

ADDRESS BY SENATOR ROBERT MORGAN
CALIFORNIA BANKERS ASSOCIATION
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It is a pleasure for me to be with you today and to have this chance to visit with the members of the California Bankers Association. You have been very kind to me here in California and during the last two years I have come to consider some of you my closest friends. I thank you for the many courtesies which you have extended to me and for the counsel and good advice which you have provided during this my first term in the United States Senate.

I do appreciate your letting me be with you today. Your invitation has given me a reason to do some thinking about two or three things which are of particular concern to me right now and a chance to pass on to you some suggestions that might help you increase your effectiveness as businessmen with legitimate interests in the legislative affairs of the Congress of the United States.

I have always considered myself something of a "States' Righter" and been concerned about expanding federal jurisdiction and burdensome federal regulations. As Attorney General of North Carolina I tried to make my office one of the most effective possible largely to prove that when permitted to do so officials of local and state government can be more effective and responsive than those at the federal level. And I think that we were able to do just that in our office.

But as you in the banking industry know, that is a hard battle to fight. It seems that it is the nature of the federal creature to want to extend itself and engulf that which it touches. But actually, compared with other areas of federal activity, I think we all would agree that federal regulation of banking has for years been one of the more successful fields of governmental action. It is certainly not a simple system, and I, for one, don't claim to understand it all, but I would consider it more

even handed and efficient than other areas of government regulation

because, at best, it is a partnership between the government and the private sector.

But sometimes the government will act, with a good purpose in mind, pursuing the most laudable ends, and the result will be unfortunate for almost everyone concerned. A good case in point is the Community Reinvestment Act whose intent is to insure that the credit needs of the inner city are met.

Although I support the intent of the bill, I feel that the bill is unnecessary and will create an additional paperwork burden on you gentlemen who already are one of the most regulated segments of our economy.

This bill, introduced by Senator Proxmire, would require an ongoing assessment of a financial institution's community credit effectiveness.

The financial supervisory agencies will have to assess whether or not a financial institution is meeting the community credit needs of its primary savings deposit area.

It seems to me that the proponents of this bill have a basic misunderstanding of the financial industry when they argue that inner city deposits are being funneled into the suburbs. The truth of the matter is that residents of these deteriorating neighborhoods cannot provide the needed funds to maintain savings institutions in their areas. In fact, a great deal of the deposits in urban areas come from suburban residents who work within the city and who deposit their savings in institutions near their places of employment.

If this bill becomes law -- and I certainly hope it does not -- I am afraid the inner city branches will vanish if these institutions are

required to reinvest a certain percentage of their savings deposits within their primary savings deposit areas. Experience shows that the majority of savings deposits come from the more affluent areas of town; thus, the more affluent savings institutions would have an excuse not to make loans in the inner city and could defend it by claiming that this would not be meeting the credit needs of their primary savings areas.

Statistics clearly show that in areas where the money should be funneled, there may be little or no savings deposit activity.

The bill, as written, is a significant step in the direction of credit allocation. I cannot help but feel that credit allocation would most probably have the effect of drying up all credit availability in the more depressed areas of our nation's cities, as branches within the city are closed. But more seriously, I feel that credit allocation is

a serious infringement on our free enterprise system.

As the President of the American Bankers Association, A.A. Mulligan, testified in March before the Senate Banking Committee, "it is a step towards specifying the kind and amount of loans to be made by financial institutions. It would substitute the judgement of a federal agency as to what constitutes a legitimate credit need for the judgement of borrowers in financial institutions. If this bill is carried to its logical conclusion, financial institutions could find themselves forced to turn down credit worthy borrowers in order to make other loans, perhaps of lower quality, to meet the priorities determined by the regulators. In fact, it is a major step for political allocation of credit." I agree and hope the Congress will have the good judgement to reject this legislation.

There is an alternative that will accomplish the same desired end.

During the hearings before the Banking Committee, we heard how a group of financial institutions in Philadelphia joined together to form the Philadelphia Mortgage Plan to help meet the credit needs of the inner city. It is my opinion that this same type of concerted effort is being made by concerned financial institutions throughout the country, and I believe initiatives like the one in Philadelphia are the way in which we must deal with the financial problems of the inner city, not additional legislation and paperwork as the Community Reinvestment Act would require.

In addition, in the past six months three other pieces of legislation specifically addressed to meeting the credit needs of the inner city have gone into effect, and I feel that we in the Congress should sit back and give these three new programs sufficient time to prove themselves before we try to assess whether additional measures are needed to stimulate inner

city lending.

These three pieces of legislation are the Home Mortgage Disclosure Act which was just recently effective and requires that regulated institutions disclose in detail the type and amount of mortgage lending that they do in all geographical areas. (2) The Equal Credit Opportunity Act and Federal Reserve Regulation B which provide stringent procedures to prevent any kind of discrimination in the granting of credit by any federally insured or regulated deposit institution. Compliance with these regulations should assure that credit is granted wherever it is needed and borrowers have the capability to support the debt. The complaint and reporting provisions of these regulations should also supply a fairly sound and realistic appraisal of the situation in which credit is being denied. And finally the National Neighborhood Policy Act which also provides forum for the consideration of the extent to which credit deficiencies might

exist and how they might best be dealt with.

All these programs, ~~one~~ aimed at redlining and the financial needs of the inner city, create additional paperwork and costs which must eventually be borne by the consumer.

I am concerned about the cost involved. In a recent talk with a member of a national savings and loan association, I was told that to comply with the March 31 deadline of the Home Mortgage Disclosure Act reportedly cost the savings and loan industry roughly 16.5 million dollars. Of this amount 500 thousand dollars is attributable to the first-time, start-up effort but the remaining \$16 million is the anticipated costs of each year's continued compliance. However, when the same association sent out questionnaires to test the response of the public to the home mortgage disclosure reports, the results showed overwhelmingly that the consuming

public had little or no interest in the results of these very costly tests.

I guess what I am trying to say at this point is that I feel that we are over regulating and paperworking the businesses of this country to death and that as Congressmen, before we vote on any bill, we ought to stop and think what the ultimate costs and burden to the consuming public will be.

The problem is that we sometimes pass bills that we think are good with the best of motives. Then we have to delegate to regulatory agencies or to the bureaucrats who run these agencies the authority to adopt rules and regulations for carrying those out. That's often where the problems really begin.

I certainly believe in the federal system, but I believe in the federal

system as it was originally created. I believe that the states hold all the powers that were not specifically delegated to the Federal government in the Constitution. Many of the areas the Federal government is now regulating, I feel, ought to be left up to the states.

Our states are small enough and state government officials are close enough to the businessmen of the community, as well as the people of the community, to be responsive to day-to-day needs and day-to-day problems.

States are not so large that their officials ^{be} come divorced from personal involvement in the affairs of the people and the businesses of their communities. However, when the Federal government decides to intervene in these matters, then the business community of the nation must face the problem of complying with the multitude of regulations which faceless bureaucrats in Washington pour out.

I am familiar with the problems you encounter when you try to interpret the regulations which have been promulgated and try to keep yourself out of court even when you are acting in the best of faith.

But you may ask; "What can I as a businessman and banker in California do to effect the outcome of these government regulations?" I say to you that there is something you can do. You operate banks and financial institutions in the big cities and the small towns and have a great deal of influence on your elected representatives in Washington. You must learn how to use this influence and frequently contact your elected representatives in Washington.

I realize that you have trade associations in Washington representing your interests, but I say to you that you cannot depend upon your staff in Washington to do all of your work for you. I know for a fact ~~that~~

that as a Senator I am much more interested in hearing from the bankers in small towns and communities throughout my state than from the national associations representing them. I develop a personal contact with the folks at home and trust their judgement.

Something can be done about over-regulation by the Federal government and now is the time to do it because if we learned one thing in last years' election, it is that the people are fed up with ^{the} burdens of government regulations. Our new President has made a commitment to do something about this over regulation and I feel that the constant support and encouragement of the business community back in the home states can help him to do something about those things.

So what then should you do. First of all, if there is a person in this room who doesn't know his Congressman or Senator personally,

then you ought to get to know him. You ought to know him by his first name and be able to sit down and talk with him. And he ought to know you so that when you are talking to him about a problem he will know who you are and will have confidence in what you say. You can't delegate it all to the banking staff in Washington. Let them be your eyes and ears, but you had better do most of the talking yourselves. We need close personal contact with you.

Another way you can help is by writing letters. I know you will say, "Well, they get so many letters that it doesn't make any difference." But let me briefly describe to you the three kinds of letters that I get.

The first is the kind of mail that I call "hate mail" and that is written by a lot of different types of people but you would be surprised how much hate mail we get which is written on the finest letterheads and

written in anger. We are all human, and when something happens we

don't like we tend to fire off a letter to tell somebody off. However,

I am not sure that kind of letter does much good. The staff will

pull that kind of mail out and you will get an answer but you can bet

your bottom dollar that most of it is answered by the staff and the Senator

never sees it.

Another kind of mail which we get which is helpful to a limited

degree is correspondence prompted by your professional trade associations

which says to you, "Look, the Common Situs Picketing Bill is coming

up in Washington. Write and express your concern to your Congressman."

We get those letters by the thousands, and they are helpful in that

they give us an indication about how wide-spread the concern is in

our home states and across America. But you know, after the first few

form letters we spot them and often they usually just become part of a tally. For instance, last session I got over 25 thousand letters on gun control, 40 some thousand on the Family Services Act, and thousands on common situs picketing.

But the kind of mail that I solicit from you on my behalf and behalf of your Senators and Congressman is letters of substance. You can sit down and in your own words in just a few minutes tell us more about how a proposed bill will effect your businesses than my staff can learn in a month over in the Library of Congress. In other words, you know the business; you know it on a day-to-day basis. You can give us some examples of how it will effect you; then if we believe your arguments have merit we in turn can use your arguments in our debate on the floor of the Senate. That's the kind of mail we need; that's the kind we pay careful attention to.

So if I can't do anything else today but convince you to get involved, then I think that my time here would have been well spent because we do need your help. I know that business people all over America are not much different from the business people in North Carolina. And yet when I sit there with the other members of the Banking Committee and watch some of my colleagues continually vote for more and more regulation, I can only assume that businessmen are not aware of these problems back in their home states or simply are unconcerned. Keep up with what is going on in Washington and let us hear from you personally.

Obviously I do think that there is something you can do about these burdensome regulations that we are talking about here today, but it is only when people like you across the whole country get involved that can you have a real effect on the policies coming out of Washington. I urge you to become active in the political process and in so doing I assure you

that your sentiments will be heard.

Serving on the Banking Committee is a continuing education for me. Help me and help my colleagues learn by giving us the benefit of your experience and concern. We want to be responsive and responsible but in order for us to be so, we must have your active interest and assistance.