning of all those to whom we pay tribute. Among them are six whose leadership in the United States League and in the Federal Home Loan Bank System makes us pause a little longer in respect to them.

ROLAND L. LEWAN of Millburn, N. J., who was serving the final year of his three-year term on the League's Executive Committee, died September 13, 1964, after having been struck by an automobile. For 22 years he was chief executive officer of the Investors Savings and Loan Association of Millburn. He had been chairman of the Public Relations Committee of the United States League and chairman of the board of the New Jersey Savings and Loan League.

HOWARD H. STRANDBERG, of Rocky Mount, N. C., who served on the United States League's Executive Committee from 1954 to 1957, died August 30, 1964. He was chief executive officer of the Home Savings and Loan Association of Rocky Mount, with which he had been associated for 31 years. He also served as a director of the United States League and as president of the North Carolina Savings and Loan League.

CHARLES S. MOORE, of Atlantic City, N. J., who died June 8, 1964, served on the United States League's Executive Committee from 1934 to 1936. He was also for some years a member of the League's Legislative Committee. As an attorney with a special interest in savings and loan work, he had served on the board of governors of the New Jersey Savings and Loan League for a long period.

CHESTER A. STERLING, of Topeka, Kan., died of a heart attack August 13, 1964. He had one of the longest records of leadership in the savings and loan business. He was chairman of the Reserve Credit and Banking Committee of the United States League at the time of the drafting of

the Federal Home Loan Bank Act in 1931. He became president of the Federal Home Loan Bank of Topeka when it opened its doors in 1932, and served until 1955.

J. CURRAN CONWAY, who was president of the Federal Home Loan Bank of Little Rock from 1953 to 1958, died suddenly on April 8, 1964. Mr. Conway was a career man in the Federal Home Loan Bank service. He became secretary of the Little Rock Bank in 1947, vice president in 1950 and succeeded to the presidency the same year.

DOUGLAS C. VAILE died this year after a long illness. He was director of education and research for the American Savings and Loan Institute from 1936 to 1945. Later he became managing officer of the Colonial Federal Savings and Loan Association of Philadelphia, from which post he retired a few months before his death.

Besides these men of national stature in our business, a world statesman who made a unique contribution to the savings and loan business passed from our midst this year. It is fitting that this convention should add to its memorial resolution the name of The Hon. Herbert Hoover, during whose Presidency and under whose sponsorship the Federal Home Loan Act became law.

For these and all whose names are on the printed list I propose the following memorial resolution. Please rise for a moment of silence to mark its adoption.

IN MEMORIAM

WHEREAS, Many who worked diligently for the savings and loan business have departed this life during the past year; and

WHEREAS, The absence of these departed fellow workers is felt deeply by all who are at this convention; and

WHEREAS, The last emolument to each will be found in the savings and loan city which he helped to make great; now, there, be it

Resolved, That the delegates assembled at the 72nd Annual Convention of the United States Savings and Loan League in Miami Beach, Fla., this twelfth day of November 1964, record their sorrow at the death of these men and women, and send the sympathy of the convention to their families and to their savings and loan institutions.

(The Memorial List appears on the following pages.)

MEMORIAL LIST

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T. P. Cumbaa, *Phenix City*
James B. Hill, *Birmingham*
Conrad Howard, *Cullman*
Claude S. Lawson, *Birmingham*
M. J. Roberson, *Birmingham*
R. E. Wilson, *Eufaula*

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K. E. Potter, *Phoenix*
Dr. Earl C. Slipper, *Phoenix*

ARKANSAS

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J. Curran Conway, *Little Rock*
Wilbur P. Gulley Sr., *Little Rock*
Grover Cleveland Hardin, *Ft. Smith*
Nelson Norman, *Jonesboro*

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David C. Dixon, *Los Angeles*
O. E. Doyle, *Redwood City*
Lawrence Ellis, *Sacramento*
Walter J. Goodell, *Atascadero*
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R. Stafford Hughes, *Monterey*
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Hamilton Patton, *Pasadena*
Lowell S. Peterson, *Whittier*
V. G. Preston, *Merced*
Fred E. Rathjens, *San Francisco*
Curtis M. Robbins, *Stockton*
R. C. Rowe, *Glendale*
Carlton L. Smith, *Santa Ana*
Frank Wasserman, *Oxnard*
Fritz A. Yungbluth, *Anaheim*

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James M. Bogan, *Denver*
Elmore Floyd, *Trinidad*
Edward C. Leigh, *Lamar*
Charles R. Meyer, *Greeley*
James W. Milne, *Grand Junction*
T. W. Poulson, *Oak Creek*
Walter A. Schertz, *La Junta*

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James H. Darcey, *Waterbury*
William J. Falsey, *New Haven*
Frank E. Ferree, *Middletown*
Albert K. Hughes, *Middletown*
Henry Igo, *East Hartford*
Frank J. Kinney Sr., *New Haven*
Harry B. Mallory, *Danbury*
George F. Shook, *Meriden*
Barnabas P. Toth, *New Haven*
Robert L. Walsh, *Bridgeport*

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Charles Warner Jr., *Wilmington*
G. Morris Whiteside II, *Wilmington*

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Patrick F. Hannan, *Washington*
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John J. McCarthy, *Washington*
William N. Payne Jr., *Washington*
Alan B. Samuel, *Washington*
Julian Scott, *Washington*
Samuel Scrivener Sr., *Washington*
Fred A. Smith, *Washington*
William C. Zimmerman, *Washington*

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A. E. Brown, *Melbourne*
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Carlos Ray Dickey, *Clewiston*

James L. Hartley, *Orlando*
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 J. Velma Keen, *Tallahassee*
 Arnold Ernest Kirchman, *Belle Glade*
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 Rear Adm. Herbert R. Sobel,
Miami Beach
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 Wilfred E. Gross Sr., *Columbus*
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 George L. Mathews, *Americus*
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 Rafel Rafelson, *Paterson*
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 Benjamin Stevens, *Vineland*
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 James S. Riley, *Westbury*
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 Wade S. Dunbar Sr., *Laurinburg*
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 E. R. Swing, *Concord*
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 Hoyt Patrick Taylor, *Wadesboro*
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 P. V. Watlington, *Morganton*
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 Earl McD. Westbrook, *Dunn*
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 John Downing, *Cincinnati*
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 Bernard Ginsberg, *Cleveland*
 H. E. Gleckler, *East Palestine*
 Fred W. Grote, *Cincinnati*
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 Arthur E. Hoffman, *Cleveland*
 Edward Holz, *Cincinnati*
 Hugh Huntington, *Columbus*
 Virgil E. Johnson, *Zanesville*

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 Fred H. Klefman, *Cleveland*
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 E. D. Taylor, *Woodfield*
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 Robert Turner, *Canfield*
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 Fred J. Zint, *Cincinnati*

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 Dr. W. C. Black, *Oklahoma City*
 Dr. E. B. Dunlap, *Lawton*
 Simpson Hurst, *Duncan*
 Ben O. Kirkpatrick, *Tulsa*
 Roy M. McCreery, *Sand Springs*
 Dick Post, *Kingfisher*
 Louis A. Reilly, *Kingfisher*
 C. E. Weber, *Tahlequah*

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 Orin K. Burrell, *Eugene*
 Hans Niklas, *Portland*
 H. B. Nudelman, *Portland*
 S. A. Skirving, *The Dalles*

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 John G. Clark, *Washington*
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 Dominick Lukiewski, *Philadelphia*
 Samuel H. McGoun, *New Castle*
 Frank E. Maddocks, *Greensburg*
 George C. Mather, *Langhorne*
 Jonathan L. Miller, *Schwenksville*
 Harry Edgar Pollock, *Washington*
 Walter G. Ries, *Springfield*
 William H. Satterthwaite Jr., *Doylestown*
 William H. Smith, *East Greenville*
 John J. Smyth, *Philadelphia*
 Joseph V. Somers, *Philadelphia*
 Nicholas Stragand, *Pittsburgh*
 Joseph L. Tinney, *Philadelphia*
 Douglas C. Vaile, *Philadelphia*
 Ernest E. Watkins, *Kingston*

Oscar F. Wey, *Pittsburgh*
 Michael Zagorski, *Philadelphia*

RHODE ISLAND

Henry S. Chafee, *Providence*
 J. W. S. Lillibridge, *Providence*
 Horace M. Peck, *Providence*
 Louise Shaw, *Providence*

SOUTH CAROLINA

Thomas Allen, *Anderson*
 Dr. Carl F. Gibson, *Columbia*
 W. Hummel Harley, *Laurens*
 A. H. Macaulay, *Chester*
 L. A. Meiklejohn, *Cheraw*
 E. B. Mendenhall, *Chester*
 W. R. Zemp, *Camden*

SOUTH DAKOTA

Louis S. Boyles, *Yankton*
 Harry C. Severin, *Brookings*
 Maynard A. Thompson, *Sioux Falls*

TENNESSEE

Robert M. Easley, *Bristol*
 Fred B. Frazier, *Chattanooga*
 E. A. Goodloe, *Nashville*
 Dr. W. E. McGaha, *Newport*
 Paul M. Rives, *Nashville*
 George F. Smith, *Morristown*
 Walter A. Smith, *Greenville*

TEXAS

Fred J. Adams, *Lockhart*
 Minor Alexander, *Abilene*
 L. H. Allen, *Houston*
 Gerald C. Brackin, *Silsbee*
 R. L. Cook, *Big Spring*
 Millard Cope, *Marshall*
 C. C. Crichton, *El Paso*
 R. W. Currin, *Sulphur Springs*
 A. E. Dabney Jr., *Corpus Christi*
 John C. Dannel, *Sherman*
 W. W. Dees, *Brownwood*
 James G. Donovan, *Houston*

GENERAL SESSIONS

Gordon L. Farned, *Baytown*
 W. Neel Greer, *Galveston*
 Hugo F. Kuehne Sr., *Austin*
 T. W. Leland, *College Station*
 D. A. Lundien, *Wichita Falls*
 Gerald Malone, *Odessa*
 W. C. McLendon, *Freeport*
 R. Delbert Nantz, *Orange*
 Dr. U. B. Ogden, *San Antonio*
 H. A. Paine Jr., *Pasadena*
 W. L. Pier, *Ft. Worth*
 Joe Reid, *Baytown*
 C. F. Richards, *Lockhart*
 Edward Eugene Shelton, *Dallas*
 Charles N. Smith, *College Station*
 John T. Smither, *Huntsville*
 Jess T. Thornton, *Big Spring*
 W. R. Walker, *Cleburne*
 Sam Weitz, *Mineola*
 L. G. West, *Levelland*
 J. M. Wood, *Henderson*

UTAH

John H. Andrews, *Ogden*
 Ronald Wadsworth, *Ogden*

VIRGINIA

Thomas E. Barnett, *Hopewell*
 Edmund G. Chamberlain, *Warrenton*
 C. C. Cloe, *Manassas*
 Collins Denny Jr., *Richmond*
 Fred A. Duke, *Portsmouth*
 Norman R. Hamilton, *Norfolk*
 Nelson Overton, *Newport News*
 W. Dean Preston, *Norfolk*
 W. D. R. Proffitt, *Richmond*
 John D. Pruitt, *Danville*
 W. L. Ragland Jr., *Richmond*
 F. Briggs Richardson, *Richmond*

C. Gray Roberson, *Lynchburg*
 Walter Wildman, *Newport News*

WASHINGTON

Theodore B. Brusegaard, *Mt. Vernon*
 John F. Camp Jr., *Vancouver*
 Theodore Jensen, *Seattle*
 Adolph D. Schmidt Jr., *Olympia*
 Calvin W. Stewart, *Tacoma*
 Edward R. Taylor, *Seattle*
 Benjamin E. Walkling, *Port Angeles*
 Leroy E. Windenwerder, *Yakima*
 David T. Young, *Seattle*

WEST VIRGINIA

John H. Forster, *Moundsville*
 Bert F. McCann, *Wheeling*
 T. A. Scales, *Charleston*

WISCONSIN

Elmer O. Brickson, *Waukesha*
 George J. Bronenkant, *Milwaukee*
 Albert F. Gallistel, *Madison*
 Henry Johnson, *Amery*
 Harry F. Nehoda, *Racine*
 Ed. P. Nemecek, *Black River Falls*
 James A. Panka, *Prairie du Chien*
 R. R. Rausch, *Barron*
 Gordon J. Schissler, *Milwaukee*
 Clarence E. Spicer, *Port Edwards*
 Bernard A. Ulwelling, *Milwaukee*

WYOMING

H. J. Cashman, *Rawlins*
 H. Larsen, *Rawlins*

TOPICAL FORUMS

ADVERTISING AND BUSINESS PROMOTION
FORUM

J. William Weltch, Augusta, Ga., presiding

HOW CAN ASSOCIATIONS CONTINUE TO BE
AGGRESSIVE MERCHANDISERS AND STILL LIVE
WITH THE NEW RESERVE REGULATIONS?

Panelists: *Wesley J. Bahr, New York, N. Y.; William G.
Christensen, Madison, Conn.; Andrew R. Neidert, Akron,
Ohio; Roger C. Richards, Detroit, Mich.*
Moderator: *Robert P. Perrin, Chicago, Ill.*

CAREFUL AND REALISTIC BUDGETING on the basis of the projected growth rate that management feels the association can afford is the secret of living under the new reserve regulations. This was the consensus of the panelists.

They all plan to spend about the same proportion of gross operating income in the coming year as this year, but there may be some program changes. And they all emphasized that the actual performance must be checked frequently with the projection so that the advertising program can be "beefed up" or curtailed to obtain the objective.

At Metropolitan Federal Savings of Detroit, Mr. Richards has budgeted 2½% of gross operating income for advertising next year. He has mapped out two premium campaigns, and is ready to go with them when and if growth in savings gives any indication of not keeping pace with what he has projected as desirable and within the association's ability.

At First Federal Savings of Akron, advertising expenditures were budgeted at 4% of gross operating income for 1964, but actually have been running closer to 3¾%. Mr. Neidert hopes to maintain them at 3¾% during the coming year. Banker competition is especially keen in Akron, one of the few spots in the nation where the dividend rate was raised last July.

First Federal Savings of New York City decided late in 1963 that it wanted 1964 to be a no-growth year, Mr. Bahr disclosed. The state of the local real estate market and the reserve regulations were primarily

responsible for this decision. During the first six months of the year, this \$190 million institution grew only \$100,000, and it should finish the year with no more than a 1% increase in assets.

Advertising during 1964 has stressed conservatism and professionalism in an effort to improve the association's image. FM radio has been used for the first time, and the results have been most gratifying. Two other panelists also reported success with this medium, which generally seems to reach an audience of above-average income.

First Federal Savings of Madison, Conn., a rapidly growing \$13 million institution, is heavy in growth of specified assets, and Mr. Christensen as yet does not have the answer. He has sold a good many participations, but knows this is not the answer. Nor does he see the use of undivided profits as a solution to his association's problem in a growing community where there is a need for mortgage money.

TV BRIEFING FOR EXECUTIVES

*by Harry W. McMahan, Creative Counsel
and Plans Board Analyst, Pelham, N. Y.*

LOCAL AND REGIONAL PRIDE is one of the strongest themes possible in savings and loan television advertising, Mr. McMahan declared. "What is local, what is within your own trade territory" will lend greater identity and emphasis to TV messages. "It will also mean greater involvement on the part of your audiences." At the same time, he said, the TV message should be "warm and personal, must have good will" because, after all, it is intended to be a reflection of the institution.

Mr. McMahan noted that recent trends in television advertising have placed more and more emphasis on nonverbal commercials—commercials employing background music, symbols and other graphic elements. This type of commercial, he said, "forces the viewer to pay more attention to the screen—it breaks the 'language barrier' and, especially in America, it breaks the 'age barrier,' too."

ASSOCIATION DIRECTORS FORUM

W. O. DuVall, Atlanta, Ga., presiding

A DIRECTOR VIEWS HIS DIRECTORSHIP

*by Wesley Lindow, Vice President
Irving Trust Co., New York, N. Y.*

FIRST, let me put your minds at rest on some things I am not going to do. I am not going to talk about the legal aspects of being a director. I am not going to talk about bylaw provisions or technical duties of a director. I am not going to talk about the qualifications of a director or his term of office or the importance of regular attendance at meetings. You probably know all those things better than I do.

But I shall concentrate on the personal qualities of a director, because it is these personal qualities which, in the end, determine whether a director really measures up to the responsibility of his job or "just goes along." My remarks will be directed primarily to outside directors rather than to officer-directors, because there is a tremendous difference in their responsibility.

There are nine propositions which I should like to present.

Proposition One: Keep posted on industry trends. An outside director may come from real estate, law, manufacturing, retailing or, as in my case, commercial banking. He is selected not for his knowledge of the savings and loan business but for some quality he developed in another industry—by doing his homework on what goes on in that industry. So he should apply himself diligently to learning something about the business for which he has taken on a share of the directorship responsibilities. He should apply the same kind of philosophy as a director that he is applying to whatever he does in his regular job.

An outside director need not become a technical expert in the mortgage business, the details of supervision and all the rest; but he ought to be well versed in what is going on in the industry and what forces are affecting it. He ought to acquire some knowledge about mortgage trends, both national and local, about housing trends, about delinquency. He ought to have an awareness of interest rate trends generally; this means an alertness to happenings in the Federal Reserve System and to Treasury decisions which affect interest rates. He ought to have a familiarity with the competitive framework, both locally and nationally, in which business is being done. He ought to have an awareness of the workings of the Federal Home Loan Bank

System and of basic legislation. All these areas affect the decision-making process in the individual institution.

Mastering all this would be asking a great deal, and in practice no director could become an expert in every area. I would not ask it. But you may have noticed that I emphasized the word "awareness"—being alert to—which I think is the important thing.

PUBLIC INTEREST COMES FIRST

Proposition Two: Represent the public interest. Obviously a director represents those who elected him to the board. But the director of a financial institution represents much more than votes; he represents the public interest. He is serving in a position of trust for the community; and if he thinks of his directorship simply in terms of the holders of the votes, he is overlooking his greater responsibility.

This is particularly true in mutual institutions, where the threat of proxy fights does not exist. When Mr. So-and-so owns a block of stock in a commercial bank, for instance, he is very much alive to what is going on in that bank. Proxy fights exert a certain amount of discipline in the case of stock institutions. I view the need to represent the public interest as doubly important for directors of mutual institutions.

Proposition Three: Provide a sense of direction. "Direction" is a very important word. Being something of a sailor, I have studied navigation, and I find the director's job something like the navigator's.

The navigator charts the ship's course; his experience helps him to keep the ship off the reefs and to allow for winds and currents. He checks his position frequently to see that he is going where he set out to go, and makes adjustments as called for when something does not go as planned. He needs a clear head, in rough seas particularly, to ride out both predicted and unpredicted storms. At all times he keeps an eye on the distant horizon. This is forward planning.

In like manner the director—particularly the outside director—should provide a sense of direction for the institution's management. Some boards, aware of this function, operate with policy directives.

Proposition Four: Let management manage. As executives of other businesses, directors have been accustomed to delving deep, looking at sticky situations and solving difficult problems, so they have a natural tendency to want to do the same when they get on a board.

There is a law of economics called "the law of comparative advantage." Let me illustrate it this way: Suppose that a practicing physician, who became a first-class typist in college and used it as a means to his education, hires a secretary who cannot type nearly as well as he can. Will he do the typing because he can do it better, or will he let the secretary do it, even though it is not as good as his?

Even if the director thinks the management is not doing as good a job as he could, it is *not* his job. He should remain a back-seat driver and keep his hands off the wheel.

Proposition Five: Help management develop in depth. Help it get a

strong "bench." This requires keeping in close enough touch with management to know whether there is a bench and what is happening to middle management. It may call for written progress reports, for management development is a full-time worry, I might say.

In general, American business today is shy of middle management talent, I believe. The outside director should be aware of this deficiency or potential deficiency and should ask questions about it. He should ask whether junior officers are being given responsibility and how they accept it, whether they are given an opportunity to respond to challenges or are "bottled up." If they are never permitted to play, the bench will never be strong.

Proposition Six: Avoid complacency and encourage differences of opinion. There is no room for complacency practically anywhere in American business—least of all in an industry with the growth record of savings and loan. Since growth occurs partly because of things we do and partly in spite of ourselves, it is important for the outside director to ask himself a number of relevant questions:

Has he gone along with the crowd in making decisions? Has he been critical enough of crowd decisions? Has he asked often enough for studies to be initiated that would lead to policy changes made more intelligently and more selectively than crowd decisions are made? (By "crowd" I do not mean merely the crowd sitting in a meeting; I mean the whole environment we live in.)

Does he lean too heavily on what management says? If management makes a recommendation, does he just say, "Yes, of course!" Does he review management proposals from a long-term point of view or simply take them piecemeal? (Taking things piecemeal is risky, because it may not be possible to see the forest for the trees. Being a rubber stamp does not gain the respect of management, let alone of oneself.)

At another level of complacency, does he keep his mouth shut at board meetings in order not to appear stupid? Is he like the directors in Parkinson's book, who said nothing and "went along" on a proposition to spend \$20 million to \$30 million dollars on a new plant, simply because they knew nothing about it, but were in there pitching on the next item, a \$25 bicycle shelter? It is good to bring out differences of opinion; wiser decisions result.

CONFLICT OF INTEREST

Proposition Seven: Watch out for conflicts of interest. Conflicts of interest are potentially present throughout our whole business structure today—probably always were. Working for a commercial bank, perhaps I am overly sensitive to them, but I believe they need to be made less difficult.

When even the slightest shadow of a conflict of interest seems to be present, the right thing for the outside director to do is to state the situation, point out this possibility, avoid voting on the question and

have the minutes reflect the absence of a vote. Thereupon the conflict of interest disappears; openness about it has kept it from being swept under the rug. Exposure is the best means of preventing its becoming a problem.

Proposition Eight: Keep an open mind. This is one of the most important things an outside director can do for a business. I do not mean flabby acceptance of every new idea that comes along, but a willingness to consider new ideas, new techniques, in a rapidly changing world. I try to give myself a little prod now and then so that I do not miss something—or at least not too much.

It is important not to be swept along with change too eagerly. There is a nice balance between being open-minded—doing what is good and letting change be an opportunity—and flipping off in every direction at once. There is some truth in the old saying about fools rushing in, so a director must weigh the two attitudes and try to strike the proper balance.

Proposition Nine: Develop longer-term goals. Management makes long-range plans, of course, but it also is preoccupied with the day-to-day operating problems and decisions. I cannot think of anything more important for an outside director to do than to keep reminding management of the longer-term goals and of some of the questions that come up in connection with them—management development, physical expansion, trainee problems far removed from management—for a strong bench starts well below the management level. In order to plan ahead, it is necessary to think about such things in depth now.

These are my nine propositions; you may think there should be only six, or maybe even 12. But the exercise of putting down the personal qualities which I consider important for an outside director has been useful to me, and I leave with you the suggestion that once in a while you try to catalogue what you should be doing.

A LOOK AT SAVINGS AND LOAN COMPETITION

by Paul S. Nadler, Professor of Finance

New York University, New York, N. Y.

THE ECONOMY has been moving up for 45 months, yet the savings and loan business faces a tough situation. Savings are harder and more costly to get, and the mortgage market is weaker. At the same time you must meet higher reserve requirements and new taxes.

What happened? Where did the competition come from? What can be done about it? The stock market has become a major competitor. Credit unions are growing rapidly. Savings banks have become major

competition in the states in which they are located. And commercial banks are all of a sudden extremely savings-conscious, because the bulk of their growth is no longer in demand deposits.

One reason for the banks losing demand deposits is the balance-of-payments deficit which has existed for about 14 or 15 years. Unless we make it attractive for foreigners to keep their money in this country, out goes the gold; but in order to make it attractive we must have high short-term interest rates. So the corporate treasurer reduces his company's demand deposit to a minimum and puts the rest of the money to work. The lock box plan, for example, cuts down the amount of money kept in the bank to run the business. And in the present weaker lending market, commercial banks find it difficult to require borrowers to keep high enough compensating balances.

Some people say that the banks have already reached the end of their ability to conserve demand deposits. I do not believe this. First, even if international payments were brought into balance this instant, high short-term interest rates would still be necessary because of the payments deficits built up in the past. Second, I do not think that new developments in economizing on demand deposits are anywhere near the end. Let me give you an example.

Bankers Trust in New York is experimenting with what it calls the "No Voucher Checking Account." Canceled checks are not returned—only the monthly statement and a note to the effect that in case a check is needed for IRS or other purposes, Bankers Trust will furnish a picture of it. This would mean that money could be transferred from one end of the country to the other in a matter of seconds; it is a complete revolution in turnover of demand deposits. There is just one tiny flaw in the system. No one wants it; everybody wants his vouchers back. Bankers Trust thinks that perhaps the only way to get the public to accept the new system is to charge for it and call it "Voucher Safe-Keeping Service."

COMPETITION IN THE MORTGAGE MARKET

What about the new competition in the mortgage market? Where did the money come from? First of all, the Fed has made money easy. In addition, the backlog of demand for goods and services has been met. Let me give you an example from personal experience.

My 1955 Plymouth was built in the biggest boom year in the history of the automobile industry. But all the dealer would allow on it in 1963 was \$50—he charged as much to undercoat my new car as I got for the old one. Now, if you were an automobile dealer, would you consider the '55 Plymouth a competitor of yours in '64? Absolutely not. Why do I take your time with this story? Because you are in a different industry. The money you loaned out in 1955 comes back and is a competitor of yours. In other words, the spending in the earlier post-war period is bringing a tremendous flow of money to your institution now—and all that money has to be put to work.

In addition, savings are heavy. Competition is keen, but savings nevertheless are 7% of disposable personal income. The Treasury deficit "ain't what it used to be." Did we ever dream the day would come when the deficit would have to be cut in half from the first estimate to the end of the year? But our economy has done so well at the lower tax rates that our deficit is less than we thought it would be, and the Treasury does not need as much money as in the past.

Savings banks, especially in New York, have been highly aggressive in moving into the mortgage market; they are trying to rebuild their stature and get growth. Pension funds, which up to three years ago had 95% in government bonds and 3% in cash (this may be a slight exaggeration), suddenly discovered the mortgage market. Finally, commercial banks, unable to get the business loans they used to, have become a major factor in the mortgage market.

If you look at the *Federal Reserve Bulletin* you may see that loan-to-deposit ratios of the banks are the highest ever. But I think that what has happened is that the loans have been going out, not because of a tremendous demand for money but because of a tremendous supply of money and an aggressive push to put that money to work. Otherwise, lending rates would have risen. But loan volume has been going up and lending rates have been falling. What we have, therefore, is a highly competitive market on both sides of the fence.

This supply of funds pushing at the market may have a major impact on your industry. Much of the building that took place in 1963 and 1964 was not needed housing, but rather projects put up because the money was available—because the aggressive effort of financial institutions to put the money to work tempted the builder to use up future demand for housing.

Until now, you have not cared the slightest about the economics profession. In years when the economists said "boom," you were busy allocating available funds among the builders. In years when they said "recession," you found the builders ready to take the money no one else wanted in order to meet the need for a backlog of housing. In good years and bad, the savings and loans were recession-proof. Now that the backlog has been met, however, the outlook for the industry is more dependent upon the business outlook than at any time in its modern history. So I shall present the outlook as I see it under all circumstances of the economy, and then I shall give you my own views on it.

If the economy continues as at present and as predicted by Dr. Weimer—slow continued upturn, no inflation, no downturn—your business will be about what it is now. In other words, you can expect a market in which most of the predictions have been worse than the actuality, a market which everyone says is going to be tough but in which aggressive institutions that have developed new forms of lending and stressed services, and that are doing all right now and did all right in the past, will move up fairly well.

Parenthetically, it strikes me as a bit odd that an individual in New

York should send his money to an association in California instead of putting it in a local institution and letting the institution move it to California. It would be better for everyone concerned except the advertiser, and one trend I think we shall see is continuing geographical expansion as a result of increasing pressure to let the money flow where the demand is. The money will go there anyway, and it is better done by the institution than by the individual. Some of you may disagree, but that is my feeling.

PROBABLE EFFECTS OF INFLATION

To return to the market outlook, no boom but continued fair business is the forecast. Now, what would happen if inflation should reappear in the economy? The Federal Reserve would have to tighten credit; and if we had tighter credit and higher interest rates in the open market, I think that the commercial banks' interest rate ceiling under Regulation Q would be raised.

Why do I say that commercial banks might pay higher rates? They have \$12 billion of time certificates of deposit, and much of that money would leave them if interest rates should rise. You could argue, "But if it goes into commercial paper or Treasury bills, it is spent and goes right back into the banking system." Instead of being in time and savings deposits, however, which require only a 4% reserve, it would be in demand deposits, which require a 12% to 16½% reserve. Thus, the banks would face a serious squeeze. The Fed might say, "Don't worry, gentlemen, the money will not leave the banking system." But what good would it do me to run the First National Bank and have all my CDs go to Second National? As I am selling my securities at a 15% loss, I am not consoled by the fact that the money is staying in the banking system. So, if there should be a rise in short-term interest rates, the Fed would have to amend Regulation Q or the banks would face a serious squeeze.

There are some ameliorating factors, however. We have seen the growth of promissory notes as one way to get around Regulation Q, but I doubt that the Fed would let the banks use promissory notes and keep Q where it is, because promissory notes are not subject to reserve requirements and the Fed would lose some of its controls. Some banks have found debentures cheaper than savings deposits and might not raise their savings rates. Others might say, "It just is not profitable." But I think that many banks would raise their savings rates above 4% if the ceiling were raised.

That is the dark side of the picture. Now I shall present the brighter aspects. With the lifting of the ceiling I do not foresee the banks "running like sheep" to pay the highest possible rate, as they did in 1962. I think there would be much greater selectivity: paying the higher rate only on long-term deposits that can be used; service-charging account overactivity; not offering maximum return and maximum liquidity.

As far as you are concerned, inflation would not bring many bene-

fits. From the citizens' point of view, inflation would be rotten, of course. From the savings and loan point of view, there might be some slight bail-out of values, but there would not be a tremendous growth in housing, because there is not a great backlog of demand for homes. Higher interest rates would be paid by some of your competitors, and this would mean greater competition for good loans.

RECESSION AFTER INFLATION A CRITICAL TIME

The real question here is: What would happen *after* a period of inflation, when the economy turned down? If we should overbuild during inflation—and this is always the case—and clamp down credit controls, what would happen to you during the recession?

I do not think the economy will experience a major recession simply from petering out of the boom, for several measures could be taken such as cutting excise taxes and maybe income taxes. If we should have a major recession, I think it would be the result of inflationary pressures and their normal aftermath.

And if we should get a recession or depression, I think you would be hurt worse than other financial institutions, for the reason that you have done too good a job. Housing has become the most postponable expenditure in the American economy. Most of your business until the war babies become of age, in 1968 or '69, will be trading up, and in a period of recession a great deal of this business would dry up.

Savings and loan reaction to this would, I think, be greater efforts to diversify, to get into financing the inside of the house as well as the house itself—in other words, consumer credit. I think we also would see a great growth in mortgage refinancing for travel, automobiles, college education and so on.

Something is wrong, it seems to me, that more of the mortgage money available does not go into rebuilding our cities. I understand perfectly well the red tape involved in getting into urban renewal, so I do not say, "Go out and do urban renewal." But I do say that you ought to be fighting for changes in urban renewal legislation to make it easier to put the money to work where it is needed.

If there should be a decline in the economy, I think we would see great cuts in some savings associations. We might even see commercial banks, because of their ability to diversify, paying higher rates in some communities than the savings and loans.

What can we say, then? If the economy has a period of inflation followed by a recession or depression, I repeat that savings and loan associations and savings banks would be harder hit than any other financial institutions, because you do not have the powers to diversify. You are tied to the mortgage market, which the war babies will not enter until the late '60s.

My own prediction, however, is more optimistic. I do not believe that there will be a period of inflation; we have enough domestic and foreign competition to enable our economy to continue to move up.

One encouraging sign is the auto settlement. Although it exceeded the guidelines set by the President, most of the money was in the form of fringe benefits rather than cash. So, instead of all that money being spent, it will be used to build new capital facilities and thereby increase the productive capacity of the country and make it possible for productivity to continue to advance as fast as our available supply of money due. The result: no inflation.

In the past, savings and loans were immune to the business cycle. In times of depression you had plenty of demand for money. In times of prosperity you had people beating at your doors for money. Now you face a situation where you, too, are affected by the business cycle. But it seems to me that association directors who are forewarned are the ones who are best prepared to meet what happens.

THIS IS YOUR BUSINESS

by H. Merle Smith, Retired Staff Vice President

United States League, Chicago, Ill.

MY SPECIAL INTEREST through my tour of duty with the United States League consisted in trying to know and understand the savings and loan people who were causing the statistics which recorded that progress: who they were, what they were like, what they did, and how and why.

The managing officer naturally came first, whatever his title, since he was vested with leadership. The other officers and members of the staff came next. Very early in my experience, which began when the depression of the 1930s was beginning to be liquidated by the philanthropy of time, I wondered about that less easy to identify and often nebulous figure, the association director. His name appeared on the statement; he was referred to frequently and feelingly. But just where did he fit in—mainly, what was he like? The question became "What did he like?" when the manager said his board would not let him join the United States League.

A growing acquaintance with men who occupied the positions you now do led to the conclusion that a director may be compared to the father of the bride at a wedding. He receives little of the spotlight and less of the publicity but the event could not take place without him. He is continually available for consultation after the ceremony, gives encouragement and advice when appropriate, puts his foot down when called for and, if anything goes wrong, is the first one looked to for help. His reward takes the form of personal satisfaction over having made a contribution to the founding of another American family and

home, the good will of his kinsmen and friends, and the admiration of the community at large for him as a citizen.

We live at a time when status symbols are much sought by those in all walks of life. The homes we live in, the cars we drive, the clubs we belong to and the vacations we take have meaning in terms of their ability to give us favorable identity in the estimation of our fellows. I submit that there is no finer status symbol within the reach of a man than to be a member of the board of directors of a representative savings and loan association.

It testifies to his worth of character. It certifies to the kind and degree of success in his own business or profession which qualifies him as having the judgment to make a contribution to setting the policies of a financial institution entrusted with other people's money for use mainly in the financing of homes. It is indicative of the kind of civic spirit that recognizes a savings and loan association as a civic asset. And it is proof of loyalty to the original American concept of individual enterprise, which finds expression in self-reliant, self-respecting, self-sustaining citizenship.

SAVINGS AND LOAN STORY: 'DESCENT WITH MODIFICATION'

The zoologist has established the fact that the eohippus, a little animal about the size of a fox, was the ancestor of the noble creature we know as the horse. The long process by which one evolved into the other is described in scientific language as "descent with modification." The evolution of the original building association of 1831 into the savings and loan association of 1964 also can be described as "descent with modification." The difference in meaning is that, whereas in the first instance the process was caused by the operation of the laws of nature, in the second it was the result of the resourcefulness and responsiveness of human nature—for as time went on, conditions changed and associations changed to meet them.

Now I am well aware that the long story of savings and loan change is about as interesting to savers and borrowers of the associations you serve as the evolution of the horse is to those who present themselves at the pari mutuel windows of Hialeah and Tropical Park. It is enough for the moment to say that however great the "modification" of the association has been, the "descent" is clearly traceable. Although this is less true as to the form, structure and operation of the modern association, it is true as to the traditions that invest our business.

The original associations were mutual in character. They were social institutions that were identified with what was commonly called the thrift and home financing movement. They employed business means to accomplish a beneficial end. The impression that a savings and loan association puts service to others ahead of personal profit for those who render it perseveres at the end of 133 years.

Dedicated to fostering saving as a means to home ownership, the original savings and loan association, which set the pattern, accepted

the funds of the saver with the right hand and gave them back to him with the left hand. The affairs of the first association were placed in the hands of men whose integrity, judgment, fairness and care in the discharge of their responsibilities were the basis of the confidence of its members in it. As directors of modern associations, your fiduciary relationship charges you to administer their affairs with fidelity, keeping their needs and benefits uppermost in mind. Now, as then, prudence is taken for granted by the public.

The commitment of an association to help people gain real security by the practice of thrift and to help people achieve home ownership, one of the highest material goals of the American family, remains the same today as it was 133 years ago.

This heritage of expectation, confidence and good will is a hidden asset of your business, whose resources have grown to \$120 billion. It was born of good intentions that found expression in acts of helpfulness on the part of those who preceded us. Sometimes they made mistakes of judgment; but the fact that they made no pretensions, lived close to those they served and had what we choose to call "the common touch," was their study. This heritage should be protected and perpetuated, and you as directors share the responsibility.

THE FIRST HUNDRED YEARS

Savings and loan history may be divided roughly into two parts: the first century, which ended in 1930, and the 34 years since. In October 1929 occurred the stock market crash, which ushered in the depression of the '30s. A realistic picture of the business as it was then is painted in the opening paragraph of Josephine Hedges Ewalt's masterful book, *A Business Reborn*, published two Octobers ago by the American Savings and Loan Institute:

The typical predepression association, known more often as a building and loan than as a savings and loan, was one of a national network of modest-sized community institutions. Though all were blood relatives, their family resemblance was not always easily seen. But the business which was then rounding out its first century of existence accounted for roughly 10% of the savings which the American people had accumulated by 1930, and it held mortgages on about 2,200,000 of their homes. In its first 100 years, it had financed a total of about 8 million home-owning families.

The people in savings and loan work thought of it as a social institution, a "movement," with overtones of something other than a "business."

The typical association to which Miss Ewalt refers was housed at the time in a little office "down the hall" on the second floor of a building that was showing its age or "around the corner and down the block" from a secondary street intersection, except when it shared quarters with another business whose name was displayed on the window. Its managing officer, usually called secretary, depended upon one or two additional sources of income for his livelihood. He rarely was a member of the board of directors. The public at large had a kindly feeling

for individual institutions, but the business as a whole was relatively unrecognized and underappreciated. Then came the time when the federal government, in response to the national emergency, intervened to help people save their homes and give protection to their savings accumulations. It was in this time of stress that the voice of the savings and loan business was heard and heeded for the first time in American business history.

That voice was the voice of the United States League, which members of the state leagues joined. For 40 years it had served the business and served it well, by contemporary trade organization standards. A social-fraternal spirit pervaded it. Its elected officers, members of its official body and other leaders had sought as best they could to protect and advance its interests. A federal legislative committee, whose members paid their own expenses, had kept an observant eye on Washington from the time Congress first exempted associations from a corporation tax on net income in 1894. Because all associations were state-chartered, the League's influence for remedial legislation in matters such as examination and supervision had been channeled through its members in the various states. Although the two items of business of greatest interest at annual conventions were the election of a second vice president and the selection of the next year's place of meeting, the discussion of basic questions was not overlooked. For example, as early as the end of World War I, federal charters and a system of home loan banks were given careful consideration.

It was sheer inspiration that led League leaders in 1929 to amend its constitution by providing for the opening of a full-time office in Chicago and the appointment of an executive manager. The first convention of the revitalized League was held in 1930. The words of the incumbent president were prophetic: "The problems of the future will demand the services of the best men connected with the savings and loan movement."

THE 'NEW LOOK' TAKES SHAPE

The transformation of the building and loan movement into the savings and loan business involved, first, the development of ways by which to solve the immediate problems that beset it; and, second, the creation of means consistent with the record of its past and the promise of its future that would contribute to progress and growth. Two forces were joined to this end: the United States League, with the cooperation of the state leagues, and the government of the United States. If government responded, it was because leaders of the business worked long and hard to make its needs—both immediate and long-range, with due regard for the public interest—known and understood.

I do not know how many of you have been in a position to follow the course of events since 1930, marking the rebirth and impressive growth in size and strength of the savings and loan business; but I can think of nothing more rewarding for you as association directors than

to read the account in Miss Ewalt's book. The recent death of President Herbert Hoover recalls that one of his last official acts was to sign into law the bill creating the Federal Home Loan Bank System, first of a series of far-reaching events that included the creation of the Federal Savings and Loan Insurance Corporation, provision for federal charters and ever so many more.

Not all savings and loan problems could be resolved on the banks of the Potomac. There were others that could be dealt with only in the various state capitals. And there was a plethora of problems clamoring for solution at home. The typical association had been doing business with long-term money and consequently had given little thought to liquidity. The chances were good that what funds it had were impounded in a frozen bank. Borrowers stopped making payments and new savings dried up, contributing further to the difficulty of meeting withdrawal demands. Foreclosures resulted in a real-estate-owned account of 10% to 20% and more, for which there was no market, without reserves to absorb losses.

PUBLIC ACCEPTANCE NOT IMMEDIATE

Even though ways and means were provided by which associations could work their way out of their difficulties, acceptance on the part of those for whose benefit they had been designed was not immediate. It took education and persuasion. Certainly for the next decade, work at the grass roots became one of the chief pursuits of the United States League, whose efforts were blended with those of the state leagues and representatives of the government agencies, notably the district Federal Home Loan Banks, in furthering a country-wide reconstruction program.

Uniform accounting practices were unknown prior to the preparation by the League of the *Standard Accounting Manual*, which was the result of collaboration between representatives of all the interests affected. Appraisal methods had been far from adequate in the pre-depression days, and the Society of Residential Appraisers was created under League leadership to train and retrain men entrusted with appraisal responsibility for the performance of their tasks. The number of problems demanding attention seemed endless, but somehow the man power of the business was sufficient to the need.

The typical association of 1936, when the new program was getting under way, had assets of only half a million dollars. Fewer than 150 associations in the whole country had assets of \$5 million or more, and they were located in less than half of the 48 states. The majority could not offer a manager a means of livelihood, much less promise him a career. All at once it dawned on several hundred officers of small institutions, who were handling associations as a sideline, that it was possible to build them up to substantial and profitable size and to make them factors in a great savings and home financing system for which there clearly was need.

Savings and loan associations shared the experience common to commercial banks and other financial institutions of the period in regaining public confidence. Insurance of accounts helped beyond measure, but managers with insight and foresight resolved that insurance of accounts should be the last protection of the saver, not the first. Savings plans adjusted to the saver's preferences, and loan plans tailored to the borrower's needs, resulted in "product improvement" that could be advertised and publicized. Emphasis on associations as savings institutions at a time when they almost alone solicited the savings patronage of the public caused an inflow of funds that began as a trickle and ended in a running stream.

The acceptance of associations as institutions for savings created a reservoir of capital with which they were able to increase their participation in financing the home needs of the country. They helped to meet the housing shortage at the end of World War II and they supplied more than their proportionate share of the home credit when the home building boom of the '50s arrived.

Any way you take it, the growth of a business is the applause meter reading which records public approval of the service it renders. The saving and home-buying public approved not only the savings and home financing plans of our institutions but also the way their service was rendered. It was personal, it was prompt, it was efficient, and the spirit of friendliness behind it strengthened old friendships and made hosts of new ones. The road from 1936, when total assets approximated \$6 billion, to 1964, when they are 20 times as great, or \$120 billion, was upgrade in the beginning; the going got easier along the way, but there are still hills to climb.

NEED TIME TO GET 'FEEL OF NEW TOOLS'

The transformation of the building and loan movement into the saving and loan business occurred one association at a time. The key figure in the picture was the managing officer. Not unless or until he caught the vision of the shape of things to come, did anything happen. As a practical matter, he could not move any further or faster than his board of directors would let him. It took time for him and for them to get the feel of the new tools provided for their use.

The association that achieved representative growth in size and soundness had the leadership of a creative and imaginative manager who enjoyed the staunch support of directors whose attitudes were similar to his own. As the institution grew, they all grew with it. The management ranks were recruited by the occasional enlistment of those whose previous activities had qualified them in special ways for their new responsibilities. Some came from other financial institutions; others had been seasoned in various fields of business and industry. But the bulk of the leadership was supplied by men already experienced in savings and loan ways, who needed only the enlarged opportunity of the new order to cause them to flower. Board member-

ship became more attractive to men of affairs, and new names began to appear in the directory lists.

Along about the middle of the 1930s, when savings and loan was taking on the "new look," I attended a large meeting of association officers and directors in one of the principal cities of the Midwest. Knowing few in the group, I asked one of the ablest managers I ever knew how to tell the difference between a managing officer and a director. His answer was: "If you'll look at the expression on the face of a typical director who is here tonight, you'll discover that he seems afraid someone will ask him a question." True or not at the time, the modern director wears an understanding look which tells you he not only knows the questions but also the right answers.

The directors who were present, most of them well along in years, represented mostly small associations. They had a sentimental attachment to the business, were champions of thrift and home ownership, enjoyed board meetings because of social contacts, and received their attendance and appraisal fees with true appreciation. There was no clear line of demarcation between the authority of the manager and the responsibilities of directors. The business of a board meeting usually began with reports of the money paid in and paid out since the previous meeting and the amount of money on hand, followed by a roll call of delinquent borrowers.

The most unpopular word in the association vocabulary was "foreclosure." To forestall its use, directors, often numerous enough to start a mass meeting, reviewed every loan application in detail, including the credit standing of the applicant and his way of life, if known. A zealous director with plenty of free time on his hands might drop into the office frequently to offer his services in the manner of a volunteer fireman. One with a penchant for trimming expenses did not hesitate to interest himself in the cost of office supplies and the size of the telephone bill. All expenditures were approved, item by item. The addition of a new employee involved all the elements of a general election.

MODERN MANAGER, DIRECTOR EMERGE

The modern manager has become the chief executive officer at the head of a staff to whom the operation of the institution is entrusted. Policy making is the function of the directors; and the more outstanding they are, the greater assurance the manager feels in performing his administrative duties. Policy making embraces far more than deciding what the rate paid savers and the rate charged borrowers shall be; it is concerned with maintaining a balance between growth in size and growth in soundness or strength. Building reserves is another way to say it. An adjustment between the variable contributing factors is made constantly. Matters such as liquidity, the use of borrowed money, income and expense, preparation to meet federal income taxes and reserve requirements, and the efficient employment of personnel must

be resolved in such a way as to result in maximum service to the savers and borrowers of the community consistent with maintaining the soundness of the institution.

Modern management provides directors all the information needed for sound decision making. The work of the board can be described as the cooperative examination of ideas, leading to clear-cut decisions that become policies for management to carry out. Basic understanding of the provisions of the association's charter, state and federal legislation to which it is subject and the regulations of the various government agencies to which it is answerable is only the beginning of a director's needs. Factual information, which it is the privilege of the United States League, among other sources, to supply, concerning trends in the business and general developments, plus his own understanding of community conditions and needs, are all put to use by him as a director.

It is gratifying to hear a modern director express appreciation for what he chooses to call the privilege of serving in his capacity. If a poll were taken today, I am sure that each of you would say he is proud to march in the savings and loan ranks. You share the credit for the service record of our business.

SAVINGS AND LOAN APPEALS TO THE HEART

Savings and loan is big business today. The responsibility for its conduct is equally great. Its continued worthiness to enjoy the confidence and esteem of the public will depend upon the integrity, judgment, fairness and care brought to the various decisions affecting the individual institutions that compose it. The appeal of the representative association will result in no small degree from an element not found in the statement of condition, another hidden asset.

Through the ages, the rose has enjoyed the distinction of being the favorite flower of "all sorts and conditions of men." Its appeal resulted from its scent, form and color. Modern rose fanciers, responding to the urge for the flashy and the flamboyant, propagated roses of brilliant color and giant size; but in the process, the aroma of the rose grew faint and disappeared. At long last, rosarians are striving to restore fragrance to their originations; they have discovered that the aroma of the rose was easier to lose than to regain.

It is easy to admire a rose for its form and color at a distance, but it is the scent that beguiles the beholder at close range. The principle applies to financial institutions. I hope that the time will never come when the savings and loan association lacks the intimate appeal of the days when it was small, its ways were humble and the saver or borrower could feel that it existed especially for him. With all the impressiveness and charm of the modern office, there is no atmosphere for rendering association service that quite equals one performed by courtesy, consideration and helpfulness, recalling old-fashioned attar of roses, which appeals to the heart through the sensory nerves.