

**SAVINGS AND LOAN
ANNALS 1969**

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

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United States Savings and Loan League



A handwritten signature in cursive script, appearing to read "James L. ...".

PRESIDENT

FOREWORD

WHILE NOT QUITE AS BAD AS 1966, the year 1969 will go down in savings and loan history as a poor one for our business.

It was a year that saw no abatement in the roaring inflation which continued to take its toll of the economy. It was a year of soaring interest rates. It was a year of heavy withdrawals of our savings funds. It was a year in which another heavy blow was struck at the nation's housing industry—which had never really recovered from the credit crunch of 1966.

There is little question in my mind that the chief problem of our business during 1969 was the continuation of the inflation. As in the past the government attempted to control the inflation through the use of restrictive monetary policy, a policy of "tight money." And, as usual, the housing industry was forced to bear an unfair share of the economic burden.

As a result of the tightness in the money markets, interest rates hit highs which had not been seen for more than a century. The reason was simple: As money became scarce people who wanted it were bidding up the price, and there was little or no limit as to what they were willing to pay for the available funds.

The consequence was a stepping up in the competition for household savings. Commercial banks competed with us on a wider scale than ever before. Among ourselves we stepped up the competition. And a new element was added—government securities of all types were paying interest rates far above what either the banks or ourselves could pay.

That these government securities became such a factor is due to the increasing sophistication of savers at financial institutions. They are not only keenly rate conscious, but they are willing to seek investment avenues of which they were not even aware 10 years ago. While the days of the "passbook" saver are by no means gone, I do think we are going to have to bend every effort toward retaining our share of the savings market in the years to come.

The availability of many competitive investment opportunities caused a sharp drain on our savings deposits. The funds we did have for mortgage lending dwindled down to a trickle in most parts of the nation, and in some places dried up completely. Housing came to a standstill, and at a time when the demand was the greatest since the period immediately after World War II.

However, one thing that stood out in the savings and loan business during 1969 was the fact that we had learned our lessons in 1966 very well and had continued to do our homework.

It was obvious that caught in a fierce earnings squeeze our attitude was one which said that our success should not be measured by growth alone, but rather by how much "staying power" we showed.

Certainly during the year we became more efficient and more competent managers. Our operating expense ratios were kept to an absolute minimum; we kept a sharp watch on our cash flows; and managed our liquidity in a most creditable fashion.

In fact from the way most of us weathered the storms of 1969 it becomes apparent that the only disastrous threat to the savings and loan business would be a major, prolonged depression in which unemployment would affect millions of American families. This is hardly likely to happen in the foreseeable future.

As we move into 1970 there is little sign that the administration's anti-inflation efforts are taking hold, but hopefully this happy event will begin to take shape during the first half of the coming year. If there are no hard and fast signs of this then certainly I think the administration should seriously consider the imposition of consumer and business credit controls which would definitely be helpful in dampening the inflationary fires.

In any case 1969 should certainly prove the point that housing cannot stand up to another serious shortage of mortgage credit, and that some means should be devised where the housing industry should be given its right and just share of the available credit.

With the way the business has performed this year under extremely trying circumstances, I feel that we will be able to meet and overcome whatever challenges 1970 may bring.

TOM B. SCOTT JR.

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Year	Convention Site	President
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1944	CHICAGO, ILL.	JOHN F. SCOTT, ST. PAUL, MINN.
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1953	CHICAGO, ILL.	CHARLES L. CLEMENTS, MIAMI BEACH, FLA.
1954	LOS ANGELES, CALIF.	RALPH R. CROSBY, PROVIDENCE, R. I.
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1957	CHICAGO, ILL.	ROY M. MARR, MEMPHIS, TENN.
1958	SAN FRANCISCO, CALIF.	JOSEPH HOLZKA, STATEN ISLAND, N. Y.
1959	DALLAS, TEX.	C. R. MITCHELL, KANSAS CITY, MO.
1960	MIAMI BEACH, FLA.	W. O. DUVALL, ATLANTA, GA.
1961	CHICAGO, ILL.	C. ELWOOD KNAPP, PITTSBURGH, PA.
1962	WASHINGTON, D. C.	M. L. DYE, SALT LAKE CITY, UTAH
1963	SAN FRANCISCO, CALIF.	F. B. YEILDING JR., BIRMINGHAM, ALA.
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1967	SAN FRANCISCO, CALIF.	OTTO L. PREISLER, CHICAGO, ILL.
1968	MIAMI BEACH, FLA.	HANS GEHRKE JR., DETROIT, MICH.
1969	CHICAGO, ILL.	TOM B. SCOTT JR., JACKSON, MISS.

GENERAL SESSIONS

PRESIDENT'S ADDRESS

by TOM B. SCOTT JR., *President*

United States Savings and Loan League

Jackson, Miss.

HOPE IS BRIGHTEST when it dawns from fears" is a truth expressed by a great poet of times past, Sir Walter Scott, and I trust his rest will not be disturbed if one of his lesser collaterals repeats it on this occasion.

The greatness of this business was not achieved by looking backward, nor is it the nature of you people so to do. However, this convention marks the end of a decade, that of the 1960s, that has known both joy and fear. Perhaps, then, it is appropriate to review these past 10 years briefly for their historical value so as to emphasize the brightest hopes of the decade of the 1970s that now stands before us.

You will recall that we approached the 1960s at our convention in Dallas, Tex., under the presidencies of C. R. Mitchell and W. O. Duvall, with a sense of abiding confidence. The only major concern we knew then was that of dealing with excessive savings flows.

On the basis of bare statistics, it is difficult to find fault with the 1960s, because the business grew from \$63 billion in assets to \$162 billion which is very much on target with the Indiana University projections of a decade ago. Our share of the mortgage market has steadily increased and with the exception of a few months in the early '60s, the quality of our portfolios has never been better.

Nor do the figures tell the whole story, for we witnessed the emergence of a much bigger and stronger Federal Savings and Loan Insurance Corporation, now insuring accounts to \$15,000, and more effective and selective supervision; but most important of all, we have seen the growth of a more viable and effective Federal Home Loan Bank System, whose prestige and influence in Washington and across the nation have developed dramatically over the past decade.

To be sure, there have been adversities, such as taxation and a shrinkage of our share of the savings market due to intense commercial bank competition, but the business faced these events with courage and inventiveness.

The real problem of the 1960s, not only for our business, but for the

entire nation, stemmed from the expansion of the American military involvement in Southeast Asia. The loss of life, the wounded bodies, and the hurt to those involved can never be measured, so we must all continue to support our President in his efforts to find an honorable peace.

BIGGEST PROBLEM: INFLATION

What can be measured, however, are the destructive forces of inflation, spawned by that war, that are as disquieting as a lion in the streets. From mid-1965 on, our business and the housing industry generally have been on the defensive as a result of inflation, mainly because the principal weapon used to fight inflation has been monetary restraint and very high interest rates. I do not have to tell you that long-term mortgage portfolios, created mainly during periods of economic normalcy and at a time when government action brought about low interest rates, are not the least compatible with an anti-inflationary program based entirely on monetary restraint and high interest rates.

We, of course, have made some progress toward a somewhat more diversified asset and liability structure. There have been an increased willingness and a desire to build greater diversification on both sides of the balance sheet. We have learned to offer a variety of types of accounts, particularly, the certificate of deposit; but the main line of defense continues to be the savings interest rate controls set up in 1966.

The indisputable fact of this moment is that we are in a trend toward serious disintermediation, but the question in your mind is: When, when will there be a turn for the better? The best economists, both in and out of government, still are not able to give a definitive answer to the question, but all agree that if there was a substantial reduction of our military commitment in Vietnam, as now seems possible, then it should follow that interest rates will recede. However, there is the strong possibility that, because of world-wide capital demands and political fears of a recession, such a dip in rates may not be sharp enough or last long enough to produce strong savings flows to our institutions.

It may be small comfort to you, as it is for me, to be reminded that the quandary our business finds itself in today is not of our own making. In the early 1930s, the Congress assigned this business the task of making long-term mortgage loans so that Americans could own their own homes. We did house America, with long-term, low-interest loans; and ironically, because we have done this job so well, we are being penalized severely during the present period of tight money and high interest rates. Monetary policy, intended as a general restraint to business, has, in fact, been highly selective against housing generally and our business particularly. This fact suggests to me that there are other ways of dealing with inflation, and it may very well be time for this country to consider some of these methods. Housing is so important to the welfare of our people and so much a part of the nation's economy, and home ownership is so much a part of our social structure, that it should not be forced to carry all the deflationary effort.

In one month, a full year will have elapsed since the start of the Federal Reserve Board's anti-inflation program; yet, regrettably, little progress has been made in curbing inflation and in reducing inflationary expectations. Just as the administration has a timetable for withdrawal from Vietnam, so I would hope that it has a timetable for the fight against inflation.

I share President Nixon's distaste for direct controls over the economy, particularly price controls and wage controls, but there are measures that may be used to fight inflation other than monetary policy and fiscal policy that do not have to include price controls and wage controls. I refer to controls over other aspects of the credit markets in this country; for example, controls over consumer credit. There could also be, I believe, various types of restraint over the use of credit for commercial and industrial construction. Up to now, only residential construction and public construction have felt virtually the full impact of the anti-inflation program.

I would suggest that the administration might well establish some deadlines for determining whether new and different techniques, including credit controls, are necessary to supplement the present anti-inflation program.

In this connection, it has been terribly discouraging to see the extended delays on the part of the Federal Reserve in imposing the restraints on the use by commercial banks of Eurodollars and the issuance of commercial paper by their holding companies.

But even as the Federal Reserve belatedly plugs these loopholes, the big commercial banks are developing others. An article on page one of the November 6 issue of the *American Banker* reports that major banks are well on their way toward the use of new techniques to raise funds in lieu of the issuance of commercial paper by their holding companies. One way or another, it seems, some big banks are determined to circumvent monetary restraints; with this kind of an attitude, it is not surprising that Federal Reserve policy has had so little effect so far on the expansion of business borrowing, and that there is still an expectation of further inflation on the part of American business firms and consumers.

GRAND FINALE OF '60S: SERIOUS TAX FIGHT

As a grand finale for the decade of the '60s, we found ourselves unexpectedly faced with a tax fight of a very serious nature. The tax reform bill, as passed by the House of Representatives, would have doubled our taxes and probably made our effective tax rate even higher than that of competing financial institutions. The tax issue is far from settled and we will, of course, follow this matter very carefully as it continues through the legislative process.

In order that the decade of the '70s will see the early realization of many of our long-standing hopes, goals and purposes, and so that we may better serve the American people in their quest for life, liberty and the pursuit of happiness, it is in order to propose a sweeping, far-reaching, aggressive legislative program that should in all respects

thrust this business into the last quarter of the 20th century fully equipped with the needed tools to compete effectively.

PARAMOUNT ISSUE: HOUSING

The first, the paramount, effort on our part should be to convince our governments—federal, state and local—that housing should be given a much higher priority among our national goals, and that the full cooperation of every segment of government is absolutely essential if we are to meet the housing needs of America in the decade of the '70s. This will be no small effort but it must be done, because as restive, impatient and action-minded as young America is today, it will not tolerate mere platitudes and lip service about housing goals and future plans. Nor will those who have too long lived in the worst neighborhoods be willing to stand aside patiently waiting for dribbles of action to relieve their discomfort. While some progress has been made in providing housing for the disadvantaged, it has been painfully slow. The pace to achieve better housing for these people must be quickened dramatically.

One of the most profound lessons that we learned from the disaster of Hurricane Camille was that it is fairly easy in this country to supply man with such basic needs as water, food, clothing and medical supplies. Within hours after this devastating storm had passed, these important items were forthcoming from concerned and compassionate people all over the country. The most shocking loss, however, to some 18,000 persons was the destruction of their homes. You need only to observe an extreme disaster like this to know how important housing is to all mankind. It was not until temporary shelters and mobile homes began to arrive that the paralysis of shock began to wane and a semblance of normalcy began to arise from the debris and chaos.

I urge, then, that the savings and loan business, in a posture of leadership, join with the other allied businesses concerned with housing and direct the attention of all of government to the critical needs of housing. The foremost need, of course, is long-term mortgage credit at rates the American family can afford to pay.

PUT PRIORITY ON FIVE OBJECTIVES

Because the housing crisis is so severe and so acute, we should order our own priorities toward instant results and five realizable objectives that will substantially improve our savings flows now:

1. *Get the United States Treasury and the federal agencies out of the household savings business.* The Treasury should fix the minimum denomination for its issues and those of the agencies—the Federal Home Loan Bank System, FNMA and the Farmers Home Administration—at \$25,000, because financing through denominations as small as \$1,000 must surely be the most expensive and uneconomical borrowing in history. Many household savers are unaware of the fact that substantial losses can be incurred in open market instruments. Moreover, the continuous drain of our savings into small denomination Treasury and agency issues only serves to cripple housing further.

2. *Increase insurance of accounts to \$25,000.* While we know that insurance ceilings are self-limiting and possibly should ultimately be abolished, the short-range objective of a \$25,000 ceiling should be obtainable and should have a stimulating effect on our savings flows.

3. *Obtain much broader rules for insurance of accounts on local, state and federal government deposits.* Prior to the last change in insurance of accounts regulations, our institutions had a considerable amount of public funds. The stringency of the rules pertaining to public funds has practically eliminated them in our associations to the disadvantage of the treasurers of our local governments.

4. *Seek a 1/2 of 1% rate differential on consumer certificates of deposit over that permitted commercial banks under the Regulation "Q" ceiling.* Banks in this country have over 32,700 offices through which to garner the savings of the American public, and they are opening new offices daily at an unbelievable rate. Our business, on the other hand, has but 9,600 offices through which to serve the public and our branch expansion proceeds at a snail's pace. The banks have, in addition, much broader operating powers. This difference in servicing ability alone is reason enough to permit our paying 1/2 of 1% more on certificates of deposit.

5. *Secure trustee powers for federal associations for retirement funds saved under the Keogh Act.* This would open a whole new avenue to sources of funds not now available to us and would give state-chartered associations the needed tool to secure equal power from their states.

These are realistic and obtainable objectives that will give our institutions substantially improved savings flows, and I think you will agree that all are worth a supreme effort on our part.

DEVELOP EXPANDED FHLB SYSTEM

Of equal importance to this business, and one of the highest of priorities, is the development of a greatly expanded Federal Home Loan Bank System.

The present Federal Home Loan Bank Board, under the chairmanship of Preston Martin, has indicated a desire and a dedication to make the savings and loan business more useful in meeting the housing needs of America. We commend the chairman and his colleagues for their determination to make long-term money available to this business in spite of the uncertainties of the money market. We applaud the Board for its desire to develop a larger, stronger and more effective Bank System. We look forward with eager anticipation to the early development of a secondary market for conventional loans within the Federal Home Loan Bank System, as well as to the development of a mortgage-backed security so that our institutions may raise funds in the open market.

The Proxmire bill, calling for \$4 billion support by the Treasury of the Federal Home Loan Bank System, deserves our full and enthusiastic support. This kind of dollar support would be invaluable to the Bank System during periods of extreme stringency, such as we are now experiencing, and would give the Bank System the positive ex-

pansionary thrust that it now lacks.

As promising as these short-range objectives may appear for relieving our most pressing problems, we cannot allow our efforts to end here. We must, of necessity, look forward and upward to the vital objective of restructuring and modernizing the business so that, no matter how strong the ill wind, nor from which quarter it blows, our ships will ride it out majestically.

The longer range hopes and goals that this business must embrace are set forth in five important studies and writings.

The first of these studies is the 1966 Report of the Committee on Savings Association Needs, which dealt at length with the need for this business to strengthen itself against its vulnerability to inflation.

The more recent study of Dr. Leo Grebler entitled *The Future of Thrift Institutions*, commissioned by the Joint Savings Bank and Savings and Loan Exchange Groups, is a superb work, authored by a most knowledgeable student of the business, and it vividly points out the need for diversification of the kind that would not disrupt our traditional functions as thrift institutions.

Also of commanding importance is the special report commissioned by the Federal Home Loan Bank Board and prepared under the direction of Dr. Irwin Friend, of the Wharton School of Finance. Significantly enough, this in-depth study, made by a team of outstanding scholars for the regulatory side of the business, takes a commendably liberal stance on the need for restructuring the savings and loan business, both on the asset side and the liability side.

The Commission on Mortgage Interest Rates created in 1968 by act of Congress made a number of very significant and constructive recommendations relating to the supply and cost of mortgage credit and the role of our institutions and the Federal Home Loan Bank System. This commission, chaired by Professor James Duesenberry of Harvard, included a number of distinguished members of Congress. Many of its recommendations, no doubt, will be expressed in proposed legislation considered by the Congress next year.

1970 NEEDS COMMITTEE REPORT YET TO COME

Yet to be completed is the Needs Committee's updated 1970 report, undertaken under the chairmanship of Richard Gilbert of Canton, Ohio. This will be a study of the business, made by the business for the business, and will cover the whole spectrum of the business with special emphasis on Federal Home Loan Bank Board policies, operational and savings services, and investments. I extend my gratitude to the committee for its hard work and its fruitful efforts.

The value of these important documents to the business is immeasurable, and the timing must be regarded as providential. Nevertheless, they will soon become important only as library masterpieces unless you, the people in this business and the Congress, translate them into action. We have but little time left to accomplish the needed changes; we must act now, lest history pass us by, and our functions become absorbed by some other financial institution or instrumentality,

either already in being or yet to be created, for the purpose of making direct government loans for housing. Such an eventuality would, of course, be a tragic and immensely costly mistake for this country.

COMPREHENSIVE LEGISLATION NEEDED

Convinced of the need to move forward with calculated haste, your Executive Committee, meeting two days ago, determined that we should vigorously develop and support comprehensive legislation drawing from the best and the most widely usable suggestions for improving the strength and viability of the business that are offered in the reports and studies just discussed. I am confident that the business will be so inspired that it will give this legislation the full support that it deserves. After review of legislative drafts at our Legislative Conference in early February, I hope the U. S. League will seek hearings and enactment of such a bill in 1970.

Such a massive effort as I have outlined cannot be accomplished by a small band of faithful disciples, but only through the enthusiastic and energetic support of every person who values his career in the savings and loan business.

I reiterate that you, as recognized leaders in your own communities, should muster the support of all of the businesses allied to housing to push such legislation through Congress, so that there will always be a savings and loan business, forever the dependable and reliable source of credit for housing America.

I have said much about housing, a housing crisis, the need for a high national priority for housing, and the need for our business to restructure itself to meet the immense housing demands of the '70s.

But there is one important fact that all government officials, all policy makers, all advisors to privy councils, all who influence opinion and, in fact, all people, should know and appreciate: that the savings and loan business is a great business, and it is the one business serving the entire country that has the knowledge, the know-how and the expertise to finance housing in America.

That is true today, and it will be true in the 1970s.

YOUR FUTURE IS CHANGING

by the HON. WALLACE F. BENNETT

United States Senator

Salt Lake City, Utah



THIS IS YOUR 77th Annual Convention. I found out just this morning that in 1892 the organization that was created was called the "U. S. League of Local Building and Loan Associations." It was an organization to help the local building societies protect themselves against operators who were attempting to sell nationwide building participations.

It would be very interesting to review the previous 76 programs of this organization to see just what themes were considered to be important.

No matter what that list might be, I think we would see increasing importance as you came up through the years the relationship of your organization to the federal government. Running through all of these themes would be the one basic feature of change. That is my basic theme today—change. I think I shall probably conclude by saying, "You ain't seen nothing yet."

Back in 1892 and probably for nearly half of the time between then and now, your predecessor organizations were different from what they are today. They were called many names; out in my state they were called building societies. Their services were available only to their members, and only when members had accumulated enough by their savings did they have the opportunity to borrow from the society.

There was another great difference too. In those days all mortgages were term mortgages, and the business stood on its own two feet with no federal intervention or support.

From this simple cooperative institutional prototype your present vast business has emerged with all its variations—mutual and stock companies, federal charters and state charters, savings and loan associations of every size and kind. While your business has been evolving, particularly during the last 40 years or since the Great Depression, there have been even more dramatic changes in the markets you serve

and in the economic atmosphere of this country.

Turning back to the early '30s as a basis for a comparison, a few quick figures may interest you. In the last 40 years the population has increased by just a little more than 50%, but the urban population has increased 70%. Of the total population increase 90% has been in the urban area. We are rapidly becoming very highly urbanized and we have become a nation on the move.

My mother and father moved on their wedding day into a little cottage which they had bought—perhaps with building society help—where they lived until their deaths. It was remodeled and expanded as the family came along, but they still lived in the one house.

Someone has said that today the average length of time an American family stays in one house is five years. Mrs. Bennett and I have lived in six houses in our 47 years of married life.

FACTOR OF CHANGE: INCREASING AFFLUENCE

A third factor is our increasing affluence. The 1969 per capita disposable income is four times as great in current dollars as the 1929 figure. After you squeeze the inflation out of the dollars it is still a little better than double.

Reflecting this, the average house insured by FHA has increased 20% in size since 1955. Looking at this same period, 1955 to 1968, we find income increasing 80% in current dollars while housing cost increased only 60%. Our people are better able to afford housing than they were 15 years ago. As Mr. Scott has already said, your share of the total home mortgage market has increased substantially at the expense of all your competitors.

Moreover, during these last 30 years, inflation has accompanied our affluence. While income has been increased, has been multiplied four times since the depths of the depression at current prices, consumer prices have increased two-and-a-half times; in the tightened money market of today, interest rates have skyrocketed.

Mr. Scott discussed very vividly and with great fervor and vigor his ideas of possible variations in the administration's program to control inflation. I doubt at this point in time whether there will be any substantial change in the administration's anti-inflationary policies unless the next few months show that the inflationary psychology in this country has become so powerful that it needs drastic surgery. He talked about the effect of high interest rates on your business, of which there is no doubt, but you may be interested in this set of figures.

Mortgage interest rates have doubled between 1955 and 1968—increased 100%. Short-term business loans, 140%; Federal Reserve discount rates, 216%; three-month Treasury bills, 296%; prime commercial paper, 324%. So you see the other parts of the financial structure have had their problems, too. One of the reasons your rates have not increased so fast is that they had a higher base to start with. But the disparity between the bottom and the top is lowest in the home mortgage industry among all these types.

In effect, you are going to have less trouble readjusting, perhaps,

than some of these other operations.

Through all these years there has been one change that has overshadowed all the rest. That change is the involvement of the federal government in housing and financing.

I doubt very much that you had many federal officials appearing at conventions prior to 1930. Yet today your program would be incomplete without them. The whole message that I received from your president's talk is that you want more federal intervention. You want the federal government to get more deeply into your problems to smooth your way and to develop programs to support and sustain you.

The federal government first moved in to help you during the depression. Like the famous man who came to dinner, it has not only never left, but its activities increase with every new session of Congress.

In 1930 under Hoover there was the Housing Corporation, which was the beginning of public housing. Then there were the Home Owners' Loan Corporation, the FHA insurance program, and by 1941 there were Fanny May, the Home Loan Bank Board and several farm mortgage agencies. The government was deeply involved in mortgage credit.

In the matter of the production of housing there are urban renewal, slum clearance, model cities, new towns, mobile homes, programs for rehabilitation, land acquisition, beautification, relocation payments, research in materials and methods, code enforcement and now a new major effort on urban mass transit. In the 1968 Housing Act, for the first time there is a federal goal for the production of new houses—26 million in 10 years. I think we are going to have a hard time meeting that figure of 26 million but maybe we had better.

Going back to this list of programs, there have been special housing programs for the military, for the student, for the elderly, for the handicapped, programs for urban minorities, for migratory workers. There have been rent supplements and interest subsidies. In fact, we have already gone so far that we are beginning to meet ourselves coming back. The current drive is to re-involve the private sector—get more private capital into housing. In that drive there have been turnkey public housing, 221(d)(3) below-market interest rates, non-profit sponsored, FHA-insured mortgages for rehabilitation of homes to be sold to low-income buyers, and the National Housing Partnership. The example that proves the trend is that Fanny May has now gone private and its public job has been taken over by its sister, Ginny May.

Finally, while all these government "goodies" have been handed out to the home building industry, the savings and loan business has not been forgotten. The usefulness of Fanny May and the Home Loan Bank Board have been expanding steadily, and this will continue. You heard President Scott call for your vigorous efforts to see that this expansion continues.

He reminded you, as I was going to, that during the current credit stringency, rates allowed to be paid shareholders in your association have been controlled in your favor, and S. 2577 continues that advantage.

Because of this, during the past 12 months savings in commercial banks shrank by \$8.6 billion, while the total deposits in savings and loans increased by \$5.2 billion, and the mutual savings banks also got a good slice of what had been the deposits of the commercial banks.

The Home Loan Bank's capacity has been greatly expanded. It will have pumped \$8 billion into the mortgage pool by the end of this year. President Scott referred to S. 2577 which permits the Secretary of the Treasury to allocate another \$4 billion to the Home Loan Bank Board when he thinks that may be necessary.

There are still more proposals that would include the purchase by Fanny May of conventional mortgages. We are also considering insurance on mobile home financing and studying the reports which President Scott mentioned.

I was a member of the Commission on Interest Rates, as he told you. What that commission accomplished I think will be worth more than anything else is the removal of the absolute ceiling on FHA-insured mortgages. We were not able to get it off completely, but we were at least able to make it possible for a lender to have a choice between offering a loan covered by the ceiling and subject to points, or offering a loan at the existing market rates.

PROGRAMS HAVE BENEFITED SAVINGS, LOANS

When you consider this long list of federal programs affecting housing and its financing, I think you will agree it is fair to say that on balance these programs have been of great benefit to your business. Certainly while they were in existence it has grown and expanded tremendously. Because the population will continue to grow, incomes will continue to rise and housing will continue to be indispensable, your future is bright and reasonably secure if you keep yourselves abreast of the times and flexible to change.

All this has happened since the federal government moved in with you. It has become a prime credit source, a provider of incentives and a creator of new ideas. It is also a controller, a regulator and an umpire. It is your permanent partner, sometimes a junior partner and every once in a while a managing partner.

Of course, the benefits of this partnership do have some occasional offsetting and balancing burdens. The bigger and more numerous the government programs, the greater the degree of accompanying regulation and control with its bureaucratic pattern of rigidity and delay.

I think you can get no better example of this than the way the previous administration sat on its hands with respect to increasing the rate limit on Fanny May insured loans until the operation just about closed up.

Sometimes there will be certain programs you do not like, because the federal government and you are not the only partners in the country. The government has the same kind of relationship with other financial institutions and with the home building industry where a whole new cabinet-level department has been set up. Sometimes our job in Congress is to be an umpire rather than an advocate.

Mr. Scott mentioned the tax bill. I am very happy that those of us in the Finance Committee—and I am one—were able to temper the bill as it came over from the House. The fact that your taxes are going to be raised is an indication of the pressure that exists on government today to raise enough money to balance its budget. The first place we look is to the industries and the organizations that are not paying the full corporate rate.

Now you are going to have an increase, as you know, but it will not be as big an increase as it would have been if the House bill had passed. I cannot give you assurance that it will be the last. In the Senate Finance Committee we also restored the accelerated depreciation privilege for residential construction and the rehabilitation of old residential properties. We took it away from all other kinds of real estate or limited it sharply.

We are not unaware of your problems. I listened as closely as I could to the long list of items on your legislative program, and I can see that those of us on the Banking Committee have a full year ahead of us—next year and the year after. As I say, we have to try to be as even-handed as we can, and we cannot give all the benefits to one.

Now I should like to turn my back on the past and for just a minute or two look ahead. I think we are on the edge of the great breakthrough in the use of factory-built houses and components. I am sure you all read how two or three weeks ago, Secretary Romney announced that a contract had been signed with three construction unions—the carpenters, electricians and the plumbers—who agreed to allow their members to work at factory rates in factories building houses, and also agreed that when those houses come to the site, they would allow their members who were working on outside construction to assemble them. This could be a great step in slowing down the increase in home building costs. If this is going to be successful, I can see the development of a federal building code which must take precedence over every local building code. How else can a factory-built home be sure of erection in a community, any community, every community in the United States? I think it is going to be necessary to set some standards for the construction of those units, and then I think there must be an over-riding law which will allow those units to be erected on site—anywhere—regardless of local building codes.

EMERGENCE OF SINGLE FINANCIAL INTERMEDIARY

President Scott talked about greater flexibility in the management of your assets and liabilities. I think this is coming but I do not see it coming simply in terms of greater flexibility for savings and loan associations. What I see coming—and I do not know how long it will be—is the final emergence of a single type of financial intermediary able to take care of all of the financial needs of the country.

One of the first steps in that direction has been the pressure in Congress for the amalgamation of the federal financial regulatory agencies: the Fed, the Home Loan Bank Board, the Federal Deposit Insurance Corporation, the FSLIC. There are several studies going on

right now, one in the Treasury, one in the FDIC and one in the American Bankers Association, to see how practical and how wise this kind of movement may be. Every time you press to broaden your lending activities into fields now reserved for the commercial banks, you bring that possibility a step closer.

A new idea developed during the Senate discussion of the tax bill which the committee did not have time to study and so pushed aside, is the idea that any financial institution making a mortgage loan should be given a 5% deduction, or a deduction equal to 5% of its mortgage interest. In other words, this is a new incentive from a new angle to put money into mortgage loans.

I am also a member of the one subcommittee of the Finance Committee—the Committee on Veterans' Affairs. During the week ahead we will meet to consider a proposal that the reserves behind the veterans' insurance program be earmarked for direct lending to veterans for home building. This is another proposal that on the surface seems very attractive. I am not sure that it is wise, but there is going to be more pressure for direct federal lending.

In conclusion, for 77 years the one underlying and continuing theme of your programs has been change; problems come and go. Through all these changes your business has had great growth, much progress and greatly increased profit.

RESIST SUBSERVIENCE TO GOVERNMENT

The biggest change perhaps occurred when the federal government became your partner. While its role is still expanding and its programs are moving into new areas, there are some who are beginning to worry about this concentration and are trying to develop federal programs to encourage greater private participation.

It is a temptation in a situation such as the one you face to put more and more pressure on the federal government for more and more advantages or assistance, or protection, or insurance, but there is always the danger that as that demand increases, the power of the federal government to control your business will keep pace.

Mr. Scott looked forward to the '70s. I took a quick look at some figures that looked forward 30 years, because I have been looking back about that same time. Looking forward 30 years to the next turn of a century, some authorities see 300 million people in the United States and a gross national product of \$4 trillion. It is estimated that there will be a need to provide new housing for 278,000 people every month between now and the year 2000.

In the last 30 years your market has doubled. In the next 30 it could become three or four times as large as it is today. What a challenge. What an opportunity. Both for you and your partner, the government.

The big risk is that with every change government will become more powerful and your role less important. I hope you will not let government either entice you or force you into subservience.

The opportunities are incalculable; if you can keep up with the pace of change, this will be a great business to be in during the next 30 years.

THE ECONOMICS OF CRISIS

by ELIOT JANEWAY, *President**Janeway Publishing and Research Corporation**New York, N. Y.*

IT IS WELL KNOWN that bearers of bad news are not normally received with open arms. I have come here forearmed myself in the hope that you will permit me to help you to forearm yourselves. Stormy weather is the order of the day—but not because the nationally advertised recession has the slightest chance of development.

In my judgment, checking theories, vested intellectual interests, politics and public relations at the gate, 1970 is going to be the biggest, richest, lushest business year yet. With the con-

tinuing boom will come the most intensive acceleration of inflation yet seen.

If I am right, the Martin-led Federal Reserve Board is overdue for a hit but is not about to get one. This inflation is being powered and paced in the money market. So long as interest rates are driven up—to be more precise about it—so long as the senior partner to whom Senator Bennett referred—continues to drive interest rates up—everything else will follow where the cost of money goes.

No man before the public has tried to raise more thunder against this ruinous run-up in rates. Let me urge realism on you in recognizing how much further these rates have to go and, as they are driven, what danger surrounds you.

Before I left for Europe in the first week of October, a great American corporation, Tenneco, paid 9% for long-term money and the next week acknowledged that it had not met its full requirements because it was back in that Euromarket borrowing more. How much do you think that 9% money netted Tenneco? Figure up depreciation, depletion, reserve for bad debts, expenditures and you arrive at a cost of perhaps 31⅓%. At a 6% rate of inflation, which is a moderate price tag to put on it, a borrower like Tenneco is being paid 3% by the economy to pay 9% for money. It makes robbing banks an obsolete and hard way to earn

a living. If nothing changes, long-term rates have at least three percentage points to go.

The spectacle of the government resorting to the high interest rate sanction to punish the private sector to slow down inflation reminds me of the mother with two youngsters—one good and one bad. Every time the truant officer brings home the bad boy, she hits the good one.

During the depression years it was a normal reaction for any business to turn to Washington and say, "Send the money." Today, who wants it? Who needs it? You people know what a burden it is. Look at how you are getting helped. The government is selling 8½% long-term bonds guaranteed by the Treasury against call in order to put emergency funds back in the savings and loan associations which are losing money because 4½% and 4¾% passbook holders are turning in their cash to grab that 8½% money. It reminds me of a snake trying to eat its tail and succeeding.

The terms of trade, as I say, have been entirely reversed between the private and the public sectors because now the government needs money from the private sector. When the present administration took office, the federal government was something like \$20 or \$30 billion under-financed.

What the "shoe clerks" at the Federal Reserve Board have done is to import from the very small economies in Europe a theory which works there. They are puzzled because the theory is not working here. One reason it is not working here is that we underwrite the defense of the world. Our defense budget underwrites not merely the rest of the free world but the Communist world as well.

The countries where this famous monetary theory works do not have any defense inflation. They do not have any big government spending needs such as we have. Who gets hurt first when money rates are driven up? The United States Treasury. It is the only borrower in the country which is a net payer of the interest rates it supposedly is punishing us with.

Money is now being paid to go away from the equity side. Borrowers—government borrowers—are demonstrating their need, their desperation, their determination to pay any price the market obliges them to pay to get money. The essence of the problem is that government no longer can afford to stop to count or to hesitate because of what the market is obliging it to pay for money. The corporations know enough to count.

SAVINGS MELT WITH HIGH INTEREST RATES

There is in this country a breakout of uncountable proportions in incomes. It is a cruel paradox and a monument to the incompetence of the monetary authorities that with incomes going through the roof, savings are being allowed and encouraged to melt. If there is any reliable criterion of the victory of inflation, it is the melting of savings. Indeed they will melt and must melt so long as interest rates are being driven up by this uneconomic over-bidding between government and business for money.

I am choosing my words with the greatest possible precision when I tell you that it is my judgment that the Federal Reserve Board has been irresponsible and delinquent in its duty for having failed to move in the direction of credit controls a year ago. There is no longer any way out of this crisis of liquidity dominated by the run-up in interest rates and dramatized by the melting of savings other than credit controls. It is my duty as a reporter to tell you that there is not a prayer of your getting them until something snaps in the credit structure on a big enough scale to hurt people.

NEW FED CHAIRMAN OFFERS HOPE

Having said that, I hasten to say that I could not possibly be more relieved than I am by the designation of Arthur Burns as the next chairman of the Board. The reason for my confidence in Mr. Burns is that I regard him as Dr. Facts. I am bitterly critical of William McChesney Martin because he has never once been willing to stand up and be counted in the minority. Every vote of his has been with the majority. In the kind of society we have which is dependent on the independent conscience, the independent judgment, I regard that as unforgivable. I am convinced that Burns will be willing to be a minority of one.

Where would you begin with credit controls? At the beginning. Can you imagine a spectacle more disgraceful in its irrationality, in its advertisement of implausibility and insincerity to average working people than that of the commercial banks? They have been running out of postage stamps in their anxiety to mail out retail credit cards to people who have not asked for them and are not entitled to use them. While this is going on, the same banks find themselves deprived of the availability to lend to the employers of the people to whom they are making these credit card distributions.

With wages going up, with costs going up, business needs to borrow the payroll and can't. There is a new incentive in America to take a job—you get a credit card. The money on hand with no reserves against it being created by the mass distribution of bank retail credit cards is about \$3 billion. In 1970 it will be even more than in 1969.

An electrician making \$20,000 (with his wife working) gets a \$2,000 entitlement to buy. He spends it. Then he asks his employer for a raise. He gets it. Then the bank offers him a \$4,000 entitlement to buy. This is not merely cost-push inflation; it is demand-pull inflation thanks to the increase in incomes and the idiocy of giving credit where it is least needed and depriving those where it is most needed.

The first thing I would do is to stop that and reduce the pressure on the post office department.

Secondly, I am sure Congress would give the Federal Reserve Board power to reactivate Regulation W—to raise down payments and shorten maturities.

Most of the bidding on the part of corporations for capital which is topping the bidding of the government is centered in four or five big industries—utilities, oil companies, banks, chemical companies, steel mills. It would be a very easy matter for the government to call in these

heavy capital users and invite them when they need money to go to their stockholders and reopen the long-term government market to government bidders.

Our society is different from Europe. Everyone here who has earned money and therefore paid taxes has a bank account. What he has paid in taxes is his bank account with "Uncle." If this continues, that bank account is going to be used. When the "busted" building contractor is told by a bank that he can't borrow any more 18% money, he pulls back and puts in for a tax refund. What he is doing is sending the one borrower to whom the bank can't say "No" to the bank to raise 91-day bill money at a lower rate. We have seen the spectacle of the insurance companies being cleaned out by their policy holders raising 5% money. The next wave will clean the Treasury out as taxpayers find themselves radically revising their estimates downward and raising cash at no interest cost, putting in for refunds and getting cash subject to no tax burden, or simply sending in their tax returns and generating 6% money as their payments are approved.

CALL OFF RUINOUS COMPETITION WITH CREDIT CONTROLS

As this happens, the Treasury is going to drive that bill rate up just as fast as these corporations drive the long-term rate up. The real need for credit controls is to call off this ruinous competition which is heading toward us on a collision course with liquidity prices.

Contrary to accepted theory and familiar experience, whatever it is that we are going to bump into on this collision course, is not going to cause unemployment; it is not going to end the skills shortage; it will not be a 1929. At worst it will be some kind of a 1907 which was a liquidity failure against a background of tremendous economic expansion. However, at that time we did not have the benefit of government mismanagement.

I believe this can be averted. I could not possibly be more bullish about the economy. To the extent that we held inflation back until the last few years, the main credit went to the high rate at which we took new entries into the labor force. Today the rate of entry into the labor force is collapsing while the demand for labor is going through the roof. This will continue until governments can again borrow what they need to bring these bodies into the labor force.

We have to get government refinancing itself in order to enable employers to cool off the labor market. We cannot do that until we stop the over-competition between corporations and government for a limited supply of dollars. Therefore, it is my hope that the Burns Board will come face to face with this and call off this over-competition, that it will put money back into the banks, that it will put priorities and prohibitions on the uses which banks can make of this money, and that it will bring down the long-term rate of interest, and that it will reverse the melting process which is now eroding savings.

PLANNING IN A CHANGING FINANCIAL WORLD

by LAWRENCE G. CHAIT, *Chairman*

Lawrence G. Chait & Co., Inc.

New York, N. Y.



IN PREPARATION for participation in this meeting, my colleagues and I have, for the second time in the past 18 months, undertaken a marketing audit of the savings and loan business. Such an audit relates principally to the ability of a business, or of individual factors within it, to compete successfully for a fair share of available consumer or industrial purchasing power.

A marketing study of this kind includes an evaluation of the business' strengths and weaknesses and of the competition's strengths and

weaknesses in the critical arena of the public market place. Due consideration is given to historic ability to perform successfully and profitably in satisfying a public need, while attaining a consistent record of general growth. Most importantly, such an audit relates to the future promise, or lack of it, inherent in the products and services you have to sell, and in the climate of recent years to the success with which you have met the requirement for new products and new services devised to meet the ever different needs of a world experiencing a fantastic rate of change. Finally, such a marketing audit must relate the services you render to the general social climate.

When the very first savings and loan society came into being 138 years ago, its rules were devised to provide a solution for certain pressing needs which burdened the population of our fledgling nation. It is interesting to recall that when Oxford Provident Building Society, the first in the U. S., was formed in 1831 its rules required two simple things: (1) the regular payment by each member, each week, of a small amount of money into a pool; and (2) the lending of the money in the pool to first one and then another of the members until each had acquired his home. As we move into an ever more complex

society, it is refreshing to look back on those simple times when thrift on the one hand, and the need for a home on the other, created a financial mechanism which has withstood the rigors of time for almost a century and a half.

In recent years, however, it would appear that the time-hallowed thrift habit of U. S. citizens may have undergone a profound change. In 1950, the consumers of the United States "squirreled away" some 69% of available funds in savings accounts, savings in life insurance and pension funds, demand deposits and currency, U. S. government securities, and state and local obligations. By 1967, this figure had dropped to 55%. The consumers of the U. S., drawing the obvious lessons of an inflationary economy, had opted to move heavily into corporate stocks which now account for roughly one-half of the consumer portfolio. While the interest of our citizenry in thrift has been declining, in the past 20 years the assets committed by the public to mutual funds have soared from less than \$2 billion to nearly \$50 billion.

These straws in the wind have forced us to pay more than usual attention, as part of our marketing audit of the savings and loan business, to the general mold of society and the resultant problems which emerge for all financial institutions as they enter the last three decades of the 20th century.

The general problems which confront our society at this present moment in history are all too disturbingly familiar to most of us. The war in Vietnam continues to go on, apparently interminably, and to drain strength from our economy. The same war has fostered a devastating inflation. Interest rates continue to skyrocket. The tax load becomes unbearably heavy with no real relief in sight. Our international balance-of-payments posture continues to destroy confidence in the U. S. dollar. Meanwhile, the international monetary mechanism continues to hover on the brink of disaster, as it has for almost all of the past decade. Social unrest in our universities and in our cities shows no signs of abating.

In 1950, with Joseph Stalin still active, our military budget was \$13.8 billion; today the budget is \$80 billion; 70% of the non-fixed portion of our federal budget is being spent for military purposes; one out of 11 Americans is indebted to the military for employment.

National Parks Magazine comments: "The environmental crisis is as broad as human society; the industrial countries cannot hope to escape it. Smothering by air pollution, poisoning by water pollution, psychic trauma by urban congestion—these enemies respect no boundaries."

The U. S., the world's richest country, ranks behind 13 other nations in infant mortality and ranks 18th in life expectancy of males. The death-rate among middle-aged males is higher than anywhere in western Europe; we are a backward country in health though we have the best physicians in the world.

It is overriding factors such as those I have briefly described which provide the framework within which specific industries must seek solutions for their own well being, and the task becomes increasingly more difficult but certainly possible of solution.

While you gentlemen concern yourselves in a modest way with the legislative and regulatory problems of your own business, it may be a measure of our life and times that the Pentagon currently employs 6,140 full-time public relations men and some 339 full-time lobbyists.

If you assume from the foregoing that, as a businessman, I think the time has come for a re-ordering of our national priorities and interests, you assume correctly. None of the problems which beset business can be resolved positively in the current frozen framework of national policy. Unless bankers and businessmen apply their best efforts to the tasks of governing the nation, then indeed a healthy primary atmosphere for business and for our financial institutions will be increasingly difficult to attain.

'FIVE BIG CS OF THE FUTURE'

Within the general socio-political framework I have described, there are other emergent considerations of great importance and interest to the business and financial communities. Five such areas of significance to the future profit and progress of financial and business organizations may be labeled the "Five Big Cs of The Future:" (1) computerized marketing techniques, (2) communications technology, (3) consumer credit mechanisms, (4) conglomerate forms of business organization, and (5) cultural developments which interrelate with business and financial futures.

Those of us engaged on a full-time basis in national or international marketing programs have gradually begun to realize that the ubiquitous computer will gradually bring about a complete change in the ways in which we approach specific population segments in the merchandising of specific products and services. What is now emerging is, in effect, a mammoth library of codified commercial information about family units and individuals. These libraries on magnetic tape provide great riches of demographic and psychographic information which are invaluable to a pinpointed and precise marketing program.

We now begin to be able to reach a buying audience based upon such factors as income, home ownership, marital status, age and number of children, established purchasing habits, cultural and intellectual interests, and a great many other similar qualifiers which make it possible, in a manner only dreamed of in years gone by, to reach the right people, at the right time, with the right marketing message. This computerized approach to marketing technology is yet in its infancy but holds enormous promise for future sales, advertising and public relations development.

Sophisticated computer installations are already, as you know, increasingly tied to an astonishing array of communications devices. We are rapidly reaching the point, primarily via long lines telephone service, where machines talk to machines almost more frequently than man talks to man. The present communications hardware includes such devices as the audio-response computer which enables man to talk directly to a machine; the data phone; the card dialer telephone; facsimile; Wats and In-Wats services to broaden our verbal reach at low

cost; the commercial availability within the next few months of picture phone and of satellite communications on a world scale as a commercially available tool. Before too long, we should be communicating via light and sound waves which will provide economies not possible through currently available wired communications.

Some of these developments are already in use in banks both here and overseas. Of greater interest to the consumer is the development of the so-called "money machine" which makes it possible to make loans, cash checks and make cash withdrawals 24 hours a day.

DEVELOPMENT OF 'INSTANT MONEY CARD'

The third of our "big Cs" relates to the revolution which has been taking place in consumer credit mechanisms as evidenced primarily by the plastic credit card which some now call the "instant money card." It has been estimated that total credit card outstandings will reach \$17.5 billion this year. There are at least 2,000 credit card issuers in the U. S., and between 150 million and 200 million cards will be issued or re-issued in 1969. At least 34% of the nation's retailers will be honoring cards this year which they have issued, or which are issued by others. In the field of commercial banking alone, it is now estimated that the two dominant bank credit cards, Master Charge and BankAmericard, have some 42 million relatively active users. There are some 19 million Master Charge card holders in 45 states and 33 foreign countries. BankAmericard claims 23 million card holders whose plastic discs are recognized by 550,000 outlets in 44 states and 38 countries.

Whatever we may think of this development, it becomes increasingly clear that the commercial banks of the entire world are deeply involved in this revolutionary new consumer credit development and that the interrelationship between commercial banks and local retailers will soon reach a state of intimacy and interdependency, the end result of which no one can yet foresee.

It has become almost a cliché in the United States to refer to the "bigness" of our economic society but there is relatively slight understanding of the total economic impact of the conglomerate and congeneric corporations of the nation. The stage of conglomerate organization was recently reached where approximately 500 corporations of the United States hold three-fourths of all of the manufacturing assets. By contrast, 250,000 proprietorships and partnerships hold less than 2% of the assets of the manufacturing corporations of the U. S. Carrying that one step further, the 78 largest corporations of the United States are rapidly approaching the point where they will control about half of all manufacturing assets of the country. In the commercial banking field, the corporate giants are matched by their financial counterparts in that 49 banks now hold 54% of all bank trust assets; and as a relatively direct result of that financial control enjoy director interlocks with 6,591 corporations of the nation.

The general social impact of this concentration of corporate and financial assets is evidenced by the fact that some 30,000 officers and directors of some 2,000 companies control some 80% of our current

gross national product and direct the destinies of more than 20 million people. Side by side with these developments in big business and big banking is the fact that government at all levels in the nation now employs some 16 million civil servants.

There are some very broad marketing conclusions to be drawn from those figures on concentration which directly relate to the way in which business and financial institutions must in future solve their sales and profit problems.

Cultural anthropologists with whom I have discussed the first four of the "big Cs"—communications technology, computerized marketing techniques, consumer credit mechanisms and conglomerate forms of business organization—tell me that those developments have brought about equal and opposite occurrences in the national culture which interrelate to our business and financial futures. We are particularly aware, of course, of the impact of some of these changes in our national fabric as they apply to our young people and to our minority groups, but those may be simply the visible signs of fast shifting national attitudes.

BUSINESSMEN MUST UNDERSTAND TECHNOLOGICAL IMPACT

I believe it is of the utmost importance for businessmen and bankers to understand the relationships between onrushing technological and economic developments and their resultant impacts on our increasingly intelligent and aware population. In 1970 approximately half of our population will consist of young people who have been born since World War II. Some 7.5 million of those young people will be college students. By 1975 20% of U. S. families will have incomes in excess of \$15,000 annually and approximately half our population will have family incomes in excess of \$10,000. It would be a sorry commentary indeed if in the years just ahead we were to become the most affluent, the best educated and possibly the most alienated population on the face of the earth. This is a problem which all financial and business leaders must understand if we are to create a climate in which business and financial institutions can do their best work, not only in their own behalf but particularly in behalf of all of the people and of the interests of these United States.

A few recent comments will serve to pinpoint the fundamental problems now facing all savings and loans institutions. These are comments that relate to the classic problems of acquiring savings funds and of extending those funds for housing mortgages.

Preston Martin, Federal Home Loan Bank chairman, commented:

"It now strongly appears that over-the-counter flows of savings plus internally generated cash flows cannot be counted on in the immediate future to provide adequate growth."

Richard J. Arthur, vice president and comptroller of the World Savings and Loan Association of Southern California, recently wrote me as follows:

"Savings inflows into the associations have in almost all parts of the country become savings outflows.

"People can get a better yield on savings in many other markets

than they can get from savings and loans.

"Washington is determined to hold the line on the maximum interest rate paid to savers, as a very important brake on inflation ... but the Treasury and various government agencies issue securities which yield far above the level savings institutions can pay ... some of these securities are going at rates of 8% or more ... and they are being issued in smaller denominations so the smaller investor can buy them.

"The vicious cycle here results in savings institutions becoming less and less attractive to potential savers on the one hand while, of necessity, becoming more and more expensive and less and less attractive to borrowers on the other hand. This is an extraordinary kind of financial nutcracker."

HOUSING WILL BE BIGGEST ITEM ON ECONOMIC AGENDA

Corollary to your problem of attracting savings at the present time is a recent quotation from the *Wall Street Journal* on the subject of housing and mortgages, as follows:

"When, if ever, the present bout with inflation subsides, the biggest item on the American economic agenda will be housing ... there is not enough of it. The supply has not kept up with the population. The imbalance grows worse yearly. The cost of new housing and land to put it on threatens to get beyond the reach of buyers.

"Spotlighting the crisis is a soaring marriage rate. The 'war babies' of a quarter century ago swarm to the altars in multiplying thousands—while home building plugs along at the outdated pace of yesteryear.

"The crunch is already reflected in runaway prices on homes new and old.

"The high cost of mortgage money, like the scarcity of mortgage money, is a corollary of the government's tight-credit battles with inflation. And thus, ironically, the program feeds the monster it fights—by an inflationary curtailment of supply in an area where supply grows critically short."

One must indeed wonder how present conditions square with that 20-year old congressional declaration of 1949 to the effect that it was our national aim to provide "a decent home and a suitable living environment for every American family."

There is nothing wrong with any of the proposals made recently with regard to providing savings and loans with additional flexibility—flexibility which does not even represent diversification but rather provides a "full market basket" of items with which to serve your natural customers in the competitive framework.

'FULL MARKET BASKET' FOR SAVINGS, LOAN BUSINESS

Let us once again list those "full market basket" items which I believe to be absolutely essential to the continued health of the savings and loan business: (1) your right to engage in the sale of certain types

of householder, health, accident and life insurance to your depositors, (2) your right to provide mortgages on multifamily residences, (3) your right to provide financing of condominiums, (4) your right to enjoy limited equity participation in multifamily residences, (5) your right to provide your customers with longer term savings accounts, (6) your right to provide financing in disaster areas, (7) your right to participate internationally in loans guaranteed by the Agency for International Development, (8) your right to provide your customers with checking accounts, (9) your right to enjoy long-term FHLB credits, (10) your right to provide personal finance or consumer credit, (11) your right to enjoy reasonable flexibility with regard to interest rate ceilings, (12) your right to establish a mutual fund for your depositors, and finally (13) to assure that you have a full "baker's dozen" of marketable items, I would advocate the early and effective establishment by the 6,000 savings and loan associations of the United States of a "Savings and Loan Bank Credit Card" with full interchange throughout this nation and with the right to interchange on that credit card with similar institutions throughout the world.

Achievement of full legislative and regulatory approval of those rights, in all of the 50 states without exception, should be a first order of business for the members of this audience. There are those here, I know, who would argue against this kind of broadening of your time-honored tradition of specialization. There is no doubt that you can continue on your present limited course and enjoy a modicum of prosperity far into the future but I believe that level of prosperity will decline continuously and perhaps precipitately. It appears to me to be an immutable law of our present economy that financial institutions and businesses must grow or cease, over a period of time, to exist at all.

Ours is indeed a dynamic economy which requires both the exploration and the achievement of new types of profit centers. I believe your future is bound up with precisely that kind of achieved diversification of profits and of growth opportunities.

In a recent speech, Donald T. Regan, president of Merrill Lynch, Pierce, Fenner and Smith, Inc., the nation's largest security house, said his firm was mapping plans to become a one-stop investment and estate planning institution. Mr. Regan suggested that the brokerage house of the future would have to build expertise in the areas of life insurance; the money market; real estate; commodities; in the economy in general, as well as the securities market. Mr. Regan noted that Merrill Lynch had acquired a concern in the real estate field and also noted that his firm had acquired an investment management and economic consulting concern. Increasingly, Mr. Regan noted, groups of such specialists will be affiliated, either under one roof or certainly within the same organization, and he concluded "at Merrill Lynch we are already underway in developing just such a one-stop investment and estate-planning institution."

This approach to providing solutions for the consumer's total financial needs follows hard on the heels of an announcement which appeared in

a recent issue of *U. S. News & World Report* under the headline of "Pioneering for a Checkless Society." The item stated the following:

"A pioneering venture into the checkless society of the future is getting a tryout here in San Francisco at the country's largest commercial bank.

"Bank of America persuaded a small number of its customers to turn over the complete management of their personal financial affairs to the bank, on an experimental basis.

"The aim is to find out the extent to which computers and other present day banking aids can help people reach their financial goals.

"Under the plan, a customer transfers all his banking business to Bank of America, arranging to have his paychecks sent to the bank and his bills also mailed there.

"The bank, in turn, performs these services for him: (1) pays all his bills on a "staggered" basis to even out his cash flow, (2) sets up a special line of credit to replenish his account automatically if it gets too low, (3) allocates a part of his income to a separate savings account, (4) issues him a Bank of America credit card, (5) provides confidential advice and specific counselling in how to manage his money."

I had more than a slight interest in the appearance of that news item in that, just one year almost to the day prior to the Bank of America announcement, I had delivered a speech to a conference of the American Bankers Association in which I described such a future banking service and to which I gave the name of BABS or Bank Account Budget Service.

COMPLETE MONEY MANAGEMENT SERVICE WILL BE OFFERED

There is no question whatever in my mind that a variety of commercial and financial institutions will, in the years immediately ahead, offer a complete money management service to the people of these United States. It is my belief that such a total financial mechanism is both necessary and desirable. The average individual in the country finds it increasingly difficult to fight his way through the maze of both legislative and regulatory fine print on such subjects as taxation, investing, insuring, saving and all the ancillary problems of a family financial life. Individuals and family "mini-business" units should receive the benefit of the same kind of professional advice, in all of these areas, which is now available to corporations and institutions. The current level of computer sophistication does indeed make it possible to provide such services on an efficient and economical mass basis.

Because the savings and loan associations of this nation have traditionally been in the forefront of securing the financial stability and well-being of our family population, I believe that there should indeed be a BABS in your future. Bank Account Budget Service is something that you are ideally geared to provide to your individual depositors and to the communities which you serve.

For almost a century and a half you have concerned yourself with

the limited ingredients of family shelter and family financial security, and the time has now come when you must extend the gauge of such protective and growth services to the total financial spectrum of your customers. An approach of this kind would provide a system for bringing together many of the individual services now being recommended for implementation. On this basis, however, you would no longer deal piecemeal with the problems of your customers and of your communities but rather on a planned and organized basis both of maximum service and of maximum opportunity. Achievement of this goal would provide a guarantee of the long-term growth and stability of savings and loans and would be a most effective way of retaining your forward-moving posture in a highly competitive financial world.

Let me, however, go one step beyond even so sophisticated an approach as that represented by Bank Account Budget Service. I have concentrated a good deal of my time and attention on the social, economic and political framework within which we all live and work in these latter years of the 20th century. I have taken the liberty of so departing from the subject of immediate concern to your conclave because of my strong feeling that the time has come when you must play a role of larger significance to this nation. Even though I have sought to broaden the scope of your work, I believe that much more remains to be done. It has been said that savings and loan associations have traditionally been "people-oriented" and I would direct your attention to the solution of certain major problems—problems that transcend both your individual needs and the individual needs of your customers.

It is my hope that you will in the future turn your attention as a group to the facilities you may provide for the solution of five major national problems, as follows: (1) your special genius and facilities should be brought to bear on our national health needs; (2) your facilities and genius for accomplishment must be brought to bear on the ecological problems of our nation—on our natural environment; (3) your facilities and your genius and your demonstrated ability of accomplishment should be brought to bear on the key problem of the rebuilding of our cities; (4) your compassion and your understanding must be brought to bear on the solution of the increasing problems of our ever-growing population of the aged and infirm senior citizens of the nation; (5) and finally, all of your intelligence and foresight and your qualities of mind should be brought to bear on the solution of the problems of education and of training of our young people, in which task resides the best guarantee of the future quality of life in this nation and on this planet.

Our forebears came to this land to realize that condition I have referred to as "quality of life" but somewhere along the line, as we grew and developed as a nation, we seem to have lost sight of that goal as the one which makes existence meaningful for us all. I would commend to you an interest in helping this nation realize that goal, if not in our time, then certainly by the time our children enter the 21st century, which is, after all, only 30 years away. This is a moment of history when your self-interest and your altruism intersect.

THE BIG HOUSING MARKET OF THE '70s

by R. V. HANSBERGER, *President*

Boise Cascade Corporation, Boise, Idaho



IN AMERICA TODAY there is a revolution in the making—a revolution which will have important consequences for every American family. An industrial revolution in housing is only just beginning and is sure to gather momentum in the years ahead. The housing industry is going to change dramatically and with that change many traditional practices and time-honored institutional arrangements will be re-thought and reshaped. I am looking forward to this turbulent, exciting exercise in innovation because it is likely

to be a classic in the annals of American industry. It is my hope and expectation that Boise Cascade will be on this new frontier, advancing as fast as willpower, resources and imagination will permit.

The mobilization of industry to accommodate the big housing market of the '70s should be of vital interest to the financial community in general and to savings and loan associations in particular. I know that it is difficult to look beyond the immediate issues of money supply, interest rates and competitive yields but unless we begin thinking now about new and better ways to deliver and finance much larger number of housing units for families of all incomes, the job will not get done.

HOUSING SECTOR: 'HORSE AND BUGGY' SITUATION

Many people have described the housing sector as a collection of horse-and-buggy industries still fighting for survival in the space age. That is an overstatement, of course, but it contains enough truth to hurt. It would be no less accurate to assert that the housing industry is a horse-and-buggy affair kept alive by a completely compatible horse-and-buggy money market. Certainly lenders and builders have worked together reasonably successfully under conditions which would have spelled the death of almost any other kind of business operation. The housing industry, even today, is highly localized, and composed of

small, poorly capitalized and often poorly managed firms.

Financial institutions working within the constraints of national monetary and fiscal policy have unwittingly helped keep the housing industry from evolving into a more mature and sophisticated form of enterprise. The sharp changes in housing output caused by abrupt changes in the availability of mortgage funds foster a "here today, gone tomorrow" mentality in the housing business making it impossible to plan effectively for the future. It also makes it difficult to recruit and retain creative, forward-looking personnel. If the housing industry is to come of age, these attitudes must change and the exaggerated housing cycle must be smoothed out. Neither valuable men, nor expensive automated equipment can be switched on and off to accommodate massive shifts or discontinuities in the flow of investment funds and the growth of credit.

I look to the government and to the financial community for action to alter the feast-or-famine housing cycle which gravely penalizes both the industry and the consumer. As a newly revitalized housing industry emerges, the savings and loan associations must evolve as well. Otherwise, new financial institutions will rise to take their place—institutions more fully attuned to the needs and realities of industrialized housing and armed with the weapons necessary to guarantee a sustained supply of consumer credit for housing.

NEW FINANCING INSTRUMENTS NEEDED

It is not my purpose to lay out an ideal solution—that has yet to be discovered. But I am sure that this group gathered here today could identify many positive steps and could press for their immediate adoption. Perhaps new institutions are the answer—in any case, Boise Cascade will consider a long-term strategy involving the creation of mortgage acceptance subsidiaries which could tap insurance funds, pension funds and individual investors in more effective ways.

But I tend to think that new financing instruments and techniques in the hands of established institutions are a better answer. Could the savings and loan associations free themselves of the most obvious penalties associated with lending long and borrowing short if they were permitted to adopt flexible interest rate mortgages? In this way a closer coupling could be made between deposit interest rates and the money market. Or, perhaps we should alter the form of credit extended to the consumer, especially the middle-income consumer who seems to be the forgotten man in today's housing crisis. A land lease could be combined with a long-term loan which carries both a limited duration government guarantee and some form of government-supported counselling and insurance to help the family make payments during short periods of unemployment or financial distress. These are among the many concepts which deserve careful study and rigorous experimentation if the housing industry and the financial community are to join hands in an industrial revolution.

Perhaps I can contribute to the innovative process by describing some facets of the housing enterprise as it may function 10 years in

the future. Certainly it will be more firmly consumer-oriented than ever. More will be learned about consumer preferences and new knowledge of consumer needs will become the basis for vastly improved housing design, land planning and marketing decisions. The housing transaction itself will become more like other transactions with which the consumer is familiar.

If an average family planned to move, it would contact a local affiliate or office of a major housing company in order to obtain an appraisal of the currently owned house for trade-in purposes. If it is a "brand name" house, i.e., a fully tested and certified model produced under a quality controlled assembly system by a major corporation, valuation would be simplified and, due to the reduced risk, generous trade-in allowances would be permitted. If relocation in another part of the country is planned, the family would visit the company sales center in that location. There the family would enter a learning center, a small room equipped with audio-visual devices, and receive a general orientation to the various neighborhoods within easy commuting distance. Then slides would be shown of active housing sites throughout the metropolitan area and of the site plans which are guiding the development of these sites into viable neighborhoods. In this way, the consumer could be given a more complete and more accurate understanding of location and site considerations in two hours than he now receives from a two-day driving tour with a real estate agent.

Next, a salesman would accompany the family for a tour of model homes located at the sales center. Available options and accessories would be reviewed. At this time, if the family has decided upon a preferred location and a specific house model, the salesman would select appropriate sites from a regularly updated file of photographs. When the family is ready to buy a specific home on a specific site, the salesman would take them to the site, determine the price net of trade-in, select the financing package, establish a delivery date and consummate the sales contract on the spot.

HOUSING SYSTEM DEVELOPMENT REQUIRES INSTITUTIONAL INNOVATIONS

In order to carry out the transaction as I have described it, many institutional innovations will be required. For example, many professional and technical services must be packaged by a single organization: land acquisition, site planning, housing design and production, site improvements, delivery, interim financing of new and used units, marketing of new and used units, and mortgage financing, all must be integrated into a single package attractive to the consumer. Even more functions must be combined if a major housing company is also going to build and manage rental properties, merchandise second homes, and construct housing under federal government subsidy or public housing programs.

The hypothetical transaction also assumes the existence of a national or regional marketing capability. In order to create in housing the "brand loyalty" so common elsewhere, the company must have something attractive to offer wherever the customer wishes to locate.

Furthermore, mass advertising will become a useful marketing tool only when those reached by the message can find the sponsor close at hand and ready to do business.

Another essential ingredient is a multi-plant manufacturing and assembly system. In order to accommodate shifting consumer preferences and respond to changing rates of growth in each community while at the same time minimizing inventory costs and delivery time, it will be necessary to operate factories as part of a national network. When a salesman writes his order he will not know where the housing units will be assembled or where the specialized components will be produced. A computer must be programmed to receive orders, match actual orders against sales forecasts and then schedule the production, parts purchase and delivery of every item required for those housing units. In much the same way a large field organization will be required to prepare sites, construct foundations, erect the housing unit, complete any finishing work and landscape the site. Tight schedules will be required because when the house arrives it cannot be readily sent back to the warehouse for a week or two.

A housing enterprise such as I have described must have a research, product development, quality control and test-marketing competence which goes far beyond current industry efforts. If a corporation has 100 sales centers throughout the country, 100 units of a given model will be required simply to provide one model house at each center. Because townhouses and garden apartments must be seen in the context of a well designed cluster, production of several 100 units would be required for display purposes alone. Each model so presented must be capable of generating sales at the rate of 100 to 1,000 units per month during the model year in order to carry its share of the overhead. Under these conditions it should be clear that a substantial investment in research and development and in product testing can be justified. Or to put it another way, a company operating on this scale cannot afford to introduce a poor or unacceptable design, or to introduce a product before it has had the "bugs" worked out.

RATIONALE FOR REVOLUTION

Some of you may wonder why I should expect such a drastic change in the housing industry at this time. If modernization of the housing industry makes sense now, why did it not happen in 1960 or 1950? Those of you who were in the housing business 20 years ago remember the brave statements made about mass production and industrialization—declarations which sound distressingly contemporary when reread today. The most important factor is the magnitude of housing demand which will emerge in the '70s. In recent years the housing industry has been building between 1.2 and 1.5 million non-farm housing units per year and in spite of these additions to the housing stock, the average age of American housing in use is increasing. Much of this aging inventory of houses is inadequate; about one out of every four families lives in a house which is deteriorating, dilapidated or lacks plumbing facilities. A substantial percentage of all families are crowded into

quarters which are much too small, and others whose houses are barely adequate in a technical sense are living in neighborhoods which are run down, unattractive and unhealthy. The desperate needs of an underhoused population provide a large component of basic housing demand. In addition, hundreds of thousands of houses are removed from the housing inventory annually to make room for commercial buildings, highways and other public facilities. Finally, population growth exerts its own relentless pressures. In the early '60s less than 1 million additional households were formed each year. During the next 10 years this figure will rise by 50% or 60% as the step function in births occurring after World War II finally alters the rate of family formation and, consequently, the demand for housing.

Another important factor is the increasingly active role played by federal, state and local government not only to facilitate industrialization but also to permit innovation in zoning, land use and financing—witness Operation Breakthrough and the overwhelming response it generated not only from housing producers but also from states and municipalities eager to help advance the state of the art in housing. Labor, too, has indicated a willingness to cooperate with new approaches to residential construction. Beyond this there are the cold, hard economic facts of life; skilled labor at the construction site is either very costly or unavailable at any price. Craft wages are continuing to rise rapidly while in certain crafts the pool of available manpower is declining. The situation is critical enough now; you all know the problems of field labor cost and availability. What will happen when housing starts begin to climb? A few years from now, the dominating factor in a decision to initiate a residential project employing conventional technology may very well be the availability of labor at the site, not project feasibility or availability of financing.

There are other reasons for believing that an industrial revolution is around the corner. The dramatic growth of the mobile home industry is evidence which cannot be ignored. Many mobile home manufacturers are planning to move into "sectionalized" housing—housing built to the highest model code standards in the factory and shipped in the form of boxes or sections to the site. Boise Cascade does not intend to be left behind in this race. Our research and development team has successfully designed and built several prototypes, and just a few days ago we introduced a new townhouse concept which we expect to manufacture and sell in large numbers during 1970. People who have seen this townhouse refuse to believe that it was built in the factory: It is an outstanding example of good architecture and good planning. Soon, the townhouse will be followed by several other advanced concept housing systems in order to provide a full product line of high quality, reasonably priced houses. Furthermore, we are taking steps to insure high quality of site design and neighborhood planning, elements critical to the production of attractive residential environments. Boise Cascade is only one of several companies moving vigorously toward a new method of producing and marketing housing, and the intense competition will be a beneficial tonic for what was a primitive industry.

SIMPLE, SPEEDY FINANCING MECHANISM MUST BE FOUND

In closing I want to return to the subject of innovation in housing finance. Let us not become a slave to experience or excessively fearful of the risks which are associated with adventurous experimentation. I think there is a better way—one which will make possible sustained housing production while meeting the needs of the average American family. A financing mechanism must be found which will lend itself to simple, speedy and understandable transactions—the mystery of the mortgage document must be stripped away. Geographic inflexibilities must be overcome. Housing paper must be efficiently handled and packaged in ways appealing to individual and institutional investors. Excessive down payments and closing costs must be avoided because mortgage rationing by this device will not be accepted by the increasing number of politically powerful and sophisticated young families entering the housing market. Monthly payments must be kept within reason.

I can assure you that Boise Cascade will respond to ideas and suggestions offered by the financial community in order to move closer to these performance goals for financing. We shall be knocking on your door if you are not knocking first at ours. Come see us soon and bring some money along in addition to your ideas—we can find a good use for both.

GOALS OF THE NEW FHLB BOARD

by PRESTON MARTIN, *Chairman*

Federal Home Loan Bank Board

Washington, D. C.



AT THIS STAGE in the new Board's work it is really necessary that we present to you what we have resolved to be our objectives, what we are trying to do in many of the areas that are so vital to the business and to the public interest in housing.

The most basic commitment the new Board has is to further sound growth in this business in spite of and in defiance of the extremely difficult economic and financial environment of the 1970s.

We are not interested in "growthmanship," but we are interested in furthering the contribution that this business can continue to make to our nation and to our citizens. Some of these objectives overlap, and there are contradictions in them. We aim to reconcile these apparent conflicts, and we aim to reconcile them in a positive, constructive but tough manner.

What are the Board policies to further sound growth? Let me give you some examples. First, there will be the continuance of a vigorous credit policy in the 1970s—a policy that will resemble the policies pursued in the last three quarters of 1969.

The 12 Federal Home Loan Bank presidents have been magnificent in their response to the Board's policy in this regard, and of course a great accolade is extended, I am sure, by every person in this auditorium to the late Clarke L. Fauver, for his leadership in implementing a vigorous credit policy.

GROWTH THROUGH BRANCHING, MERGER, TECHNICAL HELP

Second, the Office of Applications has been reorganized and redesignated as the Office of Industry Development, to make perfectly clear the Board's commitment to further sound growth through branching, through the merger and through technical help in what may be the great expanding market of inner city and relocation lending.

Third, our supervisory policies are being recast to enable supervisory action to be taken far earlier in cases of unsound financial practices and conditions. The basic objective of examination as distinct from supervision is to enable the promptest attention to lending and financial practices giving off signals of slippage and deterioration. I argue that this policy, this objective, is conducive to growth in the sound savings and loan associations—the great majority of the institutions. The Office of Examination and Supervision will develop a vigorous, selective supervisory policy which minimizes public relations fallout and which reduces the examination burden upon the best operated savings and loan associations.

The Board's objective in the management of the Insurance Corporation assets is, first of all, the preservation of the flow of services to the public from an institution in distress. This is often achieved through the merger route and by prompt action before the difficulties have gone too far. By this criterion, a timely merger with a contribution agreement or a bulk sale of assets by the Corporation is clearly in the public interest. Assets are thereby managed more efficiently, and the public attention is shifted from this miniscule segment of the business to the solid accomplishments of the majority of savings and loan managements.

FEATURE OF '70S: CAPITAL SHORTAGE

Present economic indications are that the decade of the '70s will be characterized by a worldwide capital shortage. A similar capital imbalance will apparently persist in this most capitalistic of all nations in the world. The Board is aware that the advance window in the regional bank may be called upon by some of you for the first time. Some of you may even call on the bank in your district almost continuously in the '70s.

While there may be periods of monetary ease during a decade, a vigorous monetary policy by the Federal Reserve System will require the maximum commitment by the Board to the objective of stabilizing mortgage credit flows. We have moved toward that objective this year; by November 6 advances had been increased by \$3.25 billion and \$4 billion will be approached by the end of this calendar year.

The Board's objectives with regard to the rules of the game for liquidity management should be spelled out. The management of your liquid asset portfolio has of course become more critical in these times of wide fluctuations in interest rates in the market and wide or wider fluctuations in your savings flows. We are talking about the management of \$11 billion in cash and governments. The Board's objective in this management area is to achieve a more truly liquid business to match the gyrations in rates and in savings flows that will take place in the next 10 years.

A liquid business is one in which management decisions to vary holdings of governments and agencies will not be stopped by the need to deal with substantial portfolio write-offs. The Board's power to raise and lower required liquidity percentages has great potential in stabiliz-

ing mortgage credit flows, and we intend to use it for that purpose. Both the 1968 and the 1969 mid-year reductions in requirements, we feel, aided the business.

Accordingly, new liquidity regulations have been completed, following a hearing and most extensive analysis of your comments and the suggestions of many others. These have been drawn to complement the other new Board policies in the credit area.

SHIFT FROM FROZEN ASSETS INTO MORTGAGE LENDING

Frankly, we are asking you today to shift from frozen assets into mortgage lending, and I shall describe some of the tools we are proposing to offer for use in this area. We are committed to giving you better tools to manage your own liquidity. Let me set your minds at rest in one respect. The regulations covering advances, required liquid-asset holdings in percentage terms and accounting dealing with a deferral and amortization of gains and losses from portfolio adjustments have been put together in toto very carefully, with close attention to the results of the liquidity portfolio survey in which many of you were kind enough to participate some weeks back. We have attempted in the best way possible to anticipate the results of this group of policies on the scope of your management decisions. The package was assembled to be compatible with the Board objective of maintaining mortgage credit flows.

I am sure it is not good public policy at this time to encourage or require you to accumulate government and agency securities when the mortgage market is dying for lack of funds.

The final regulations will be out as soon as we can get them out. They will include a 25-month period to adjust your liquidity position through the next two years after this one.

The Board hopes, indeed the Board is presumptuous enough to expect, that you will act in favor of the mortgage market. Some of you will want to act before this year is out. This is the reason for our putting priority on these regulations. Many managements will act next year to reduce liquidity holdings as the savings results come in.

Face that board of directors of yours with the reasons for making these moves: today's much higher yields that you can achieve by trading into other securities, the tax benefit which softens the blow of taking the losses, but—far more important—the business opportunity for shifting the funds out of governments and into those other opportunities.

NO FUNDAMENTAL SHIFT IN MONETARY POLICY SEEN

Tight money is still with us. There have been next to no leading indicators showing a fundamental shift in monetary policy. That means that the liquidity adjustment percentages will be considered by the Board in the light of continuing tight monetary policy and the need for offsetting this in the mortgage credit area.

Certainly management will have more of a prerogative to shift into the opportunity that comes up suddenly in the community if shorter

term maturities are being carried and the losses have been taken. The opening of such a lending opportunity is the big argument for the shorter maturities. If it is moral for the commercial banker to take bond losses, is it such a sin for our business to take them?

Let me make an announcement now to show you that we are in earnest with regard to stabilizing mortgage credit flows. Effective next week, the Board has reduced the liquidity percentage requirement again by 50 basis points from 6% to 5.5%. We ask you to plan your loan program for 1970 with this in mind. We are deliberate, and we are open in our hope that as much as \$650 million now locked up in "liquidity" assets will be transformed by you into the kind of lending service that you are best able to perform for your community.

I wonder if your response could be as much as a billion dollars in loans, represented by a shift the rest of this year and in early 1970, as you do your planning. Of course, these are management prerogatives, and the actual decision is up to you.

BIG MARKET FOR '70s: FUNDING LOW-INCOME HOUSING

Let me move to an area which I think needs to be put in perspective. Among the many objectives of your new Board is that of encouraging and facilitating your participation in the big new market for housing—financing moderate- and low-income families in this nation. This financing is not new to many managers in this room. Indeed, most of the first mortgage financing on the books of the title insurance company in your town for those older neighborhoods around the central business district is in loans already held by savings and loan associations. You have been making the loans without getting the credit.

We are certainly aware of the mixed bottom-line results that this kind of lending has produced. However, the Department of Housing and Urban Development, the whole Nixon Administration and the Congress itself, in this decade to come, will place increasing emphasis on substantial future funding for this area. It is going to be a very big market in the 1970s.

This business has responded for 35 years to the housing needs of middle-income families. During all this time it was government policy for us to meet those needs. This business' contribution to the unequalled homeownership level of 60% is unmatched in any other society. Certainly the contribution is unmatched by any other lender. You know that home ownership has contributed materially to the social stability of this nation and God knows we are seeking additional ways to increase that social stability.

The Board is looking at this great new market with the foreknowledge that the need for financing 20 million mainstream housing units in the decade is our main job. It is an enormous job and seemingly there is not enough credit and not enough capital available to do the job.

Superficially, it appears that if you begin total lending to moderate- and low-income families, you are going to take those funds away from suburbia. I am rash enough to stand here before you and indicate that I feel this view just does not stand up; it does not square with the

projected facts of financial and governmental life of the 1970s.

The housing needs of all Americans cannot be met without substantial support and funding by various governmental programs and processes, including the taxing process.

Commercial bank competition and saver sophistication are going to prevent a complete return to the kinds of money flows we used to have. Government support of a massive lending volume will be forthcoming in the form of all kinds of additional programs and incentives including tax incentives.

Where is the business going to stand in that decade in which the emphasis is going to come for the funding and the taxing and the special programs aimed at the moderate- and low-income sector of our economy? How are we going to function in the mainstream lending job if we do not function in this additional great new market?

The Federal Home Loan Bank Board is committed to the notion that interest and dividend rates paid savers by thrift institutions must be higher than those paid by diversified institutions. How do we receive the kind of consideration that moves us to that point if we continue to do our business exactly as we have before?

BOARD AND BUSINESS MUST FINANCE LOW-INCOME HOUSING

My point is very simple: The Board and the business must work together to assume a major portion of the burden of financing the huge moderate- and low-income housing markets of 6 million housing units in a decade, so that we can obtain the tools to do the even more challenging job of financing mainstream housing in the amount of 20 million units.

The first special 10-year advances for HUD-approved subsidized projects are being provided through the Banks and have the privilege of refinancing in the future at hopefully lower rates. These earmarked advances have a downside advantage and no upside risk.

In many areas of the country the rates on Section 235 and 236 loans do not represent the most attractive option in today's money market. The Board knows that it is feasible to pick up as much as 50 or 75 basis points more in yield in conventionals. In reviewing your possible involvement or further involvement in the 235 and the 236 projects, I urge you to keep in mind the following:

1. These loans have the prospect of substantially greater marketability than conventionals. That is even true for next year whether through utilizing the Ginny May securities or through straight participation resale. The loan origination decision today involves weighing the tradeoff between an immediate slightly higher coupon yield on the conventional and the portent of much greater marketability when the rate cycle swings down.

2. Weigh carefully the need for this business actively to support the Section 235 and 236 markets, even at the loss of some current income.

As you know, within certain national circles we are fighting a credibility battle. There are those who say the savings and loan business cannot be the major supplier of home mortgage funds in the '70s. By

this they mean that our traditional financing of suburbia is too entrenched to be redirected, and so the game is going to be taken away from us.

SPECIALIZED INTERMEDIARY HERE TO STAY

These critics say this entrenchment will cause us to be further and further outside the pressing social needs in housing, and therefore outside the great new programs in this area. I hope we have a surprise in store for them. I argue that the specialized intermediary is here to stay.

The Board objective is to use these new, earmarked advances as a revolving fund. This fund will be available for your use to originate and hold these mortgages. This stockpile of HUD-subsidized mortgages will then be available for backing Government National Mortgage Association—that is, Ginny May—securities. It is my privilege to announce to you today our plans for the first FHLB Ginny May security issue against a pool of new HUD-subsidized mortgages. We plan to act with a consortium of Federal Home Loan Banks to purchase and package an initial issue of \$200 million and are hopeful that we can accomplish this by mid-1970. The Board looks on this as a most important first step to tap the necessary new funds for housing.

Will you seek out the HUD projects in your community which are delayed because of financing and become originators for sale to the Home Loan Banks?

BRANCH AND MERGER OBJECTIVES OF BOARD

Let me move to branch and merger objectives, because I think you are entitled to clarification there. The Board is acutely aware that the 1970s are going to be the most difficult savings years of them all. We know how difficult it is to compete for savings when the competition has more offices and they are located more conveniently.

The Board's branching objective is to further your competitive position by approving branches, including mobile facilities, wherever new branches will not constitute an undue burden on your profitability and the accumulation of reserves in a time when this is so difficult.

No one has ever invented a substitute for competition in efficiency or public service. We feel that new branches should be distributed in a manner which does not actually reduce competition by eliminating well-managed, usually smaller competitors from savings sub-markets. We do not mean a small competitor should be protected at all costs. We see over and over again instances in which the entry of a new competitor actually improves the operation of the smaller association. We are going to try to concentrate on management of evidence as to the potential in areas for which you apply.

We are also aware that the branch decision process can certainly be improved and shortened.

There has been some loose talk about the alleged danger that the present Board might favor the large association as some previous boards were alleged to favor the small ones. Maybe my remarks about branching will help put that in perspective. I do think the large association

today may have a little easier time of it in the "sticky '70s" than the small one. The largest associations have a great opportunity for transforming this business to meet the challenges of today's society and hopefully to reap the benefits that American business has always found go along with meeting challenges in our society.

This applies to branching in the inner city. Today's critics of savings and loans will be staggered when the facts on such branching are known. It is not going to be easy for these people to explain the prompt and vigorous response of this business which has occurred in a few short months in 1969 on the question of new facilities and service corporations in the inner city. In state after state, large associations and some smaller ones are moving toward establishing these branches in older neighborhoods. The upswing in inner city lending in the midst of a money crisis certainly redounds to the credit of this business.

BOARD WILL USE MERGERS TO FURTHER GROWTH

The Board aims to use mergers to further growth and competition. I hope that if you are in a middle-sized or small firm, you will consider how you can compete more effectively with the largest firms by going the merger route.

The examination process and the reports that go to you as well as the reports that come to us have to be brought from the 19th century into the 21st century. You can demand a better job of your subordinates if we can give you back the data that you gave us, massaged into information to measure performance in each of the functional areas where there is management reporting. In time we can even extend this to branch management.

Our staff in Washington will be moving toward an examination and a reporting system which will serve you at the same time that it serves us. We are going to use our limited manpower resources more heavily in the cases which throw off the early warning signals, and we ask you to support a trade-off. Support us in a more vigorous and prompt supervisory process, where needed, while we simultaneously reduce the examination burden on the best managed savings and loan associations.

There are a number of areas I have deliberately avoided today because the new directors have not been able to give them more than preliminary consideration. These first few months in Washington have required a great deal of the time in staffing and in discussing and agreeing upon objectives.

The consideration of housing credit and housing policy on the part of the administration provides my growing optimism about the decade to come and about housing's priority in our national goals.

BUILDING A STRONG AMERICA

by DONALD H. GATES, *Winner,*

Institute's 40th Annual Speech Contest

Midwest Federal Savings, Minneapolis, Minn.



THIS IS AMERICA—a fruitful land lying between two oceans, endowed with the heritage of freedom. This is a land populated by people living in flourishing communities, working together harmoniously in the common pursuit of security and prosperity. In this greatest of all nations lies the strength of our homes, our families and our futures. How precious these are to us!

To many, in this wonderful country of ours, money has become the basis of our whole advancing society. Today, a great number of people have

more dollars than they ever had before, but they still want more. In order to obtain more they have adopted the policy of "Buy Now Pay Later." The small monthly payment book is no longer a stranger to the American home. Most people think of it as a convenience of modern-day living. To obtain their payment books people mortgage everything they own and jeopardize their homes, their families and their security. Instead of working for money, why don't we learn to make our money work for us?

MAKE OUR MONEY WORK FOR US

We can make our money work for us by adopting the policy of "Save Now . . . Buy Later." When we do this, long-dreamed of treasures can be ours. Picture yourself fishing offshore from your new summer vacation home. Imagine yourself acquiring a winter tan on the beach of your favorite Florida retreat! Money saved is the substance of dreams which can become reality. Instead of buying on time, saving on time would enable you to make realities of those things which now are only fond and distant dreams. But most important, the greatest dividends you will derive from saving are security and peace of mind, for you and for those you love.

With a monthly installment book you tear out a page, one at a

time, until the book is only two empty covers. With a savings pass-book you don't throw the pages away; they remain intact. You simply add your savings, payday by payday, and watch your dollars grow into paid-for dreams.

The healthiest atmosphere for your dollars to grow can be found at your local savings and loan association. Here money deposited goes to work immediately, building security for you, your family and your community. Consider the advantages: Your savings provide the reserves you may need to meet unforeseen emergencies. Your savings dollars invested in new homes and businesses within your community multiply its prosperity as they pass into the hands of its tradesmen and businessmen, making it a stronger community and one that will continue to grow. With businesses like your savings and loan, is it any wonder that we're the wealthiest nation in the world? The friendly, courteous staff has been trained specifically in wise money management and can offer you many suggestions to help you with your savings program. We're a service organization dedicated to more abundant living through the twin goals of thrift and home ownership. Here is security, now and for future years. This is what built and developed this great nation of ours.

In this age of gimmicks and so-called money-back guarantees, let me tell you about the world's best money-back guarantee: Deposit money systematically in your local savings and loan association for one dividend period. At the end of that time, look at your passbook, and you will discover how easy and painless it is to save. We offer you a money-back guarantee plus generous dividends. What could be safer?

Visit your local savings and loan association today, and start your systematic savings program. By paying yourself first you will be investing in a brighter future, a growing community and a stronger America!

A CAPSULE VIEW OF THE SAVINGS AND LOAN BUSINESS

by DR. IRWIN FRIEND, *Richard K. Mellon*

Professor of Finance, Wharton School

University of Pennsylvania, Philadelphia, Pa.



I PLAN TO DISCUSS the findings and recommendations of the recently completed study of the savings and loan business which I directed. The study was authorized by Congress in 1966 to examine the role of the business in the economy and to determine methods for improving its performance. The Federal Home Loan Bank Board contracted with the Wharton School of Finance and Commerce to carry out such a study under my direction with complete independence.

The papers in the study are of two general types: fact finding and policy oriented, analyzing the various possibilities for improving the performance of the savings and loan business and making recommendations. It is important to observe that such recommendations frequently depend on evidence which is presumptive rather than conclusive and at times depend on value judgments about which there might be legitimate differences of opinion.

Perhaps the most important problem considered in the study is the vulnerability of the savings and loan associations and of the housing markets to protracted periods of tight money. The problem is particularly acute in view of the vast unfilled and growing need for new housing. The rate of real housing investment has changed rather little over the past two decades while fixed business investment has doubled. Both in the 1966 and in the current credit squeezes, it was housing which bore the brunt of monetary restrictions. Yet the current extremely low vacancy rates in housing stand in contrast with the relatively high excess capacity in industry. A number of different approaches are possible to reduce this vulnerability of housing and related industries.

One obvious approach is to institute broad changes in the fiscal-monetary mix, placing more emphasis on fiscal restraint in periods of excessive overall demand. The available evidence strongly suggests that general monetary or credit policy, which has traditionally been considered to affect the economy in a reasonably evenhanded fashion, is to a substantial extent a selective means of credit control impinging in particular on housing.

While the available data are not adequate for assessing the costs of the disruption in the housing and mortgage markets induced by reliance on monetary stringency to curb general inflationary pressures, it is clear that these costs to home purchasers and sellers, to the building industry, and to mortgage lending institutions, are sizable. For the savings and loan business, a prolonged period of inflationary pressure contained mainly by monetary policy and rising interest rates could be disastrous.

Thus, it seems reasonable to assume that greater reliance should be placed on fiscal policy for counteracting cyclical excesses than has been the case in recent years. This should make possible a more efficient allocation of resources and a more equitable distribution of the effects of restraint among different groups in the population, as well as provide what could be (apart from policy decision lags) a more certain and speedier overall impact. Income taxation can be evenhanded in a way that monetary policy cannot. Restrictive monetary policy, as presently conducted, is not really a general, across-the-board deterrent to investment and consumption demand. Moreover, activity in the housing industry may very well be curtailed by monetary stringency at a time when that industry, unlike the economy as a whole, has substantial excess capacity as well as large unfilled demands. The greater impact of monetary stringency on housing than on the rest of the economy apparently is due mainly to a capital rationing effect, resulting from deficiencies in current institutional arrangements for providing mortgage credit; and perhaps also to an interest rate effect, reflecting a greater interest elasticity of housing demand than of demand generally.

Even if greater reliance is placed on fiscal policy—or if interest rates stabilize or decline for any other reasons—it would still be desirable to correct the deficiencies in the current institutional arrangements for providing mortgage credit to further improve industry performance and overall economic efficiency.

CORRECTING INSTITUTIONAL DEFICIENCIES

The different possible approaches for correcting these institutional deficiencies include: (1) the introduction of greater flexibility into association asset-liability structures (and those of other specialized savings intermediaries), and the provision of more adequate credit facilities, so that the specialized intermediaries can compete effectively for funds with the commercial banks; (2) improvement in the structure of mortgage markets to make home mortgages more adequate capital market instruments, permitting them to compete more effectively with

open market securities; and (3) modification of the current interest rate ceilings on savings accounts and mortgages

In addition to the special problems confronting the savings and loan business and the housing markets as a result of the protracted period of tight money and rising commercial bank competition, there are a number of longer run problems relating to the structure of the business. The study examines the effect on performance of such regulatory characteristics as the existence of a dual system of specialized and diversified deposit intermediaries (savings and loan associations and savings banks vs. commercial banks); legal form of organization (mutual, stock and holding company); association size; entry, branching and merger activity and policies; organizational arrangements and practices involving potential conflicts of interest; and examination and supervisory procedures.

SAVINGS AND LOAN BUSINESS FINANCIALLY SOUND

An analysis of the financial position of the savings and loan business leads to the conclusion that the business is financially sound and is likely to continue so. Thus, an examination of the business' net worth position and prospective portfolio losses over the next 10 years, under different sets of plausible assumptions about underlying economic conditions, indicates that the business as a whole would be able to withstand notably worse foreclosure and loss ratios than have yet been experienced.

In addition to analyzing the soundness of the savings and loan associations, the study examined the efficiency of the business in the savings and mortgage markets. The associations, at least until the mid-1960s, were quite competitive in providing savings depositories as well as mortgage credit for small- and medium-income groups and added significantly to the mobility of savings and mortgage funds among different regional markets.

The encouragement of housing via incentives to the savings and loan business does not seem to have resulted in generally excessive investment in housing from an economic or public policy point of view. Vacancy and foreclosure rates have been relatively low during most of the postwar period. Moreover, a comparison of both gross and net mortgage and other interest yields over the postwar period as a whole does not indicate that the channeling of funds into housing by specialized intermediaries had lowered mortgage rates below rates on most other loans of comparable risk. Apparently the special assistance given housing simply helped to offset the imperfections of the mortgage markets as compared with the markets for securities or for business loans.

One of the most important economic rationales for a separate system of specialized institutions like the savings and loan associations is the potentially greater efficiency in home financing that such specialization offers. It is of great interest, therefore, to find relatively pronounced economies of scale in the financing of residential mortgages. As a result, mortgage lending can ordinarily be handled more efficiently by a

specialized than by a diversified intermediary in view of the relatively small size of most savings institutions in this country. Pervasive economies of scale also raise questions about the future of many of the smaller associations and suggest that the optimum size of associations may be relatively large.

The extent of the economies of scale in the savings and loan business makes it possible to increase operating efficiency by limiting the number of offices serving a given market, by opening new offices as branches rather than as unit associations and by encouraging mergers on a selective basis among smaller institutions. While it is also necessary to consider the convenience and competitive aspects of such policy decisions, there is reason to believe that the FHLBB has tended to minimize the importance of economies of scale in its chartering, branching and merger policies.

An analysis of conflicts of interest in the study indicated that some types are more prevalent in the savings and loan business than in business generally. These include the pervasive ancillary activities of management and other affiliated persons. Problems arise concerning the allocation of income and risk generated by ancillary activities between the association and the outside venture of an affiliated person. Those conflicts which involve builder-developers may be particularly dangerous.

Conversions of mutual into stock associations have an especially large potential for conflict of interest, so that the basic step required for formulating an appropriate conversion policy is to stipulate an equitable allocation of conversion profits among the parties at interest, namely, current and past shareholders, management and government. It is suggested that the FSLIC, as the primary risk bearer and as the representative of the public which has provided the benefits to the associations, may have a legitimate claim on conversion profits as the shareholders, who in law are typically regarded as the primary claimants, or as management, who frequently have received a high proportion of such profits.

STOCK ASSOCIATIONS MORE AGGRESSIVE

An extensive analysis was carried out of the effect of legal form of organization (i.e., mutual versus stock association) and of a related structural characteristic of the business, holding company affiliation, on association performance as measured by such criteria as soundness and efficiency as well as conflicts of interest. Stock associations tend to be more aggressive, take somewhat greater risks and grow at a faster rate, but show no consistent differences in operational efficiency from mutuals. They have been responsible for more promotional excesses, greater losses to the FSLIC and relatively greater supervisory costs. On the other hand, their greater aggressiveness in raising funds both regionally and in the national markets and their willingness to make riskier loans may have made a net contribution to allocational efficiency. Holding company affiliates share the advantages and disadvantages of other stock associations but in somewhat greater degree. On

balance, it is difficult to choose between the mutual and stock forms of organization in terms of overall performance, particularly since legal form explains only a small part of the variability in the different measures of association performance. However, it can be argued that the greater supervisory costs of risky operations should be borne by the organizations involved rather than by the business as a whole.

A review of policies followed by the relevant government regulatory agencies in the 1966 crunch suggests that such policies may have contributed to the problems in 1966 and resulted in a lower availability of housing credit than necessary or desirable. The December 1965 action by the Federal Reserve Board, markedly increasing the ceiling rates on bank certificates of deposit, was apparently taken without adequate consideration of its impact upon the thrift institutions, the mortgage markets and the housing sector, and without consultation with or prior notice to the FHLBB.

The liquidity situation confronting the savings and loan business in 1966 would have been considerably improved if the FHLBB had adopted a more flexible policy of varying liquidity requirements when conditions warranted, and if more of the associations' liquid assets had been invested in short-term rather than long-term governments. The FHLB System was also too cautious in its extension of advances in this period, apparently reflecting concern both about its ability to raise funds in the capital markets at a time of monetary stringency and perhaps about its ability to obtain Treasury clearance for its issues. Further support to the conventional housing markets in 1966 would have had only a minor impact on the economy as a whole but could have resulted in a more equitable distribution of the burden of monetary restrictions. The System's ability to provide funds in a crisis such as in 1966, which was limited by its self-imposed policy of reliance on short-term financing, could be considerably improved by greater use of longer term financing, with a suitable spacing of maturities.

GREATER FLEXIBILITY IN ASSET-LIABILITY STRUCTURE NEEDED

Another lesson both of the 1966 crunch and the protracted inflation of recent years is the need for introducing greater flexibility into the asset-liability structure of savings and loan associations (and other specialized savings intermediaries) to the extent that this can be done without undermining housing policy objectives. An analysis of economic efficiency and public policy considerations suggests that a complete integration of specialized and diversified deposit intermediaries, which would maximize flexibility of what are now the specialized savings institutions, is probably not desirable at this time. A more promising approach seems to be a judicious modification of the present asset-liability structure of specialized intermediaries to alleviate the problems associated with specialization; but this does not preclude further measures towards integration of specialized and diversified deposit intermediaries at some later time.

From the viewpoint of significantly improving the business' overall economic performance without risking a serious impact on the housing

market, the modification of the asset-liability structure of savings and loan associations which seems most promising includes additional flexibility in the areas of consumer credit, mortgages on multifamily residences (including limited use of equity participations), longer term savings accounts, capital notes or debentures, and a limited form of checking accounts. If the level of consumer (or other non-real-estate) loans is limited to the 10% of assets now permitted under federal tax laws, but not by most of the supervisory authorities, no further tax concessions would be involved. The gains to the savings and loan business in profitability, in liquidity, and in the ability to service and attract customers are believed to compensate for the possibility of some diversion of resources from residential mortgages over the cycle—even apart from competitive improvements in consumer credit markets. Additional flexibility in mortgages on multifamily residences is justified on the grounds that, apart from allowances for differences in risk, it is difficult to rationalize any discrimination in favor of single-family houses at the expense of the typically lower income inhabitants of multifamily residences. Still other types of flexibility that may be desirable, including the minimization of geographic restrictions on mortgage lending, are discussed in the study. A more drastic change in the asset structure—more extensive use of variable rate mortgages—might be required if inflationary conditions worsen, but the problems associated with this change suggest that it be reserved for use mainly as a last resort.

On the liabilities side, more flexible powers to issue longer term savings accounts and capital notes or debentures also seem to have some potential for improving the business' profitability and liquidity, without any diversion of resources from residential mortgages; but this potential seems more limited than earlier studies have suggested. More important, the grant to the associations (and other specialized savings intermediaries) of limited powers to issue demand deposits or checking accounts should, without perceptible social cost, greatly reduce a substantial comparative disadvantage from which these institutions now suffer. Such powers would significantly increase competition for deposits, to the benefit of the specialized intermediaries, the housing markets and depositors generally.

The issuance of demand deposits by associations is perhaps the most important of these proposed changes in the structure of the savings and loan business—at least on the liabilities side. Market surveys, econometric analysis, and the trend in the growth rates of time and savings accounts in commercial banks and associations since the introduction of the new interest rate ceiling in the fall of 1966 all suggest that the associations have to pay a significantly higher rate on savings accounts than the commercial banks simply to maintain their competitive status. Market surveys suggest that the absence of demand deposit facilities is the most important reason for this competitive disadvantage. Econometric analysis indicates that the higher cost of savings deposits to the association may be on the order of $\frac{1}{2}$ of 1%—a factor which may be more acutely felt when interest rate ceilings on savings accounts are eliminated or are no longer effective. As for

the prospective profitability of small-scale demand deposit activity to the associations, the profitability of special checking accounts in commercial banks, with an average size of somewhat over \$200, seems reasonably high and well above the profitability of time and savings deposits after interest expenses. This direct return on demand deposits is totally apart from the more important reduction in interest rates on savings accounts which the checking accounts make possible. The associations, depositors and mortgage markets would all seem to benefit.

POSSIBLE OBJECTIONS TO ASSET-LIABILITY CHANGES

Two objections that might be raised to some of these proposed changes in the associations' asset-liability structure are, first, that they would raise total costs to the government in view of the favorable tax treatment of income received by specialized savings intermediaries; and, second, from a consideration of equity among competing institutions, these changes would alter the relative benefits provided by the government to the associations and commercial banks. However, no additional subsidies are implied by the proposed changes in the associations' asset-liability structure, though higher profitability of the business would involve larger tax benefits as well as higher taxes. Moreover, it is likely that commercial banks have been a greater beneficiary of government policy than savings and loan associations as a result of their ability to provide checking accounts for their customers, the prescription of interest payments on such accounts, and the significantly lower cost of time and savings deposits to them than to the associations as a result of the convenience of one-stop banking.

A more fundamental objection that might be raised to these changes in the asset-liability structure of savings and loan associations is that perhaps their most basic objective—the stimulation of housing—might be achieved more efficiently by other means. It is at least theoretically possible that greater availability of housing credit might be provided more expeditiously either by extending favorable tax treatment or other direct government assistance to any holder of a mortgage and not only to a specialized intermediary, or by changing the mortgage instrument itself so that it is a more effective substitute for securities traded in the capital markets.

The main justification for directing any subsidy to a specific intermediary rather than to all mortgage lenders is the belief that this provides greater control over the successful implementation of housing policy than leaving the investment decision in the hands of a diversified lender. Another argument that might be adduced in favor of concentrating on a particular intermediary would be the economic advantages of specialization and economies of scale. A final argument against extending tax or other direct subsidies to all mortgage lenders is that we are not starting from scratch, and with the uncertain benefits of this change it is probably undesirable to extend the area of housing subsidies, except for programs confined to low-income families.

Changes in the mortgage instrument and related changes in the mortgage market appear to offer more promise as a mechanism for

improving the availability of housing credit. To the extent that transactions costs on mortgages can be reduced and marketability increased, pension funds, insurance companies and commercial banks would be more willing to deal in residential mortgages without requiring excessive interest rate differentials, and the need for special treatment of specialized savings intermediaries would be lessened. However, while methods for improving the mortgage market are examined in the study, and several specific recommendations are made for this purpose, it appears that, at least for the foreseeable future, the specialized savings intermediaries will continue to perform a useful function in implementing housing policy. Moreover, the viability of the specialized savings intermediaries is important not only in view of their potential for facilitating housing policy but also to make optimum use of available facilities for providing desired services to depositors. Thus, it appears that the proposed additional flexibility in the asset-liability mix of savings and loan associations is desirable totally apart from any other likely changes in mortgage markets.

AGENCY CREDIT POLICIES AFFECT PERFORMANCE

The performance of the savings and loan business and of the mortgage and savings markets is affected not only by business and market structure but also by the framework of credit and related policies followed by government regulatory agencies. These policies vitally affect the adequacy of the credit facilities available to the business and its ability to compete effectively for funds. Among the policies examined are those relating to interest rate ceilings on deposits, advances and lines of credit, the issuance of FHLB debentures, liquidity requirements, and reserve allocations or capital requirements.

The analysis suggests that interest rate ceilings, both for savings and loan associations and competitive institutions, should neither be retained indefinitely nor abolished immediately. The levels of ceilings should gradually be raised relative to free market rates, preferably when credit is easing and market interest rates are declining appreciably. This would mean that ceilings would normally be inoperative. However, the power to reinstate effective ceilings should be maintained on a standby basis though reserved for emergency use.

As noted earlier, the 1966 experience demonstrated the inadequacies of the FHLB System policies for meeting the liquidity and stabilization needs of savings and loan associations in such periods. The System was deficient in its almost exclusive dependence on short-term borrowing. Extension of the average maturity of FHLBB indebtedness, especially in periods of easy money, would permit a more satisfactory policy on advances during periods of tight money. Contributors to the study also agree on the desirability of more flexibility in association liquidity reserve requirements and on the need for meeting at least part of this requirement by cash or short-term governments.

Apart from transactions requirements, which are fairly small for savings and loan associations, the basic reason for holding liquid assets is precautionary. While liquid assets for transactions purposes must be

held by associations, stockpiling liquidity for precautionary purposes is probably more efficiently done by the FHLB System since this permits the pooling and minimizing of liquidity needs.

Association liquidity, though primarily designed for meeting deposit instability, can also be used for stabilization of mortgage markets, and changes in the required liquidity ratios have recently been used by the FHLBB for this purpose. It can properly be used for this purpose only when liquidity requirements are set at a level higher than needed in periods of funds surplus relative to loan demand so that they can be drawn down in periods of fund scarcity.

While it is clear that all the advances necessary to meet deposit withdrawals must be made, it is not so clear what limits should be placed on expansion advances. To a major extent, these limits should be determined by considerations of housing policy and to a lesser extent by considerations of general economic stabilization. Thus, during periods of tight money when the flow of savings to thrift institutions declines, the FHLBs should supplement the available funds by making expansion (as well as withdrawal) advances to associations with declining savings flows. The amount of these advances should be determined in part by the level of outstanding mortgage commitments, since the viability of savings institutions and the stability and efficiency of builders depend on their ability to meet and act upon such commitments. The FHLBs should also take into consideration the soundness of advances in the light both of regional developments in the housing market and of the financial condition of the association.

There are situations in which public policy would justify expansion advances in addition to those made to offset an excessive impact of tight money on housing. Thus, the FHLBs probably should make long-term credit available to associations in areas where the local supply of funds is typically inadequate to meet the demand for mortgage credit except at rates which are clearly excessive in relation to the cost of financing in the rest of the country. Various devices, ranging from above-cost pricing on such expansion advances to limitations on their ratio to deposit liabilities, might be employed to ensure that no one area benefits unduly at the expense of the rest of the country from the use of the System's borrowing power.

The setting of capital requirements is another important FHLBB policy instrument affecting the soundness of savings and loan associations and their ability to raise funds for the mortgage markets. Capital requirements should be designed to insure that the probability of institutional failures will be very low. Since risk of association failure and loss to the FSLIC is a function not only of capital (and, so far as loss to the FSLIC is concerned, of insurance fees) but also of portfolio composition or asset risk, capital requirements should depend on asset risk as well as on the permissible level of failures (and insurance charges on both asset risk and the ratio of capital to total liabilities). It might be noted that if required capital for individual associations is set relatively high, insurance assessments can be relatively low.

The last major subject analyzed in this study is the quality of the

examination and supervisory procedures followed by the regulatory authorities. A series of case studies of FHLB member associations in financial difficulty suggests that, while the quality of examinations was generally high, at least at the federal level, supervisory performance in the handling of associations in difficulty was less satisfactory, and was characterized by unnecessary delays between the initial signs of difficulty and effective action.

An association screening and sequential control system could substantially improve the cost effectiveness of the current program of examination and supervision by early identification of potential problem institutions so that less time need be spent in the examination and evaluation of other associations. Greater reliance would be placed on periodic statistical reports for initial screening; and the frequency, scope, and intensity of examination would depend on the ratings received by associations, initially on the basis of the statistical reports and subsequently as modified by followup examinations. It seems possible even with present data to measure the quality of association performance within a region by a purely statistical analysis which closely matches the examiner's quality evaluation, and it is not clear why more use has not been made of these data. This statistical measurement of performance could be greatly improved and made more timely by proposed changes in association reports.

RECOMMENDATIONS MADE IN STUDY

Turning finally to the recommendations made in this study, there does not seem to be too much point in enumerating them here, since I suspect most of you have already read them and for the most part they flow from the analysis which I have just summarized. However, it should be pointed out that only a few of them—particularly those dealing with association liquidity and FHLB expansion advances—are likely to be very useful in helping the savings and loan business and the housing markets in the current period of extreme monetary stringency. More flexible liquidity requirements and, more important, a greater availability of expansion advances should be used to ensure that housing does not decline substantially below its current level. The retention of interest rate ceilings on deposits in the current period is recommended as an essential instrument of credit policy at the present time but one which should become inoperative as soon as possible.

Among the other recommendations, those relating to greater flexibility in the asset-liability structure of savings and loan associations—including expanded powers in the areas of consumer credit, multi-family residences and checking accounts—are especially important for the long-run health of the business. They would also enhance overall economic efficiency. The implementation of the remaining proposals, dealing with capital requirements, chartering, branching, mergers and conversions, examination and supervisory procedures, conflicts of interest, mortgage markets, the fiscal-monetary mix and needed research, would further contribute to the soundness of the business and help to optimize the role it plays in the economy.

INTER-AMERICAN COOPERATION IN THE SAVINGS AND LOAN BUSINESS

by DR. MARIO LUIS VELASCO, *President*

Inter-American Savings and Loan Union

San Salvador, El Salvador



I AM HONORED to have the opportunity to speak to you about the savings and loan systems of Latin America. Several years ago I was talking to a politician from South America whose country has always maintained the most cordial and mutually beneficial relations with the U.S. During our conversation, I asked him the secret of these successful relations and without hesitation he answered: "The secret lies in the fact that we have treated each other not as good neighbors, nor as allies for progress, but as partners."

Recently the President of the United States in his statement of policy toward Latin America introduced this concept of partnership as one of the governing principles in hemispheric relations. I am sure that he was referring to a very human partnership—a working together in the search for the well-being and happiness of our nations within the framework of freedom and dignity. In the Inter-American Savings and Loan Union we are firm believers in this concept of partnership between the Americas. We also feel that the savings and loan business is one of the most effective and powerful instruments in the struggle to promote the prosperity of our people. This explains my presence here today.

UNDERSTANDING NECESSARY TO PARTNERSHIP BETWEEN AMERICAS

If we are to be partners in the fullest and most noble sense of the word, we must first know one another better, understand what we are and what we do in order to determine the specific courses of action that will do most to further our partnership.

With this explanation I should like to acquaint you now with the salient features of the savings and loan movement in Latin America and familiarize you with the Union which I have the honor to represent at this convention and whose greetings I bring to you all.

Savings and loan systems have been organized in almost all the Latin American countries as an answer to the vast problem of financing housing in a part of the world whose population is nearing 300 million inhabitants with an annual per capita income of approximately \$500 with variations ranging from \$100 to almost \$1000 and with a housing deficit in excess of 20 million units.

In every country in which they have been established the savings and loan associations are an indisputable success, and the systems are developing rapidly.

At the present time the only countries lacking a true savings and loan system are Colombia, Uruguay and Paraguay, in South America; Mexico in the north; and Honduras and Costa Rica in Central America. The latter two, however, are in the process of establishing a system, and in Mexico the commercial banks with the support of the Central Reserve Bank are dedicating an ever-increasing portion of their resources to the area of home financing.

With the exception of Guatemala, the savings and loan systems throughout Latin America have the same basic structures. Each has a publicly owned central institution; in addition to their financial functions these institutions have regulatory and supervisory powers, and they also provide both mortgage and savings insurance.

In other words, these institutions, with names like "housing banks," "national housing banks," "central fund of savings and loans," or "national housing finance agencies," have functions which are similar to those of the Federal Home Loan Bank Board, the Federal Home Loan Banks, the Federal Savings and Loan Insurance Corporation, the Federal Housing Administration, the Federal National Mortgage Association, and the Government National Mortgage Association, in this country.

SOURCES OF FUNDS FOR CENTRAL INSTITUTIONS

These central institutions in Latin America obtain funds from their respective governments in the form of grants, from external loans from institutions such as the Agency of the United States for International Development and Inter-American Development Bank, and more recently from private sources in the U. S., like savings and loan associations and insurance companies.

Lately they also have been tapping the resources of the secondary market through the sale of mortgage bonds and participation certificates. Their financial assistance to the savings and loan associations is provided in the form of advances, long-term loans and the purchase of mortgage loans and participations.

The savings and loan associations in Bolivia, Peru, Chile, Venezuela, Ecuador and the Dominican Republic are mutuals, while stock associations exist in Argentina, Panama, Nicaragua, El Salvador and Guatemala.

In Brazil, both types of institutions are found. The savings accounts of the people and the financial assistance from the central institutions, in that order, have constituted the principal sources of funds for the

associations, although the secondary market operations through the sale of mortgage funds and participations have been of significant value in Guatemala, Chile and the Dominican Republic.

The associations have used these resources exclusively to make loans for the construction or acquisition of homes for middle-income families.

To the present more than 200 associations have been organized in 12 different countries. The number of homes financed, the number of savers, the total amount of savings, and particularly the annual rate of growth as compared with other financial institutions, constitute clear indications of the impressive success of these associations, especially if you keep in mind that this business was created less than 10 years ago and in some of the countries I have just mentioned, less than five years ago, and has had to fight such adverse factors as the scarcity of savings, the inflationary problems prevalent in some of our countries, and the strong competition from other prestigious and long-established financial institutions.

In the countries with a sufficient number of associations, national leagues, with objectives similar to those of your League, have been created. In November of 1964, in Caracas, Venezuela, the Inter-American Savings and Loan Union was founded. In Spanish, the word "Union" is equivalent to the word "League" in English.

Our Union also has objectives similar to yours but with variations necessarily dictated by its international character. The membership of the Inter-American Union consists of practically all the Latin American associations and of about 60 associations from the United States.

During only five years of existence the Union has shown impressive accomplishments. Some of you who already belong to the Union know of the extensive informative work carried out by our general secretary, Mr. Riccardo Garcia, through his numerous newsletters covering a wide range of subjects.

This year we inaugurated our quarterly bilingual publication entitled *Avance* which some of you may have read, and which we hope will become a powerful vehicle of communication between our respective savings and loan systems. The Union has created an affiliate organization, the Inter-American Savings and Loan Foundation, which is rapidly developing as the educational and training branch of the Union. In April of this year we held our first training seminar in San Salvador, my city, and next week the second seminar will be offered in Lima, Peru.

COOPERATION RECEIVED FROM U.S. LEAGUE

At this time I should like to mention the cooperation we have received from the U. S. League in this and in other areas. At the seminar in San Salvador we were honored by the presence of your executive vice president, Norman Strunk and his wife Marian. His attendance demonstrated support of our programs. Another member of the U. S. League staff who was also in San Salvador, Bob Distelhorst, willingly gave us all the cooperation we requested.

This is not the only manner in which your League has given us invaluable assistance. We have been greatly aided by the correspondence courses, by the translation of excellent texts on the savings and loan business, by the managerial seminars held at Stanford University in 1968 and at the University of Texas this year, which have not only been effective training instruments but have also served as a guide to orient our educational work in the Union, and by the organization of numerous Institute chapters in practically all the Latin American countries.

For all this help and all these demonstrations of support I wish to express our most sincere gratitude and to all those who have participated actively in this work, I should like to extend a very special recognition.

The Inter-American Union has also co-sponsored the Inter-American Savings and Loan conferences of the last four years and hopes soon to assume exclusive sponsorship. These conferences, naturally, are not of the same size as this convention but perhaps they give the participants the opportunity to know each other better and to enjoy more leisurely the cordiality of the host country. I am sure that those of you who have attended some of these conferences will agree with me that they are a pleasant and rewarding experience.

Reynaldo Navarro, who spoke yesterday at the International Development Committee luncheon meeting, extended a cordial invitation to all those present, in the name of his government and the Nicaraguan savings and loan system, to attend the next Inter-American conference in Managua, Nicaragua.

He has asked me to repeat this invitation to all of you, which I do with great pleasure, adding of course the name of the Inter-American Union to the list of hosts.

There is another invitation I wish to extend. Our Inter-American Union wishes to serve as a forum for the savings and loan business of the Americas, a forum through which we can know each other better and establish a realistic basis for the development of wide-reaching and mutually beneficial programs to all the savings and loan systems of the hemisphere. This may now seem to be a distant goal, but we are sure that a greater exchange of ideas and experiences through the Union will shorten the time to attain it, and that the increase in membership in the Union is indispensable to accelerate this process.

I have mentioned before that we have some 60 members from the United States; this figure represents a very small percentage of the number of associations in this country. It is for this reason that I now invite all of you who have not done so to become members of our Inter-American Union, to unite your efforts with ours to strengthen and expand the savings and loan business in the continent and, in this manner, to contribute effectively to the achievement of the grand design, to use the expression in the recent Report on Latin America, of Governor Nelson Rockefeller—"the improvement of the quality of life in the Americas."

This work should be done. Let us do it together.

FISCAL RESPONSIBILITY IN TODAY'S WORLD

by ROBERT P. MAYO, *Director*

Bureau of the Budget

Washington, D. C.



I WANT TO REVIEW BRIEFLY the economic situation and its implications—where we have been, where we are now and where I believe we are headed. As you well know, sharply rising prices and strong inflationary expectations have been the major problem of the economy for some time. In order to cope with this problem, the administration has followed a restrictive fiscal policy. At the same time, the Federal Reserve System has followed a policy of monetary restraint. After a considerable delay, we are finally

beginning to see some evidence of slackening of economic activity in response to these policies.

In short, some key statistics reveal a perceptible slowing of the rate of increase of overall economic activity. In particular, the rate of growth of overall national consumption of goods and services in current prices has slowed significantly, reflecting declines in the rates of growth of federal government purchases and residential construction. Other major indicators show that the rate of growth of the gross national product in real terms, as well as personal income, has slowed markedly. Moreover, not only did the rate of growth of industrial production, on average, slacken in the second and third quarters, but industrial production actually declined in August, in September and again in October.

The more moderate pace of economic growth has not as yet been reflected in the behavior of prices. But this is not surprising. History tells us that pervasive cost and price inflation can be subdued only after an extended period of economic adjustment. For example, in late 1966 and early 1967, insufficient time was allowed for adjustment and restrictive public policy was relaxed too soon. Instead of inflation and inflationary expectations being subdued, they moved ahead with renewed vigor—in fact, right up to the present.

Let there be no doubt. We do not intend to make the same mistake. The administration is resolute in its determination to win the battle against inflation. We are equally resolute that, in this battle, we will rely only on those instruments of economic policy that get at the root causes, and not merely the symptoms, of inflation. We are, therefore, relying on both fiscal policy, using both the tax and expenditure sides of the budget, and monetary policy to turn the tide against inflation. As we have stated over and over again, we have no intention of turning to the use of direct controls—wage and price controls or credit controls—to do the job that needs to be done.

ECONOMY SHOULD BEGIN TO RESPOND TO RESTRAINT

We are now entering a period when the economy should begin to respond more noticeably to the policy of restraint. The rate of growth of GNP is expected to be less this quarter than the average increase during the first three quarters of 1969, and is expected to level off in the first half of 1970. The time ahead will be the crucial testing period, when price increases should become more modest, as less vigorous demand makes it more difficult for business firms to pass through higher wages and costs. In that type of environment, there may be considerable pressure on profits, but this is one of the costs of achieving our objective of subduing price inflation. I am sure you will agree that it is not too great a cost if our chances of establishing a stronger and healthier economy are significantly improved.

Against this background, let me now turn to a brief discussion of budget policy for fiscal years 1970 and 1971—a policy that is based on the administration's firm commitment to a responsible fiscal policy and prudent financial management. There is no question that federal spending has been a major contributor to the inflation of recent years—particularly the large increases in 1967 and 1968. Therefore, expenditure control has become an essential part not only of sound fiscal policy, but also of responsible management of the government's affairs. For these reasons, we have struggled hard to bring federal spending under control. Our efforts have resulted in a reduction of \$7.5 billion from the program costs implicit in the January budget for fiscal 1970: \$4.1 billion from military programs and \$3.4 billion from other programs. Without these cuts, budget spending in fiscal 1970 would exceed \$200 billion, a level that would be inappropriate in the inflationary environment of fiscal 1970.

Despite the obvious need for a restrictive fiscal policy and the administration's expenditure goal for fiscal 1970, there are substantial pressures from many quarters for higher outlays. In particular, further actions being seriously considered in the House or the Senate could lead to the addition of another \$5 billion to 1970 outlays if the appropriations were passed and the money were all spent.

Moreover, if the present session of the Congress does not extend the income tax surcharge at 5% for the first six months of calendar 1970 and repeal the investment tax credit, fiscal 1970 receipts will be reduced by \$4 billion. This will eliminate two-thirds of a vitally needed

budget surplus, even if the President's \$192.9 billion expenditure goal were met. We are, therefore, facing a real challenge to fiscal restraint at a time when it is so sorely needed, if we are to bring inflation under control.

STRINGENT BUDGETARY RESTRAINT REQUIRED IN 1970

Turning now to fiscal 1971, there is nothing in today's economic environment to suggest that restraint on budget outlays will not have to be as stringent as in 1970. In fact, the need may even be greater in 1971, given the length of time that seems to be required to bring inflationary pressures effectively under control, the tendency for budget outlays to grow unrelentingly and the scheduled expiration of the income surtax.

One of the most imposing downward pressures on 1971 outlays is the outlook for a smaller than usual growth of revenues in the coming fiscal year. Revenues of over \$198.5 billion are projected for fiscal 1970. However, this figure includes surtax revenues amounting to \$8.5 billion. Therefore, a realistic starting point for estimating revenues in 1971 is the \$190 billion base of fiscal 1970. Economic growth in calendar year 1970 should boost revenues to the neighborhood of \$200 billion in fiscal 1971—a smaller annual net increase than has occurred in many years.

On the other side of the ledger, a sizable segment of budget outlays increases without any increase in the scope of existing programs. For example, mandatory increases under existing laws for interest on the public debt, social security benefits, other retirement benefits, veterans' benefits, Medicare and Medicaid, can easily push budget outlays over \$200 billion, quite aside from new presidential or congressional initiatives and the possible expansion of existing programs.

In short, the outlook for 1971 makes it essential that we exercise fiscal restraint in the classical sense. The administration's budget for fiscal 1971 is far from firmly set, but one thing is already clear: we face a critical challenge to prudent and responsible budget policy.

On the financial front, the Federal Reserve System has provided important assistance in the fight against inflation by following a policy of monetary restraint—with which I know this group is thoroughly familiar. I do not need to remind you that savings and loan associations and the housing industry usually bear more than their share of the brunt of tight money. This was true in 1966, and again in 1969.

With respect to the savings and loan business, although preliminary October figures are less favorable, we think it is important to note that official figures for the first nine months of 1969 show that net savings inflows did amount to \$3 billion. Savings inflows were larger than this in the comparable periods of both 1967 and 1968, but considerably smaller in 1966. Moreover, unlike 1966, the savings and loans in the first nine months of this year outperformed other deposit-type financial institutions in savings inflows.

The situation is similar with respect to mortgage lending. Savings and loan associations in the first nine months of 1969 experienced a net increase in mortgage holdings greater than that of mutual savings

banks and commercial banks combined. Furthermore, it was nearly twice the amount of increase in 1966. Accordingly, the savings and loans have fared better during a period of tight money than may have been expected, largely due to the steps taken at the federal level.

These steps include the efforts of the Federal Home Loan Bank Board to improve the competitive position of the savings and loan associations. Home Loan Bank advances to savings and loan associations have increased by almost \$3 billion since January 1, thus improving the ability of the associations to continue mortgage lending—mostly in conventional mortgages. This action contrasts markedly to 1966, when advances increased by \$1.6 billion during the spring and early summer, but for the year as a whole were up by less than \$1 billion. In addition, by reducing liquidity requirements of savings and loan associations, the Home Loan Bank System has made another \$1.3 billion available for mortgages. Finally, as was announced only on Tuesday of this week, the Home Loan Bank Board has authorized the regional banks to extend the repayment period of up to 25% of advances scheduled to mature in 1970, which will also increase funds available for mortgage lending—up to \$500 million in 1970, based on the current level of advances.

The administration has also taken steps to alleviate the discriminatory impact of economic restraint and tight money on housing generally. These steps have been taken in a way that would help housing, but would be as consistent as possible with our anti-inflation efforts. I believe we have been successful in shifting a share of the burden of economic restraint to other sectors of the economy. As a result, despite some trials and tribulations, the record suggests that we still have an active housing industry in this country—but still an industry that should be encouraged to do better and will do better.

In addition to increased budget outlays (and commitments for future outlays) by the Department of Housing and Urban Development, the administration has acted to make more of the nation's resources available for housing. These actions should strengthen the quality and efficiency of the resources that are used in housing.

Let me list some of these actions. The administration is expanding its manpower training programs, which should improve both the flow and quality of workers engaged in construction. The administration has also proposed repeal of the investment tax credit, which should help attract both financial and real resources to the housing sector. This proposed action reflects our desire to redirect a portion of the nation's resources from spending on plant and equipment to spending on housing, by making capital investment slightly less attractive.

The administration also has attempted to help reduce the impact of tight credit conditions on housing. The Federal National Mortgage Association has committed more than \$5 billion since January 1 to support VA and FHA mortgages, as compared with \$2.1 billion of purchases in all of 1966. Recently, FNMA has been making commitments at an annual rate of nearly \$9 billion. At this rate, it is supporting three-fourths or more of the total FHA-VA market, which is the

primary reason that starts in this area have held up relatively well this year. In addition, our administration has initiated two other programs that will help assure the flow of mortgage money to support housing construction. The President has authorized the Government National Mortgage Association to make commitments to buy \$650 million of mortgages on housing for low- and moderate-income families. These commitments will allow planning and construction to continue, although the final mortgage financing will be provided by private investors, including FNMA. GNMA is also now ready to guarantee mortgage-backed securities, which are expected to be more attractive to some investors than the mortgages themselves.

Finally, the administration has taken steps to reduce new contracts for direct federal construction by 75%, or \$1.8 billion, in fiscal year 1970. In addition, the President urged state and local governments to follow our lead and cut back their own construction plans. The initial response to the President's request has been favorable. In fact, the deferral in construction authority accounted for by the states that have already submitted plans is greater than the total federal deferral.

The President's actions are aimed at relieving the very heavy demands on the construction industry that have contributed to sharply rising costs and prices. Rising prices are a major problem throughout the economy, but I need not remind you that construction prices are rising faster than other prices. Unless actions are taken to reduce the demand on the construction industry, there will be great risk that low- and moderate-income groups will be priced out of the housing market and the healthy growth of this important industry disrupted.

The President stated that the construction cutback will continue until conditions ease. When there are more orderly market conditions in the construction industry, the deferred projects will be undertaken on a systematic basis. There will be no rush to catch up on deferred projects when the reduction order ends; otherwise, we would negate all that the deferral accomplished.

MAJOR RELIANCE ON TAX, EXPENDITURE, MONETARY POLICY

But our major reliance is—and will continue to be—on tax policy, expenditure policy and monetary policy. They are fundamental in our quest for non-inflationary growth in the economy. This is the only sound way that housing costs—including labor costs, construction costs and interest costs—can be brought under control. Without a tough fiscal policy, Treasury demands on financial markets would soar, meaning that less financing would be available for housing.

In conclusion, I want to acknowledge how much we in the administration appreciate your cooperation in our anti-inflation efforts—especially your support of the tax surcharge.

I know well the innovative spirit that characterizes your organization. In the years ahead, your spirit will be continually tested as you are confronted with new and greater challenges. I am sure you will handle these challenges well as we join together in taking the hard steps necessary for sound economic progress.

LEGISLATIVE REVIEW

by C. R. MITCHELL, *Chairman*

U. S. League Legislative Committee

Kansas City, Mo.



ALL OF US RECOGNIZE that while the man on the street may not have been complaining about savings and loan taxes, the Treasury people and the congressional tax experts have been looking at our tax provisions for several years. They have duly noted the gap between what we have been allowed to allocate to bad debt reserves and the actual bad debt losses we have absorbed. There have been many explanations for this but, nevertheless, on paper it is a statistic that has caused us trouble. When the

drive for major tax reform began this year, this apparent gap was the crux of the reform effort against all financial institutions, including the commercial banks which, frankly, were not expecting that the tax reform shoe would ever be on their foot.

Our line of defense to the Treasury and congressional tax writers, like all good defenses, was really an offense. It consisted of the tax revenues we have been producing according to schedule, the undeniable fact that housing and mortgage credit is in a crisis situation, and the current statistics that we are the number one hope for sustaining any semblance of a reasonable mortgage market for the typical home buyer. Incidentally, we are now making 57% of all single-family home loans, and we could not have picked a better time to have reached that record level.

U. S. LEAGUE NO STRANGER TO TAX FIGHT

Another factor on our side is our experience in legislative efforts. As a matter of fact, we are no strangers to a tax fight. The officers and staff of the League knew that tax legislation was on the way, and the machinery was ready for action. That action involved quick meetings of our policy-making committees, conferences with representatives of the state leagues, mailings to the Legislative Committee and, of course, mailings to all 5,000 of our member institutions. We were able to

mobilize ourselves and our friends in the home-building and real estate businesses in record time.

In this confrontation between the strong movement for tax reform on the one hand and the solid case for our present tax provisions on the other hand, something had to give—at least a little. We were unable to fully maintain the 60% allowance, but we have achieved a substantial modification of the very drastic provisions of the House bill cutting our allowance to 30%, and we have secured the rejection of the Treasury proposal of a highly unacceptable deduction based on a percentage of mortgage income. The overwhelming majority of our people have indicated that, under the circumstances, the 50% formula recently approved by the Senate Finance Committee is a major accomplishment and goes a long way toward averting the disaster that faced us early last summer.

In the process of making this change, both the House and the Senate have provided some liberalization in the tax definition. We made a strong effort for the total elimination of the definition so that a savings and loan that is chartered or supervised by a federal or state government would automatically qualify, but the definition for tax purposes has been with us for over half a century, and has been reenacted many times by the Congress—the last time in 1962 after a very substantial rewriting.

SAVINGS, LOAN DEFINITION MODIFIED

The objective of the definition is to make certain that we remain in the housing market. We can scarcely argue with this point of view. Our fundamental housing role is the main argument we have for our tax treatment. While this definition will remain, it has been subjected to some helpful modification. Such items as student loans, mobile loans and broader types of urban renewal loans have been shifted out of the commercial category into the residential category, providing more investment leeway. A sliding scale of deviation has been adopted which will eliminate the “life and death” dividing line and enable an association which wishes to deviate from the investment standards to do so with only a minor tax consequence.

After the Senate Committee adopted the savings and loan provisions, it later adopted a 5% minimum tax on a long list of preferential tax items, including the bad debt deduction for financial institutions. This provision was not aimed at our institutions but resulted simply from the Senate Committee's attempt to adopt a simplified alternative to House provisions dealing with cumulative use of tax preferences. The original aim of this provision was to deal with the problem of very wealthy individuals who have avoided taxes, and it may well be the final section does not apply to savings and loans or any other corporations.

I think we can be proud of the effort we have made so far, and the comments we have received indicate approval of our actions to date. I want to take this occasion to thank all of you who participated in our tax effort, with a special thanks to members of the Legislative Com-

mittee, our state league executives and the several dozen people who made special trips to Washington for visits with key senators. Without exception, those people who were called upon performed these important assignments cheerfully and effectively.

Our business is not going to let up. The next step is on the Senate floor where it does not appear that the savings and loan provisions will be changed, and after that there is the all-important Conference Committee to settle the differences between the House and Senate versions. We are going to continue to press our case for a workable tax formula. We have equity on our side. We have the tremendous importance of our institutions in home lending on our side. If—and this is an important if—we continue to carry the kind of grass roots message to the Congress that we have, we will emerge from this tax battle with a livable and reasonable tax formula.

NIGHTMARISH WITHHOLDING PLAN VOTED DOWN

If I were a true politician, I should probably spend time telling you about the withholding tax on dividends acted upon by the Senate Finance Committee, because I know that this proposal was about the most frightening and unpopular idea ever presented. To be honest with you, we never thought there was a serious threat this year and we did not dare dilute our contacts with the Senate over an item that had no real chance of enactment. Nevertheless, it is comforting to have on the scoreboard for the year an overwhelming vote of the Senate Finance Committee rejecting this nightmarish withholding plan.

The work on the Tax Reform bill would be a complete job in itself but, as we all know, there has been a great deal of other legislation. In fact, so far this year, the League has submitted formal positions, by testimony or statement, on a dozen occasions and has less formally participated in a wide range of legislative matters. Let me capsulize the progress that has been made.

A perennial measure is the extension of rate control legislation. This is important not only because we obviously must have the basic authority for agencies to regulate interest and dividends, but because this bill is a perfect measure for a legislative rider. It has to be enacted by the end of this year, and any amendments attached are sure to become law.

REAL PROGRESS MADE FOR SUPPORT OF FHLBB

We have made real progress in our long-time effort to achieve support from the Treasury and the Federal Reserve for the Federal Home Loan Bank System. It is great news that the Senate passed S. 2577 last week providing for a \$4 billion Treasury support. We all know that the Bank System has been a real bulwark in keeping our home lending from an even worse decline than currently exists. Treasury support will substantially help our Bank System keep up the good work. The Senate Banking Committee has also adopted compromise language to close the glaring gap under which thrift institutions holding the great bulk of passbook savings in Massachusetts have operated without re-

gard to federal rate control.

The Housing bill, which has passed both the House and the Senate, also contained important savings and loan provisions. It will correct the inequity whereby associations paid a prepaid premium to the FSLIC twice on the same savings. This corrective provision will provide rebates of \$20 million to several hundred member institutions. The Housing bill also contains a provision authorizing the Federal Home Loan Banks to buy certain FHA loans to low- and moderate-income families. This is an important breakthrough toward our long-standing desire for a practical secondary market.

The banking committees are also considering two very significant changes in insurance of accounts. You may recall that in my recent appearance before the House Banking Committee I indicated that an increase in the insurance ceiling to \$25,000 would be one of the most practical, speedy and simple ways to improve the savings picture in our institutions. We understand that the banking committees are looking upon this recommendation with some favor.

The committees are also considering ways to make certain that the cost of insurance of accounts is cut back at the earliest possible date. Our institutions have been prepaying insurance premiums for nearly a decade to give the Insurance Corporation the reserve strength that would make it financially strong, beyond any doubt.

The day is approaching when the reserves will reach 2% and prepaid premiums will no longer be needed, and existing prepaid premiums also may be used to pay the annual premiums. In addition to the economy involved, this would free several hundred thousand dollars for additional loans for homes. We have been working with the Congress and the Federal Home Loan Bank Board to see if we can achieve this goal immediately instead of in 1971.

TOUGH HOLDING COMPANY BILL ADOPTED

Last year at this convention one of our greatest concerns was the spectacular and alarming developments with respect to one-bank holding company vehicles. Two weeks ago, the House, in a move that surprised almost everyone, adopted a very tough holding company bill that will require divestiture dating back to 1956 and will specifically prohibit a long list of activities which one-bank holding companies had counted on as part of their operation. Incidentally, while the House action was clearly a major setback for commercial banks and a great tribute to the perseverance of Banking Committee Chairman Wright Patman, our interest is simply in the fact that the Congress is reasserting its fundamental position that financial institutions, including bank holding companies, will be controlled by law rather than by their own choice or by moves made from time to time by federal agencies.

Thus, in the fields of rate control, housing legislation, savings and loan provisions and one-bank holding companies, the results to date have been most encouraging. Obviously, the news has not all been good.

None of the legislation I have discussed is final and, therefore, is by no means an accomplished fact. In addition, there is much other work

that needs to be done. The truth-in-lending law has resulted in hardships and problems which necessitate amendment to that law. We still need the authority to act as trustees for Keogh-Smathers Self-Employed Pension Funds. We have to update some of our lending powers, such as the ceiling on single-family mortgages, and we are determined to delete some of the obsolete material in the Federal Home Loan Bank Act. Neither we nor the banks have been able so far to deal successfully with the competition of small denomination Treasury and government agency obligations.

Yesterday we heard President Scott discuss our long-range legislative needs and the significance of the comprehensive reports, including the Friend Study, the Grebler Report, the Mortgage Interest Rate Commission Report, the legislation introduced by Congressman Hanna and the work of our own Blue Ribbon Committee.

THREEFOLD ASSIGNMENT LIES AHEAD

We have a threefold assignment: (1) to successfully complete the pending legislation, (2) to deal with the questions of the immediate future, and (3) to plan for the long-range needs of the decade ahead. Because so many of you have involved yourselves with the legislative issues, have increased your participation in political activities and have made it possible for us to present a strong and unified front in the nation's capital—because of these things, I know we will meet the challenge of the job ahead.

A LOOK AT CURRENT EVENTS

by CHET HUNTLEY

*NBC News Correspondent**New York, N. Y.*

PERHAPS I SHOULD ATTEMPT to identify myself and establish my credentials. Thanks to Vice President Agnew I may be an object of some interest to you, among other things as one of the handful of non-elected, self-appointed members of the Eastern establishment, the effete pseudo-intellectuals with the power and the practice of keeping this country misinformed.

Any part of Mr. Agnew's criticism founded on fact is to be welcomed. None of us is beyond or above criticism and it does us only good. Invalid criticism, of course, does tend to lead to confusion and serves no observable purpose, but I think it is important for just a moment to analyze Mr. Agnew's objections, determine their validity and proceed from there.

It seemed to me that the central thrust of his speech as I listened to it and read it twice was that he was registering some opposition to criticism of the administration and to the broadcasting or airing of different or opposing points of view. If I am accurate in that estimation of what the speech was all about, then I must say, in all genuineness, that we cannot accept it.

Mr. Agnew also spoke of the undue and alleged power which resides in the hands of 12 to 15 individuals associated with the networks in New York. I think we might examine that for just a moment.

The statistical abstract of the United States says that last year there were 835 commercial television stations in this country, 570 of which were affiliated with the networks. This undue power would seem to be diluted somewhat in that 65% of the stations of the country are affiliated with a network and do tape some network news. How much news do they take from a network? A little arithmetic demonstrates that perhaps on the average in this country the television stations throughout the nation do about three hours of news broadcasting per day. The

networks are responsible for about 20% to 30% of that output of news. Again we have a diminution of the amount of news coming out of the network headquarters in New York.

Let us take each individual unit. The Huntley-Brinkley report, for example, demonstrates that there are no less than 80 people in that unit who have a day-to-day, constant voice in determining what goes on that program and what shall not go on it, and what is to be said and what is to be written.

If we add all the units of the various networks together and then add the networks together, it seems to me that in this New York network establishment, or in the headquarters of the three networks there can be no less than 150 people in total who do have a consistent, day-to-day voice in determining what is going to be said on those news programs.

The geographical distribution seems to be rather good; they represent every section of the country. I hasten to assure you that insofar as I can observe, we have not been totally grabbed up by the city of New York. We do not even believe that the repository of all virtue and all accuracy and all goodness resides with the New York Times.

As for being non-elected, I am not so sure about that either. I should like to point out that in broadcasting we sustain an election system which may be as ruthless as anything the Vice President has ever encountered.

RATING SYSTEM 'ELECTION' FOR NEWS ANALYSTS

Our election system is on a weekly basis and it is known as the rating system. I assure you if we do not have a rating, and if it is demonstrated at the end of several weeks that no one is listening to us, we are not going to be around very long. This also applies in the matter of fairness. If we make a practice of distorting the news, if we are inaccurate, if we tend to get our facts wrong, again, we are not going to be in business very long.

The Vice President also says that not enough good news is seen on television, and with that I heartily agree; but it also seems to me that Mr. Agnew is partially charged with the responsibility of seeing to it that we have more good news in this country. It is not the responsibility of journalists to go out and invent good news. News media have always been, must always be the critic of our social and political order. We have unpleasant news today because we have some unpleasant problems; we have some unpleasant habits; we have some unpleasant aberrations in our social and political order.

I am a broadcaster. That word "broadcaster" is an apt one. It stems, of course, from the old art of sowing seed before the days of mechanical seed drills and planters. Today I am one of those whose function it is to broadcast ideas.

Frequently there develops a tendency to get us and everyone else confused with the invocation of such words as reporting, editorializing, commenting, observing and opinionating. We need not belabor these words or pay unnecessary heed to them for the accurate word after all is "broadcasting"—throwing out ideas.

The development of this profession has taken about 35 years. The American audience has in all its wisdom, I believe, put us in our proper places. I am certain that a majority of the American people expects us and wants us to be broadcasters of ideas. We are not accepted, insofar as I can observe, as little gods or the final authorities on anything. The ideas we broadcast are considered, weighed, tested, mulled over and then rejected or accepted or put to further testing and consideration. That is the way I believe it should be, and I think it works rather well.

I am not one of those who with an opportunity such as this will choose to expound on the social significance or the mass psychological effect of journalism, particularly the journalistic product of the mass media. As far as I am concerned, Marshall McLuhan can have that field all to himself.

I am not at all sure there is anything really so complicated about this calling of journalism; it is better perhaps that we look upon it as an artless art; it is the process of distributing a thorough and accurate accounting of what is going on and what is being said.

ANALYTICAL JOURNALISM: EXTRACTING FULL MEANING

To be sure, a little skill and experience and some wisdom are required frequently in this process because men do have a deplorable habit of saying one thing and doing another, and an equally bad habit of not saying all, or not saying it clearly. Frequently, too, a very innocent or platitudinous statement or a most mundane development represents a signal for a larger or more significant trend or development. To translate these obscure statements and developments, to interpret them and to extract from them their full and complete value or meaning, that is interpretive or analytical journalism.

I do not think it requires geniuses. Talent helps, of course, but the more important ingredients are long hours, persistent reading, persistent inquiry and a fierce dedication to fundamental truth.

As for the total social significance of journalism, I am inclined to let the social scientists and the psychologists worry about that. I am not sure what might happen to journalism if its practitioners were concerned about the social value or the social consequences of every story they wrote or filmed or broadcast.

Let me talk for a moment about the machinery of communications.

Consider some of the miracles we can now perform in the whole spectrum of communications. Satellites in space now transmit voice, picture and data to any desired point on earth. Printed words and photographs can now be broadcast over television channels for reproduction on automatic electronic printers, located virtually anywhere. News copy prepared in one city is processed through a computer for automatic plate making and automatic typesetting and printing in another city.

Data, incredible masses of it, are stored in electronic memory nodes for instant reference use by researchers, businessmen, government administrators, law makers and historians. Computers now talk to other computers. We have computers monitoring, correcting and updating other computers. Satellite networks await only the financing. Electronic

printing flashed along broadcast frequencies will soon be available to home, office or classroom. Electronic research centers are already in being.

We have the machinery. We have the technology. We have the means. We have the "how" of communication. There remains the "what." What is it that we are going to say to each other over and through these new machines and these new devices?

I am not going to expand upon the critical situation in which this country finds itself; I would guess that you subscribe to the general premise that the nation does have some troubles and some aberrations. I think this is neither the time nor the place for an exhaustive review of our policy and situation in Vietnam.

It might be said, however, that some of the debate and the argument which that issue motivates today would have served us better about 12 years ago when we made our initial commitments in Asia. More communication on the front end of that policy might well have spared us some of the present agony.

I see one other hopeful sign and this does brush, obliquely I suppose, the area of economics; this week the Nixon Administration appears to be reversing its feeling slightly on the matter of inflation and how to combat it. All along, as you know, the administration vowed that it was not going to do much "jawboning," meaning it was not going to lecture industry and labor ceaselessly in an effort to get them to hold down wages and prices and profits.

However, I think it is interesting—and you all may not be entirely aware of it—that the President is scheduled to meet with about 3,000 businessmen tomorrow in Washington, all of them invited to come to the national capital for a briefing—and for what appears to be some plain jawboning.

On October 17, you might recall, the President said: "We are not going to change our game plan at the end of the first quarter. Our policy of curbing the rising cost of living is beginning to take hold."

A Harris poll published in early November indicated that an overwhelming 79% of those queried were disapproving of the administration's handling of inflation. Prior to that the Nixon Administration had said repeatedly that it was not going to exert any undue pressure on either industry or labor to check it. But more recently, Secretary of Commerce Stans indicated that the administration is thinking seriously of asking business and industry to put up some additional resistance to labor's demands for higher wages.

INFLATIONARY PRESSURES ARE STILL AROUND

Certainly the inflationary pressures still seem to be lurking around. A *Fortune* survey of recent date revealed more than 300 business chief executives anticipating profits this year equal to or better than last year.

By the same token, labor contracts for 7 million American workers expire within the next 18 months; included in that list are such basic industries as railroads, trucking, automobile manufacturing, rubber and

meat packing. The electrical workers are having their difficulties currently.

Union leaders are setting their sights on pay and fringe benefit increases as high as 10% and more per year. No downturn in the economy seems to be in the tea leaves of most of the economists; the gross national product is expected to go up to about \$980 billion in the next fiscal year, as I read it—about 5% this year.

That is a little of the background. I personally get some encouragement out of the fact that 3,000 American businessmen are being summoned to Washington tomorrow to hear some jawboning from the President.

CONTRIBUTIONS OF AMERICAN YOUTH

I wonder if we might talk briefly about American youth because almost everybody else is. These young Americans, first, have been bombarded with an incredible barrage of information since the moment of their birth. It has come at them in the school, in the home and at their play, through print, radio, television, movies, telephone and through their mobility, which is another word for the automobile, I suppose, and more recently half fares on jet airplanes.

Second, our young people have not been preoccupied with economic problems. They assume, and perhaps rightly so, that there are jobs for everyone. Undistracted by economic concerns they have turned to other inquiries, other explorations, not all of them wholesome or entirely rewarding, but some of them very significant.

What I believe I see and find in these young Americans is a surprising and astonishing degree of idealism. I am not sure where they got it. Perhaps it came out of the very fundamental protoplasm that distinguishes a human being from other forms of life.

I do not think this idealism came as a gift from us, the older generation; in this regard it is interesting to observe these youngsters regarding us frequently as hypocrites and dedicated pursuers of the fast and easy buck.

Idealism, however, is a quality which has always, I suppose, distinguished the young. But what will the characteristics of these young Americans mean to the nation? I think I can promise you that they are not going to adjust easily nor automatically to corporate life. Indeed, I would guess that they are going to make changes in the corporation. That applies to the field of government as well.

I would predict that they are going to give corporations and government and other institutions of our national life some bad days, as they are giving their university instructors and administrators some uncomfortable hours.

This is what these youngsters seem to be saying to the university: "Oh, to be sure, you train us and equip us rather well to use that ID card you give us at the end of four years which you call a diploma. But it isn't a diploma," they say, "it's a pass, it's a ticket, it's a universal credit card to the establishment. With that card in our hands we can enter the establishment to serve as accountants, buyers, sellers, advertis-

ers, marketers, researchers, engineers and all the other specialists which you, the establishment, want and must have. But," these youngsters of ours continue, "you have failed to give us something else which we insist we must have: You have failed to give us training in the science or art of being human beings. What have you taught us recently about unselfishness? About world peace? About generosity? About brotherhood? About overcoming racism? About ending poverty? About the elimination of disease? About how to keep our land, air and water fresh and pure? What have you done to set us on the course of being and becoming more noble?"

In other words, I believe that American business and industrial corporations, as they recruit and hire these young Americans, will find themselves being pushed into new areas of social concern and activity by these young employes and executives.

These young people are convinced that the corporation is not only capable of exercising its prime function but is also capable of rendering tremendous social services, and it is going to be difficult to talk them out of this idea.

These children of ours frequently employ deplorable methods, and they resort to disturbing tastes in dress and personal appearance, in speech patterns and behavioral patterns. They frequently eschew what we regard as civilized manners, they are given too often to the use of shock treatment in order to be heard or have their way. In spite of all these disturbing characteristics, I believe that somehow we have managed to spawn a singular generation of children; there are qualities present in their outlook and code which are very precious.

RACE MOST SERIOUS DOMESTIC PROBLEM

In closing, I should like to concentrate for a few minutes on what is, I believe, the most serious domestic problem we have. It is referred to variously as our racial problem, the Negro problem, the problem of the inner city or the problem of the poor.

I believe it might be more accurately called the "white problem"—the problem of the white majority to cleanse and purge itself at long last of the final trace of racial bigotry. Once that is done, the poor will find it easier to become prosperous, the ill-housed will find it more simple to live in desirable surroundings, the unemployed will find it easier to receive the necessary training to secure a job or find and hold a job if they have the skills.

Once the last trace of racism is cleansed out of us, the white majority, Negro youngsters should have less difficulty receiving education equal to that supplied to others. Once we whites flush out of our minds and hearts the last iota of prejudgment, on that day the black citizen will cease his current tendency toward extreme and unpredictable social behaviour.

We Northern whites, by this time, might be somewhat more aware of ourselves. Between the Supreme Court decision of 1954, *Brown vs. Kansas*, in which school segregation was outlawed, and the year 1964, many of us in the North were incensed as we watched the treatment

afforded blacks by white Southerners. In 1964 when the first riots and demonstrations occurred in the North, we realized suddenly that bigotry does not always come with a southern drawl. We realized also that the treatment of Negroes by Southern whites did not really have much to do with the basic racial problem.

Now we know or we should know what the problem is. There is no need to dissect it into all its little historical parts—housing, jobs, education, health, public accommodations and so on. What the black man seeks fundamentally in this country, North and South alike, is human dignity—status, if you like. This nation, the state, the county, the city or charity, can give him education, welfare, free food, job training, subsidized housing, social counseling and all the rest to no avail whatsoever as long as you and I withhold from our black fellow citizen the recognition that he is a man, with a dignity that becomes a man.

To be sure, a black man may very well squander that dignity, throw away or abuse his manhood, but he must be permitted to do that on his own, just as we permit white men to do it. We dare not assume that he never had human dignity in the first place, because that is morally wrong and it is scientifically inaccurate.

I have the conviction that we are capable of doing what we are now called upon to do—cleanse ourselves of this last trace of racism and regard the Negro or the Indian or the Spanish American, as a being with dignity and pride and sensitivity.

AMERICAN DREAM: PROSPEROUS MULTIRACIAL SOCIETY

I am convinced that we will yet be the first people on the face of this planet to develop a stable, prosperous and productive multiracial society. That will be the day when the American dream has come true.

Our present difficulties, our outbursts of violence, the sounds of strident voices demonstrate we have a way to go and that we are in some difficulty, but this difficulty stems from the unalterable fact that we Americans have had the courage to question old concepts which once were impervious to doubt or consideration. Because we have had the courage to take on so many problems all at once, we are the first people anywhere to cast doubt on the old proposition that the poor shall always be with us. Who says that poverty is a natural state for some of us? We have opened up a painful dialogue between the young and the old. We have opened up the once forbidden area of racial separation, closed in this country for 250 years. Is it not possible therefore, does it not follow, that indeed we have problems and dislocations and aberrations in this country of ours, not because we are doing nothing, but rather because we have dared to do something?