SAVINGS AND LOAN ANNALS 1965

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

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United States Savings and Loan League

John W. Stadtler
PRESIDENT

FOREWORD

Nineteen sixty-five was a year of change, challenge and competition for the savings and loan business. The business met all three successfully, I am happy to report.

The most challenging problem during the year—and it probably will be during 1966—was commercial bank competition for savings. This fierce competition was given impetus late in 1964 when the Federal Reserve Board permitted commercial banks to pay 4½% on certain types of savings deposits; it was given further impetus in December 1965, when the Federal Reserve raised the ceiling to a fantastic 5½%.

As we rounded the turn into 1965, the business was faced with many unanswered questions. What would happen to our savings flow in the face of the new, unbridled competition? What would happen to our mortgage market? Would we be able to operate successfully under the greatest amount of regulation ever imposed on the savings and loan business?

Faced with what certainly looked like a grim prospect for 1965, the business girded its loins for the coming battles. And never before did we perform in a better manner.

During 1965 our savings growth amounted to $8.4 billion, as compared to $10.5 billion in 1964. This was far better than many of us anticipated, and indicates that when put to the test our business can compete successfully on an equal basis with the commercial banks.

In the face of a steadily declining real estate market, we experienced a net gain in mortgage loans of $8.9 billion, as against $10.4 billion in 1964. This is a remarkable achievement in light of what the business was up against. The savings and loan business ended 1965 with a net gain in assets of $10.1 billion, which made it "another good year."

As a result of a tightening up of savings and loan operations, an all-time record $900 million was added to reserves—a certain and unmistakable sign that our business has achieved even greater maturity than even the most optimistic observers expected.

We have become far more selective in our lending policies; we are running a tight ship. The quality of our assets is unquestionably superior to what it has been at any other time in our history.

Our business grew in size, in strength and in character during 1965. In fact, its performance was such that there is no question that the savings and loan business can meet and overcome whatever challenges may lie ahead in 1966.

John W. Stadtler

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GENERAL SESSIONS

PRESIDENT'S ADDRESS

by JOHN W. STADTLER, *President*
United States Savings and Loan League
Washington, D. C.

THIS CONVENTION brings to a close one of the most interesting and eventful years of my lifetime. For the past 12 months I have had the honor of serving as your president and representing this business in numerous conferences with leaders in government and with leaders of other groups in the great American housing industry. It has been a year of many trips from coast to coast, and it has been a year of many gracious acts of courtesy and hospitality for the Stadtlers that we shall never forget. For Kay and myself, I want to express our heartfelt gratitude to all of you for helping to make this year so memorable.

This morning, in the tradition of United States League presidential convention speeches, I should like to review some of the highlights of the past year, and then suggest some future courses of action for this great business. Hopefully, these remarks will weigh more heavily on the future than on the past.

A PROSPEROUS YEAR

By almost all statistical measures, it is clear that 1965 has been one of the most prosperous years in American history. We also agree that, on the whole and considering the competition and problems, it has been a rather satisfactory year for our business.

It was, by and large, another year of consolidating the gains of the postwar period, adjusting to housing markets and reacting to the new high-rate competition for savings offered by the commercial banking system. We have been aided in this period of consolidation and adjustment by unparalleled prosperity enjoyed by American families across the country, by a reasonably good savings volume and by a continuation of public preference for placing its savings in financial institutions.

It was a year of some surprises, one of which was that the demand for credit of all kinds was so great. Credit has begun to tighten, even in the face of a tremendous flow of funds into financial institutions of all kinds. Mortgage loan demand, particularly in recent months, has been better than expected. We now begin to detect signs of a switch from a surplus of funds and a shortage of suitable investments to improving housing and mortgage markets, and the need for developing a flow of savings adequate to meet a rising demand for home loans.

It also was a year of continued testing of savings and loan management in an environment of much more strenuous competition. Not only were management operations tested, but—and perhaps of even greater importance—so were basic management objectives.

As we meet here at this convention, we all can draw reassurance and confidence from the fact that the business appears to have moved through a difficult period in so satisfactory a manner.

STRENGTH OF PURPOSE, DISPLAY OF RESPONSIIBLITY

In retrospect, it would have been easy for the savings and loan business to behave in a careless and irresponsible manner in 1965. For example, we could have pursued growth as a primary objective. This we did not do. We could have tried to maintain our traditional comparable lead in savings rates over our main competitors, the commercial banks. This we did not do.

The United States League could have taken the easy course by giving loud and table-pounding resistance to each and every effort on the part of the supervisory authorities to correct weaknesses and improve the regulatory and supervisory framework. This we did not do, although we strenuously opposed several of the Board's new regulatory proposals. Basically, we sought to have the supervisory authorities understand the needs of our business and to do what is necessary to assure a sound and honest business while not throttling its initiative and vigor.

By any perspective, these decisions that the business has made have been major decisions. They have required strength of purpose and character, maturity, and the willingness and wisdom to sacrifice short-term aspirations of growth for long-term objectives of stability and soundness. Yet, these decisions were made, and the correctness is indicated by the encouraging fact that, for the business generally, we safely completed our passage through the most treacherous channels of the real estate adjustment of the 1960s.

If there is any single force responsible for this excellent performance through this period of transition, it must be the keen sense of responsibility which the officers and directors of our institutions feel in the management of funds entrusted to them for safekeeping. The safe and prudent investment of the funds of nearly 40 million Americans has been uppermost in the objectives of savings and loan management.

INTERNATIONAL FOCUS

This record of performance has given impetus in the past year to efforts of the business and the government to bolster home ownership in other parts of the world through the introduction of savings and loan associations. I am encouraged and impressed by the growing interest and support of this program by American savings and loan people. At the Congress of the International Union of Building Societies and Savings Associations in London last month, representatives from 26 countries included about 450 men and women from the United States.

It becomes quickly obvious to anyone attending such a meeting that the savings and loan business has very much to contribute in support of democracy and economic stability in other nations of the world. Just as home ownership has strengthened personal and political freedom in our country, so it can bolster the hopes and dreams of people everywhere.

I am pleased that the United States League is now taking a more active part in the work of spreading the savings and loan business into other countries. Raymond P. Harold of Worcester, Mass., is the new president of the International Union, and Miss Josephine Hedges Ewalt, long a valued and key member of the League staff, is now the secretary-general, or chief administrative officer.

The facilities of the American Savings and Loan Institute are beginning to be used in the development of a very necessary employee education program for the growing savings and loan business in Central and South America.

The development of interest in the international field on the part of the United States League as an organization and on the part of many more Americans as individuals is one of the marked accomplishments of the past year. Certainly the interest and resources of this organization and its members can contribute immeasurably in the development of a vigorous savings and loan business around the world. Just as the savings and loan business has made it possible for America to become a nation of home owners, our business can help people in other countries become home owners. More than any other single thing, I believe this will contribute to resolution and independence in mankind, and victories in the great battle of this age against communism.

POLICIES STRENGTHENED, POWERS BROADENED

For the past several years the bulk of savings and loan management problems and challenges has dealt with mortgage operations. To avoid the pitfalls in the real estate market, savings and loan lending programs have been overhauled and strengthened. Today, there is better loan origination, better appraising, better loan servicing and collections than prevailed several years ago.

Practically all the statistics measuring quality of savings and loan credit began to show marked improvement in the early months of this year. The business as a whole has a 1965 record with respect to mortgage arrearages and foreclosures to which we may point with considerable pride.

In part in response to changes in the real estate market, we have had a modest liberalization of lending and investment powers in the past few years. Implementation of these new powers will develop slowly, but in the years to come they will mean a more serviceable savings and loan business essentially within the general area of real estate mortgage lending and family finance. I speak here of the new investment powers of federally chartered savings and loan associations granted by the Congress of the United States and also powers granted to state-chartered associations in a number of states. It is important that the business can now begin to move into some other investment areas related to real estate and family finance and gather the necessary experience and know-how.

Our business is, on the whole, a conservative business. This conservatism has been demonstrated in the past few years by management policies and programs designed to avoid problems and an unhealthy expansion in a period when too great expansion would have been unwise. The primary focus of management needed to be on consolidating the gains of the past and making the adjustments required by quite a different real estate and mortgage market. This conservatism has accounted for the cautious attitude of savings and loan associations in moving in new directions and taking advantage of new investment authorities.

Simple candor, however, requires the statement that an excessively conservative approach can be pursued too long and may not constitute the wisest course of action or most constructive programming as once again we approach a period when the recruitment of savings will be our foremost problem, and when there again is an expansion in the needs of the nation for homes and mortgage credit, as well as changes in the volume and type of credit needed in the field of home finance.

I, personally, think that we are far enough through the period of adjustment in the real estate markets, that we have done a sufficiently good job of consolidating our postwar gains and that the competitive environment is today sufficiently different and challenging that we now can and must direct the bulk of our energies toward the future.

If a different kind of thinking is required and if the business is to develop new programs and a fresh look at tomorrow, to what areas should our thinking primarily be directed? How should we move as an organized business on the problems of the future as we view them?

TWO AREAS FOR FRESH THOUGHT

Let me suggest two major areas where I think we need some fresh thinking: The first involves our relations with, and our competition with, the commercial banking business. The second involves public supervision, particularly the techniques of supervision, of the savings and loan business.

On top of increasingly vigorous competition between savings and loan associations, we have had thrust upon us the past few years, and particularly since the first of this year, very real competition from the commercial banking business. This competition is primarily for the savings dollar of the American people.

The commercial banking business really has come alive in recent years. The commercial banker today is far different from the stereotype of a generation ago. He is expansion-minded and anxious to serve the whole range of American financial needs—not only the financial needs of business and industry but also the financial needs of the typical American family and consumer.

There are a number of reasons for this resurgence of commercial banking, only a few of which relate to any new laws passed by Congress or new powers granted by state legislative bodies. They involve some liberalizing of bank lending and investment. They relate to a tremendous demand for credit of all types as a result of almost five years of continued American prosperity and economic expansion. They are found, in part, in the international money markets. The nation's balance-of-payments problem was the root cause of the increase in the rates on savings deposits which commercial banks were allowed to pay. Whatever the reasons, the fact is that we do face a new and live commercial banking business.

A PUBLIC INTEREST QUESTION

Before suggesting a few programs concerning savings and loan reaction to this new competitive environment, I want to raise a fundamental public policy question about the extraordinary expansion of commercial bank lending and investment powers. This is a question which is of interest and importance not only to this business but to the American public generally.

Simply put, the question is whether the expansion of the commercial banking business into so many new areas in recent years is really in the broad public interest.

There are many who will remember that as a result of the Great Depression of the 1930s, the Congress of the United States decided to provide greater decentralization in the financial resources of the country. It stripped some powers away from the commercial banking business, limited others and also gave some statutory encouragement to specialized financial intermediaries, including the savings and loan business, to provide specific and specialized service for groups within the economy. Very clearly, congressional sentiment was strongly behind programs to avoid a repetition of having all our financial eggs in one basket.

In addition to its decision to decentralize financial responsibility, Congress in the 1930s took numerous steps designed to provide an improved flow of funds into home building and home financing. Part of the thinking that led to this decision was the evident congressional concern that mortgage lending was only an incidental function of commercial banks, yet of far-reaching importance to the people of the United States.

Some years ago, when the commercial banks were pushing for higher permissible savings rates, bank spokesmen pledged to the Congress, the federal agencies and the public that, to the extent these savings were received, the mortgage market would not suffer. The banks, it was argued, would keep channeling this money into home mortgages.

BANKER MORTGAGE LENDING PERFORMANCE

Let us look at the record. In the first six months of 1965, on the strength of higher savings rates, personal savings gains of insured commercial banks were nearly \$2 billion greater than in the same 1964 period. This nearly \$2 billion gain is exclusive of a continued substantial increase in time deposits, including some 4½% consumer-type CDs issued by some banks. At the same time, however, the net increase in mortgage loans outstanding at insured commercial banks in the first half of 1965 was only $61 million greater than the increase in the first six months of 1964.

Admittedly, figures for six months do not establish a pattern. Nevertheless, the evidence suggests that when demands for credit are very great, and when shorter-term and more profitable investments are available, banks will divert only a thin slice of additional savings and time deposits into mortgage loans.

These comments are not made in criticism of the commercial banks. Their responsibility is to provide maximum earnings for their stockholders, and the mortgage market is not now the market of maximum profit opportunity.

We are approaching a period when housing demand and mortgage credit demands will reach record proportions. It has been widely believed that this new real estate boom will be one of the main—if not *the* major—underlying props in the American economic expansion during the decade of the 1970s.

NATIONAL CREDIT POLICY

Certainly it is a responsibility of the savings and loan business to see that the mortgage market is not a "second-class citizen" when public policy priorities are given in the allocation of credit. If we do not assume this responsibility, who will?

This is a broad public policy consideration which I think should be studied fully by the savings and loan business, and its implications brought to the attention of financial students, public officials and lawmakers everywhere.

The savings and loan business, of course, cannot be complacent or face a newly vigorous commercial banking business without a search for some new programs of its own, and new approaches and services to American families.

In the past few months I, as League president, and members of the League staff have received from savings and loan executives many suggestions and ideas for programs that the League might develop to permit the business to continue to make progress in this newly competitive environment.

On the one hand, suggestions have included trying to get some kind of checking account powers for our institutions, additional authority in the field of consumer finance to permit us to serve the entire range of the needs of the American family for credit, and trying to engage in the trust business.

On the other hand, some people feel we should "tend to our own knitting" and do a better job than we now do as specialists in the field of home finance. These people say that instead of doing about half of all the home mortgage business, we should get into the position to do 60% and 70%. This point of view holds that we should forget about trying to be a minor kind of department store of finance and, instead, be the very best possible specialty shop and do the most efficient possible savings and home financing job.

I do not know what the right answer is, or the most appropriate policies and programs to pursue. But I do know we need some new research and an extensive and broad-scale inquiry and study into the whole subject.

On the matter of research, I am happy to tell you that we have provided in the United States League budget next year a considerable sum of money for new market research on the savings side of the business. As you know, the League has sponsored in the past a number of inquiries into public attitudes toward savings and savings institutions. All these studies were made in a period considerably different from the one in which we find ourselves today. Now we need facts on savers' attitudes toward savings institutions in a period that reflects today's current market situation with respect to the size of our business, the familiarity of the public with it and the higher rates now being paid for savings by the commercial banks. This new research project should be completed in the early part of 1966.

BLUE RIBBON COMMITTEE NAMED

Concerning the broad problem of the future directions this business should take, I am pleased to announce the appointment by the League's Executive Committee at its meeting two days ago of a select, blue ribbon committee for the express purpose of studying this entire subject and making recommendations to this business.

Among other things, this committee will review commercial bank competition and Federal Home Loan Bank credit policies, as well as the broad range of savings and loan operations. The committee will operate under a considerable budget which will permit it to engage such outside professionals and undertake other studies as deemed necessary in addition to the one I have just described.

The chairman of this committee will be Hans Gehrke, president of First Federal Savings and Loan Association of Detroit, and we are calling Carl Distelhorst out of partial retirement to be the executive director of this important project. I believe it will assume an importance comparable to that of the League's postwar planning committee which worked in the years 1943 and 1944.

We are entering a new era for the savings and loan business, and you may be confident that the United States League will provide the intellectual and factual leadership for the necessary innovations, new markets, better service and improved products. This business must and will remain vigorously healthy and alive to the changing times and challenges.

ROLE OF SUPERVISION

Now let me move on to the difficult and challenging subject of the role of supervision in the savings and loan business. This is a subject that has been receiving an increasing amount of attention from savings and loan executives and the United States League, particularly in recent months.

I want to preface my remarks by stating that, of all the attributes of the United States Savings and Loan League, I should say that the most fitting description is that this organization believes in providing *responsible* leadership. The League was organized many decades ago to enable the responsible elements in the business to drive from the ranks of the business a few unscrupulous operators whose activities threatened to tarnish the good name of savings and loan associations.

From that date to this, the League always has been conscious of and responsible to its obligation to see that our institutions operate in the public interest. In discharging this responsibility, the League always has been in favor of giving to the supervisory authorities whatever tools they really need to see that the business is operated soundly and honestly. We have appreciated the Board's concern with its supervisory cases, and we have understood and supported the Board's determination that the Federal Savings and Loan Insurance Corporation be sufficiently strong and liquid at all times to meet any demands upon it.

The United States League officers and staff have represented the business vigorously and, I think, intelligently in connection with regulatory proposals that the responsible policy-making bodies of the League have felt were not needed or were inappropriate. We have, however, agreed with and worked with the Board on some regulatory proposals which our committees felt were wise and needed. We also have worked with the Board to improve still other proposals that our committees felt needed change in emphasis or detail.

We have deliberately not made headlines with respect to reactions and activities of the United States League regarding regulatory proposals, and the Board, as you know, has not followed every suggestion of the United States League. We always have had, however, a fair and full audience with the Board, and we are convinced that the Board and members of its staff have given careful consideration to the points of view expressed by League representatives.

I think we all must recognize that the Federal Home Loan Bank Board, in performing its several functions, has the primary obligation of seeing that savings and loan associations are operated in the public interest.

For our part, we have an obligation to the people of the United States to make sure that the savings and loan business is given enough flexibility in operation so as to meet the changing thrift and home financing responsibilities that we have. If we are to meet these responsibilities adequately and in a manner intended for us by the Congress, then we must take care that our time and energies are not wasted in compliance with regulations so detailed and numerous as to be a virtual straight jacket.

'RULES OF THE ROAD' DILEMMA

In part, the supervisory dilemma we face and the frustrations we have stem from the fact that the savings and loan business always has wished to have the "rules of the road" and the authority under which we operate spelled out in considerable detail. We did not want supervisory authorities enforcing unwritten rules or their own changing judgments as to proper operations.

But it seems to me that this tradition began to outlive its usefulness some time ago, and that we have gone much too far down that road. The policy of requesting supervisors to enforce only written rules and regulations, which was once regarded as a protection to management, threatens to come close to management oppression.

Until a few years ago, the business was not generally in favor of what might be called "case-basis supervision." The past year, however, I have detected a considerable switch in savings and loan thinking. The savings and loan man now resents regulations applied to all because of the management weaknesses and improper management instincts of a few. The savings and loan executive sees no reason for imposing a myriad of regulations on him in order to get at and deal with specific problem cases in distant cities and on the part of institutions that might properly concern any set of supervisory authorities.

MORE CASE-BASIS EMPHASIS

It is my hope—and I believe the hope of this business—that the Federal Home Loan Bank Board will begin to move away from supervision by the enforcement of formal and detailed regulations and in the direction of having fewer regulations, but with adequate authority to deal promptly with the problem institutions and situations vigorously and effectively as they occur.

I have reason to believe that the Board generally shares this desire to move more toward a case-basis type of supervision. The Board, in fact, has begun to reorganize its examination procedure and supervisory machinery so it can move in this direction, and I believe the Board would more promptly change its supervisory techniques and issue fewer regulations if it had the assurance that a new supervisory approach and the laws needed to implement it would be broadly supported.

To permit the Board to stop unsafe and unsound practices on a case basis without complicated written rules applicable to all will require, in fact, some new legislative tools. Specifically, the Board will have to be allowed to enforce its rules by the use of cease and desist orders. Associations accused of bad lending practices cannot be permitted to argue about it for years while continuing the same investment pattern.

The task is to develop a cease and desist procedure—that is, a supervisory enforcement procedure—which is *effective* for the Board but with reasonable *safeguards* for management. If that can be done, I, for one, am willing for the Board to have broader powers to deal with individual institutions which it feels are engaging in unsafe practices and to impose fewer regulations over the typical association.

The attitude I express about the number and complexity of the regulations issued in the past few years comes as no surprise to the chairman and members of the Board, who are our guests at this convention. In formal meetings and in written correspondence we have expressed our reservations and concern about the number and complexity of the regulations. We also have complained that in some instances regulations have been proposed when regulations already on the books had not been given sufficient opportunity to work.

In helping and encouraging the Board to move in new supervisory directions, we have supported with some suggested modifications a proposed regulation requiring associations to write down certain assets if the supervisory authorities, after appraisal and investigation, determine that they are being carried on an association's books at inflated or unrealistic figures.

The implementation of this regulation should help the Board to move in the direction of case-basis supervision and should make unnecessary some other regulations—including, I might say, the proposed regulation requiring independent appraisals on loans over a certain size.

Certainly I would hope to see a moratorium on future restrictive regulations until the business has had an opportunity to absorb those recently put into effect, and until the Board has given its new regulations and new supervisory techniques a reasonable opportunity to work.

PUBLIC POLICY AND HOME OWNERSHIP

I have devoted a considerable amount of time to our competition with the commercial banking business, and from what I have said it is obvious I believe this competition will become more vigorous. This competitive struggle will be a difficult one, and one that will not be resolved in one year or perhaps in 10 years; but it is one in which we need all the resources of mind and time we have at our disposal.

The outcome of this competition will determine to a considerable extent the future of private home ownership in the United States. By tradition and by statute, the overriding purpose for our existence is to provide funds for people in all walks of life to own homes. By the same token, the Federal Home Loan Bank Board was established to foster the development of savings and loan associations so as to assure a suitable flow of home credit.

Thus, we and the Bank Board must stand shoulder to shoulder where the interests of home owners are concerned. Moreover, we must be allies in assuring that there is always adequate credit available for home buyers, and that in the shaping of public policy the interest of the home buyers must always be protected and advanced.

We Americans are justifiably proud that our personal and political freedoms are stronger and more vigorous than anywhere else in the world. It is no coincidence also that this is the only nation in the world where there is not a great and discouraging housing shortage and that the ratio of home ownership is the largest of any industrialized nation. Private home ownership stands as a major safeguard to our cherished free society.

Home ownership is the most durable reflection and expression of the industry of the individual family. It bolsters economic growth. It assures personal dignity and financial independence. It builds better citizens.

Does any economic activity make more of a contribution to American life? It should not—it must not—be relegated to a place of secondary importance in the aims and aspirations of the United States. It is our job to make sure it is not.

BUSINESS AND REAL ESTATE TRENDS, 1966

by ARTHUR M. WEIMER, *Special Assistant to the President, Indiana University Bloomington, Indiana*

THE AMERICAN ECONOMY is moving toward the close of its fifth year of continuous expansion. Even after such a long period of expansion, the business outlook continues to be highly favorable for the year ahead. There is a chance that the rate of advance may even accelerate. In general, the prospects are for further gains at about current rates.

The third quarter just ended enjoyed as good a rate of expansion as the second, about $11 billion on an annual rate basis. The current year undoubtedly will end on a favorable note, with a GNP rate in the fourth quarter of close to $685 billion. Totals for 1965 as a whole are likely to be around $670 billion. With favorable prospects ahead, we are likely to pass the $700 billion GNP level around the middle of 1966.

Even though we may be concerned about some of the longer-term consequences of various current developments, it would be difficult to forecast a downturn in economic activity during the year ahead. We will have to wrestle with various problems of prosperity. Shortages are appearing here and there, including skilled labor, and there will be more. It will be hard to achieve productivity gains like those of the past year. International problems will continue to hold a prominent place.

Among the favorable factors in the current outlook are these: (1) rising consumer incomes and continuing optimistic attitudes on the part of most consumers; (2) a favorable outlook for corporate profits and hence capital expenditures; (3) the encouraging response to the new automobile models; (4) prospects for another good year in construction and at least slight improvement in housing; (5) rising government expenditures, not only on the federal level with stimulus from the Viet Nam situation, but also on the state and local levels, where programs are advancing at a rate of $1 billion or more per quarter.

Against these expansionary elements there are several restraining factors. One is the higher social security taxes at about a $5 billion annual rate beginning in January. There will also be a drag caused by the continuing liquidation of steel inventories which were built up in anticipation of a possible strike. The balance-of-payments situation continues to be difficult and is likely to cause more trouble in the year ahead. Some of the so-called leading economic indicators have turned downward, and this may cause some concern, although this has happened before in the five-year period of expansion. Included are housing starts and building permits, average workweek in manufacturing, nonagricultural job placement and formation of new businesses. There also has been growing concern about the possibility of inflation.

INCOME, PROFITS EXPECTED TO ADVANCE

I think most of you are familiar with the income prospects for the next year. In general, consumer incomes will move upward in about the same proportions as total output. There will be some increases due to wage contracts, but these are not expected to create special cost problems for industry. The average weekly earnings of manufacturing production workers, for example, including overtime pay, advanced 3.2% between August 1964 and 1965. Generally, consumer income expectations for the year ahead are good, and recent surveys indicate continuing optimism.

In August, profits were running about 7% ahead of August 1964. Business profits are still advancing. McGraw-Hill suggests that next year could be the biggest profit year in history. Profits are being pushed up. Business expansion enables operations to be carried forward on a more profitable level. The industrial operating rate has been estimated at around 89%, and this is only three points below the rate at which profits are believed to be maximized. In addition, productivity has increased substantially over the past year, and this has helped the profit picture as well as making possible higher wages without price increases.

Because of favorable profit prospects, capital expenditures undoubtedly will advance again during the year ahead. The Commerce-SEC reports indicate a rising trend in capital expenditure plans. In addition, the National Industrial Conference Board has begun recently to report capital appropriations by business firms, and these suggest a 10% rise in this area during the year ahead.

As I have suggested, the response to the new automobile models has been encouraging. The figures for 1965 benefited somewhat from the lack of availability of cars in late 1964. Further, the replacement market has begun to soften. The teen-age sector of the market may be a little less buoyant in the year ahead. Even so, early indications suggest that the 1966 models will sell well and we may see another year that runs close to record levels.

Conditions are highly favorable in the construction field. According to Miles Colean, whose predictions in this area have been very accurate, the current year should end with total outlays of close to $68

billion, an advance of about 3% over last year. The gain would have been larger except for housing, where declines in the West brought on a slow year. Although housing starts are down, dollar volume will be off only slightly. This is in part due to rising construction costs but also because of better homes being built.

PROSPECTS FOR CONSTRUCTION, MORTGAGE INTEREST RATES

The outlook for construction in 1966 suggests a somewhat larger gain than for the current year. Private nonfarm housing starts still are tending downward, but 1966 may bring a slightly better performance. For the current year the number of apartments may be off as much as 12%. Single-family construction, however, has moved up slightly.

For the year ahead, one can make a good case for at least a slightly more favorable situation in housing. The number of unsold houses is low. Vacancies have not advanced. The home ownership section of the market appears to have gained strength. In all probability it will be necessary to accommodate around 800,000 new families, even though the rate of family formation may not be quite so great as in 1965. Family income will continue to move upward. The number of demolitions after allowance for conversions indicates a need for another half-million housing units. Recent federal legislation in the housing and urban areas will at least have a positive effect on the market, although its impact may not be so great as some expect. Defense outlays may well help the housing market in a number of areas.

Against these favorable conditions there is the prospect that mortgage interest rates may be a little stiffer, although mortgage money should be readily available. The draft will discourage some marriages and some home purchases. The number of men in the 20-29 age group will be less than in the current year, and it will be 1967 before this age group expands. Even so, there should be a modest gain in the total number of dwellings started in the year ahead and there ought also to be an increase in the dollar volume of house construction. The increases will come primarily in the single-family house field.

'FISCAL DRAG' UNLIKELY IN YEAR AHEAD

There is not likely to be a "fiscal drag" during the year ahead because both defense and nondefense expenditures have been advancing. Without this increase, current fiscal policy would have called for another tax cut to keep a fiscal drag from developing.

The build-up in Viet Nam is greater than had been anticipated and its impact on the economy is broader. Even so, this is not by itself likely to bring any major change in the direction of economic activity. The significant thing about the Viet Nam situation is the commitment that our government has apparently made to try to maintain peace around the world. This can be a very costly commitment, as we are learning in Viet Nam. For example, an Air Force pilot takes out a $2.5 million aircraft, cracks it up and is put into another one to restore his confidence, and this one in turn can be lost in a short time.

What I am trying to say is that military operations today are very costly affairs. In order to stress the importance of supplies, we often say that an army travels on its stomach. Today the army travels not only on its stomach, but amid a great array of expensive weapons and supporting technology. Under a situation such as we are in at present, the military interests are able to get their requests for appropriations approved without much difficulty, and their wants may be described as insatiable. We are told that the DEW line is obsolete and may have to be replaced, particularly if there should be threats of missile attack from Red China. This could easily mean a $25 billion to $30 billion expenditure. Congress must decide whether to develop fallout shelters, again at tremendous cost.

Since we are not officially at war, it is extremely difficult if not impossible to deny requests for expanded civilian programs. In terms of economic considerations, it might be desirable to restrain civilian programs at least to some degree as military expenditures move upward. This appears not only to be impossible politically, but it also would restrict the overall development of our society. There are tremendous and often justifiable requests for supporting the good life, and government is responding to them.

THREAT OF INFLATION

Many have expressed concern about the inflationary potential that may exist in this wide variety of both military and civilian programs; and, of course, the potential is there. Even so, our economy is now so big and its capacity for expansion is so great that it is possible to absorb a substantial military effort along with large civilian programs; and so far we have been able to do this without adding much, if any, inflationary pressure and without much stiffening of interest rates. There is always the chance, of course, that a sudden scare or quick change in sentiment will begin pushing prices up and that the monetary authorities will respond with tighter money policies in order to restrain inflationary tendencies. Prospects for such developments may increase as the long period of prosperity lengthens still more.

We should recognize, however, that the expenditures we have been undertaking certainly have not bankrupted us. On the contrary, they have tended to make us more prosperous, and the impetus that is being provided from government programs may well be a significant factor in extending our long period of prosperity through 1966.

It is important to recognize that we are pushing against capacity in some areas. We are beginning to fight shortages. It is not possible to get delivery on a number of items quickly. There is not much surplus manpower—certainly not trained manpower—available. Under these circumstances, when we begin to compete heavily for an increasingly limited stock of resources, the chances for upward pressures on prices certainly increase. Also, it is difficult to achieve productivity gains under such conditions. McGraw-Hill estimates a 5% gain in productivity from August 1964 to August 1965, but about a 3½% rate next year.

The international payments situation continues to pose some difficult problems, as I have indicated. Somewhat higher interest rates may be

required to cope with this situation, and this could tend to slow down domestic expansion. Even so, international competition is now one of the important restraints on price advances.

There has been some firmness in the interest rate situation recently, including, to a limited degree, mortgage interest rates. This firmness undoubtedly will continue, particularly if our economic expansion moves ahead through the next year as we anticipate. In periods of economic expansion, demands for funds arise from a variety of sources throughout the economy. There is heavy competition for capital to finance all types of expansionary programs and, of course, the mortgage market has to compete with these demands. As a result, interest rates are firming up and are likely to remain firm in the months ahead.

It should be noted also that during periods of great prosperity and high optimism, consumers are more likely to be motivated toward spending than saving. Thus, the market is faced with a situation in which the demand for funds advances more rapidly than the supply.

In general, I do not see major dangers in the near future, and probably not through the year ahead. Having said this, I should also point out that, as we all know, things can often change with great rapidity. We are operating under conditions that require us to be on a continuous alert and to analyze carefully the forces that may control future events.

These are some of the highlights of the outlook as I see it at this time. I have not tried to cover all of the factors that I listed as having a bearing on the year ahead but have tried to stress those which seem to me to be most important, at least at the present time.

SUMMARY: ROSY ECONOMIC OUTLOOK

In summary, both business and real estate trends are favorable. Business prospects for 1966 appear to be very good. Real estate trends generally are favorable. The housing sector will be a little stronger next year but will not hold boom prospects for several years.

The savings and loan business will continue to operate in a highly competitive situation, as Norman Strunk pointed out recently. Competition for savings will be keen. The mortgage market may be slightly more favorable for savings and loan managers than it was this year. The international situation must be watched with special care, in terms of both Viet Nam and its implications and the problems related to the balance of payments.

You have always responded positively to the challenges with which you were confronted. Your record continues to be impressive. You have demonstrated that you can attract savings on the basis of a small spread in rate over that offered by banks; in some cases you have competed successfully on a level rate basis, and in others you are more than holding your own with a rate advantage in favor of the banks. You are convincing the public as never before that savings and loan associations are sound, well-managed institutions.

The year ahead will be at least as demanding as the one that is ending. I have every confidence that you will meet a year hence and look back with pride on your performance.

FINANCIAL LEGISLATION, 1965-1966

by the HON. WRIGHT PATMAN
United States Congressman
Texarkana, Tex.

THE SAVINGS AND LOAN business has meant much to my home state. The postwar boom in housing in Texas has been linked with the successes of savings and loans. And the home builders and home owners in this state, as well as in the rest of the country, will depend to a large extent on the continued strength of your business.

Today, the savings and loan associations throughout the country have $128 billion in assets. You have become a strong and dynamic business which has enabled millions of people to become home owners. The great booming areas like Texas simply could not have met the tremendous need for housing created in the post World War II era without your associations.

With your great achievements and with your growing strength, it may be a real temptation to relax and rest on your laurels. I hope that you will not fall prey to this easy temptation. Too many good groups and associations have dropped by the wayside because of such an attitude.

You have a wonderful organization. You have an excellent Washington legislative staff. People like Steve Slipher and Glen Troop are well known and well respected on Capitol Hill. But the presence of this staff, excellent though it may be, does not relieve you, the members of the United States Savings and Loan League, of your responsibilities. Steve Slipher and Glen Troop and the rest of your staff are effective only to the point that the members of Congress and the administrative agencies know that the membership is actively behind them. I can tell you from my 37 years in Congress that the groups that really get the job done are those in which the members—the people—become involved directly in the legislative campaigns. I am a friend of the savings and loan groups—my record bears this out—so I hope you will consider my words as those of a friend—a concerned friend.

Yes, I am concerned. I am concerned about the future of the savings

and loan business. I am concerned about your survival. I am sincerely concerned about recent developments in the Congress which may change the structure of the nation's financial community in a drastic manner. And, quite frankly, I am deeply concerned about the savings and loan associations' seeming reluctance to become involved in these issues.

I refer to the bank merger bills, which ought to be known as the bank bonus bills. By now I think you are aware of the major provisions of this legislation. Basically, it removes the antitrust laws from the banking industry and gives retroactive relief to a number of big banks already under prosecution for violation of these laws. It is one of the most far-reaching pieces of legislation to come before the Banking and Currency Committee in years.

These bills are *not*, as some people would have you believe, some remote pieces of legislation far removed from the savings and loan field. They strike right at the heart of your chances for long-range survival. Make no mistake about it; these bills drastically change the rules of the game in the financial community. Your competitors—the banks—will be given new freedoms and new incentives to move toward total monopoly in the banking and credit business.

The savings and loan organizations have maintained a long silence on these bills. This is your business, and I am not going to engage in any arm-twisting this morning. You may decide to continue your policy of silence. It is your decision. But I hope that such a decision will be made with a full knowledge and understanding of the facts and the scope of the bank merger legislation.

SNEAK ATTACK ON ANTITRUST LAWS

The danger of these bank merger bills goes far beyond the savings and loan field. They affect every business and every citizen in this country. This is nothing less than a sneak, Pearl Harbor-type attack on the antitrust laws.

The proponents of this legislation have brought it to Congress in a neatly wrapped package. "We just want to straighten out a few rules to end the chaos on bank mergers," they tell us. Inside this simple-sounding, neatly wrapped package is a time bomb aimed at the eventual destruction of the antitrust laws—laws which have served this country so well over so many years. Without question, it is a clever backdoor approach which barely missed quick enactment in the first session of the 89th Congress.

Only now are the people beginning to realize just what is behind this legislation. Small businessmen are becoming concerned. Many of them and their organizations have come to me in recent days asking what they can do to stop these bills. This is encouraging, and I hope there is still time to get the facts before the American public. I predict that if the full facts do get to the public, the bank merger bill will not have a handful of votes in either house of Congress.

I do not believe that this 89th Congress wants to repeal the Sherman Act, the Clayton Act and all the rest of the antitrust protections. That, basically, is what is involved in S. 1698, the Ashley-Moorhead bill, and the other versions of the bank merger legislation.

Antitrust laws have always been the backbone of protection for the American free enterprise system. These laws have been the major factors which have separated our democratic, competitive system from the many unsuccessful and often totalitarian economic systems in other parts of the world.

As the former head of the Justice Department's Antitrust Division, Bill Orrick, said, "Concentration of economic power has always been regarded as a threat to our most important social and political institutions." Mr. Orrick also made this significant comment while he was in office:

> Perhaps most important of all, Congress' dedication to antitrust goals as a means of preserving our way of life has always rested on its recognition that concentration of industrial power may lead to the police state. Can anyone doubt that the prewar experiences of Germany, Japan and Italy have proven the wisdom of this nation's concern over concentration of economic power?

MONOPOLY THE BIGGEST DANGER

Concentration of power and monopoly are the biggest dangers to the free enterprise system. And this includes the savings and loan business.

Even with the presence of the antitrust statutes, we have come a long way down the road to concentration of power in the banking industry. Already some 100 banks—that is, 100 out of nearly 14,000—have one-half of the banking assets of the country. In other words, less than 1% of the nation's banks have 50% of the business. And 14 big banks have 25% of the deposits in the country. Now, that is concentration in anybody's book. Yet we have congressmen who are in a frenzy to release the banks from the provisions of the antitrust statutes and thus open the door to unrestrained monopoly.

Since 1950, there have been more than 2,200 mergers of banks. New York City has been the center of an almost fantastic wave of mergers. In the nation's biggest city, the concentration has reached the point where five banks account for more than 70% of the bank business. New York is the nation's largest financial center, and the mergers in that city have wide repercussions throughout the country. Through interlocking directors, these giant merged banks control many industries.

I am convinced that concentration in banking triggers rapid concentration in industry. President Wilson recognized this point when he wrote, in the *New Freedom:*

> A great industrial nation is controlled by its system of credit. Our system of credit is privately concentrated. The growth of the nation, therefore, and all our activities are in the hands of a few men who, even if their action be honest, and intended for the public interest, are necessarily concentrated upon the great undertakings in which their own money is involved and who necessarily, by very reason of their own limitations, chill and check and destroy genuine economic freedom. This is the greatest question of all, and to this statesmen must address themselves with an earnest determination to serve the long future and the true liberties of men.

Senator Paul Douglas of Illinois, with whom I serve on the Joint Economic Committee, is a learned and highly respected economist. Recently he had this to say on the relation between banking and other industries:

> Now, I have talked with a great many people in Great Britain and a few in Canada, and their almost unanimous opinion is that the concentration of banking led to a concentration of industry; that huge funds were accumulated, and . . . the natural tendency of an investment official in a bank is to lend it out in large sums, too. It is easier to do. . . .

THREAT OF BANKING MONOPOLY CLOSES IN

Simply put, it is obvious that no one and no segment of the economy escape the consequences of banking concentration. For you who must compete with these giant merged financial institutions, the threat is close at hand. You know only too well that the big banks are moving more and more into the savings and home mortgage business. In most cases this invasion of your area has been led by giant merged banks, seeking to extend their monopoly. One of the banks—First National City of New York—which has grabbed off great chunks of the home mortgage business, was described in a national publication as "The Bank with the Boardinghouse Reach."

The "boardinghouse reach," thanks to benevolent treatment by the Comptroller of the Currency, James Saxon, has reached alarming proportions. Mr. Saxon seems to be working harder to please the banks now than he did when he was on their payroll as a registered lobbyist. Under Mr. Saxon's rulings, which pour out of his office every day, the big national banks have been allowed to enter all types of nonbanking businesses. They have entered into competition with their own customers and have thus seized enormous new economic power. Many of these nonbanking functions are, I am convinced, totally illegal under the banking laws. But Mr. Saxon allows them to continue and grow.

Now these big banks are in such businesses as insurance, computer services, car rental and credit cards. George W. Mitchell, a member of the Board of Governors of the Federal Reserve System, testified before our Domestic Finance Subcommittee earlier this year that "banks compete with other businesses as much as they do among themselves."

The move into nonbanking business is bad enough by itself. But, with proposals to free the banks from antitrust laws, these nonbanking enterprises take on a new and dangerous meaning to our competitive free enterprise system. If the bank merger bill passes, the banks will be free to gobble up nonbanking businesses at will, with complete immunity from antitrust prosecution.

BANK ANTITRUST EXEMPTION MEANS DOUBLE STANDARD

This is a major danger in the bank merger bills as drafted by such people as Senator Robertson and Representatives Ashley and Moorhead, and supported by all the Republican members of the House Banking and Currency Committee. They propose, in effect, a double standard in the application of the antitrust laws.

This is the way it would work: If merging banks own a nonbanking business, such as car rentals, then that business would be exempt from the antitrust laws, along with the bank functions. But the car rental businesses operating independently of the banks would still be required to operate within the antitrust provisions. This seems highly unfair. More important, it is a significant threat to the existence of a competitive economic system.

Let us bring the example a little closer to home. Suppose a merging bank buys out a savings and loan association. When the bank merges, the savings and loan would become exempt from antitrust laws. Yet other savings and loans not connected with banks would still be forced to obey the provisions of the antitrust statutes. Is this the kind of law you want governing your business?

This situation represents a giant step in eventual take-over by the banks—aided by exemption from the antitrust laws—of virtually any industry they see fit. The banking agencies are their willing allies in this plot. It is not unlikely that some day in the future we shall see banks controlling large department stores, transportation firms, radio and TV, heavy industry. There is an imminent threat that the entire spectrum of small business will fall within the orbit of the hungry banks. I predict that, within the coming months, banks will be taking over other banks, small loan companies, credit collection agencies, savings associations, stock brokerage firms, mercantile businesses, farm and real estate businesses. It is impossible to tell where it will stop.

With the banks granted all this special immunity, it is only logical to assume that other big businesses will come to Congress seeking similar favors. Who will be next? Will it be the big steel companies, the automobile manufacturers, the drug manufacturers? At some point we shall be faced with a proposal to repeal all the antitrust laws outright. S. 1698 is the first giant step down this road.

LOBBY TACTICS CALL FOR INVESTIGATION

Of course the push for the bank merger legislation is being led by the American Bankers Association and the six big banks that would be relieved of antitrust prosecution by its enactment. This pressure has been intense. In fact, I am convinced that it is the heaviest and best-financed lobbying campaign ever attempted on a piece of bank legislation in the history of the U. S. Congress. I plan to call for a full investigation of this lobby in the next session of Congress.

Many of you may have read in the newspapers in recent weeks about an outrageous attempt to hold a rump session of the Banking and Currency Committee. A handful of members sneaked into the committee room in the last days of the session and purported to act on legislation. Their purpose was to rush a bank merger bill to the floor at the specific request of the banking lobby.

Now I know that such illegal antics must worry those of you in the savings and loan business. You have very important legislation pending before our committee, and I am sure that none of you want to see it railroaded to the floor in any secret rump session conducted by a minority of the committee. I share your concern over these disgraceful activities.

I want to reassure you that the members who participated in this rump session are a small minority of the committee. I also want to remind you that only a handful of the Democratic members took any part in this act. In fact, only seven of the committee's 22 Democrats participated in this illegal maneuver.

So long as I am chairman of the Banking and Currency Committee, I shall oppose such illegal parliamentary tactics regardless of the pressure brought to bear by any lobby. The people of the United States deserve a better break. The people, I am convinced, do not want their affairs conducted in secret, lawless sessions in darkened committee rooms of the Congress. Such actions cast doubt on the entire legislative process. It makes a mockery of the rules of the House of Representatives.

Your rights as businessmen and as citizens are in grave danger when we allow any lobby to make such a travesty of Congress. If this lobby can prevail on such a sad piece of private legislation as the bank merger bill, then it can also prevail on bills involving the savings and loan institutions. Remember this: It is your survival that is at stake.

THE CENTER OF BANK MERGER PRESSURE

I am convinced that the center of the pressure has been Manufacturers-Hanover Trust Company of New York, the nation's fourth largest bank. This bank has been found guilty of antitrust law violations in the U. S. District Court in New York. The violations are so gross that the bank's attorneys did not even file a motion for a rehearing or a new trial. Instead, they came to Congress seeking retroactive exemption from the laws.

With its great wealth, Manufacturers-Hanover finances many corporations and enterprises throughout the nation. It has been brought to my attention that it has placed pressure on corporations to which it has made loans. It has pressured them into contacting the Congress in its behalf on this bank merger legislation.

Big banks like Manufacturers-Hanover are giving the banking industry a black eye. I want to emphasize that there are many good banks and many conscientious bankers. I do not indict the whole industry. But this does not change the fact that a handful of big banks, aided by the American Bankers Association, are engaging in an outrageous attempt to gain a permanent stranglehold on banking in this country. Many independent banks around the country are concerned about the bank merger bills; they recognize them as a death sentence.

BANKING LOBBY GOES TOO FAR

The banking lobby comes to Congress with an all-or-nothing attitude. You know that. You have faced it many times. This 50-year-old lobby is constantly seeking special favors, topped now by this amazing request for exemption from the antitrust laws.

At the same time, it seeks to hamstring the savings and loan business.

It opposes nearly every request that you make to the Congress. This year I introduced a bill which would have given your savings and loans the right to provide your customers with checking accounts. The banks, of course, have a total monopoly on checking accounts. They oppose the idea of your business breaking this monopoly. So let me warn you that it will take a very strong grass-roots campaign by your associations if you are to have the right to share in the checking account business.

I think the savings and loans should be given a broader scope. I do not think it is too much to ask that your business have the right to finance home furnishings and such things as mobile homes. Certainly these are closely allied to your basic function of providing credit for housing. Yet the banking lobby opposes you.

The banking lobby wants to tie one of your hands behind your back while it gets all the favors, all the monopoly, all the special treatment. It would be quite happy to see your influence fade from the nation's financial community. The banks now recognize the home mortgage field as a good business, despite the fact that they ignored this area for so many years. You pioneered in this field and kept the nation's housing programs going while the banks, for the most part, stood by and contented themselves with safer, more lucrative business. Frankly, I do not think there is any logic in turning over the home mortgage business to the banks.

The banking lobby has had some tremendous successes in recent years. It has grown arrogant, and many of its leaders take the attitude that they have the Congress in their hip pocket. This has been their attitude on the bank merger legislation from the beginning.

For once, I believe this lobby has gone too far. Its demand for exemption from the antitrust laws will not be tolerated by the American public. I predict that the many small businesses that depend on antitrust laws for their existence will speak up, and I predict that the Congress will listen. I hope that the savings and loan associations will add their voices to this chorus, because you are entitled to credit for the most successful home building program in all the world.

CHAIRMAN'S ADDRESS

by the HON. JOHN E. HORNE, *Chairman*

Federal Home Loan Bank Board

Washington, D. C.

ESSENTIALLY, my goal on this occasion is to examine with you the regulatory and legislative processes. These areas are essential to your operations, and they form the foundation of the Board's functions. Views on these two elements of our joint interest are varied, both within and outside the business and, at times, more heated than enlightened. Perhaps this annual meeting offers each of us an opportunity to think about regulations and legislation from a more detached vantage point than on occasions when we are compelled to focus on a specific issue. On behalf of the Board, I also have two decisions to announce that will interest you.

Since the beginning of my tenure on the Board, it has become quite clear to me that regulation and supervision have several goals. As chairman, I have come to consider these goals even more appropriate, and ones which I think all of us should endorse and work to advance. The Board views the regulatory process as one that should assure economy of operation, soundness of assets and adequacy of reserves, while modifying the lending authority in such a way that your institution can have the widest possible scope consistent with sound practice.

These goals are essential for reasons that are easy to understand. Economy of operation, soundness of assets and adequacy of reserves are part of clear directives to the Board in the statutes under which it operates. They are essential to performance of the functions that Congress sought to attain when it created the various elements which the Board now administers. More importantly, they are essential to your success and freedom from the harassing thought that someone operating under the same banner as you may engage in practices that can harm your interest even though you have heeded the injunction to stand above suspicion.

Insofar as widening your lending authority is concerned, the Board should and does seek to make your business one which can serve the financial markets of our nation as effectively as possible. Your interest and that of the nation require that you not be hemmed in unduly or needlessly and that the tools available to you be modified to meet changes in our economic environment.

STEPS IN THE REGULATORY PROCESS

With these thoughts in mind, a brief trip over the tracks of the regulation process may be helpful. To begin with, the birth of regulations comes from many sources. Frequently, their parents are not the members of the Board or the Board's staff. While some regulations are developed from supervisory experience, analytical studies and observation, a good many ideas come from outside the Board's offices. The Bank presidents make a contribution aside from their function as supervisory agents. They are part of our eyes and ears in the field and, since they are in constant touch with you, they can provide suggestions which we would not otherwise always discover.

Then we frequently hear by letter and personal contact from individual members of the business. In the main, these cover requests for broadening authority, for simplifying existing regulations or even, on some occasions, for making them much more complicated. But, generally, we find these suggestions reflect actual situations which should be and are examined and which often yield changes.

The Advisory Council, created by law, has an opportunity to comment and advise on the general range of matters of concern to you and the Board. The Council contributes ideas and also offers criticism or evaluation of proposals by others.

Your trade association keeps in close touch with us. It passes on to us the views of your committees or your board of directors and occasionally the view of one or a group of members. Your League's staff and that of other organizations make it their business to ask questions or make suggestions based on their own experience.

Some regulations stem from changes in law which can be implemented only by regulation.

You can see the channels are numerous and represent a broad range of interests, conflicting though they may sometimes be. The Board and staff test, refine and attempt to breathe life into these concepts in a number of ways. Staff committees, System committees, studies by one individual, field checking and numerous other approaches are relied upon. If an idea is considered acceptable, a preliminary draft is prepared for the Board.

Sometimes publication or notice as a proposed regulation follows quickly. Mostly, however, the preliminary draft goes through an informal check. This stage involves discussion with our Banks, individuals in the business having knowledge of the particular area, your trade associations and others who can make a contribution.

After this maiden cruise, the formal process begins if the idea has not been discarded. Even before the regulation is published, it may be presented to the Bank presidents and the Advisory Council. Following publication, comments come in from a variety of sources including individual associations and trade groups. On occasion, representatives of formal trade organizations will appear and present arguments. As a result of the comment procedure, the regulation is reexamined, recommendations are reviewed and tested, and in brief the Board studies all the evidence that can be gathered.

A decision to adopt in final form is an indication that the idea has survived a very comprehensive process. The process is not completely error-proof. Even some suggestions to liberalize have later proved ineffective in operation despite widespread support for adoption. Despite the occasional mishap, this set of steps usually has yielded a much better environment than existed before the regulation was adopted. This undoubtedly accounts for the widespread support that now exists for some of the most controversial acts taken by the Board in the past three years.

MORE REGULATIONS LIBERALIZE THAN RESTRICT

Too often it is thought that the regulatory process generates primarily a series of restrictive measures. However, a staff study reveals that since I became chairman 25 regulations, five of which had been proposed before my assumption of the chairmanship, have been proposed or adopted. It was interesting to learn that 17 of them are liberalizing amendments designed to give you new tools or to broaden your scope. Putting it another way, the liberalizing amendments are in a ratio of two to one against those which might be considered restrictive.

Of the 25 regulations proposed or adopted, seven resulted from a need to implement new statutory authority for a broader range of activities by your industry. The service corporation concept, urban renewal loans and investments, and loans on short-term leaseholds are among those stemming from the need to implement statutes.

Of the eight regulations which are restrictive, four are of a limited nature and apply to a small number of associations which would not cooperate with the Board's requests for a more responsible stance. In effect, only four out of the 25 regulations have a broad application in a restrictive sense. Even these do not affect, and are not likely to affect, many associations. Perhaps the major restrictive proposals are those that would reduce loans to one borrower and would reappraise and revalue assets. But both of these have received wide support from the savings and loan business.

REGULATION ON OUTSIDE APPRAISALS DEFERRED

Among the regulations proposed but not finally adopted is one which would require an outside appraisal by an independent professional appraiser when a loan exceeds ¼ of 1% of an association's assets or $100,000, whichever is greater.

Before commenting on the status of this proposal, let me make it quite clear that it is the Board's intention to encourage, not discourage, the development of a sound internal appraisal program and the use of competent professional staff appraisers. I believe, however, that a distinction must be made between the use of professional staff appraisers and the use of officers or members of the board of directors, many of whom are not trained and experienced in this very important field of real estate appraising.

After further study and consideration of this appraisal requirement, the Board has decided to defer final action on the proposed amendment. We reached this decision for the following reasons:

1. We are making major revisions in our present test appraisal program. These changes will result in more frequent use of independent appraisers to review appraisal policies and practices and to make appraisals of security properties. This will assist in determining the extent of existing problems and probable losses but, of even more importance, the revision is directed to detection of incipient problems and, thus, to the furtherance of preventive supervision.

2. The Board adopted a proposed amendment to the Insurance Regulations which requires a revaluation of certain assets by insured institutions and by the Board's examiners. When directed to do so by the supervisory agent, such institutions shall establish and maintain a specific reserve in an amount equal to the overvaluation of any such asset.

3. We plan soon to invite a number of savings and loan managers, perhaps five or six, to cooperate with the Board in a further study of appraisal problems of associations and appropriate remedial measures. We hope and believe that the combined knowledge and experience of such a committee will be invaluable to the Board in determining what further action may be taken—by regulation, policy statements, guidelines or other means—to promote the development and maintenance of sound appraisal policies and practices throughout the savings and loan business.

We think that the steps which I have outlined will be more effective in producing the desired results than any single regulation. If, however, future developments point to the need of specific regulations in this area, the Board will not hesitate to move in that direction.

However, the Board did adopt the proposed amendment that would authorize commercial loans up to 70% of value.

TWO PROPOSED AMENDMENTS PLACED ON NOTICE

We are also deferring action on a pair of amendments which would permit use of your legal liquidity around dividend dates and would require that you meet some withdrawals from your own resources. It has long been Board policy, perhaps not vigorously pursued, that advances should not be obtained in anticipation of withdrawals. The Board's general policy statement on advances, issued in August, asks members to meet reasonably foreseeable needs.

We placed the proposed amendments on notice, based in part on a suggestion from several sources. The comments we have obtained, and a plea from your executive staff, have resulted in our decision to try a less formal approach to the basic problem.

Your executive staff stated that a great deal could be accomplished by persuasion on the part of the Board and the Banks. Frankly, our experience with mere requests has not been too satisfactory. However, the Board is willing to await, for a while, the results of persuasion. Thus we are asking the Bank presidents to notify each member explicitly that borrowing in anticipation of withdrawals is clearly undesirable and that the members are expected to meet a reasonable amount of cash withdrawals from their own resources before coming to the Bank.

Should any member obtain advances which appear to anticipate withdrawals, or in an amount that seems large in terms of probable withdrawals, we may feel free to ask for a special report on day-to-day savings activity. Members who fail to comply with the spirit of this program may expose themselves to stricter control than has heretofore been the case. In any event, we shall withhold the regulations in question until we have had an opportunity to evaluate the cooperation that may be forthcoming.

My basic purpose in presenting this analysis on regulations is not to justify or to vindicate the Board, or to paint a picture for you of three friendly musketeers gaily liberalizing the environment in which you function. This presentation is designed to give you an insight into the nature of the issues as well as the process which absorbs our attention and generates our action. It is also to suggest that more effort be made to understand both the contents and the reasoning behind a proposed regulation before deciding against it.

PHILOSOPHY OF REGULATION: TWO SCHOOLS OF THOUGHT

Another matter that deserves further comment, and one about which much has been said by both members and nonmembers of the business, relates to the philosophy of regulation.

About this there are two schools of thought. One holds that all rules and procedures should be committed to writing in a manner that makes everything explicit and unequivocal. The other holds that regulations should, except where absolutely essential for clarity, be general and that details should not be committed to writing. These two schools may also be identified, though perhaps imperfectly, as the "hard and fast rule for everyone" school and the general standard, case-basis school. Like any generalization, labels are far from accurate. But for purposes of discussion, I think these are a temporarily satisfactory aid.

Based on the Board's correspondence, the business is split right down the middle. This is evidenced by the fact that some tell us to record everything in regulation and about an equal number admonish us to adopt general policies and apply them only on a case basis. Of course, an unkind interpretation would be that association members do not want the Board to follow either course. The essential point, however, is that these alternative courses do exist. Apparently a majority view within the business is still somewhere down the road.

There are other aspects of this issue. Very important is the view that the amount of regulation could be much less burdensome to you and to us if the case-basis approach were adopted. You can well imagine that any such proposition is as tantalizing to the regulator as it is to the regulated. While you wish to be rid of a mountain of detail, we want to be more efficient and effective and yet less intrusive. We are told that the general approach holds this promise.

BARRIERS TO THE CASE-BASIS APPROACH

We have tried to move in this direction whenever possible, on a reasonably safe and sound basis. There are a number of barriers, however. As soon as we try to be general and avoid detail, we get numerous requests from the business to insert all kinds of exceptions or detail defining away some special situation. This not only expands the regulation but, like a physical force, provides a reaction for every action. We are then compelled to introduce another set of specifics to make clear what was not being expected. Much of the detail, though far from all of it, that many of you deplore has been an attempt by the Board to accommodate or allay your fears or those of your colleagues. I regret to say that some of it reflects our own approach.

Still another barrier is the deliberate effort on the part of a handful of associations to evade a regulation—to avoid complying with the spirit of a regulation. A few others frankly say: "If there is not a specific regulation to prevent me from doing something, do it I will." Thus for the protection of the many, there are occasions when regulations must be adopted to prevent the improper action of a few.

Another hardship under which we labor is inadequate and ill-suited legislative authority for making a general approach as effective as it should be. The Board's powers to obtain corrections or compliance are summary powers. We can close a federal association or we can remove membership and insurance from state-chartered associations. These grants of authority, being summary and exceedingly blunt, are hedged in with a variety of legal procedures that make them slow and cumbersome. In any event, these procedures have the drawback of overeffectiveness for many situations with which we must deal. To put it in colorful terms, we are forced to use a bludgeon when all we want to apply is a restraining hand.

You can, therefore, recognize that at present we must use regulation to try to intercept as many hazardous tendencies in their incipiency as possible. This results in more regulations and more involved and detailed regulations than either side to this process really wants.

BOARD NEEDS BETTER REGULATORY TOOLS

Inevitably, the discussion of regulation focuses attention on legislation. All of you know that the Board has urged a number of legislative steps to make our operations more effective and indeed, we believe, less burdensome. We have asked for authority to issue cease and desist orders and to act directly to prevent individuals of demonstrated incapability or lack of integrity from continuing to operate financial institutions. Some fears have been expressed that we believe are largely unfounded.

Understandably, each of us asks: "Can this be used to gore my ox?" The answer to any such question can be a "yes" for everyone if we are

willing to imagine all kinds of short-run arbitrariness on the part of the regulator. Consequently, even the most judicious and soundest among us might say: "Some unreasonable bureaucrat may pick on me for no consequential reason."

This is an illusion. The procedures of law have permitted, and the Board's bill would always permit, access to the courts for judicial review of the acts of regulations. This is an additional safeguard for the careful procedure we have prescribed for the conduct of administrative hearings. So, under inappropriate enforcement of the authority I have mentioned, your rights are and would be and should be well protected.

What is more important is your position in relation to those few who are careless, lacking skill, injudicious or, worst of all, deliberately and maliciously dishonest. They can tar each of you in a way that would make the stain hard to cleanse. You need the protection we are seeking at least as much as we need the tool or the public interest requires an adequate safeguard. Unless we can successfully intercept and terminate certain practices, you could be harassed almost continuously, not by us, but by those who cannot or will not perform as they should. One rotten apple, as the saying goes, can spoil the entire barrel.

Consequently, we ask that you consider your position carefully and the benefits of the legislation we have offered for your protection as well as for that of the public. Nor should you take lightly the fact that this legislation could lead to a far more streamlined and more effective regulatory mechanism. Before we can really do much to lighten the load of regulatory baggage, we must have the tools which make such an approach possible.

Let me add, too, that while the holding company legislation we have recommended is of a somewhat different order, it, too, can aid your overall environment. Holding companies can serve a useful purpose. We are in no way attempting to hamper the useful function they can provide. We do believe that unfair competitive advantage or escape from rules and regulations should not be the result of introducing another layer of corporate structure.

BOARD AND BUSINESS TRAVEL SAME ROAD

The dual question of regulation and legislation stands at the crossroads of your success and ours. Peculiar though it may seem, in the broadest sense we must travel the same road together. We can choose the path, within limits, but Congress and the administration hold the key. They will respond more readily if they recognize that major areas of agreement exist between the Board and the business. You can, therefore, contribute immensely to your own welfare by joining us in our endeavor.

Too often we think of our roles as divergent when, in fact, they are largely parallel. Too often we see only one part of the picture and not the other. A meeting such as this seems a highly appropriate occasion to mention a few important contrasts that we should bear in mind. They are essential to achieving a logical balance in our assessments.

1. There is a tendency in some circles to criticize the entire business for the misdeeds of a few. A few associations have attracted unfavorable notice. There are some problem cases. Yet, who stops to comment on the overwhelming majority which, day in and day out, firmly pursues legitimate aims with skill, decorum and effectiveness? I should like to call attention as clearly as I can to these institutions and commend them for the contribution they make to our well-being. Let not the problem children visit their iniquities on those who perform with diligence and rectitude.

2. There is the tendency to criticize the Board for unfavorable publicity about the business. We hear a great deal about how the Board's acts or comments tend to give the business a bad image. The record shows, however, that Board actions have won commendation in many quarters, and this indeed reflects favorably on you because people regard your business as more stable. Furthermore, comment which might be construed as critical has frequently emanated from people outside the Board. These comments have resulted from the acts of individual institutions or from unduly critical evaluations by a few self-appointed industry spokesmen. This has been especially true regarding the reasons for reduced savings flow during a few months of this year. The Board is not trying to paper over any problem areas. When the occasion requires, we speak frankly but, I believe, judiciously about them.

3. We must examine what we mean by competition. Our staff, most economists we talk to, and the industry favor competition strongly. But competition also imposes some particularly rigid requirements. These requirements create a need for very careful reasoning. They require the discounting of risk, and not just an uncritical acceptance of book values or book income. We think that more attention to this reasoning is required if the benefits of really meaningful competition are to be enjoyed. Another point: It seems folly for people to engage in trying to give their competitors an elbow in the ribs by adopting any gimmick that may catch the eye. Remember, your competitors have elbows, too, and the gimmickry results in everyone having bruised ribs.

4. Savings growth is still, for some, too much the primary goal of their operations. Savings growth must be balanced against investment opportunity. The record is too clear to require much of a reminder that the investment climate is different today from what it was in the 1950s.

5. We agree with you that the mortgage market should be your primary market, but we also agree that there is a need for broadening your investment outlets. We have worked in this field for several years, and we plan to continue our efforts.

URGES SOUND STANDARDS, BOARD SUPPORT

In conclusion, I want to direct your attention to an excellent talk by one of your leaders. C. A. Duncan Jr. listed eight points in a speech before the New Mexico league, pointing out the need for efficiency, soundness, adequacy of reserves, skillful management, realistic attitudes about growth and competition, and the pitfalls that attend those who are unwary. That speech, if made by a Board member, might be regarded in some circles as ivory-towered banter; but here is a statement by a successful executive in your own councils whose long experience and commendable performance should provide a sound standard to be followed by any association. If the success you have recorded is to continue, if the squalls that aim themselves at our vessel are not to become unmanageable storms and if new ground is to be entered, such a position cannot be ignored.

We shall continue our drive for flexibility, efficiency and soundness. We shall continue to emphasize realism rather than unbalanced daydreams. We only ask that you recognize that a substantial element in your success has been the fact, as many of you advertise, that you are regulated by a federal agency. This has provided a basis for public confidence. That confidence must be nurtured and maintained. You can help in this process not only by what you do in your own organization but by what support you give the Board in its effort to protect you and to enable you to make an even greater contribution to the national well-being in the years to come.

REVOLUTION IN OUR TIME

Documentary Film Premiere

by NORMAN STRUNK, *Executive Vice President*
United States Savings and Loan League
Chicago, Ill.

OUR NEW MOVIE is a different type from the other movies we have produced. Two of the earlier pictures were dramas built around families and their ventures into thrift and home ownership. The third was a cartoon presentation of the savings and loan business. The fourth was a public service film based on the highly successful League booklet, *What You Should Know Before You Buy a Home.*

This newest venture in movie making is a documentary film, a type which has become popular on American television in recent years. Many of our best-known television programs, such as "The Twentieth Century" series, "CBS Reports" and the "NBC White Paper" series are known as documentaries; that is, they involve actual people and actual events of our time rather than being fictional presentations.

Our new picture is entitled *Revolution in Our Time.* The title refers to the transformation of the United States from a nation of predominantly tenant families a quarter of a century ago to a nation where today two out of three families own their own homes. The movie reviews the major reasons behind the progress into home ownership, with some emphasis, naturally, on the savings and loan contribution to this progress. Probably many savings and loan people themselves, caught up as they are in their day-to-day activities, do not realize their important role in this dramatic advance in American life.

The picture is divided roughly into three parts. The first covers the reforms enacted as a result of the depression of the 1930s. The second reviews the postwar real estate boom. And the third expresses the thought and the hope that the progress of home ownership in the United States may be shared by other countries through a spreading of the savings and loan idea.

This film is unusual in a number of respects. It is certainly the first time that anyone has tried to set down on film the chain of events that have produced the recent great upsurge in American home ownership. It also probably is unique in that three of the highest-ranking officials in our government participate in it: Chairman Wright Patman of the House Banking and Currency Committee introduces the section on the Treasury reforms, and I invite your particular attention to his comments on the Federal Savings and Loan Insurance Corporation. Senator Everett Dirksen of Illinois, the great minority leader of the United States Senate, introduces the section dealing with the start of the postwar housing boom. And the film is climaxed by the remarkable and wonderful statement of Vice President Hubert Humphrey, who takes note of the savings and loan contribution to home ownership and expresses the hope that progress will be made in developing similar home financing programs abroad.

The film was produced for us by the David L. Wolper organization in Hollywood, regarded as the outstanding producer of documentary films in the United States. This is the organization that produced the award-winning television documentary "Making of a President—1960" four years ago, and presented "Making of a President—1964" just a few weeks ago on national television. This also is the firm responsible for the production of the film on the late President Kennedy which was shown at the Democratic National Convention in 1964.

As narrator, the Wolper organization secured for us the services of the noted actor Gary Merrill, who has narrated numerous documentaries, including the televised series on the life of Winston Churchill entitled "The Valiant Years."

MANY PEOPLE INVOLVED IN THE PRODUCTION

Acknowledgments are in order for the help and cooperation of a great many people who aided in the making of this picture. First and foremost, we express our heartfelt thanks to Vice President Humphrey, Senator Dirksen and Congressman Patman for their appearance in the film.

The basic idea and plan for the film came from William O'Connell, who is in charge of public relations for the League. The supervision and coordination of the work for the picture was one of his responsibilities during the past year.

Acknowledgments should be made also to Hal Greenwood, president of the Minneapolis Federal Savings and Loan Association, and to Robert Bush, president of the Federal Home Loan Bank of Des Moines, for their help in liaison with Vice President Humphrey; to Timothy Sheehan of Chicago, chairman of the Cook County Republican Party and a director of Peerless Federal of Chicago, for his help in working with Senator Dirksen; and, of course, to our extremely able Washington staff—particularly Steve Slipher and Glen Troop—for their help with the film and liaison with government officials.

Unlike previous League films and many films produced by commercial producers, this picture is in black and white—not color—for several reasons. First, the film is designed, in great part, for showing on television, and television documentaries are done in black and white. But, most important, some of the sequences were shot 20 to 30 years ago, before color photography came along. These were not in color, and we did not want a film partly in color and partly in black and white.

Now we shall see the premiere showing of this newest League movie. After we have seen the film, I shall comment on how you can make use of the movie and on the promotional plans we have for it at the national level. [The film *Revolution in Our Time* was shown to the convention audience at this point.]

IMPRESSIONS GAINED FROM THE MOVIE

When I first saw this picture, I came away with several impressions. The first is that the movie provides a dramatic and forceful reminder that in the United States private home ownership is the American way of life. We in the savings and loan business say that one of the major reasons this is such a great country is that so many people own their own homes. This documentary reemphasizes and reenforces this point of view.

One of our long-range public relations objectives is constantly to sell home ownership. Much of your public relations and advertising does this, too. The Savings and Loan Foundation also sells home ownership. This selling, on the League's part and the Foundation's part and your part, happily is not only in the public interest; it also coincides with the interest of the savings and loan business.

Another major impression I carried away was gained from the remarks of Congressman Patman, who makes it clear that, from the point of view of Congress, encouragement of specialized institutions was regarded as essential to the savings markets and to our economy. In addition, Congressman Patman once again reiterates that the protection provided by the Federal Savings and Loan Insurance Corporation was intended by Congress to be the same as that provided by the Federal Deposit Insurance Corporation for depositors in commercial banks.

Finally, the remarks of Vice President Humphrey constitute an eloquent acknowledgment of the contribution that savings and loan associations have made to the United States. Coming from the second highest official in our national government, they speak for themselves.

This film will do a tremendous public relations job, I think, for the savings and loan business. Pains were taken to make sure it was not a "hard sell" type of picture, because we were convinced that the more commercial the film was, the less chance there would be of our showing it on public service time on television. We also had a commitment to the public officials involved that the film would be basically and primarily about home ownership.

GETTING MAXIMUM MILEAGE FROM THE FILM

Now, how do we use it? We have always felt that the business did not secure the maximum mileage from the other films we produced because of some apathy on the part of the business in securing showings.

This new film is in no way offensively commercial, so you should have no hesitancy in securing showings before your local service groups, churches and, of course, schools, where our customers of tomorrow are now growing up. The picture was planned and developed with these audiences in mind.

It also was planned with the idea that substantial free time on television can be secured for its showing—if you are reasonably aggressive in this direction. Many of you now spend substantial sums on television advertising, and these expenditures and your relations with the television stations certainly should provide an opportunity at least to suggest the use of this film on your local networks.

If you do not get several television showings in your community and a number of club, church and school showings, we shall be deeply disappointed. Suggestions for the use of this film, together with other materials to use in connection with it, are now being prepared in Chicago and will reach you within the next few weeks. Prints of the film will be available through the League office on either a rental or purchase basis.

In addition to what you can do in your cities, the League plans to spend a fair amount of its public relations budget promoting this film with television stations, clubs, churches and schools, just as we have done with great success on other movies. This movie is intended for your use. We consider it a great public relations tool, and we hope you like it and will put it to good use.

WORLD CHALLENGE FOR THRIFT AND HOME OWNERSHIP

by RAYMOND P. HAROLD, *President*
International Union of Building Societies and Savings Associations, Worcester, Mass.

WE ARE LIVING in a world that holds for us, on the one hand, opportunities for unlimited prosperity and happiness and, on the other hand, prospects of complete annihilation. We are waging a tremendous war—a war for men's minds. Primarily it is a struggle of the "haves" against the "have nots." The United States is the most prosperous country in the world, yet our neighbors to the south have the greatest poverty, and these countries are less than one day's plane ride away.

As General Alfred Gruenther remarked recently, "We must not be so concerned with Castro and Cuba that we forget the rest of Latin America." The big problem is *all* Latin American countries. It has been estimated that South America alone needs 14 million homes for the emerging middle class—and there is an emerging middle class all over the world in developing nations.

A common statement we hear today is: "I don't want to get involved." But whether or not we want to be, we *are* involved. No incidental program undertaken halfheartedly will save the situation. I am reminded of a road I saw in Africa which bore the sign, "Too rough to go slow."

The savings and loan system, I believe, may be the greatest single force to save the freedom of these nations. Today we must look beyond our frontiers. We must do some missionary work for our welfare, both economically and socially. We must "think international"; it is good business for our country and for the savings and loan business. I believe, with President Kennedy, that we should help nations to help themselves. We must have more people-to-people programs and less government-to-government aid.

Our government recognizes the importance of the savings and loan

system. President Johnson divided Alliance for Progress emphasis into three areas: cooperation, self-help and social justice. He mentioned the savings and loan institutions specifically, stressing their important role in development and recommending that they now focus all their energies on overcoming the massive difficulties of capital shortage. "Public funds are not enough," he said; "those who destroy the confidence of risk capital, or deny it a chance to offer its energy and talent, endanger the hopes of their people for a more abundant life."

AREAS OF GREATEST SAVINGS AND LOAN CONCERN

President Johnson spoke of our institutions primarily in the area of cooperation. We belong there, of course, but I think we belong even more in the area of self-help. This is where the savings and loan concept works like a charm, because self-help is the foundation of our whole movement.

Some of the President's sentences sounded as if they had come out of a circular advertising savings and loan institutions, so appropriate were they in promoting our objectives:

> Progress cannot be created by forming international organizations. Progress cannot be imposed by foreign countries. Progress cannot be purchased with large amounts of money or even with large amounts of good will.
>
> Progress in each country depends upon the willingness of that country to mobilize its own resources, to inspire its own people to create conditions in which growth can and will flourish. . . . although help can come from without, success must come from within.

Does this not sound like the story of savings and loan associations? It is now a familiar story. It is strange that the home—the very basis of our civilization with its idealistic role of the family—should take so long to capture the attention of the economists. They have now learned that the nesting instinct is far stronger than they had suspected. It has been proved again and again that people will save for a home when they will save for no other purpose. History is pathetic in its testimony of what man will do in order to own a home and to what lengths he will go to protect it.

"No man feels more a man in the world," wrote a philosopher in the last century, "if he have a bit of ground that he can call his own."

We in savings and loan believe that man's greatest social hope can and will be established on the principle of home ownership. Our reasoning is that if a man finds it possible to provide the essentials of life for himself and the people who are dependent on him, he will then himself agitate for reform on a community level. Automatically, he will reach out for an improved life in every direction.

A nation of home owners will not be a nation of communists.

SAVINGS AND LOAN MOVEMENT ACCELERATES

This, I believe, is where the savings and loan concept has now arrived: at the threshold of being recognized as a scientific venture. It started with the basic principle of making it possible for a man to own his own home. It then became an experimental program, amassing a great body of facts and figures which proved very well the worth and truth of its basic principle. Then, in a wonderful story of development, it began to share the program with the peoples of the world.

This sharing is the triumph of all science, of all knowledge. In our associations we recognize the necessity of such sharing. But, so far, we have not worked out a truly international program in which we can all pour our resources and ideas. This, I believe, is the next significant step and great challenge for our savings and loan associations.

Our record to date shows that some progress has been made. Nearly 100 savings and loan associations have been established in Latin America. The International Home Loan Bank Bill has been introduced in Congress. President Johnson signed into law the housing bill permitting the investment of 1% of our assets in Latin American savings and loan associations. The first international school was held at Oxford University last year, and the next will be held at Princeton University in 1966. And we now have the interest of the United Nations, which had an official observer at the 10th Congress in London.

TEN-POINT PROGRAM FOR INTERNATIONAL DEVELOPMENT

A whole world is still in need of homes, and we are only now beginning to tap our reservoir of resources to fulfill our true mission of making these homes possible. I should like to sum up my recommendations made on my acceptance of the presidency of the International Union last October 8 in London:

1. Speedy accreditation by the United Nations, thus to promote and define the International Union's purpose and to outline its facilities for usefulness for housing the world.
2. Creation of one tool identifiable with free enterprise and the eventual formation of a world home loan bank, initiated by seed capital provided by member nations, restricted to home loan activity, operated by represented investors and open to world markets in the field of housing.
3. Amendment of the Home Loan Bank Bill now before Congress to allow participation of all countries in this venture.
4. Agitation for legislation in countries represented by our membership to allow for such participation.
5. Encouragement to International Union members for the organization of central banks (patterned after the International Home Loan Bank in America) and to obtain legislation in their respective countries for such organization.
6. Institution of a training program, world-wide, for young men and women in the administration of savings and loan associations, and the commandeering of all qualified man power experienced in the fields of credit and housing (such as retired managers) for the extension of the savings and loan concept in developing nations.
7. Initiation of an alliance of all agencies now involved with world housing, such as mutual savings banks, insurance companies, commercial banks and similar financial institutions. Only by working together

—people with people, business with business, government with government, and any number of combinations of all these—can we meet the needs of the people of the world. I suggest that we invite and include all such agencies to join with us in discussion of world-wide cooperation in the field of housing and, if necessary, amend our bylaws to approve such discussion.
8. Establishment of a home office of the International Union in Washington so that the work of management and legislation may be dispatched as efficiently as possible. This is now being done under the capable direction of Josephine Ewalt.
9. Concentration on a standardization of operations, terminology and administrative technicalities for the members of the International Union.
10. Appointment of committees for the purpose of establishing communication between our member countries.

We must anticipate charity among peoples and among nations by preventing poverty, and we have one of the best tools in the world for accomplishing that objective. A philosopher many years ago suggested that we must help our fellow man by teaching him, by putting him in a position where he may earn an honest livelihood, by raising his sense of dignity in society—and not force him to the dreadful alternative of holding out his hand to charity. "This," he said, "is the highest step and the summit of charity's golden ladder."

Winston Churchill once asked: "What is the use of living if it be not to strive for noble causes and to make this modern world a better place for them who will live in it after we have gone?" I am convinced that work, which built everything we now have in our savings and loan institutions, can build everything we want for the future. And I propose that we now get on with the task.

HOMES MAKE A NATION

by the HON. JOHN G. TOWER
United States Senator
Wichita Falls, Tex.

WE LIKE TO THINK that Texas is a symbol of the big, the vigorous and the fast-growing. In the business world, that describes the savings and loan business to a *T*. Certainly no other financial group has enjoyed such phenomenal growth. When you last met in Texas, in 1959, your business, after more than a century of operation, had $60 billion in assets. In the six years since that meeting, you have grown another $60 billion. This growth is just one of many evidences that your business has done an outstanding job of serving the needs of the American saver and home owner.

Texas is also known as a state of great variety. There is evidence of that, politically and philosophically, even in your congressional convention speakers, Congressman Wright Patman and myself. Although I would hasten to point out that he and I may disagree from time to time, we both share the same high regard for the savings and loan business.

Today I shall not attempt to dwell on any of the operations of the savings and loan business, or even the details of any of your legislation. You know them better than I. But I should like to say that, as the ranking Republican member of the Senate Housing Subcommittee, it has been my privilege to participate in the consideration of most of the major savings and loan legislation in recent years. As you will recall, both the Housing Act of 1964 and the Housing Act of 1965 carried with them sections broadening the investment powers of savings and loan associations. I was happy to give my support, in general, to these proposals.

It seems to me that your business has fared very well indeed in the legislative halls of Washington. This is not only a tribute to your fine Washington staff, but an indication that you have presented programs to the Congress that are reasonable and in the public interest. It is always refreshing to see groups come to the Congress with proposals to

better serve the public rather than with some scheme for a federal handout or for special favoritism.

Responsible savings and loan operations, proceeding full ahead in this country, are now growing elsewhere. In fact, the key to a Central and South America free of the threat of communism and with a new and stabilizing influence in the domestic economies of those countries may well be found in the 1965 Housing Act.

DOORS OPENED TO SAVINGS AND LOANS IN LATIN AMERICA

We often look upon the so-called omnibus housing bills which come before Congress as a conglomeration of good, bad and indifferent ideas as to how Uncle Sam can solve every problem, ranging from a new water facilities plant to a complete new city. There are, however, little gems of brilliance found now and then among the intricacies of a housing bill. One of those in the 1965 bill was an amendment accepted on the floor of the Senate by Senator Sparkman and myself, which will permit the entry by United States saving and loan associations into the financial structures of existing savings and housing programs in certain Central and South American countries.

A study of several of the countries which have been striving to promote savings and housing programs for their people indicates that the guarantees offered by United States assistance programs no longer are the prime ingredient to the success of those programs. They need capital investment, both local and from any friendly and interested outside source.

The great problem, of course, today in Latin America is the flight of private capital. I am afraid that too many of our government programs, including the Alliance for Progress, have discouraged the creation of a climate favorable to the investment of private capital. But when we paved the way for savings and loan investments in those programs, we gave to Latin America a bonus over and above the needed capital investment: we gave them the best housing know-how in all the world.

HOME OWNERSHIP: BULWARK AGAINST COMMUNISM

I am sure that those who know best the history of housing in this country of home owners will not dispute the fact that the creation of the modern savings and loan network has been the best thing that ever happened to housing here. Today, home ownership in the United States is one of our greatest bulwarks against communism. No one ever heard of a man with an equity in a home who is interested in the communist doctrine. Homes make a nation!

As the great effort by our friends to the south to create the philosophy of thrift that leads to home ownership is enhanced by the injection of capital and brains from the north, the strides away from any successful intrusion of the communist doctrine will be lengthened.

We have learned, in our studies of the countries in Latin America which have progressed most in establishing means by which the low- and middle-income classes can earn equity in a home, that potential capital exists in banks and insurance companies in those nations which might very well be used to stimulate the programs by providing capital where the savings and repayments are insufficient to maintain needed loaning power at reasonable interest rates.

Perhaps, as the investment capital moves through the channel provided in our Housing Act, idle potential capital in Latin America will find an inducement to play a larger part. In some cases, of course, changes in laws and procedures will be necessary to make this possible. Those in positions to make the changes may be encouraged to do so by the capital from the north.

We have watched over the years the important part played by some of our great commercial banks in the development of manufacturing industry in foreign countries through mutual arrangements with the local financing facilities. Now we are about to see the same movement applied to the making of homes.

SAVING-FOR-HOMES PROGRAMS

Nine of our friends to the south have already made headway with saving-for-homes programs: Bolivia, Chile, the Dominican Republic, Ecuador, El Salvador, Guatemala, Panama, Peru and Venezuela. They have a total of 335,000 savers who have put away $94 million in institutions that resemble or are patterned after the savings and loan operations in the United States. Those same institutions have financed 36,000 homes with mortgages valued at $170 million.

The spread of the spirit of saving and home buying in many of the countries has been phenomenal. In the first six months of this year, 85,000 new savers were recorded in the nine countries, and the savings had increased nearly $30 million.

We can do a great deal toward lessening the threat of communism in Latin America with the $620 million the new Housing Act made available for investment by United States savings and loan associations in the AID countries of Latin America.

When sound housing programs pick up momentum in the countries where savings and loan funds will be invested, we can expect that an encouraging stimulus will be given the economy of the country. Home building in Latin America will be the type of industry which will require little in the way of imports, thereby promoting more jobs in the manufacturing of home building materials and equipment, as well as jobs in the actual construction of the homes.

We have seen in the United States, during the years of inspired home ownership, the growth of housing as one of our major industries. Some idea as to the impact of home building on the total national economy can be gained by our experience. In the United States it has been figured that the industry creates $35 billion of our total annual gross national product, or $1.00 of every $18 of GNP.

A single-family home, it has been estimated, creates 3,300 man-hours of employment throughout the industry. Last year's housing starts in the United States provided an estimated 3 million jobs.

I fully realize that I need not impress on you the terrific impact of housing on our economy, but these figures demonstrate what home

building can do for our Latin American friends in addition to the previously mentioned effect on the political philosophy of the people.

CRITICIZES U. S. PUBLIC HOUSING CONCEPT

I must say, however, that the United States housing program is not entirely a glowing example of proper procedures for our Latin American friends or any other friendly nation. I refer to the public housing program. For years the federal government has followed a socialistic trend of housing the poor without any effort to create an inspiration among those people toward home ownership.

During Senate consideration of the 1964 housing bill, I offered an amendment that would permit a public housing occupant to exercise an option to purchase the unit in which he lived within a specified time, with all his rental contributions during that time considered a down payment. This 1964 proposal was adopted in modified form as a part of the 1965 bill, in both the public housing and rent supplement sections. However, the incentive-type program remains small in comparison with our overall public housing laws. I hope such incentives can be increased in the future. I shall certainly continue my efforts to make home owners out of as many public housing occupants as possible.

We have a great privilege in this country—we enjoy property rights. The right to own, to enjoy, to exploit property is a basic human right, and it is that right which draws the sharp distinction between the democratic society with its free enterprise system and the tyrannical, dictatorial, depressive society with a regulated economy such as exists in the Soviet Union.

URGES SUPPORT OF FIGHT AGAINST COMMUNISM

Departing from housing for a moment, I want to bring up something which is of concern to us all. We are today fighting a war in Viet Nam. American boys are risking and losing their lives in the defense of the right of peoples to plan and order their own lives and destinies. We fight in Viet Nam not just because we are trying to save one small country but because we must meet communist aggression with force when necessary.

The mantle of world leadership has fallen on our shoulders whether we like it or not, because we are the most powerful nation in the free world and because, I think, we understand the nature of the threat of communist imperialism. So we are simply fulfilling our mission and our responsibility as a people when we confront communist aggression with our own military force.

Leadership is a lonely business. We do have allies and friends, yes, but we are not likely always to be appreciated. So while we have taken over this responsibility, we will not be loved for it—perhaps will not even be thanked. But we are fulfilling our mission today in the jungles of Southeast Asia, and I hope that, as a people, we will show that we understand our mission and are determined to fight communist aggression on a small front today so we will not have to fight it on a broader front later on, at a much greater expenditure of blood and tragedy.

I hope that you—as responsible citizens, as opinion leaders in your communities, as business leaders in your communities—will at every opportunity manifest your support of America's fight against communist imperialism and show our boys who are fighting and dying in Viet Nam that the vast majority of the American people still have a high sense of personal patriotism and appreciate what they are doing.

Christmas is almost upon us. Let us remember those over there who are risking their lives that you and I may have a secure society.

MEMORIAL RESOLUTION

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

WE DO WELL to pause in our considerations of momentous national and business affairs to think of the men and women involved. They represent the most important component of any activity in which mankind engages.

It is my solemn privilege to pay tribute at this moment to those who have gone to their reward since our last convention. We honor them for their contribution to the success of the savings and loan business, for their energies expended, for their wisdom shared and for the continuing concern during most of their lives with the integrity and progress of this great business of ours.

A printed list will be given out to all delegates this morning, telling you the names of these persons. Over and above the void which their absence leaves in the conduct of the savings and loan business, we recognize the broken ties of friend to friend, and at this moment we say a formal farewell to those particular kindred spirits whom each of us in his heart recognizes.

Most of you who see the name of A. R. GARDNER of Spokane, Wash., formerly of Chicago, on this list, will remember his outstanding contribution. Mr. Gardner spent more than 30 years in activities to advance the savings and loan business: as secretary of the Washington Savings and Loan League, 1930-32; as president of the Federal Home Loan Bank of Chicago, 1932-53; and as trustee of the Savings and Loan Foundation, 1952-1963. He died May 15, 1965.

For him, and for all those names on the printed list, I wish to propose the following Memorial Resolution, and I suggest that we all rise for a moment of silence to mark its adoption.

IN MEMORIAM

WHEREAS, Many who guided the destinies of savings and loan institutions have been called to their reward during the past year; and

WHEREAS, Their absence from this convention and from the goodly company of savings and loan workers is deeply felt as a loss to the business and a personal bereavement to those who knew them; and

WHEREAS, Their contribution to the progress of the savings and loan business is a lasting monument to them; now, therefore, be it

Resolved, That the delegates assembled at the 73rd Annual Convention of the United States Savings and Loan League in Dallas, Tex., on this 10th day of November 1965, record their sorrow at the death of these friends and fellow workers, and extend the sympathy of the League to their families and to the savings and loan institutions which they served.

PUBLIC RELATIONS FORUM

Met L. Dye, Salt Lake City, Utah, presiding

INTRODUCING OURSELVES TO SCHOOL YOUNGSTERS

by Franklin Hardinge Jr., Executive Vice President
California Savings and Loan League, Pasadena, Calif.

IF THIS AUDIENCE represented a statistical cross section of the population of the United States, one-half of us would be under the age of 25 years; 40% of us, under 20 years. It is a fact of life which carries enormous portent to the future of our business, and I do not mean only the far-distant future. The next generation, just 35 years from now, will have as many Americans under 29 as our entire present population.

Some of these young people save; 5½ million students have school savings accounts in banks and more than a million have savings and loan accounts. But if you have teens in your house, you know that they prefer to spend, to the tune of $13 billion a year which we give them as allowances and which they supplement with their own jobs. This averages $11 a week per youngster, and it is estimated that the total will zoom to $21 billion in the next five years.

We worry that our savings inflow is not showing the dramatic annual increases of the good old days. Maybe, just maybe, our relative inattention to yesterday's youngsters is hurting us today. And no maybe about it, if we do not intensify our cultivation of the school-age market now, we are blindfolding ourselves to a huge market potential for tomorrow and especially for the day after tomorrow.

We have one thing going for us when we decide to cultivate this market intelligently and aggressively: Unlike the multifarious "publics" whom we attempt to reach through our normal public relations program of newspapers, broadcasting, direct mail and speeches, the youth group is largely contained within the four walls of classrooms of one type or another. Rifle rather than shotgun approaches will work. And if we handle our program astutely, while making informed friends of the youngsters we obtain the valuable by-product of good will and good business from their parents, teachers and school administrators.

GRADE SCHOOLS

I think it is a moot point whether grammar school children are intellectually ready to study the savings and loan business. For those executives in our field who feel that they are, the United States League furnishes a well-done illustrated primer, written on the grade-school level, *Thrift—Making Your Wishes Come True.*

Grammar school is, of course, the ideal time to start practical demonstration and practice in thrift, through the institution of school savings accounts. The banks have been very active in this field for a generation. So have some savings and loan associations, but certainly not the majority.

The experience of the banks illustrates that the overhead in manpower and paper work for a school savings program is not justified by immediate results. This has caused some financial institutions, including the giant Bank of America of California, to cancel the conduct of savings deposit collections within schools, while attempting to maintain children's savings accounts through direct branch contact.

However, many of us feel that the cost of a school savings program should be budgeted as a public relations expense, with no real payout expected until the child savers become young adults. For this reason the California league was successful this year in backing new state legislation which allows savings and loan associations to engage in school savings activities for the first time. Until this fall, only banks could enter public schools and collect savings in California.

HIGH SCHOOLS

High school is, of course, the ideal time to reach all of tomorrow's prospective customers; they are mentally ready, amenable to the excitement of their curiosity and more or less a "captive" audience.

The California league embarked on a deliberate attempt to reach the high school public, on behalf of the savings and loan business as an institution, nine years ago. This activity, which began as an offshoot of the league's Business Promotion and Advertising Committee, soon was of such stature that it required its own separate School Relations Committee, which continues to guide the program policywise. Administration on a state-wide basis is handled by our league staff. Area execution is by 21 county coordinators—savings and loan employees appointed by the California league or by county savings and loan groups. Local execution is by both county committees and school contacts who are persons identified with individual associations.

AWARDS PROGRAM

A keystone arch of our school relations activity is the Awards Program, aimed at winning friends and building both goodwill and favorable publicity. An outstanding graduating senior in each participating high school is given an engraved bronze medallion, encased in lucite, and $100 in cash. The league buys the medal at roughly $5.50; the sponsoring association gives the $100. In some areas, such as San Bernardino and Fresno, local associations voluntarily raise the sum to $200. In other places, individual associations supplement the industry-wide award with their own scholarships to students, who may or may not be the same ones who have received scholarships. For instance, one association provides $1,000 scholarships to four high schools; another, $100 awards for junior colleges.

The winner is selected by the school principal through any mechanism or committee he chooses. There is no savings and loan involvement in the selection. All we do is to suggest, in a printed leaflet which goes to each participating school and association, that the applicant be selected from among those planning on going to college, on the tripartite criteria of outstanding scholarship, good citizenship and extracurricular leadership. School administrators and teachers love this award, because we do not load their already overburdened schedules with essays, examinations or interviews. At the end of four years we survey the winners by questionnaire to find out how they did in college and what their future plans are. The overwhelming majority of them are tremendously successful as both students and all-round leaders, indicating that the principals do a conscientious job of selection. Incidentally, ours is one of the few awards which pays no attention to economic need; if the student deserves it he gets it, even if his father is "loaded." We have had instances of fathers of this type providing their own scholarship award to a needy student, out of pride in the achievement of their own offspring.

Our awards activity began, and begins anew each year, with the California league getting specific commitments from our individual members to sponsor part or all of the schools in their immediate area. With these commitments, the league invites the principals of each school so sponsored to participate in the program. This is done in September. The following spring, a form is sent to each participating high school requesting information about their outstanding student nominee. This information is fed back to the contact people in the sponsoring savings and loan associations.

In 1958, the kick-off year, 300 high schools and 195 associations participated. In 1965 the total had almost doubled to 577 high schools, sponsored by 237 associations through 369 separate offices, including branches. The program now is active in every California community where there is a savings and loan association.

AWARDS MAKE BIG NEWS

Each award, of course, makes big news for home-town newspapers and broadcasters, and the four-years-later questionnaire makes a good follow-up story. The league prepares sample press releases, for localization by individual associations. In most cases the sponsoring association is invited to have a representative make the presentation at the annual awards assembly; in many schools he is invited to commencement exercises, and the award is acknowledged in the graduation program. Beginning this year, our league also will make available permanent engraved wall plaques with the names of each year's winners, for installation in the high school trophy area and, if desired, in the office of the sponsoring association.

In the 21 most populous counties of California, awards are given at public luncheons or dinners in May. Sponsoring associations host the student winner, one or both parents, and representatives of the high school. An outstanding speaker is usually featured, customarily a college president or other community leader. Usually the winners say a few words about their future plans as they receive their medallions. Only the medallions are presented at the savings and loan function, leaving the check presentation for the awards ceremony at the school. This means double publicity in newspaper stories and photographs, and often television and radio coverage.

In 1963, 3,300 guests attended these 21 affairs. The guest lists included newspaper publishers, broadcasters, elected civic officials, judges, savings and loan supervisory officials, school district superintendents and association directors, in addition to guests directly concerned with the student winners.

Since the inception of the awards, 3,644 outstanding students have received $400,000 in awards to encourage them to attend the college of their choice. Over the years, the winners have been about evenly divided between boys and girls, with just a smidgeon in favor of the girls.

REWARDING RESULTS

Our files and those of participating associations are loaded with thank-you letters from student winners, their parents and school administrators. Even more rewarding are the notes we get when we survey these youngsters four years after they receive their award, at which time they tell us how much the money and especially the psychological "lift" meant to them. On the crassly commercial side, many, many sponsoring associations have secured both savings and loan customers from the ranks of winners, parents, school administrators, teachers, student body fund custodians and PTA groups. In fact, the award check often goes directly into a savings account.

While it is impossible to measure the results of a program like this arithmetically, we do know that the awards ceremonies alone last year were the subject of 464 stories in 322 newspapers, totaling 4,246 column inches, and were illustrated with 236 pictures. So we think we got pretty good coverage.

Our league supplies the county coordinators with sample releases, printed program covers, table decorations and favors, and complete information on how to prepare, produce and follow up a function. A representative of the league attends preliminary meetings of county school relations committees, attends and usually speaks at the awards ceremonies, and works with association school contacts throughout the year.

Because the average California family, and in fact the average American, moves so frequently, we think it vital that a program like this be on an industry-wide basis rather than left entirely to individual associations. Also, the expansion of our participating school list has been heavily influenced by transfers of administrators and teachers, who always want to install our program in their new schools, many of which are opening up each year.

One more detail about why the high schools of the state have allowed this program to develop under savings and loan sponsorship: Nine years ago we first approached the California Association of Secondary School Administrators, told them that we wanted to provide some kind of scholarship awards and asked their advice on how to do it. We also had the advice of a much-revered retired high school principal in the Los Angeles area who was instrumental in selling the Los Angeles city and county school systems on our program. With these two endorsements, if not actual encouragement for what we wanted to do, it was relatively easy to sell the high schools of the state on our program.

ORIENTATION PROGRAM

Far more important than the external awards program is what we do to build favorable knowledge about the savings and loan business within the high schools. The awards program, however, has proved to be an invaluable door-opener for our follow-up education work. It has made friends of administrators and faculty, has allayed their latent suspicions of commercialism and has allowed our representative to discuss the serious intent of the program without having to come in like a traveling salesman holding his hat in one hand and his sample case in the other.

The key item in our educational campaign is the United States League booklet *Safeguards of Freedom—Thrift and Home Ownership.* This excellent publication is a complete textbook on our business, written skillfully for the high school intellectual level. It is used as a class text in such courses as Social Problems, Principles of Business and the Family Finance section of Home Economics. The California league purchases the booklet in bulk from the U. S. League and gives it to schools free.

The booklets are not sent until the local association contact visits the school and determines from the principal, counselor or teacher that they will be used. We have placed just under 100,000 copies.

Our league also purchases in bulk an excellent booklet by a retired university dean of admissions, *Looking Ahead: To Go or Not to Go to College.* Interested associations buy these at cost (13 cents) and offer them to counselors for use usually with sophomores. Most schools are grateful for this help, and many allow the sponsoring association to imprint its name. We have distributed 135,000 copies.

The California league purchased prints of the U. S. League films—*Harvey Dilemma, Where the Heart Is, What You Should Know Before You Buy a Home* and *Yours to Keep*—and provides them free for school showings through sponsoring associations. Los Angeles alone reported that 42,110 pupils saw at least one of our films last year.

Association contacts are encouraged to provide teachers and school libraries with much the same type of study material which they give their own junior executives. We send every high school our annual league statistical *Data Book.* We make single copies of other publications available, such as the employee indoctrination booklet *This Is Your Business*; historical editions and inserts of our monthly *Savings and Loan Journal;* and a college-level study of our business by Leo Grebler and Eugene Brigham of the University of California at Los Angeles.

Many associations subscribe to our *Journal* and to *Savings and Loan News* for their schools. Others donate sets of basic American Savings and Loan Institute textbooks. They provide speakers for classes and clubs; donate their community rooms for meetings of school-affiliated organizations; arrange association tours for classes; set up valuable liaison with school placement officers for recruiting of personnel; and supply a wide variety of public relations "gimmicks" such as maps, wall charts, textbook covers, safety stickers for cars and bikes, and subscriptions to special magazine and newspaper study services.

KEY TO SUCCESS: PERSONAL CONTACT IN DEPTH

The key to success is, of course, personal contact in depth. The league does not have sufficient staff to handle this. We provide how-to-do-it guides, encouragement, indoctrination, refresher meetings; but we do not have the manpower to visit the schools. The savings and loan business in California is fortunate in having enthusiastic and knowledgable county coordinators and association school contact people.

In all areas except one, this cultivation work is done by association staff members. In Los Angeles, because of its size, the savings and loan managers' group retains George Dirck, a retired high school principal, on a part-time basis. He visits every high school in the county in the course of the school year; he operates out of our California league office and is most helpful on an advisory basis because of his background. Mr. Dirck last year succeeded the late Louis Foley, who helped inaugurate our school relations program nine years ago after retiring as principal of Hollywood High School. There is no denying that the experience and contacts of both Lou Foley and George Dirck were invaluable in keeping us on the right track in this activity.

Individual associations find that school relations offer a fertile field for creativity in public relations. Many California savings and loan executives are active on school boards, boards of trustees and citizens' advisory committees. Others find that they win lasting friendships by practical assistance in campaigns for school bonds, building improvements and fund drives. Still others work through their local chamber of commerce on the very productive Business Education Days, where teachers visit associations or association executives visit schools. These contacts even produce "cross-pollination," because the names of school people are appearing on association boards of directors.

In some counties, sponsoring associations host a gathering for principals and teachers near the start of the school year. As an example, some 50 school people gathered last month in Monterey for a luncheon at which they viewed a League film; heard talks by a member of the California league staff and the Monterey County associations' school relations coordinator; asked questions of a panel of association executives; and left armed with bundles of savings and loan material for their own study and that of their classes.

In several states, such as Ohio, Florida, Kansas, New York, Connecticut, New Jersey, North Carolina and Wisconsin, state leagues and associations stage summer study institutes for high school teachers at

cooperating universities. California is studying this possible expansion of its school relations program.

COLLEGES AND UNIVERSITIES

In our work with high schools, we are reaching community opinion leaders, such as principals and teachers, almost as a by-product. In our work with colleges and universities, this secondary objective becomes primary. There are cases where we can use our films and our booklets; we can supply research material for term papers and graduate school theses; we can host university researchers in the reference rooms of our league and association offices. But the big job, in our opinion, is to make stronger and more intimate the connections between savings and loan executives and the professional thought-molders who influence so strongly not only tomorrow's business management community but today's government.

The United States League has been pioneering in this field through its annual conference of college professors in Chicago and its work with writers of textbooks and learned articles. Many of us make it a point to invite professors to our conventions, colleges and clinics.

The California league, realizing that it has a long way to go in this area, is breaking the ice this fall with a series of dinners for college professors of economics, business administration, finance and real estate. In the large centers such as Los Angeles, we have separate sessions for the four-year and two-year colleges. In Sacramento, San Francisco and San Diego, we combine them. We do not preach to these people. We give them some good food, a 10-minute indoctrination on new developments in the savings and loan business, a file of both standard reference material and specially researched statistics, and then an hour and a half in which they ask questions of a panel of savings and loan leaders. Believe me, they do ask questions and, surprisingly, they write us most enthusiastic thank-you letters, requesting that the gatherings be held at least semiannually.

THE FUTURE

Is there any way to assess progress? In California there is an organization called the Industry-Education Council, which has just completed a survey of the level of cooperation between industry and education. The California Association of School Administrators conducted the study among 1,400 school districts. Here is how school people rate the cooperation from specific industries: (1) agriculture; (2) public utilities; (3) savings and loan associations and banks. Following us, in fourth place and on down, are school suppliers, communications media, aerospace and aviation, real estate, transportation, architecture, building contractors and electronics.

The No. 3 spot is not too bad, but we want No. 1. And we think we can get it by applying to school relations the same intelligent, aggressive, driving force which has brought savings and loan to its preeminent position of growth and accomplishment in so many other fields.

OPPORTUNITIES IN URBAN RENEWAL

by Gurney Breckenfeld, Contributing Editor
Time *Magazine, New York, N. Y.*

CONSIDERING THE NATIONAL PENCHANT for sweeping troublesome and tricky topics under the rug, it is understandable to me that urban renewal and the savings and loan business, generally speaking, have not yet seen much identity of interest. Yet the potential is there. Indeed, it seems to me that savings and loan associations will continue to ignore urban renewal at their peril.

We have a major national commitment to urban renewal, and in today's political and economic atmosphere I see no chance that this commitment will be repealed. Although the federal urban renewal program is deservedly controversial, it is likely to be around a very long time. There was not even much debate about it this year in Congress. And the fact that we now have not a second-class federal institution, the sprawling Housing and Home Finance Agency, administering urban renewal, but a Cabinet-level Department of Housing and Urban Development, pushing this program, indicates that it probably will grow faster and bigger, not slower or smaller.

A PANDORA'S BOX OF PROBLEMS

The new department seems likely to take housing and its fast-growing twin, urban renewal, into new and relatively unexplored territory. For urban renewal has opened a whole Pandora's box of problems it cannot by itself solve: not only physical problems like transit, schools and planning but people problems like crime, juvenile delinquency, alcoholism, drug addition, poverty, disease, illiteracy, unemployment and broken families.

Belatedly, in response to the revealed need, the approach is broadening far, far beyond the narrow confines of real estate, in which urban renewal was conceived. The executive director of the Philadelphia Housing Association puts it this way:

> We've still got slums. But renewal doesn't have all the tools it needs to wipe them out. It has concentrated on tearing down. This doesn't attack the basic problem. If people are poor, they have to live in something lousy; it does 'em no good to have their homes torn down and shift 'em around from place to place. We can't build new homes for all the poor. It costs too much. You can't rebuild a city with public housing. You wouldn't want to even if there *were* enough money. The trouble is we've been subsidizing housing instead of people.

I find that a remarkable statement, for it comes from the same kind of source from which you used to hear, only a few years ago, that public housing and other forms of bricks-and-mortar approach would cure most cities' woes if only somebody would put up enough money. The realization that this will not work has trickled up and up and up, and President Johnson has called for a wholly new tone and approach to our urban renewal effort: "The problem is people and the quality of the lives they lead. We want to build not just housing units, but neighborhoods; not just construct schools, but educate children; not just raise income, but create beauty and end the poisoning of our environment."

The familiar institutions of housing—and here I include savings and loans—may find only a small role in this new phase. But it is important to know what milieu you are operating in. Slums have been the target of housing reformers in the United States for nearly a century. The idea that government could use its constitution or power to promote the general welfare via the forcible removal of blighted real estate got into federal law 28 years ago. It came via public housing in 1937. Slum clearance was tied into public housing to justify the condemnation of privately owned land, even though (and most people have long since forgotten it) the primary purpose of the public housing program was to provide jobs, not homes for the poor.

HIGH COST OF SLUMS

Not until the Housing Act of 1949 did the Congress separate slum clearance from public housing by creating a separate division to handle it—now the Urban Renewal Administration. The formula, then as now, was to buy up slumlords' property at the market price (usually inflated by the slumlords' very abuse of the land which made it a slum), then tear down the slums and resell the ground to somebody else, who would rebuild the area according to local planners' ideas of how it ought to be redeveloped.

It was clear to Congress that somebody would have to subsidize the gap between the cost of acquiring blighted property at its market price and the much lower price that a redeveloper could afford to pay for it and still build a profitable new building. Here, I think, is where the framers of urban renewal committed their first understandable but virtually fatal blunder. They gave the United States a policy of bribing its way out of the slums. The second error—supposing that a bricks-and-mortar program would renovate flesh and blood—has been recognized and is beginning to be corrected. The first still stands and will cripple our renewal efforts until it is also removed; that will take some doing, as I shall try to indicate a bit later.

You may well ask why slums cost so much to buy. The answer is both simple and, alas, little understood. Blighted real estate in this country is usually taxed lightly in relation to the potential value of the land it occupies. This means it is priced dearly because of the operation of the as yet unrepealed basic law of economics that all property is worth the difference between its anticipated cost and its anticipated income—capitalized. The chief cost of holding and owning land itself *is* taxes, and sometimes, of land with a cheap structure on it, real estate taxes. When these are low in relation to the cash return—perhaps from overcrowding a site, perhaps from mere lack of maintenance of a long-since-depreciated hovel—the property acquires a "market price" out of all relation to its social value. Congress, in its wisdom, ignored the cause and offered a treatment for one symptom: the federal government offers to pay up to two-thirds of the land write-down cost if localities put up the other third in cash or via the construction of public facilities and services.

URBAN RENEWAL MOVES AT SNAIL'S PACE

Like almost all federal housing programs, urban renewal took hold at a snail's pace. It was 1956 before the first project was finished. It was 1958 before the first 1,300 acres of cleared land had been resold to redevelopers. It was 1960 before renewal had wiped out its first 100,000 slum dwellings. The program is picking up speed most remarkably of late. Today there are more than 1,060 renewal projects under way in more than 570 communities. In the single year ended last June, over 3,100 acres of renewal land were committed for disposition—a 30% increase in acreage sold or ready for sale to redevelopers.

Since it began, renewal has resulted in the rebuilding of 10,000 acres of urban land. True, another 6,000 acres are in the pipeline—committed for disposition but not yet rebuilt—but at last, for the first time in many years, the program last year achieved the success of disposing of land almost as fast as it was snapping it up. So there is hope that the inventory of weedy tracts of cleared rubble which dot so many American cities will stop growing.

To get on with laying the backdrop, the Housing Act of 1954 (which the present administration seems to want to forget) reshaped the renewal program in two big ways:

1. It broadened the concept from bulldozers only to the triple-barreled program of clearance and redevelopment, rehabilitation and conservation that we have today. It was only then that the very term "urban renewal" was born, to distinguish the broader concept from the tear-it-down philosophy of redevelopment. The coinage of renewal, by the way, was adapted from Economist Miles Colean's 1953 book *Renewing Our Cities*—still a classic of its kind—which impressed on the shapers of policy the abiding truth that all three methods are at work naturally, whether or not there ever was a federal renewal program, and gave the shapers of policy hope that all three methods might be speeded up by the stimulus of subsidy.

2. The 1954 Housing Act laid down a new precept: that Uncle Sam's millions should go only to cities which also use their own considerable powers to fight urban blight. Thus came into being the sometimes villified, sometimes exalted gimmick known today as the "workable programs"—seven ways in which a city must at least promise to attack existing slums and prevent the growth of new ones. Since 1954, every HHFA administrator (who must annually review and approve these city pledges before the city can get any fresh money for public housing or urban renewal projects) has admitted that some cities are not doing what they say they are doing, especially in failing to enforce housing codes against existing slums. For a decade, critics have correctly complained that HHFA has credited cities with workable programs to

qualify them for renewal and public housing subsidies when in fact their programs did not work at all.

Now, the fact that more than $4 billion in U. S. aid and 15 years of trying have made only a small dent in the slum problem does not mean that we should not keep pegging away at it. That is where savings and loans can get into the picture with their $130 billion in assets.

FHA'S URBAN RENEWAL RECORD

Since savings and loans traditionally shy away from FHA loans, there are probably few among you who would be eager to plunge into urban renewal through FHA anyway. In renewal lending, FHA's record up to now will only reinforce that judgement.

FHA has insured 219 urban renewal projects ($800 million worth) under its main renewal program (Section 220). Only one has actually been foreclosed—a 14-unit project in Seattle, but 11 more are in some stage of default and another 43 are limping along on forebearance or modification agreements (a fact which, as far as I know, has not hitherto been made public). In other words, nearly a quarter of FHA's urban renewal projects have come so close to failure that the mortgage lender has had to agree to be repaid on a slower schedule than he was originally promised.

In fairness to FHA, it should be added that much of this shortfall in the ability of urban renewal apartment projects to repay their loans arises from the overoptimistic notion, which no longer prevails, that new housing built on the site of a former slum would rent up at much the same rate as new apartments in neighborhoods without such a stigma. Nowadays, FHA and developers alike figure on a one- or two-year rent-up struggle and make allowance for it. Moreover, many Section 220 projects which were forced to negotiate forebearance agreements to avoid the painful embarrassment of default or foreclosure have at last achieved the magic 93% occupancy which enables them to meet their amortization schedules.

As FHA Commissioner Phil Brownstein says: "A poorly conceived urban renewal project casts a shadow far beyond its own physical boundaries." Even President Johnson has expressed concern over the percentage of FHA multifamily projects going into default. And Leon Hickman, executive vice president of the Aluminum Company of America, which has invested more than $30 million of its own money in about 20,000 units of high-rise and town house renewal projects, contended not long ago that FHA financing has such serious limitations that lending institutions could finance most renewal without FHA if Congress would raise the ceilings on loan-to-value ratios.

SAVINGS AND LOAN ROLE

What should be a far more fruitful approach to urban renewal for savings and loans, I believe, will be the financing of nonassisted renewal projects, that is, projects on which the cities' power of eminent domain may be used to assemble a parcel of land big enough to be useful, but which otherwise proceed on a private-enterprise basis without further federal red tape and costly delays.

Indeed, under the special urban renewal lending and equity investing powers granted by the 1964 Housing Act, federal savings and loans can do things in renewal that most other lenders cannot do, and they can make more liberal loans on some kinds of urban renewal property than on other kinds. Under the regulations, which were issued in mid-April, federal savings and loans can use up to 5% of their assets for 80%, 30-year loans on all kinds of renewal projects—housing, commercial, industrial. That compares with a 75%, 25-year ceiling for other multi-family projects and 60%, 20-year loans on commercial and industrial property. As long as it is not an FHA loan—and I quote an official of URA—"savings and loans are entitled to all the yield they can get."

Moreover, federal savings and loans may now use up to 2% of their assets for equity investments (again with no restrictions as to the type of structure or project) in renewal property. Thus, they can buy and sell redeveloped or rehabilitated properties or even hold them as a long-term investment. For the first time, they can buy vacant land and properties to be rehabilitated and become the redevelopers. They can even buy leaseholds. They can set up a corporation for this purpose and invest in it.

Now, for the average $20 million savings and loan, that means a ceiling of $1 million on extra-liberal renewal loans and a ceiling of $400,000 on equity investment, with another $600,000 in loans. That is peanuts, considering the cost of most renewal projects, which are too big for any but the biggest savings and loans to handle alone. But the new rules enable savings and loans to get into pools with one another, with other financial institutions, with private corporations, even with individuals including their customers. There is no requirement that the loans be federally insured at all, just so long as the property lies inside an area which the city has officially designated as a renewal area and for which it has approval from Washington.

Lest you think that your number one customers, the home builders, may resent this as an intrusion on their business and profits, I offer you this cheerful word from NAHB Vice President Nat Rogg. Says he: "I think that the new provisions will make it possible to finance renewal projects *within* individual communities—a thing not easily done before. This, added to the fact that renewal up to now has been predominantly residential, means greater opportunity for builders."

Moreover, if you use your renewal lending authority fully and wisely, there is little reason to suspect that Congress and the supervisory powers would not, in time, broaden it. The national commitment is too important for them not to do so. Moreover, loans in renewal areas which do not fall under the extra-liberal limits do not count against the 5% ceiling.

Now that the new grail of renewal planners is that elusive magic which Jane Jacobs calls close-grained diversity—the intermixture of housing with shops and stores and community services in a fabric which means mixed land uses rather than monolithic blocs of sterile aluminum and steel and glass—there should be increasing opportunity in renewal to finance little stores, smaller shopping centers, perhaps even small factories, many of which will involve the kind of construction techniques you are familiar with. Moreover, the market may not be all that tradition suggests. Redeveloper Lewis Kitchen tells me that he has a big market among divorced people in his Quality Hill project in Kansas City. "Two out of seven apartment seekers," says Kitchen, "are urban swingers who just plain like to live in the city."

Altogether, I have to agree with the former Federal Home Loan Bank Board chairman, Joe McMurray, when he says: "Savings and loans should be able to make a lot of money in urban renewal." That is, if you steer clear of the pitfalls that surround the program.

PITFALLS IN URBAN RENEWAL LENDING

The biggest pitfall, perhaps, is gauging whether the local community will do its part. Does it have the leadership and stamina to complete a project and the financing? Renewal is no game for halfway measures and weakly sponsored programs. Does the school board have the money to come through with the promised new school on time? Does it have the resolve? Is your market study both realistic and up to date? Many FHA 220 projects have run into trouble because by the time they struggled through all the red tape, the market need originally foreseen had been met by construction that started later but finished first.

Advises Leon Hickman of Alcoa:

> We have unlearned any faith in putting money into a redevelopment project without sharing in development and management. Money and management go together.
>
> We have unlearned any faith in the seed money concept of financing. The siren's song is to the effect that FHA insures loans for better than 90% of the cost of construction, that contractors' fees can somehow be plowed back into the project and that if some financial angel will supply seed money to cover 3 or 4 or 5%, the promoter is off and running.

But construction delays, proximity of slums, long rent-up periods and a host of other unanticipated costs can upset the plans.

Watch the estimates of operating costs, especially those of local real estate taxes. Some cities have, in the words of one top FHA official, "knocked a few projects for a loop" with tax boosts after they were up and rented. A recent meeting of ACTION's urban renewal group in Washington spent almost half of its time worrying about this problem. Sometimes it turns out that pre-construction commitments from tax assessors are worthless. FHA is still struggling with one Section 231 project for the elderly which went up on the strength of a tax abatement agreement from the local tax assessor. He was willing to keep his word, but a local court was not willing to let him; it overthrew the pact. Tax abatement laws are very questionable in most states. As a result, FHA requires its Washington general counsel to review the abatement agreement if it is part of the basis for the financial success of the project.

The Urban Land Institute, that remarkable nonprofit research group, recently issued a study recommending that 15% to 20% of gross income "should be a maximum for taxes" by cities on renewal projects, despite their understandable need to boost their tax take to finance the rapidly expanding list of services that citizens demand of cities. "Many enlightened communities," says ULI, "are providing new, large developments the opportunity to mature by setting up a graduated taxation formula.

REHABILITATION

Although the emphasis in Washington is turning more and more renewal toward rehabilitation—perhaps I should say *back* to rehabilitation—I cannot offer much encouragement that savings and loans will do a large share of financing it, except to the extent they use their successful repair loan programs or FHA Title I. The administrative burden is large and the headaches are many. Even so, some savings and loans have an enviable record in the field. Nearly half of the famous renovation of Chicago's "Back of the Yards" neighborhood was savings and loan financed, and savings and loans were notably helpful in steering their borrowers to honest repairmen. Unfortunately, the news in this field is that the federal government, apparently despairing of getting enough help from private lenders, has embarked on a big new program of direct loans for rehabilitation.

The federal camel has poked its nose a little further into the rehabilitation tent. This year, as you know, Congress created a whole new program of subsidized-rate fix-up loans. Anybody who cannot get a loan "under comparable terms" in a renewal project area may now apply to the Urban Renewal Administration for a 3% rehabilitation loan for up to 20 years and up to $10,000 on a one-family house.

As of last week, URA had not yet written the regulations for this nibble at a major area of private lending, but the agency is slowly gearing itself to undertake a major program of direct lending. It expects, in keeping with its congressional authorization, to make $100 million a year in loans for the next four years, to make about 30,000 of these 3% fix-up loans a year for an average of about $3,300 each. Multifamily properties will also be eligible; the law does not set a limit on the amount of these loans, although administrative regulations apparently will do so. In fact, URA will even make loans to tenants to rehabilitate rented homes or apartments, provided their lease runs long enough to cover the term of the borrowing.

A PROGRAM IN TROUBLE

Now, a final word about the economic and philosophical atmosphere in which renewal operates. There are many things wrong with the federal renewal program—troubles, paradoxically, that result in part from its own achievements. It is in political trouble over relocation. It is still in real trouble finding sponsors who are willing to take many square miles of cleared rubble off its hands. Moreover, although few of the people involved like to admit it publicly, renewal stirs up the racial pot; and

this fact, I submit, accounts for much of the opposition to particular renewal projects, even though it assigns itself other alibis.

If you agree that the program is in trouble, you may well ask why you should get involved. My answer is that whether you like the way it is operated or not, it is going to continue to operate, and until you do get involved you are not likely to be effective in changing its ways.

For one thing, the federal renewal formula is impossibly costly. Nobody has calculated precisely how many billions more it would take to rebuild U. S. cities with federal grants, but the cost clearly would be so astronomical that only the disarmament that might follow an end to war between East and West could make it financially possible any time soon. New York City alone might need every cent of the $2.5 billion Congress added to URA's grant authorization three years ago just to reclaim its 7,000 acres of blight and decay. New Haven, which admirers of the federal program like to tout as on its way to becoming the first slum-free city in the nation, has received $438 per capita in federal renewal aid. New York, by comparison, has received $31. In Cleveland, the federal tab for seven active urban renewal projects covering 1,500 acres will come to $39,333 an acre, or $59 million.

MUST ATTACK CAUSES, NOT TREAT SYMPTOMS

Thus, the pursuit of urban renewal is making it clear that unless we decide to attack slums at their causes instead of merely treating the symptoms, we are not going to get far enough fast enough. Unless we tax away the profit incentive to their creation, we are waging a battle with one hand tied behind our backs.

Indeed, today's efforts to solve problems like slums, mass transit, schools and spiraling municipal costs are so ineffective that some thoughtful experts predict that people are not going to stand for the onerous living conditions that very soon will result. Unfortunately, unless we turn our attack to the real causes of these problems, the demand will grow for an ever more Orwellian kind of federal big brother intervention, of which the new Housing Department is likely to be the cutting edge. Voters in revolt, in short, are more likely than not to vote themselves solutions which are the wrong ones—specifically, more subsidies—for this and that special and worthy purpose.

We have already come a long way down this road. First we got federal aid to help everybody get homes via FHA; then public housing, ostensibly for the poor; then aid for veterans; then special terms for slum clearance housing; then special gimmicks for displacees, for remote areas, for farmers, for high-cost areas, for college students, for senior citizens, labor unions, nonprofit groups, churches and credit unions.

It is indeed popular to legislate in favor of better housing for everybody who cannot afford to pay for it himself. But every time Congress gives a new segment of the population specially favored terms, or a call on Treasury subsidized money, it penalizes everybody who lacks a pipeline to subsidy. Thus, each new nostrum for a special purpose tends either to inflate the cost of producing housing or to drive up the cost of money borrowed to finance it, and it keeps postponing fundamental tax reforms to attack the real problem of costs and lets housing and urban renewal price itself back into the market for everybody.

So I bring you a mixture of hope, despair and entreaty. The situation is critical, but not yet hopeless. One reason is that good men have done little to get evil laws—notably the incentives to abuse our environment that are built into our taxes and lack of taxes—exorcised from the statute books.

Get into urban renewal, and then work to get it changed into a tool that hitches the profit incentive to the task at hand instead of rewarding the polluters.

YOUR TELEPHONE COMMUNICATIONS—FIRST LINE OF PUBLIC CONTACT

by Ed R. Paschen, District Sales and Service Manager Southwestern Bell Telephone Company, Dallas, Tex.

THERE IS AN OLD Indian proverb which says: "You have to wear another man's moccasins for three days before passing judgment." I have not worn your moccasins for three days so I cannot pass judgment on how effectively you are using your telephone communications as your first line of public contact. But I do know that many companies which spend hundreds of dollars each month providing their employees with the most modern telephone systems available sometimes overlook the fact that people—their people—make that system the first line of public contact.

By the way, we do have men who will wear your moccasins for three days or as long as is required to analyze your communications requirements. We call them communications consultants, and their services are available from any Bell Telephone System office.

H. I. Romnes, president of American Telephone and Telegraph, had this to say:

> Telephone service is better than ever before. Telephone service is better than anywhere else in the world by almost any statistical measurement we can apply. But our service isn't judged by statistics; it's judged by customers—customers who want to be served *all* the time the way they are served most of the time—customers who expect more from us because we have shown we can give more!

This is the challenge of the Bell System. Maybe it is your challenge, too.

A few years ago Packard ran an ad claiming that 90% of all Packards ever manufactured were still running—and there are still some running

today. But the factory is not. Packard went broke. No profits, no customers. Why? Poor customer service. The Packard was a good automobile but something was missing.

You cannot afford to close your telephone doors to business any more than you can afford not to train your people in the best way to use the telephone tools that they have been provided. Rudyard Kipling said, a long time ago:

> The greatest thing I suppose
> A man can do for his land
> Is the job that lies under his nose
> With the tools that lie under his hand.

You have the land, you have the tools and you have the hand.

When was the last time you called your own association or observed while one of your people called a real estate broker or builder to sell your service? We have a man in our business, Ben Smith, our general merchandising manager, who makes it a practice to call our companies everywhere he goes, just to measure the quality of customer service we are giving. Recently, in one of the cities in which we operate, he was transferred to four or five different people before finally reaching the correct telephone, and the voice on that telephone answered, "Yeah?" What went wrong? We had failed to train our people, retrain our people and then supervise them.

All I am trying to say is that you have to (1) analyze your telephone habits and, (2) have a continuing program of follow-up and retraining. Our people and services are available to you for this analysis.

We are going to view a film entitled *The Invisible Diplomats,* which contains some do and don't ideas. So, in closing, I should like to leave you with this thought, or maybe inspiration: Have you ever heard of a man named Jared, J-a-r-e-d? He had something to do with Methuselah. You have all heard of Methuselah; he is said to have been the oldest man that ever lived—he was 969 years old when he died. Then who is Jared, and what did he have to do with Methuselah? He is the No. 1 Also Ran, the second oldest man who ever lived—he was 962 years old when he died. He missed the world's record by eight-tenths of 1%, yet most of you had never heard of him. You see, you never hear of the No. 2 or No. 3 company; you hear of the No. 1 company, the company that does the kind of job Rudyard Kipling was talking about.

[The film was then shown.]